

# **Trends in Private Equity Procurement - Results of Treya Partners' Survey of Leading PE Firms**

**June 2013**

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# Survey Background

- Treya Partners conducted a survey of leading PE firms to learn more about procurement-related priorities and challenges for private equity professionals
- The survey was completed by 23 PE firms
- Key information about the responding PE firms:
  - Fairly large number of portfolio companies
    - Average of 28 portfolio companies
    - Number of portfolio companies ranged from 8 – 40+
  - Significant combined portfolio revenues
    - Average combined revenue of \$18.8B
    - Combined revenue ranges from \$1B - \$120B

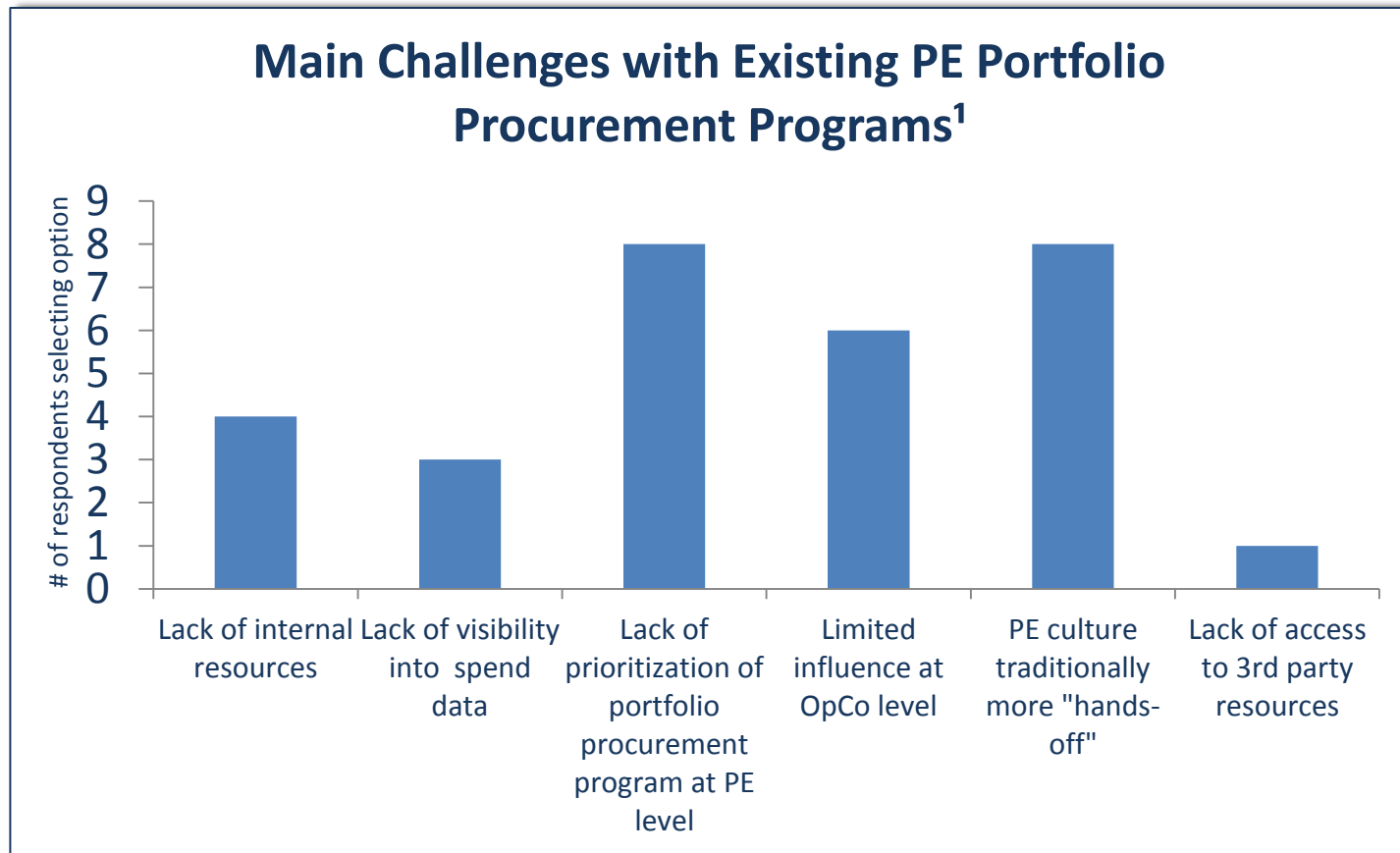
# Executive Summary of Survey Results

- PE firms face many challenges in implementing procurement programs, including a lack of prioritization relative to other initiatives, and a “hands off” culture when it comes to working with portfolio companies
- While many large PE firms have dedicated operations groups that focus on operational improvements and turn-around situations, the number of resources within these groups that are focused on procurement is often limited
- Slightly less than half of the PE firms surveyed indicated that they had a portfolio procurement program in place. Of the PE firms that had implemented a portfolio procurement program, many relied on a mixed model of selected in-house resources coupled with third party consultants to develop and implement portfolio procurement programs
