

Plenium Service Informatique

At 7.54 a.m. on the 27th of April 2006, the elegant gray-blue high speed TGV train to Lyon left its platform. Inside, watching the Paris urban landscape slowly gathering pace, Pedro Sousa, CEO of Plenium Service Informatique, collected his thoughts. In a few hours he would close the purchase of 56% of the shares of Plenium from the company's founder and majority shareholder. 10 months had passed since he had first proposed to his management team a solution to the problem imposed by the founder's exit – acquiring control of Plenium themselves. Tough, long negotiations had followed. Now, after a couple of signatures in the founder lawyer's office, he would finally be able to focus back on developing the business. Still, some thoughts were stubbornly recurring through Pedro's mind. He and his new partners were committing all their savings to the company. They had had no choice but to borrow heavily to finance the deal. Did they pay the right price for the buyout? Would Plenium be able to service the debt? What risks could possibly lay ahead? One thing was clear, a new phase of their lives was beginning. Looking away from the window, Pedro opened his laptop and started another day of work among the racing green hills floating by at 300 km per hour.

Company history

Plenium Service Informatique was founded in 1999 by Pedro Nunes, a Portuguese management graduate and former marketing manager who had moved to France in the late 90s to do his MBA. Upon graduation, a brief stint at a small web-advertising agency in Paris convinced Nunes that a big opportunity existed to serve small- and medium-sized companies' IT needs. In the wake of the 90s tech boom, many small businesses needed expert advice and support on how to manage and develop IT operations on which they increasingly depended.

At the time of its creation, the company counted 2 employees and the only service provided was that of outsourcing of IT management. This was a package of services aimed at installing and managing the clients' hardware and software, solving any IT problems that might occur, advising on the status and evolution of the client's IT infrastructure, and helping the client's staff to use IT

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resources. Over time, the company improved its offer to better respond to the needs of its clients, and started formally developing other areas like IT training, and Customer Relationship Management (CRM) services in partnership with Microsoft.

Soon after starting the company Nunes met fellow countryman Pedro Sousa at a social function. After 7 years in marketing and retail, Sousa had moved to France to pursue his own graduate studies at INSEAD. His prior experience included managing the own-brand product lines of the biggest supermarket chain in Portugal, as well as managing a 2,500 squared-meter, 14 million Euros store outside Lisbon. The two men agreed these were exciting times for tech companies and Sousa agreed to start advising Nunes informally on the development of Plenium.

In 2001, Pedro Sousa joined the company as a part-time director of development and became shareholder with a 2.5% stake. The previous year, BDO Marque & Gendrot, the sixth largest accounting firm in France, had entered Plenium's capital via a venture capital fund dedicated to new IT start-ups and acquired 40% of the company for 164,000 Euros. After another round of capital-raising in 2002, Pedro Sousa increased his stake to 20%, and in 2003 joined the company full-time to become Plenium's CEO after Pedro Nunes decided to dedicate less time to the company to pursue other activities. During the next few years, Nunes continued selling small portions of the business. By 2005, Pedro Nunes owned 56% of the company, the remainder being owned by Pedro Sousa (23%), BDO Marque and Gendrot (20%) and other employees (1%).

The early days were difficult due to the weak performance of the French economy and the busting of the tech bubble. After trebling its revenue in 2001 to 0.6 million Euros, growth was negative in 2002. The company endured losses and had to lay off employees. However, the client portfolio of the company continued to increase and by 2003 the company was growing again at double digit rates. In 2005 revenue growth reached a remarkable 35%, with the company making just under 1 million Euros in revenue, and prospects were looking up.

The IT Services Market

In 2005, the global market for IT consulting and services grew by 9.1% to reach a value of \$401.9 billion. This significant increase came after years of steady but slow growth averaging 4.6% in 2001-2004. In the aftermath of the tech bubble in 2000, IT budgets had been heavily restricted as a result of the tight economic environment affecting most client industries. The resulting price competition among IT service companies to defend their market shares further depressed margins and profits. Project-based consulting and extensive parts of the systems integration market had been most severely affected, resulting in a substantial number of staff being laid off throughout the industry. IT outsourcing, on other hand, had been relatively less affected by the slowdown as corporations strived to streamline their operations to minimize costs. In 2005, integration and development services accounted for 49.5% of the market (\$198.9 billion), hardware maintenance and support came second with 22.4% (\$90 billion), and the remainder was divided between software support and IT consulting services. By 2010 the global market was expected to reach more than \$580 billion in revenue, to which corresponded an annual growth rate of 7.9% through 2010 (exhibit 1).