



PRIVATE EQUITY PERFORMANCE IMPROVEMENT

The Hidden Costs of Inefficiency

Part 1: Unlocking EBITDA Through Improved Inventory and Purchasing Processes



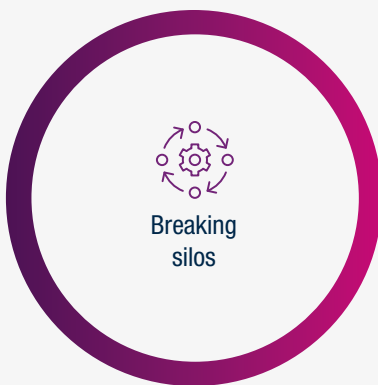
This article is the first in a three-part series on hidden costs in inventory and purchasing.

In today's volatile economic landscape, inefficiencies in supply chain planning and purchasing processes are no longer just operational challenges — they are critical threats to profitability and competitiveness.

While tariffs, inflation, geopolitics and other external disruptions often grab headlines, they merely expose deeper, systemic issues within supply chain organizations. For portfolio companies (Portcos) and private equity (PE) firms, these inefficiencies translate into significant cost and margin leakages that directly impact EBITDA and hamper their ability to respond to dynamic market conditions.

Without addressing the root causes of supply chain inefficiencies, businesses will continue to face financial and operational pressures and be unable to adapt to future disruptions. This article is the first in a three-part series that explores the hidden costs of these inefficiencies, provides actionable recommendations for improvement and outlines strategies to sustain long-term success.

In this article, we focus on identifying the symptoms of inefficiencies in inventory and purchasing processes, as well as their financial and operational impacts, and introduce a high-level framework to address these challenges by:





Diagnosis: Watch Out for These Symptoms



For many businesses, inefficiencies in inventory management and purchasing processes are an all-too-familiar challenge. These issues often manifest as recurring problems that feel impossible to break — a chicken-and-egg cycle where one problem perpetuates another. If any of these symptoms resonate, it's likely a sign of deeper systemic issues at play.

Constantly putting out fires

Operationally, businesses often find themselves in constant firefighting mode, with the purchasing team placing emergency orders or expediting freight shipments because they lacked accurate forecasts or had inaccurate lead times. Paradoxically, stockouts still occur, frustrating customers and leaving revenue on the table. It's a frustrating cycle of having too much of the wrong inventory and not enough of the right products, all driven by misaligned inventory optimization and procurement processes. These inefficiencies ripple across the business, leading to revenue misses, EBITDA leakages and working capital and storage space constraints.

Playing tug-of-war because of organizational silos

Organizationally, silos between inventory and purchasing teams make it even harder to break free from inefficiencies. Sales teams may over forecast demand to protect their buffers while purchasing teams order more than necessary to reduce perceived risks. Inventory teams, on the other hand, may aim to keep stock levels as low as possible to minimize inventory value on the balance sheet. These conflicting priorities create a lack of alignment, leading to poor supply chain visibility, misaligned demand forecasting and ineffective stock replenishment strategies. Teams often operate independently, addressing immediate issues rather than focusing on the root causes. Additionally, outdated or generic enterprise resource planning (ERP) systems and tools often compound the effects of these silos, making it even more challenging to achieve integrated decision-making, end-to-end visibility and resilience across the supply chain.



Solution Framework: Quick Wins to Unlock EBITDA and Cash



Breaking this cycle requires a holistic yet tactical approach to align processes, teams and strategies — but it doesn't have to mean a long-term, sweeping overhaul. There are many quick-impact actions that businesses can take now to drive immediate results. By focusing on three key steps, portfolio companies and PE funds can unlock EBITDA and cash while setting the stage for sustained improvements:



1. Break the Silos

Misalignment between sales, inventory and purchasing teams often leads to bloated inventory, stockouts and missed opportunities. Quick actions like daily stand-ups, structured communication and shared key performance indicators, such as inventory turns, non-compliant order costs and part sharing costs, can eliminate bottlenecks and improve alignment. Leveraging team collaboration tools and fostering cross-functional communication ensures that inventory control systems and procurement processes are integrated.

Impact: Improved alignment reduces firefighting, enhances operational efficiency and creates immediate value.



2. Tailor Inventory Strategy to Revenue and Margin

Inventory is one of the biggest drains on cash flow, but it's also one of the easiest areas to optimize. By using data-driven stocking policies, businesses can align cycle stock and safety stock levels with revenue and margin goals while minimizing working capital requirements. Rapid audits to identify and address excess or slow-moving inventory and improved inventory analytics can free up cash and reduce working capital constraints.