- For those PE firms that have implemented a procurement program, key elements have included spend analytics, utilization of external GPO contracts, and development of PE firm specific cross-portfolio contracts
- The most popular stage in a PE firm’s investment lifecycle for the implementation of procurement programs is post-acquisition operations
- Key spend areas commonly addressed by PE portfolio procurement efforts include Small Parcel, Healthcare, Office Supplies, IT, Travel, Transportation, etc.
- The range of savings achieved by the PE firms with a portfolio procurement program varies by size of the portfolio companies (and their spend) as well as the level of participation from their portfolio companies

# Survey Results

## Current Challenges to PE Portfolio Procurement

Private equity firms face a variety of challenges in implementing and maintaining portfolio procurement programs. The primary challenges are internal – mainly a result of “hands-off” firm cultures and a lack of prioritization of portfolio procurement.



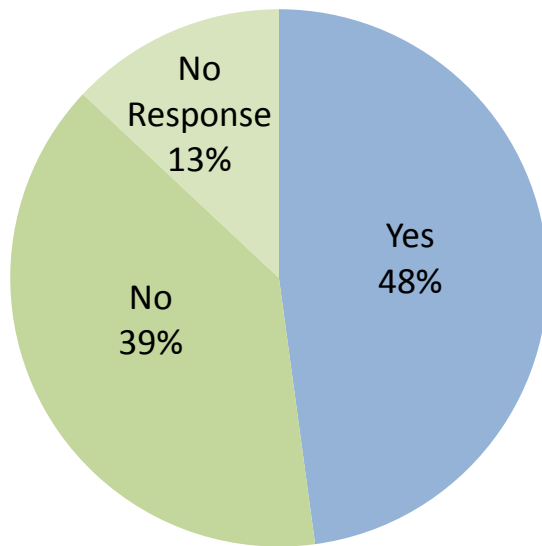
<sup>1</sup>Sample size of 15 private equity firms (each firm may have identified more than one procurement challenge)

# Survey Results

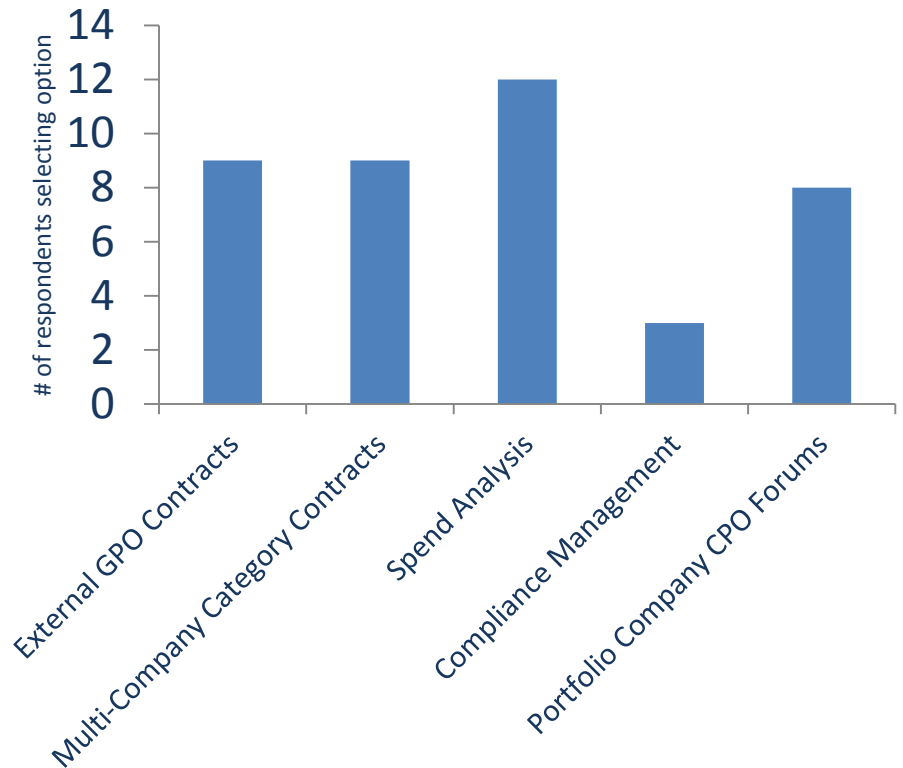
## Procurement Solutions Utilized

Private equity firms with portfolio procurement programs already in place have pursued a variety of procurement efforts, with spend analyses being the most popular.

