

# Digital procurement in private equity: Unlocking sustainable impact

Best-practice purchasing is now an even more potent source of value creation for private-equity leaders.

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A careful review of purchasing is typically part of any private-equity (PE) playbook, with procurement savings factoring prominently into 100-day and longer-term business plans. As part of the process, procurement professionals are typically charged with finding and acting on low-hanging opportunities like requesting price reductions and volume discounts from suppliers. Leading PE firms are adopting a more comprehensive and transformative approach, powered by new digital and analytical tools, that can lift earnings before interest, taxes, depreciation, and amortization (EBITDA) by 20 percent within six months. These tools, combined with the right approach and methodologies, enable rapid sizing and capturing of the opportunity, permanently changing the way investment and management teams look at procurement—and other aspects of operations.

In this article, we will describe the new approach, focusing specifically on the impact that digital tools, advanced analytics, and new methodologies have had on midsize-portfolio companies in a variety of industrial sectors.

### Digital tools and advanced analytics

Pragmatic use of new digital and analytical tools can support a step change in supply-chain performance by enabling three key activities: creating transparency into procurable spend, identifying value potential, and supporting value capture.

### Creating transparency through advanced spend intelligence

A common challenge for many midsize companies is knowing precisely on what and with whom they spend their money. Fragmented and incomplete data and multiple, unconnected sources of information can make it challenging to determine a spend baseline, identify areas of opportunity, and track impact.

Many professionals believe that getting better data requires significant investment of time and money in new IT systems. However, new digital solutions allow companies to make sense of dispersed, partial, and often incorrect spending data in just a few weeks. They can patch together disparate software systems, extract data from both internal and external sources, cleanse them, and intelligently categorize them in sufficient detail to provide a “single source of truth” for external spend.

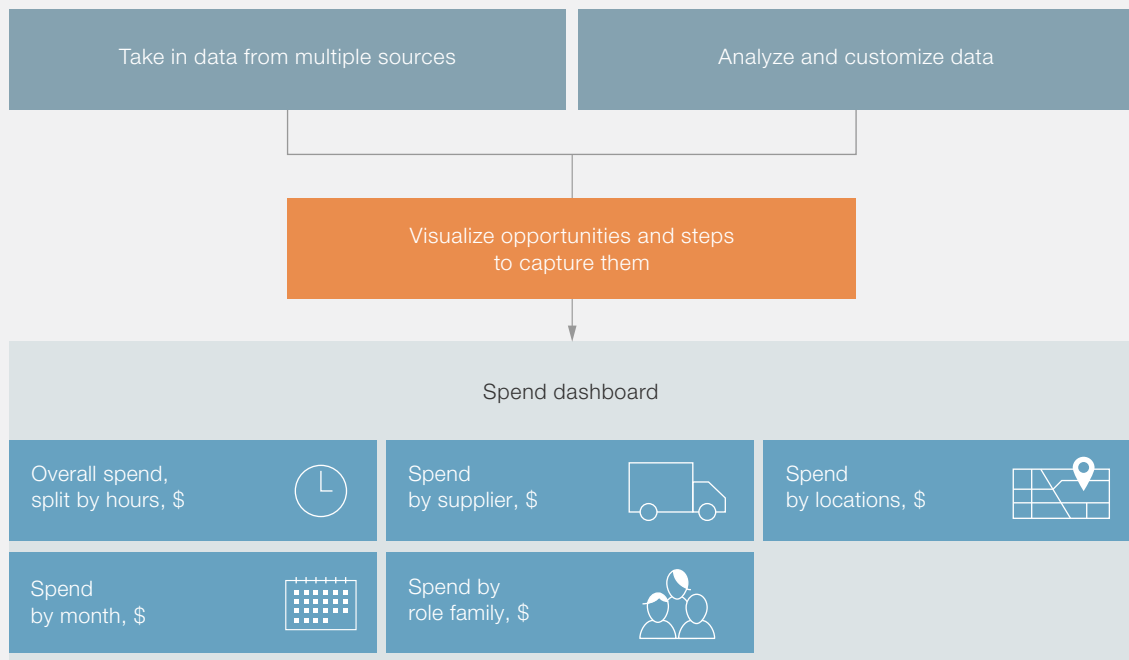
Procurement professionals can use this data set to perform a wide range of analytical exercises to identify areas of opportunity. For example, they can look for pricing or specification discrepancies between different plants or divisions, excessive spend fragmentation, and disconnects between raw-material prices and commodity-market indexes—all are markers of opportunity that should be further investigated and transformed into cost-saving initiatives. Exhibit 1 illustrates how a web-based tool can collate and clean data, and offer several useful analyses in each category of a company’s spending.