Impact: Optimized inventory management improves cash flow, ensures stock replenishment and enhances customer satisfaction by having the right products available in the right place at the right time.



3. Align Purchasing Processes with Inventory Strategy

Purchasing decisions often operate in isolation, leading to inefficiencies. Tactical actions like canceling unnecessary purchase orders, onboarding alternative suppliers and renegotiating supplier terms can unlock immediate cost and working capital savings. Strategic sourcing, procurement optimization and supplier collaboration — such as joint-planning with suppliers to align procurement with production — can further enhance purchasing efficiency and reduce costs. Aligning procurement schedules with demand ensures timely material delivery, reduces inventory holding costs and strengthens supplier relationships for better terms and reliability.

Impact: Unlocks immediate EBITDA through cost reduction strategies, improves supplier relationship management (SRM) and enhances procurement efficiency.

These steps don't require a full-scale transformation. They're quick, actionable fixes that deliver measurable results. Sustaining these gains requires a tactical approach, leveraging tools like real-time dashboards, actionable KPIs and governance mechanisms to ensure continuous progress and avoid slipping back into old habits. These tools provide supply chain visibility, enable process improvement and ensure continuous improvement in operational efficiency.



The First Step Toward Unlocking Value



Inefficiencies in inventory and purchasing processes don't have to be a long-term burden. By focusing on quick, tactical actions, breaking silos, tailoring inventory strategies and aligning purchasing processes, businesses can create immediate EBITDA improvement and unlock cash while building a foundation for future success. These steps are not about sweeping transformations; instead, they aim to make smart, targeted changes that deliver measurable near-term results.

The next article will dive deeper into practical, executable recommendations to optimize inventory and purchasing processes. We'll explore how to bridge operational silos, implement data-driven strategies and drive accountability through purchasing controls. The focus of the final article will be on sustaining these improvements with tactical tools like data-driven forecasting models, real-time dashboards, actionable KPIs and governance mechanisms, ensuring the benefits are not only maintained but scaled for long-term growth.

This is just the beginning. The path to a more efficient, resilient supply chain starts with these quick wins, and the journey continues with actionable strategies and sustainable solutions.

How Can A&M Help?



We understand that supply chain challenges are interconnected issues that require a comprehensive, end-to-end approach. Our team specializes in breaking down silos between sales, inventory management, purchasing, and operational planning to create a resilient supply chain. Whether it's optimizing procurement processes, tailoring inventory strategies to revenue, margin and working capital goals, or addressing inefficiencies in supplier relationships, A&M delivers solutions that drive measurable and sustainable bottom-line results.



CONTACTS

Supply Chain – Distribution & Logistics



Kent Edgerton
Managing Director
Nashville, TN

30 years of industry and consulting supply chain experience leading results-oriented performance improvement initiatives with a focus in 4 walls distribution, inventory management, SIOP, transportation management, network design and strategy, and supply chain organizational structure.



Michael Rohrbaugh
Senior Director
Atlanta, GA

15 years of supply chain experience driving performance improvement in SIOP, sourcing, logistics, and inventory management. Expertise spans bedding, chemicals, and e-commerce, focusing on practical solutions and team building.



Ryan Harro
Director
Greenwood Village, CO

With over 10 years of supply chain experience, drives performance improvement in distribution, logistics, and transportation. Focus areas include supply chain operations, network modeling, inventory management, and transportation cost reduction.

Supply Chain – Procurement



Christopher Kulp
Managing Director
Philadelphia, PA

30 years of experience across industry and consulting focused on cost and complexity reduction by improving the E2E supply chain through sourcing, strategic supply base management, product cost-reduction, supplier resiliency, SIOP, etc. Focused on serving industries with highly complex and integrated supply chain challenges.



Allison Earnest
Senior Director
Denver, CO

Nearly 20 years of procurement and transformation experience, focused on leading and executing strategic sourcing, supply resiliency, supplier management, process design, and cross-functional operational improvements resulting in optimized and sustainable value creation across a broad range of industries.



Sarin Babu
Director
Seattle, WA

With over 10 years of supply chain experience, focuses on end-to-end supply chain, particularly in sourcing and procurement. Expertise spans industries like cloud tech, automotive, and consumer products, achieving over \$200 million in cost reductions through digital transformation and strategic sourcing.

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