### Private Equity Firms with a Portfolio Procurement Program<sup>1</sup>



### Procurement Efforts Pursued<sup>2</sup>



<sup>1</sup>Sample size of 23 private equity firms

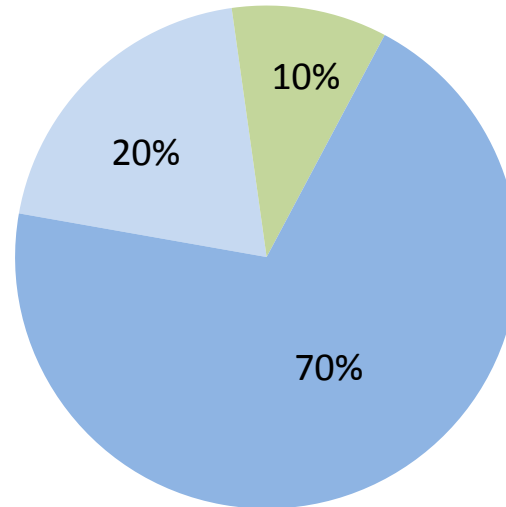
<sup>2</sup>Sample size of 12 private equity firms (each firm may have implemented more than one procurement solution)

# Survey Results

## Spend Analysis Approaches

Of those responding private equity firms that have analyzed their portfolio spend, 70% utilized third party consultants for the effort.

If a spend analysis was conducted, was it done in-house, by a third party, or was a mixed model utilized?

