Creating Lasting Procurement Value in Private Equity

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A number of mid-market private equity firms don't fully capitalize on a significant source of operating value creation - leveraged portfolio procurement. There are myriad reasons for this - poor spend visibility, limited operating resources, lack of awareness of procurement value, a misperception that a high level of coordination within the portfolio is required, and a cultural reluctance to "dictate" operational decisions at the portfolio company level. Unfortunately, this results in significant operating value being left on the table. In our experience, a practical and nuanced portfolio procurement approach can lead to lasting operating value creation without significant resource commitment from the PE firm and without the need for any "arm twisting" at the portfolio company level.

Specifically, the approaches that we have seen succeed take advantage of leveraged purchasing agreements, pursue strategic optimization of portfolio companies' approach to procurement, identify opportunities for *opportunistic* cross-portfolio collaboration, leverage procurement-enabling technologies effectively, and foster the sharing of best practices across a portfolio.

Utilizing External Purchasing Leverage. Instead of pursuing a series of complex, painful cross-portfolio efforts requiring significant purchasing coordination in the portfolio for common spend categories like office supplies or small parcel, a progressive approach includes taking advantage of existing Group Purchasing Organization (GPO) contracts. This way, portfolio companies benefit from spend leverage from *outside the portfolio* without the need for laborious spend volume aggregation within the portfolio. Another benefit is that a "sequential," company-by-company approach can be adopted, avoiding a complicated synchronized effort involving the entire portfolio. A side benefit is that often times external GPO contracts are portable, in that portfolio companies can continue to enjoy the pricing gains even after their exit from the portfolio, which is not the case for PE firm specific leveraged portfolio agreements. The GPO contract approach requires minimal resource commitments at both the PE and portfolio company level, minimizes any business disruption at the portfolio company level, and also provides a robust "proof of concept" for procurement value creation for a PE firm that is unsure of the value of portfolio procurement. Typical GPO contracts provide broad coverage of indirect spend categories. Additionally, using a GPO contract also takes away the burden of category sourcing and ongoing supplier management from portfolio companies, freeing up internal resources to focus on more strategic priorities.

Portfolio Company Specific Procurement Optimization. Not all companies within a single PE firm's portfolio are equal when it comes to procurement maturity and sophistication. In order to develop a sustainable approach to portfolio procurement, a private equity firm must engage in strategic evaluation of its portfolio companies' procurement effectiveness and sophistication. While most PE firms have a strong intuitive feel for the procurement capabilities of their individual portfolio companies, a formal, structured approach should be adopted in assessing whether procurement best practices are being pursued at the portfolio company level (e.g. high percentage of spend under management, adoption of centralized or "center-led" procurement, spend consolidation with preferred suppliers, vendor performance management, ongoing strategic sourcing, etc.). Most importantly, a progressive approach recognizes the importance of not taking a one-size-fits-all approach to portfolio procurement. Instead of investing time and energy in standardizing procurement policies and procedures across the entire portfolio, it is often much more pragmatic to dedicate resources to improving the procurement functions of the highest spending, least sophisticated procurement groups.

Identifying Opportunities for *Opportunistic* Cross-portfolio Collaboration. While comprehensive, all-encompassing cross-portfolio procurement efforts are rarely the best approach, opportunistic cross-portfolio collaboration often makes a great deal of sense. Specifically, for spend categories that are common across multiple companies within a PE portfolio but are *not* common indirect spend categories for which a multitude of GPO contracts exist, leveraging spend across the portfolio is an effective approach. For example, a PE firm with multiple manufacturing companies in the same sector within its portfolio may find that running a cross-portfolio procurement for resins is a strategic move. Ultimately, because cross-portfolio procurements require a tremendous amount of coordination – from data collection and requirements gathering through vendor evaluation and selection – they should be pursued strategically when there isn't a more pragmatic, expedient solution already available.

Leveraging Procurement-enabling Technologies Effectively. Successful private equity portfolio procurement efforts also leverage procurement-enabling technologies effectively. Instead of viewing procurement technologies as a "cure all" for procurement challenges, the most successful private equity leaders and their portfolio CFOs and CPOs understand that technology is simply a tool that supports the realization of goals. If opportunistic cross-portfolio sourcing is a priority, a cross-portfolio spend analysis tool can bring the needed spend visibility. Alternatively, if contract management is currently a nightmare, having a centralized repository in the form of a contract management system can help. Separately, if the procure-to-pay system is currently a very manual one and a rapid fix is needed, a cloud-based e-procurement solution requiring as little as three months implementation time may provide relief. For private equity firms and portfolio companies looking to tackle procurement, it's critical to identify and prioritize the greatest challenges, and then determine which enabling technologies will best support resolution. It's important to remember that procurement technology will not solve every problem overnight, but instead it will *enable* results.

Sharing Procurement Best Practices Across a PE Portfolio. Another effective way to create procurement value within a PE portfolio is to create an environment where procurement best practices are shared across portfolio companies. For example, a straightforward first step can be scheduling quarterly summits or monthly calls including all portfolio company CPOs. Bringing CPOs together to discuss past challenges and recent successes often fosters collaboration and the cross-pollination of ideas. In addition, having a PE operations lead or third party consultant conduct interviews with portfolio company CPOs, distill best practices, and then share the findings with the group can be very effective. Ultimately, each procurement organization within a PE portfolio is typically doing well in some regards and needs development in other areas – encouraging the sharing of best practices across the portfolio is a valuable way to have sister companies learn from each other.

Sustainable Portfolio Procurement is Fundamentally Pragmatic. As a management consultancy dedicated to procurement optimization, we have helped build many sustainable private equity portfolio procurement programs. Though each private equity firm and its portfolio companies are incredibly unique and diverse, there are common themes amongst the ones that have achieved lasting change. The utilization of leveraged purchasing agreements, portfolio company specific procurement optimization, opportunistic cross-portfolio collaboration, effective use of enabling technologies, and the sharing of best practices across a portfolio are all key factors to achieving long-lasting results.