PRIVATE EQUITY INSIGHTS

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IN THE NEWS

THE FINANCIAL TIMES UK'S LEADING MANAGEMENT CONSULTANTS REPORT 2018

4C Associates, a leading European procurement consultancy specialising in cost reduction and transformation, has been named one of UK's leading management consultancies by The Financial Times, out of 8,000 companies.

Read the full '**UK's Leading Management Consultants' Special Report here.**

OUR WORK

EUROPEAN HOUSEHOLD RETAILER HEMA - PROCUREMENT TRANSFORMATION & DELIVERY

Business challenge:
Developing a functional capability within the existing buying team that enables the business to become more joined up when shaping the requirements, to be more strategic, informed and prepared in their market engagements, and to enable greater innovation, speed to market and cost efficiency.

Our approach:
1. GFR - Demonstrating the value of procurement, increasing use of data and analytics in category strategies and planning and delivery of savings.
2. Strategic Enablement - Develop should cost and total cost of ownership models, specification template and processes.
3. GNFR - Develop future target operating model and policy recommendations as well as delivery of cost savings.

Value delivered:
Transformation - 95% of the entire organisation trained in new 5D buying processes. Entire procurement team provided new tools, processes, data and templates, including ways of working guides.
GFR - Cost reduction savings of between 5% and 8% on selected Hardgoods, Apparel and Textile SKUs, cost avoidance savings related for FOREX and commodity inflation, and specialist category and industry insight.
GNFR - Proposed future operating models designed. €4.5m annualised savings delivered against €43m addressed spend.

EUROPEAN FASHION RETAILER HUNKEMOLLER - ACCELERATED SAVINGS DELIVERY PROGRAMME

Business challenge:
Strengthen market position through engaging a creative business with low previous exposure to Indirect procurement in a 9 month accelerated cost reduction programme.

Our approach:
1. Worked with the senior leadership team over a 4 week period to build and validate a robust opportunity assessment.
2. Built and executed a multi-workstream programme of 30 sourcing and demand management projects in 8 months.
3. Engaged stakeholder community with robust comms plan to change perceptions of procurement.

Value delivered:
19% savings on addressed spend.
6% savings on overall indirect spend.
Attributed with helping develop a culture of cost consciousness right across the company.

PROCUREMENT: THE UNDERDOG IN PRIVATE EQUITY

BY ZACHARY BACHIR

Most executives in the PE world understand that procurement helps embed commercial discipline within an organisation by managing its spend patterns and behaviours. The more robust its policies and processes, the more this value is reflected in the bottom line. But there's a bigger reason behind procurement's appeal, and that's because it can be easily leveraged to deliver significant EBITDA growth in relatively short time periods.

The Numbers

Every pound or euro saved through procurement has a 1:1 impact on the bottom line. This is best demonstrated by way of example. Suppose we have a mid-market retailer with 50% gross margin and 8% EBITDA on revenues of £1b, valued at £720m (9x multiple). Experience suggests that such a retailer will have a total addressable spend – on both directs and indirects – of about £650m, of which procurement will typically influence £400m.

A diagnostic is performed and modest savings of 8% are identified against this £400m, half of which will land in-year. This equates to £32m in bottom line benefit (+40%), boosting valuation by £288m, with half of it realised in-year. To achieve the same result without any store expansion, through the top line, sales would need to jump by £64m or +6.4%. A worthwhile endeavour but not without its challenges and certainly not within a period of 1 – 2 years.

The Business Case

So the numbers tell a good story but what about ground operations?

Portfolio company management tend to focus on three to five operational improvement areas to accelerate growth or structurally reduce costs, like pricing, acquisitions, channel strategies, and offshoring. These have the potential to deliver significant multiple uplift but are complex and challenging. Procurement programmes on the other hand deliver comparable returns while benefitting from a number of advantages:

1. They are relatively uncontroversial. Sure, some stakeholders won't like being challenged on their budgets, supplier relationships, or commercial decisions but this is a far cry from factory closures.

2. They entail moderate risks. While there are risks associated with supply base disruption, there are ways to control for these. In fact, procurement can strengthen supplier relationships and break dependencies, reducing risks through basic policies and controls.

3. They are low maintenance. Large aspects of procurement programmes can be delegated down. Strategic suppliers may require leadership involvement but most engagements can be performed by experienced teams.

4. They deliver significant soft benefits. While savings are important, there is an emphasis on improved internal and external performance and relationships.

5. They yield tangible results. Savings and ROI can be tracked and measured and a programme will pay for itself several times over.

All this means that procurement is a commercially sound and low maintenance way to deliver earnings growth.

So, how is it done?

Accelerated Savings Delivery

A programme for Accelerated Savings Delivery (ASD) is an option 12 to 18 months before exit, delivering savings of 5% – 10% tactically through quickfire tenders, benchmarks, and renegotiations of large contracts. Risks are contained because the objective is to rebalance the relationship in favour of the buyer while retaining the supplier and/or only stripping them of non-essential business.

Meanwhile, a dive into spend data will often reveal opportunities for consolidation or tail-rationalisation, unlocking further savings.

Such programmes tend to be especially effective in mid-market firms where significant value is left on the table due to uncontrolled spending and unchallenged suppliers. The downside? Savings are not maximised nor surviving much beyond two years due to the contracts put in place prior to an exit.

Transformation

Transforming the procurement function can deliver larger and more sustainable EBITDA growth though it will require more investment. Such a programme will typically last 6 to 18 months and occur earlier in the deal cycle. At this stage, the outsourcing of procurement could be considered if headcount is constrained or it is not seen as a core competence.

Unlike cost reduction, transformation can seem confusing to executives who ask what it means. This is where a little imagination can go a long way. Companies competing in low margin, value segments will find that procurement can help maintain a market-leading cost base, while those competing on marketing, quality, or service will evolve a function built around the customer value proposition. In highly regulated sectors, procurement can drive compliance and risk advantages.

As the business grows, procurement will mature with it ensuring that vast sums are not wasted and that suppliers are the right-fit and aligned to the strategy.

Bottom Line

The financial and business case for procurement in private equity is sound, especially in the mid-market. While every portfolio company is different and there are many ways to grow EBITDA, procurement is uniquely positioned to deliver in a low impact, consistent way.