

TECHNOLOGY

Are my procurement savings hitting the bottom line?

The lack of effective systems to record and track procurement cost reductions has long been a source of frustration for private equity owners. One answer is to invest in a technology platform capable of monitoring standalone and portfolio wide performance, says **Declan Feeney** of global procurement consultancy **Efficio**

Finding ways to reduce costs and increase profitability in their portfolio companies is a key focus for private equity groups – which is why so many are leveraging procurement to achieve their savings goals.

Procurement spend typically accounts for up to 70 percent of revenues in a manufacturing business and around 30 percent in services businesses. It's often the case, however, that procurement isn't fully optimised within an organisation, presenting private equity groups with significant cost reduction opportunities. Yet while identifying savings opportunities may be achievable, making sure these savings flow through to EBITDA can be more challenging. That's why CEOs, CFOs and private equity companies are increasingly focusing on tracking reductions in spend to the bottom line.

WHERE HAVE MY SAVINGS GONE?

An all-too-common scenario is for an opportunity assessment to take place, significant



“For the first time, CEOs, CFOs, and private equity owners have full and centralised visibility of procurement initiatives throughout their lifecycle

Declan Feeney

savings opportunities to be identified and a strategy developed to achieve them. An implementation plan is agreed, contracts are signed and the plan – which may include rationalisation or replacement of suppliers, tenders and negotiations, new or revised specifications, and more – is implemented.

At the end of the financial year however, it's not uncommon to find a mismatch between the identified savings and what is shown in the P&L. It's not clear whether the savings were achieved but aren't easily identifiable – or if they didn't happen at all. Either way this can be a tremendous source of frustration for both the portfolio company and the private equity owner.

Ultimately, CFOs need to be in a position to take procurement savings out of budgets so that they can increase profitability. But before they can remove savings they need to be sure that the savings were actually achieved.

WHY HAS THIS HAPPENED?

There can be many reasons why planned savings don't reach the bottom line. Among the most common are lack of engagement with, and support from, the business; poor implementation of the new deal; and lack of compliance from the business – all of which can result in 'leakage' that erodes planned savings over time. Add to this a lack of effective systems to record and track savings, and the challenge is clear.

It's often impossible to get a single, accurate view of how procurement initiatives »

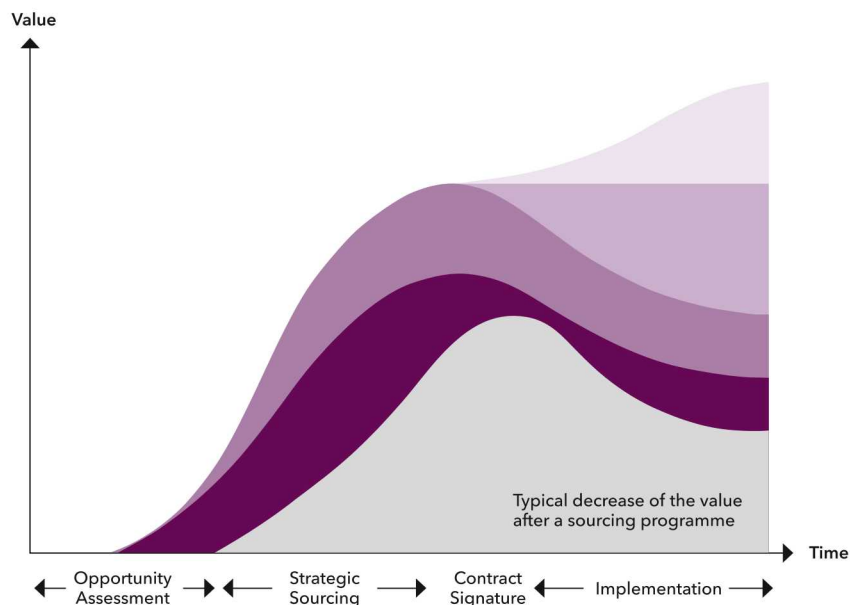


Tracking performance: a dashboard can monitor the progress of savings initiatives

Source: Efficio

SAVINGS EROSION

Ways to reverse leakage and add value



How procurement can boost bottom line

- Identifying additional opportunities as market develops
- Managing implementation, supplier performance spend and compliance
- Maximising value of savings delivered
- Identifying potential savings and delivering them sooner

Source: Efficio

» and the procurement function as a whole are performing, and whether savings are being realised. But without this information, taking timely action to stop the leakage and get things back on track can be a major challenge.

WHY ARE PROCUREMENT SAVINGS SO HARD TO TRACK?

Until relatively recently the strategic value that procurement can add has been largely overlooked. So there has been an absence of technology solutions to effectively track and manage procurement initiatives.

