



# PROCUREMENT 2.0:

## THE FUNDING ENGINE FOR PRIVATE EQUITY INVESTORS IN 2016

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*As competition across the private equity market continues to heat up and funds look for their next actionable win, procurement optimization remains one of the most tangible value drivers to quickly boost operational performance within portfolio companies. A strong procurement function that delivers sustainable savings acts as a funding engine for more complex, strategic operational initiatives in other key investment areas.*

*While many mature organizations have already recognized the value of establishing solid procurement teams, senior management in the core and upper-middle-market is now beginning to leverage these practices to efficiently extract additional value.*

*Alvarez & Marsal's (A&M) Private Equity Performance Improvement team takes a holistic view of the procurement function and leverages it across three key stages in the PE investment lifecycle: pre-acquisition diligence, post-acquisition maturity assessments and ongoing procurement optimization execution. Leveraging our deep operational expertise stemming from our in-house operators (former Chief Procurement Officers and related operations professionals), we provide a comprehensive assessment and help establish and drive the execution of an integrated procurement enterprise that allows for solid control over margins throughout the investment lifecycle.*

### PRE-ACQUISITION PROCUREMENT DILIGENCE

Increasing numbers of PE investors are now beginning to assess the procurement needs of and opportunities for target companies in the pre-acquisition stage, with a deeper focus on sustainability and operational capabilities. We recommend using this time to build an effective model with executable post-acquisition actions that will produce an EBITDA lift, which may include a complete transformation, to create a true growth engine.

During pre-acquisition, investors should review all critical investment case drivers related to procurement, including continuous improvement (CI) programs and planned sourcing events, as well as in-flight procurement initiatives, validating the strengths and weaknesses of these activities.

An integrated pre-acquisition assessment should also include a complete review of all legacy supplier relationships and contracts to validate the strength of the programs and identify potential risks, in addition to a macroeconomic assessment of raw material and services suppliers.

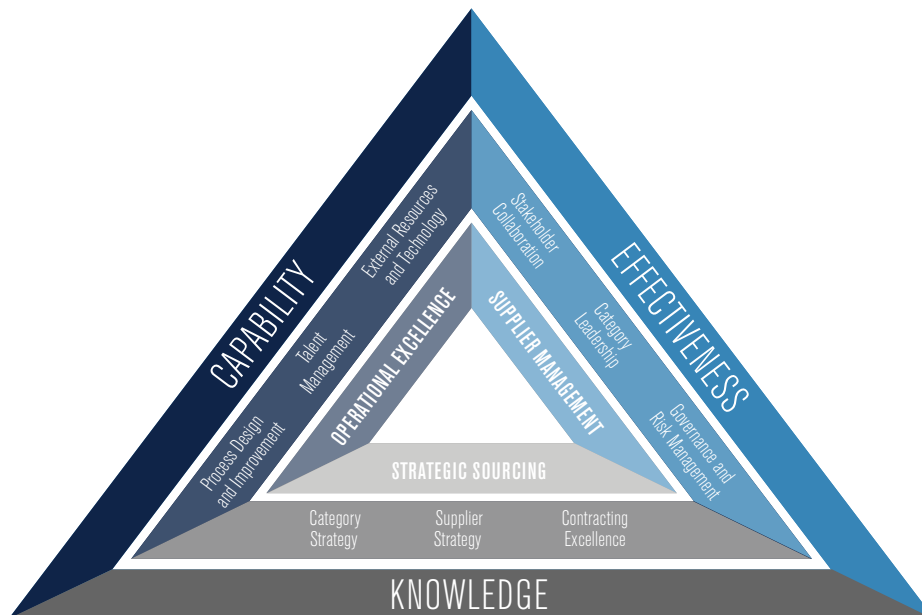
Through the global A&M network, we also assist clients by advising on off-shore sourcing assets and suppliers and performing necessary pre-acquisition due diligence in Asia and other key geographies.

## POST-ACQUISITION PROCUREMENT TRANSFORMATION ASSESSMENT

Once the deal has been completed, PE funds can then focus on executing the strategy built during pre-acquisition to create a procurement function that will support the growth of the company and allow investors to capture the increased EBITDA value during the ownership period and at sale.

Using A&M's Procurement Maturity Framework™, we evaluate where each company falls across the following key attributes:

- **Strategic Sourcing:**
  - Category sourcing capabilities
  - Supplier strategy
  - Contracting excellence
  
- **Supplier Management:**
  - Stakeholder collaboration
  - Category leadership
  - Governance and risk management
  
- **Operational Excellence:**
  - Process design and improvement
  - Talent management and stakeholder support
  - External resources and technology





Understanding the company's overall procurement maturity allows investors to prioritize areas for future improvement. It also provides key insights into where investment in the function will have the highest impact. Adding and retaining talent in the function that is directly responsible for protecting the profit margins of the business pays for itself many times over.

## ONGOING PROCUREMENT VALUE DRIVERS

With the M&A process completed and the maturity of the function assessed, owners and managers alike should consider what weaknesses need to be addressed and how the function should evolve to achieve maximum value. What should the company “go after” next for greatest impact, keeping in mind both the short and long-term of the ownership lifecycle?

After identifying areas of opportunity and / or deficiency, you can then deploy resources to execute strategies against:

- Data visibility
- Spend category sourcing support
- Purchase to pay (P-2-P) process assessment and development
- Offshoring / low-cost country (LCC) assessment and execution
- Group / leveraged purchasing opportunity assessment and execution
- Contract negotiations support
- Make versus buy analyses
- Interim procurement management (i.e. CPO)
- Procurement organization assessment and development
- Governance and change management process improvement

The “cost” of ignoring the importance of procurement, whether during diligence or later during ownership, should not be understated. Spend leakage, due to poor sourcing capabilities, compliance, or vendor management, is actually profit leakage, as every spend dollar equals an EBITDA dollar. A&M not only identifies where these leaks are likely to / do exist, but we are fully equipped to eliminate them through actions driven directly at the source, performed by experienced, functional operators that know the right levers to pull.

A solid procurement organization can be the easiest-to-access funding engine to provide short-term value to portfolio companies. These dollars can then be redeployed to execute more complex, strategic initiatives, with increased returns, in the long-term. By taking control over your portfolio company’s procurement function and ensuring the PE investment thesis includes sustainable improvement in this area, you essentially take control over your margins and get a head start on exit value expansion.



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## ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) when conventional approaches are not enough to activate change and achieve results.

Privately-held since 1983, A&M is a leading global professional services firm that delivers performance improvement, turnaround management and business advisory services to organizations seeking to transform operations, catapult growth and accelerate results through decisive action. Our senior professionals are experienced operators, world-class consultants and industry veterans who draw upon the firm’s restructuring heritage to help leaders turn change into a strategic business asset, manage risk and unlock value at every stage.

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