

Why and how to pursue procurement reform when “on-boarding” a new portfolio company

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Imagine this – your private equity firm has just invested in a new portfolio company. The deal has recently closed and there’s *so much* to be done. Operationally, there are a lot of areas to be addressed. Among other things, the company’s sales processes are inconsistent, data reliability is low, accounts payable is a mess, and procurement is a purely tactical, paper-pushing function. You and your portfolio company COO and CFO have your work cut out for you. With all these competing priorities – why focus on Procurement at this time?

Well, pursuing procurement during portfolio company on-boarding makes a great deal of sense for a number of reasons, including immediate bottom-line impact, savings that can fund other initiatives, and the generation of positive momentum. Most importantly, procurement transformation can be done in a non-disruptive, low-risk, yet high-impact manner.

Immediate EBITDA Improvements. First and foremost, focusing on procurement right away will lead to immediate EBITDA improvements. Regardless of whether you use an external procurement consultant or lead the effort using your PE firm’s in-house operations team, immediately conduct a comprehensive spend analysis and identify the portfolio company’s high spend areas. Are there contracts currently in place in these areas? If so, when was the last time they were renegotiated? Were they strategically developed or hastily put in place to meet an urgent business need? Has the company grown by acquisition – do all the acquired companies truly act as a single corporate purchasing entity or are they still buying from their favorite suppliers and paying a premium? As you obtain the answers to these questions, you will likely uncover that there are at least several major spend areas that are good candidates for strategic sourcing efforts. Pursue carefully planned sourcing initiatives in these areas, and you will begin realizing hard-dollar cost savings of at least 10-15% upon contract signature. Procurement savings will flow undiluted to the bottom line – translating to a 7-8X improvement in EBITDA – no small feat.

Savings-based funding for other initiatives. Additionally, savings generated by procurement optimization will pay for other needs, allowing you to fix pressing problems in a cost-neutral way. For example, if a new ERP system is desperately needed by your new portfolio company, funding this will become more manageable once hundreds of thousands of dollars (if not millions) are saved through strategic cost reduction initiatives. Much needed funding can serve as a “light at the end of the tunnel” for a finance team tasked with leading a procurement transformation initiative – they will be rewarded with the financial resources they need to make their lives easier.

Generation of positive momentum. Also, demonstrating successes on the procurement front during the first several months of the onboarding process will allow you to build positive momentum that will

enable other important projects. By implementing a thoughtful, data-driven strategic sourcing program that achieves cost savings while maintaining (and even improving) service levels, new PE leadership and their CFOs and CPOs can gain credibility and respect. Once you successfully roll out a strategic sourcing program, you will have established positive momentum that will set the stage for additional transformative endeavors.

Non-disruptive change. Most significantly, procurement is a good area to tackle during on-boarding because it can be pursued in a non-disruptive, low-risk manner. For example, joining Group Purchasing Organizations (GPOs) for common indirect spend areas like small parcel shipping, office supplies, and MRO can generate dramatic savings without the need for a lengthy, formal RFP process. Similarly, in high spend areas that haven't been recently sourced, pursuing data-driven incumbent vendor negotiations can lead to savings without supplier transitions. Hand in hand with these types of efforts, a procurement process review and staff training on purchasing best practices can increase the efficiency and effectiveness of the procurement team right away.

Don't shy away from procurement at on-boarding. Undoubtedly, every PE executive responsible for on-boarding a new portfolio company is faced with a multitude of challenges to address. When deciding which ones to tackle first, don't shy away from procurement. Yes, it *can* wait – but if it doesn't, EBITDA improvements, cost-neutral funding of other initiatives, and positive momentum *await*. Most importantly, procurement can be addressed in a non-disruptive, low-risk manner while creating significant positive impact.