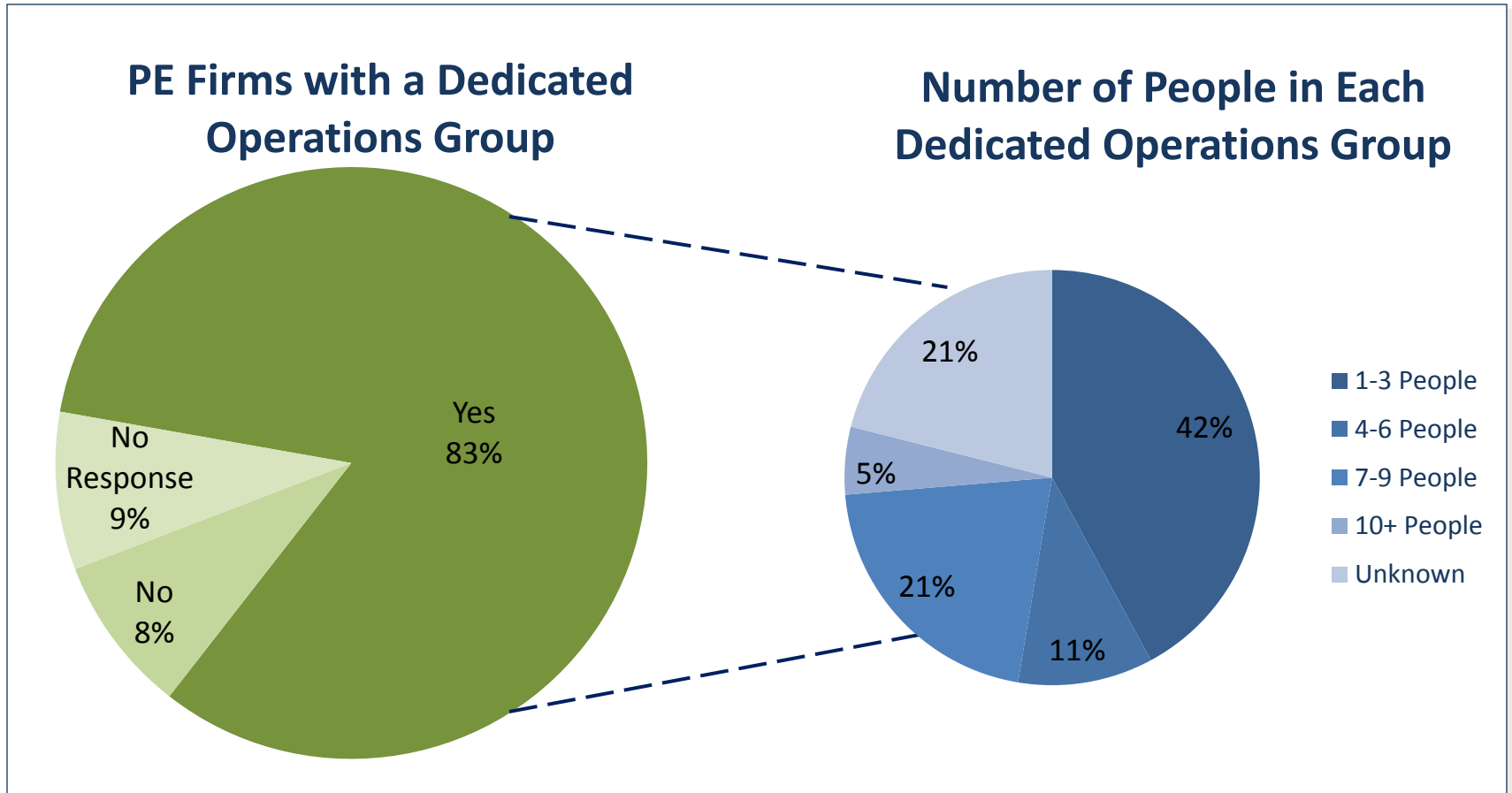


■ Both ■ In-House ■ Third Party

# Survey Results

## Presence & Size of Dedicated Operations Groups

83% of respondents have a dedicated operations group that focuses on improving operational efficiency and performance of OpCos. The number of dedicated resources in these groups varies by firm. 42% of respondents only have 1-3 people focusing on efficiency and performance.



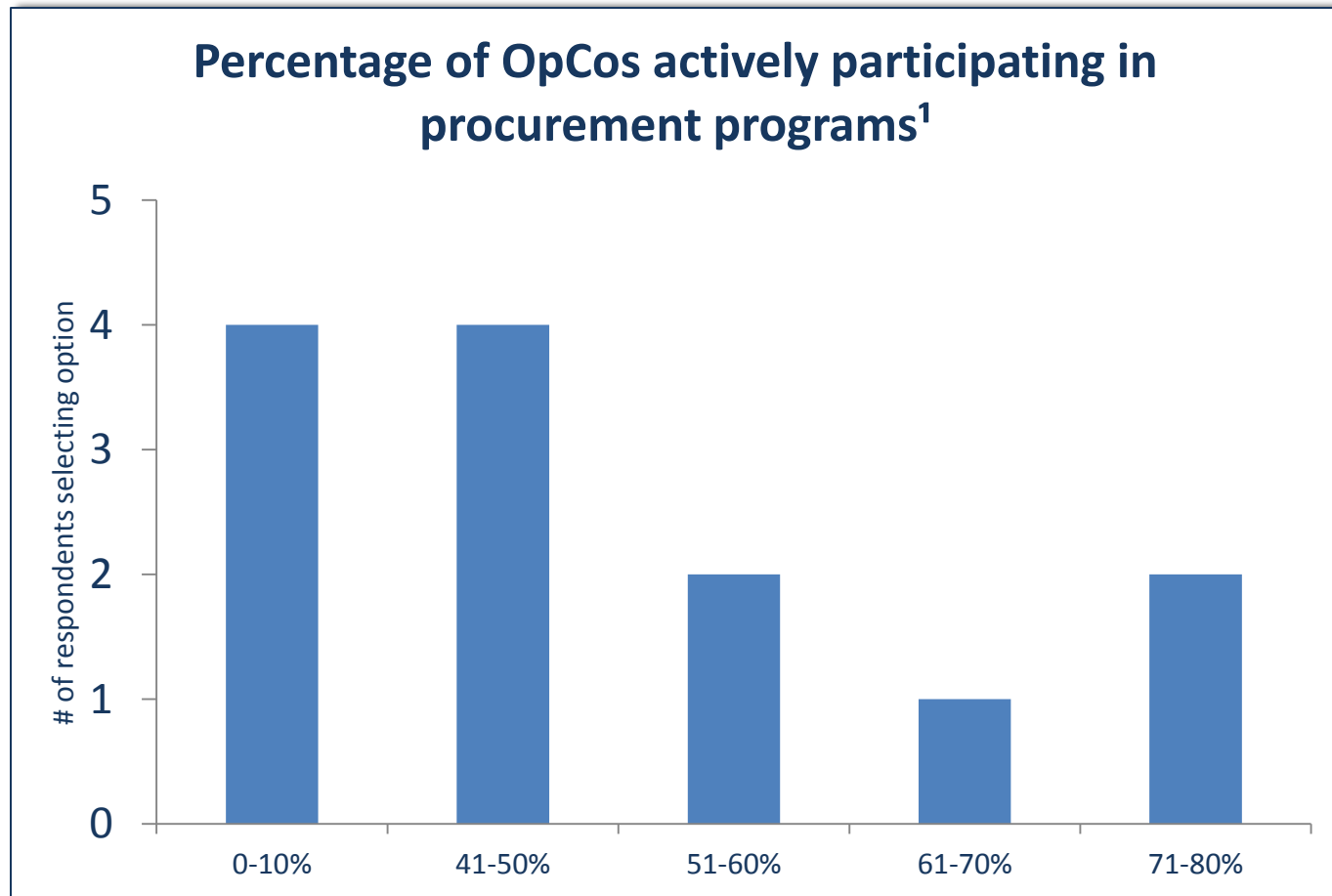
Note: Sample size of 23 private equity firms, 19 of which have dedicated operation groups