### Identifying value potential

Knowledge and insights are power—a truism, of course, but in procurement, superior knowledge is vital. Insights into high-spend categories will help companies set the appropriate level of ambition (savings targets) and capture the full EBITDA potential. In our experience, the traditional commercial levers, such as sending out requests for proposals (RFPs), negotiating with incumbents, developing new suppliers, and so on, capture less than half of the potential. Claiming full value requires looking beyond price and into noncommercial levers, such as product design, raw-materials specifications, demand and usage management, and processes. In doing so, procurement professionals can rely on a number of digital solutions to drastically simplify value identification and improve the accuracy of savings estimates. New advanced-analytics tools

## Exhibit 1 New reporting tools offer dynamic insights into key spending characteristics.

### How 1 tool produces a spending dashboard



used by midsize PE portfolio companies include the following:

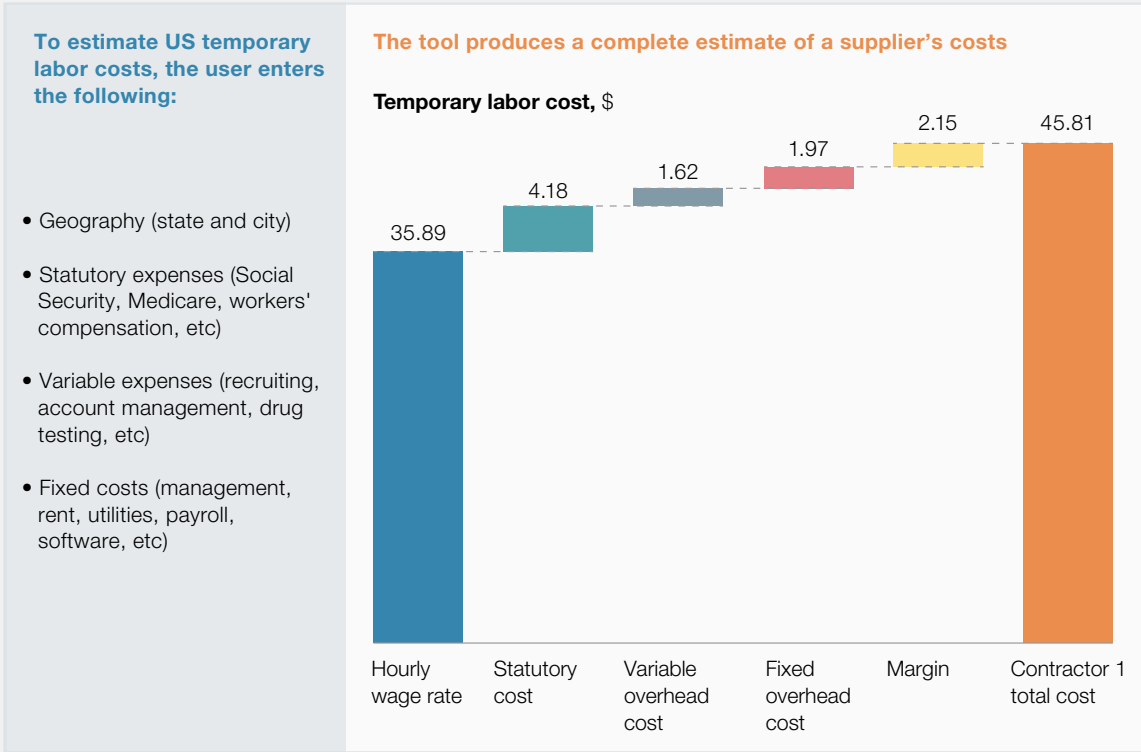
- Online design-to-value tools, e-cleansheet solutions, and 3-D printers. Successfully deployed, these tools dramatically reduce the time and cost traditionally associated with design and specification changes. The insights generated have empowered procurement teams to negotiate on the basis of optimized product features. Typical impact is 15 to 30 percent of historical procurement costs. Exhibit 2 shows a simplified cleansheet analyzing temporary-labor costs.
- Logistics and inventory-optimization tools. Companies with significant logistics and

inventory costs such as freight and warehousing can optimize their footprint and logistic network, permanently reducing their internal and external logistic spend. Typical reduction in total logistics cost is 10 to 20 percent—and that is before renegotiating with suppliers on the basis of an optimized network. Exhibit 3 shows an example of how new tools can cut freight costs through shorter trips, increased utilization, and route optimization.

- Back-office process-automation tools. Companies with significant back-office spend (on both procured services and labor) can realize significant savings by automating and speeding up processes, typically 20 to 30 percent of general and administrative costs. A robotic-

**Exhibit 2 A cleansheet tool helps users build their own model of costs.**

**Example**



process-automation system can extract, clean, and consolidate data from multiple source systems. Other tools then improve the management of end-to-end work flow and handoffs between people and bots, automating many processes and shortening cycle times. Exhibit 4 shows an example of a reporting

process in which most steps were automated, cutting overall time in half.