Companies have instead had to rely on manual, offline processes with large amounts of time and effort being spent developing and maintaining savings spreadsheets. As a result, data has been fragmented, unreliable and not very rich, with little or no information on project risks or actions. This has made it difficult to quantify savings or measure the value that procurement is delivering.

Project management software is typically too expensive and complex for this purpose. Moreover, there has been little or

HOW TO INCREASE VALUE THROUGH PROCUREMENT

For a savings plan to work effectively, there are five points to consider:

1. **Understand spend in each portfolio company.** By knowing how much each company spends and on what, it's possible to identify areas where this could be reduced through negotiating new contracts with suppliers.
2. **Work out which categories or areas could be negotiated on a shared basis.** Once savings have been identified at an individual company level, it's clearer where there is potential to help companies work collaboratively to negotiate bulk purchases. Given that private equity groups may have a variety of companies from different sectors, it may be that it is only a viable strategy for one or two categories, such as, for example, IT hardware or travel.
3. **Don't force the issue.** Private equity firms that have achieved the smoothest and best outcomes have offered their portfolio companies opt-in schemes rather than requiring them
4. **Provide a focal point for companies to share best practice on procurement.** This could be through the creation of networks and events, so that those responsible for procurement in portfolio companies can build relationships with each other and feel comfortable sharing knowledge and information.
5. **Facilitate negotiations for portfolio companies.** Produce standard contracts that companies can, for example, access online to help them negotiate and secure better terms from their suppliers.

TASTING SUCCESS AT MEC3

After Charterhouse Capital's 2016 acquisition of MEC3, a global manufacturer of ingredients for artisanal gelato, MEC3 moved to increase its strategic position by acquiring two complementary businesses. These acquisitions provided the opportunity to create efficiencies and free up cash, with procurement being a key focus. As MEC3's existing procurement team was small and had a largely non-strategic focus, Charterhouse engaged Efficio to help.

Efficio identified significant opportunities for cost reductions and rolled out a series of strategic sourcing initiatives to transform MEC3's approach to procurement.

To accurately measure the resulting savings and to enable MEC3 and Charterhouse to quantify the return on their investment in the procurement transformation programme, Efficio implemented a new measurement approach and savings tracking tools. The savings on spend were outstanding.



nothing developed specifically for procurement – until now.

At Efficio, we've seen transformative results from Pulse, a standalone component of our eFlow technology platform. Pulse provides businesses with a simple and effective way to track the progress of procurement initiatives and monitor the achievement of savings targets. There are clear advantages to using this type of tool to meet the needs of procurement projects:

- **Simplicity:** Ease of use – a simple, flexible user interface allows updates on savings, progress and actions to be entered, while reports and updates are easy to understand.
- **Flexibility:** Savings can be tracked over the full procurement pipeline; they can also be aggregated to allow focus on different categories or business units.
- **Timeliness:** Status reporting provides up-to-date snapshots on progress. Risks can be flagged and mitigations identified early on.
- **Scalability:** Option to use on a single initiative or across multiple projects

– for example, private equity groups can track savings delivery across their entire portfolio.

Perhaps the most important benefit of a procurement platform is the visibility it provides. For the first time, CEOs, CFOs, and private equity owners have full and centralised visibility of procurement initiatives throughout their lifecycle – a single source of truth, all accessed from one place.

This gives CFOs and private equity owners proof of the value that the procurement strategy is delivering and evidence that savings targets are being achieved. In turn, it provides them with the confidence to take the savings out of budgets – a key step in ensuring they reach the bottom line.

From a management perspective, this allows risks to be identified early on. For example, lack of compliance within the business may be putting savings targets at risk. If left unchecked, this will continue to erode savings. But with early warning, actions can be taken to address the problem

“It's often impossible to get a single, accurate view of how procurement initiatives and the procurement function as a whole are performing, and whether savings are being realised

and ensure that savings can be sustained in the long term. It also allows senior management to see, at a glance, which initiatives will deliver the most value so that they can prioritise resources accordingly.

Importantly, this drives better engagement with business stakeholders. With improved visibility of results, stakeholders can better understand the impact a procurement initiative will have and their role in it, which further helps to ensure savings are achieved.

The potential for procurement to add real strategic and bottom line value to businesses is increasingly understood. But the ability to realise that potential has often been hampered by the lack of effective tools to ensure the benefits flow through to EBITDA.

That barrier has been removed with the development of procurement tracking platforms, which have been successfully deployed in businesses over a range of industries and sectors. They are transforming the ability of those businesses to track and manage key procurement initiatives and converting planned procurement savings into bottom line benefits. ■

Declan Feeney is private equity advisor at Efficio and specialises in issues around value creation programmes and post-merger integration. He joined in 2012 after 13 years in private equity at Permira and Fondinvest.