# Survey Results

## OpCo Participation Levels in Portfolio Procurement Programs

Of the responding PE firms, the majority indicated that they have 50% or less OpCo participation, highlighting the difficulties of achieving extensive cross-portfolio coordination.

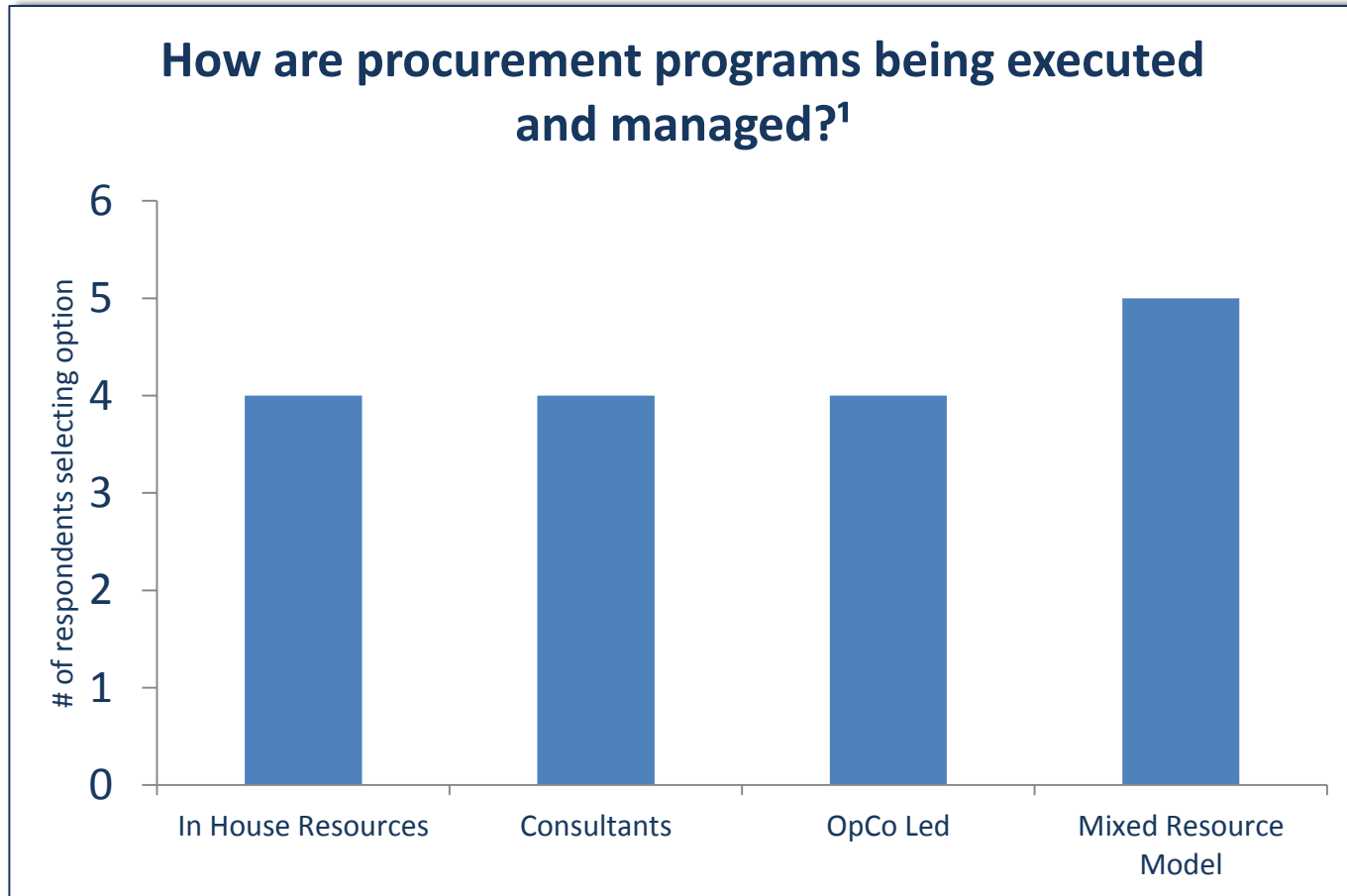


<sup>1</sup>Sample size of 13 private equity firms