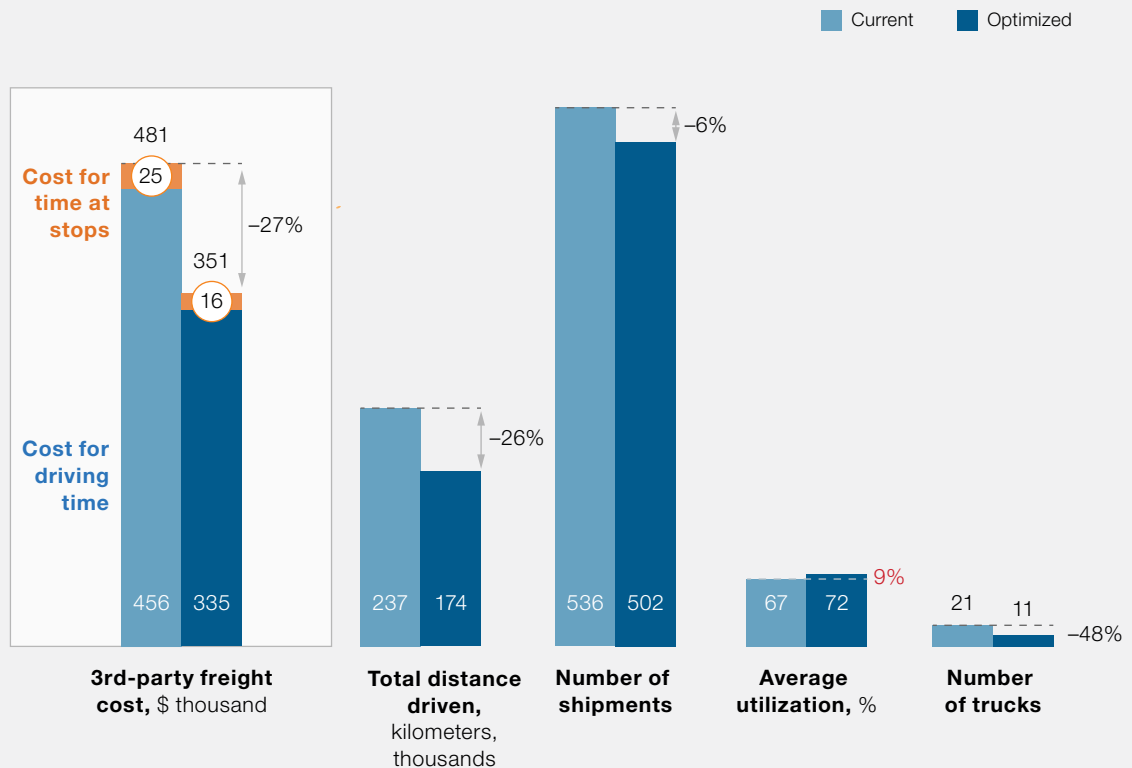
**Supporting value capture with e-sourcing tools**

While not new, the latest electronic sourcing tools such as e-RFPs, e-catalogs, and e-auctions let purchasing teams reach more vendors and conduct

Companies with significant back-office spend ... can realize significant savings by automating and speeding up processes, typically 20 to 30 percent of general and administrative costs.

**Exhibit 3 One company found an opportunity to cut third-party freight cost by 27 percent using a digital transportation-management tool to optimize routes.**

**3rd-party freight shipments from 1 hub over 2 months**



more detailed, broader sourcing events in a fraction of the time of traditional RFPs. If used pragmatically, these technologies let companies execute more sourcing events, with increased competition and transparency, compressing into days or weeks the work that would typically take procurement professionals years to execute.

**Four elements of success**

Leveraging digital tools is not enough to create step changes in financial performance. Leading firms pair new technologies with an approach based on four practices:

- setting ambitious targets
- mobilizing cross-functional teams including top management
- committing to total cost of ownership
- focusing relentlessly on execution

**Setting ambitious targets**

Once total savings potential is identified through advanced spend intelligence, it is easier to set an ambitious target. Rather than just a target