# Survey Results

## Management of Portfolio Procurement Programs

Respondents' portfolio procurement programs are being managed by both in-house teams as well as consultants. Many PE firms have consultants play an important role in executing and managing procurement programs, largely due to their limited internal resources.

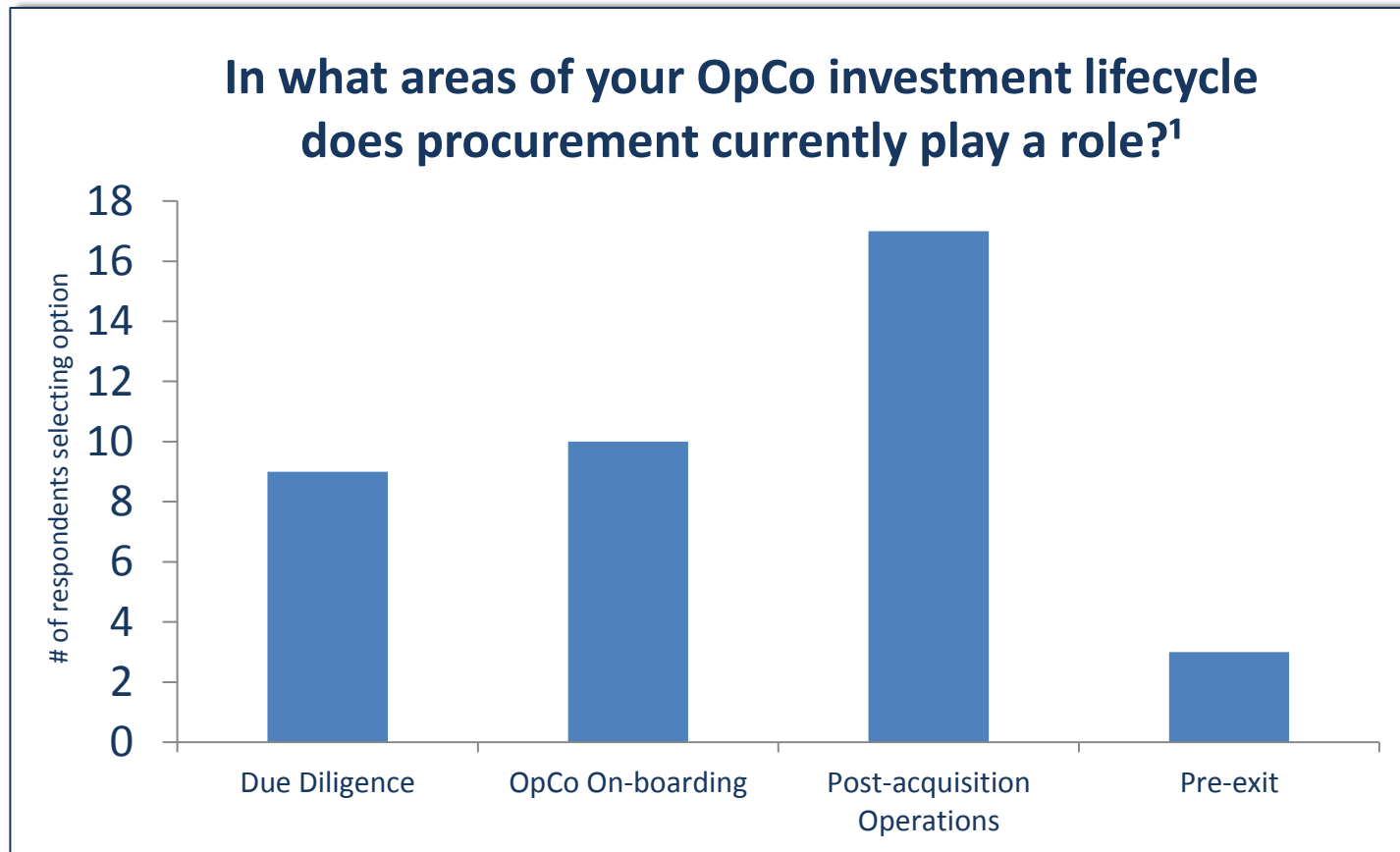


<sup>1</sup>Sample size of 12 private equity firms (each firm may have selected more than once choice)