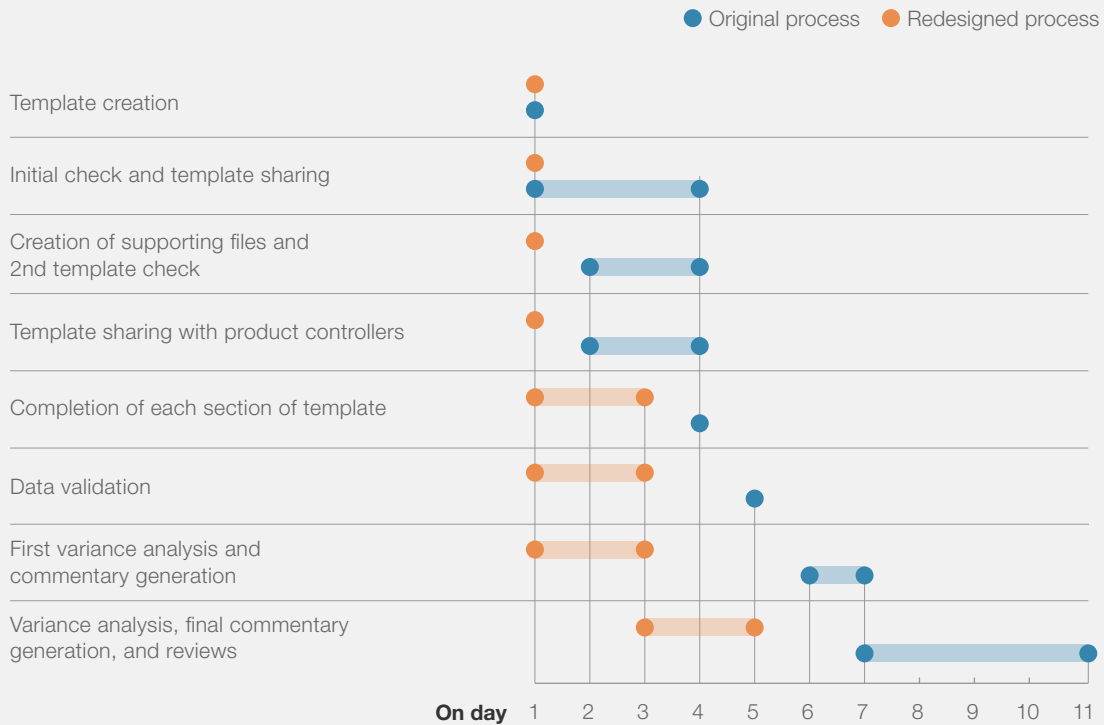
**Exhibit 4 Process automation can cut up to 30 percent of general and administrative costs.**

**A finance organization with 600 professionals automated its record-to-report process. It did the following:**

- studied the potential for automation using currently available technologies
- used robotic process automation to extract, clean, and consolidate data from 10+ source systems
- used a business-process management tool to manage end-to-end work flow and handoffs between people and bots

**Identified impact**

- 20–30% reduction in general and administrative costs
- Faster process (eg, some reports that once took 5 days to build manually can now be produced in 1 hour)



percentage or dollar amount—though those are important—PE investors should ensure that the actual procurement savings potential is reflected in the business plan of each portfolio company. In our experience, after a quick diagnostic (two to

three weeks), it is not unreasonable to expect a total procurement target of 10 to 20 percent of EBITDA.

High aspirations frequently lead to high achievement. A thoughtful stretch target can

challenge an organization’s underlying mind-sets and assumptions. It pushes the team to collaborate as never before and to develop novel ways of solving problems. CEOs, CFOs, and business-unit leaders should also visibly commit to the targets and pledge their time and energy to supporting the working team.

#### Mobilizing cross-functional teams including top management

Any initiative led and conducted solely by the procurement function is destined to underperform. It is crucial to pull high-level talent from across the organization to drive and support the effort. Experts from finance, operations, sales, engineering, and manufacturing will bring broader expertise to the challenge at hand, allowing the team to see more issues and create better, faster solutions. These teams are further empowered by clear definitions of roles, decision-making responsibilities, and a plan and venue to escalate issues that cannot be solved by the team.

#### Committing to total cost of ownership

More than half of all procurement savings potential typically comes from noncommercial levers. As such, any value-capture effort that has the objective of capturing the full potential opportunity has to be centered on the idea of total cost of ownership. New digital and advanced-analytics tools can make it easier and faster to look beyond price to identify opportunities in design, specification, usage, and process.

#### Focusing relentlessly on execution

Progress on initiatives should be reported to executives at least biweekly to drive momentum and urgency, and to ensure timely decision making. Promising initiatives frequently die on the vine because “we’ve never done that before” or “we

know the business will say no.” Engaging frequently with the appropriate stakeholders sustains the momentum necessary to drive change through the organization.

It’s important to note that initiatives don’t happen all at once, or at the same pace. To engage the organization in the process, companies should establish stage gates to assign initiative owners, validate potential savings, and then quickly plan and resource them through execution. Successful teams frequently set up war rooms where they can track initiatives visually. They identify obstacles to completion, resolve them when they can, and escalate them when they can’t through frequent periodic updates with top management.



In an increasingly competitive investing and operating environment, driving outsize performance in procurement can be the difference between exceeding investment targets and falling short. A successful procurement transformation can increase run-rate EBITDA by up to 20 percent and make an even larger impact on enterprise value. Furthermore, substantial and near-immediate improvement in cash flow can enable greater financial flexibility and investment elsewhere. ■

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