# Survey Results

## Role of Procurement in OpCo Investment Lifecycle

There are multiple stages within the investment lifecycle where PE firms pursue procurement programs. Survey responses indicated that post-acquisition operations is the most popular stage at which procurement programs are being implemented.

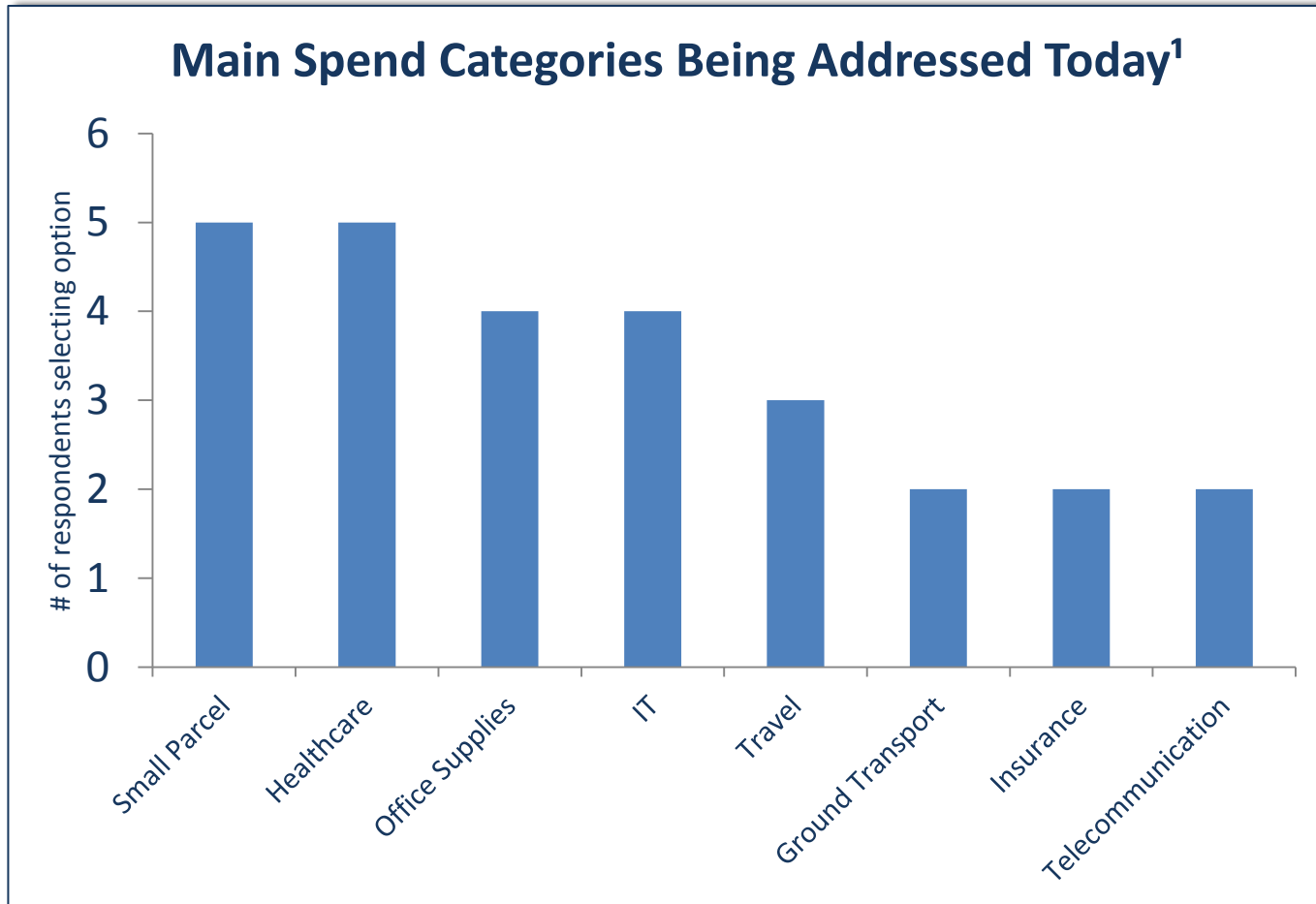


<sup>1</sup>Sample size of 18 private equity firms (each firm may have identified more than one area)

# Survey Results

## Spend Categories Addressed

Private equity firms with a portfolio procurement program in place tend to focus on a few key spend areas. In particular, firms are focusing largely on small parcel and healthcare spend.



<sup>1</sup>Sample size of 8 private equity firms (each firm may be addressing more than one spend category)

# Survey Results

## Savings Achieved

Portfolio procurement programs are instrumental for creating cost savings.

### What savings have been created through portfolio procurement?

“

*“\$25 Million Annual Run Rate”*

*“\$60 Million+ in Savings”*

*“\$500 Million in Savings Achieved During Contract Period”*

*“8-25% Savings”*

*“\$200 Million in Savings Achieved Annually”*

*“\$8 - \$10 Million in Savings”*

*“7-10% Savings”*

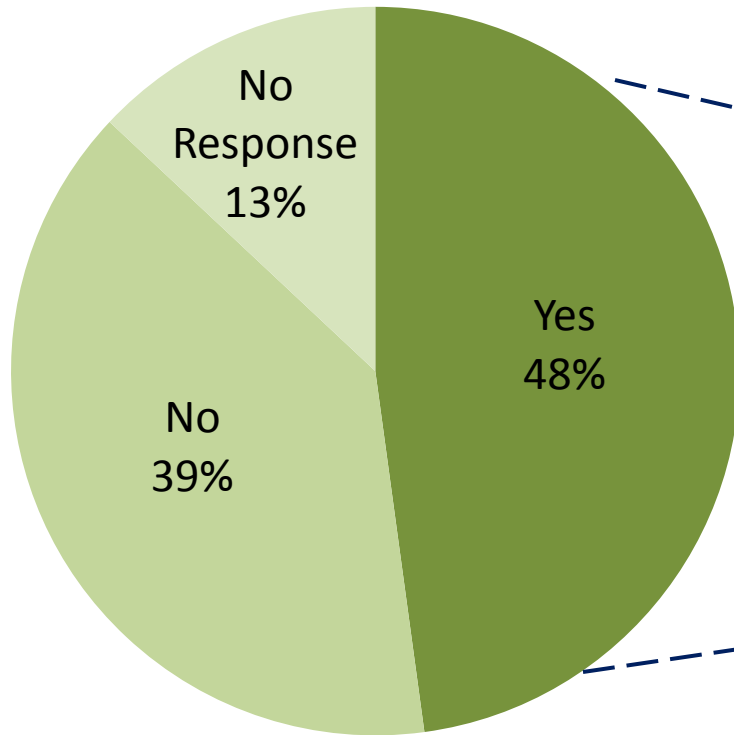
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# Survey Results

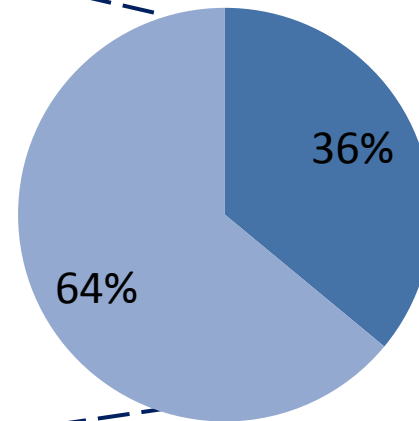
## Future Portfolio Procurement Expansion Plans

64% of responding private equity firms with a portfolio procurement program already in place see the benefit of further expanding their procurement program to create additional savings.

### Private Equity Firms with a Portfolio Procurement Program



### Portfolio Procurement Expansion Plans in the Next 12-18 Months



- Plan to keep current program as is
- Plan to grow and expand current plan

Note: Sample size of 23 private equity firms

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# Survey Results

## Future Opportunities to Add Procurement Value

Many responding private equity firms believe there is great value in growing their procurement programs. These firms have a varied set of future procurement-related priorities.

### Where do you see the biggest opportunities for private equity procurement teams to add value in the future?



*“It will be different for every portfolio since each one is a collection of diverse businesses and cultures at various stages of development.”*

*“Insurance and Transportation”*

*“Direct Materials”*

*“More complex areas like professional services, eSourcing, Talent, and other valuable services”*

*“Healthcare”*

*“Coordinating across OpCos, particularly in the larger capital spend areas”*

