Private Equity

Optimizing procurement for outsized returns

accenture

As dealmaking has slowed and generating expected returns has become harder, private equity (PE) firms can no longer afford to give procurement a cursory glance and leave millions on the table.

With buyout volume reduced by 15%, exits down by 16% and hold times at an average of 6.3 years, it's clear that PE dealmaking has slowed.[1]

Firms have swiftly adjusted their strategies in response. Operational value creation is taking a more prominent role and now accounts for 79% of a PE firm's targeted value creation efforts, with financial engineering taking up the remaining 21%.[2]

Among the many potential value creation levers to consider in this environment—supply chain optimization, sales force effectiveness, operating model redesign, digital transformation—few are as immediately measurable and impactful as procurement.

In many cases, procurement can deliver an 8–12% cost reduction of direct and indirect spend in a matter of months, not years, while being less sensitive to portfolio company management and employees than other cost-cutting measures like headcount reduction.[3]

However, even though getting started with procurement is relatively straightforward, generating sustained outsized returns is not.

With procurement being a low-risk play, delivering 8–12% spend reduction in a matter of months, how do you realize its full value potential?

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Moving beyond the basics

Procurement optimization has been part of the PE value creation toolbox for over a decade. Yet only few firms have been able to turn it into a true differentiator.

Almost all PE leaders (84%) seek to drive operational value through procurement at least some of the time, our research shows. Of this group, more than half use procurement as a value lever for most or all of their portfolio companies.[4]

While some value is being wrung, the results of these efforts are often one-time and suboptimal. Nearly six out of 10 PE leaders (58%) admit that driving value through procurement isn't easy and does not regularly yield expected results.[5]

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of PE leaders admit that driving sustainable value through procurement isn't easy

The suboptimal value creation from procurement is primarily due to four reasons:

1. There's insufficient early focus and analytical groundwork performed pre-close and during due diligence.
2. Efforts often don't go beyond the low-hanging fruit—tough negotiations and requests for proposals (RFPs).
3. Without a tailored playbook and adequate resources, firms are unable to deliver value from procurement consistently.
4. The hard-earned savings that are realized in year one after closing tend to slip over the course of the investment hold period.

This begs the question: How can PE firms take a differentiated approach to procurement that consistently delivers outsized results?

The answer lies in building and embedding better capabilities across a number of areas. Firms that fully embrace procurement value creation as a way of life and leverage supporting technologies throughout the deal cycle generate greater value faster and more consistently.

We outline four guiding principles that separate the leaders from the pack.

1. Kickstart your gains

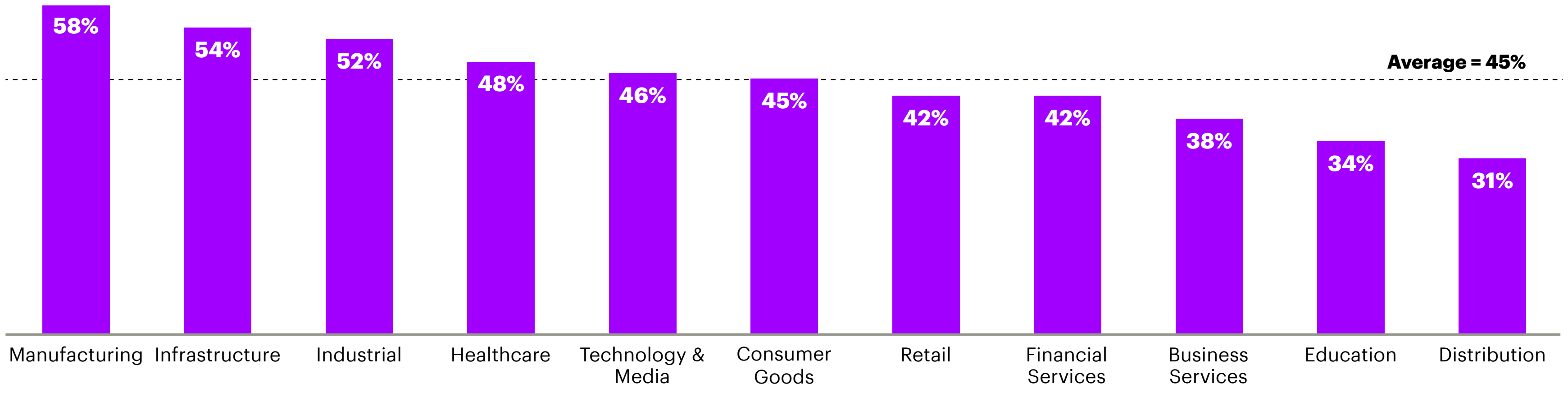
Leading firms set their procurement value creation plan in motion during the due diligence phase.

The best time to act is within the first 100 days, with goal setting and initiative planning beginning during due diligence or immediately post-close. In most cases, procurement initiatives have few dependencies on other value creation initiatives and as such can be executed immediately—in parallel with other high-priority efforts.

Sizing the prize early ensures procurement is prioritized, building positive momentum for the broader value creation plan. A high-level savings range can be inferred with basic inputs from financial statements and a brief management interview. Higher confidence projections for underwriting require deeper dives into line-item spend data, contracts and current procurement strategies.

Overall, early involvement is key to ensuring benefits are delivered throughout the deal lifecycle. Our experience of working with more than 500 mid-sized companies shows that investments where procurement opportunities are identified early—during diligence or the first 100 days—are 70% more likely to capture significant procurement value.[6]

Figure 1: While procurement spend as a percentage of revenue is lower in services industries, it's still a sizable amount that should not be overlooked.



Source: Insight Sourcing – part of Accenture, Procurement value creation for portfolio companies, 2023.

Sizing the prize for services industries

Procurement might not seem as obvious a value driver in service companies as it is in manufacturing or retail, but it offers substantial opportunities for two reasons:

- Service companies rarely have robust procurement functions. Often, spend is not competitively sourced, contracts with strategic commercial terms are lacking and there's limited spend visibility and savings tracking. This leaves significant opportunities to address unnegotiated and uncontracted spend.
- Service companies still have a substantial amount of addressable spend that can be targeted for cost takeout efforts (see Figure 1). In addition, rising labor costs result in a greater need for non-labor margin improvement in labor-heavy service companies.

The top spend areas in service companies—such as IT, facilities and professional services—typically see cost savings of 4% to 10%+ through competitive sourcing and demand levers, a sizable amount that justifies kickstarting the procurement value creation plan early.[7]

2. Use the full spectrum of tactics

Delivering full potential value requires more than just tough negotiations and RFPs.

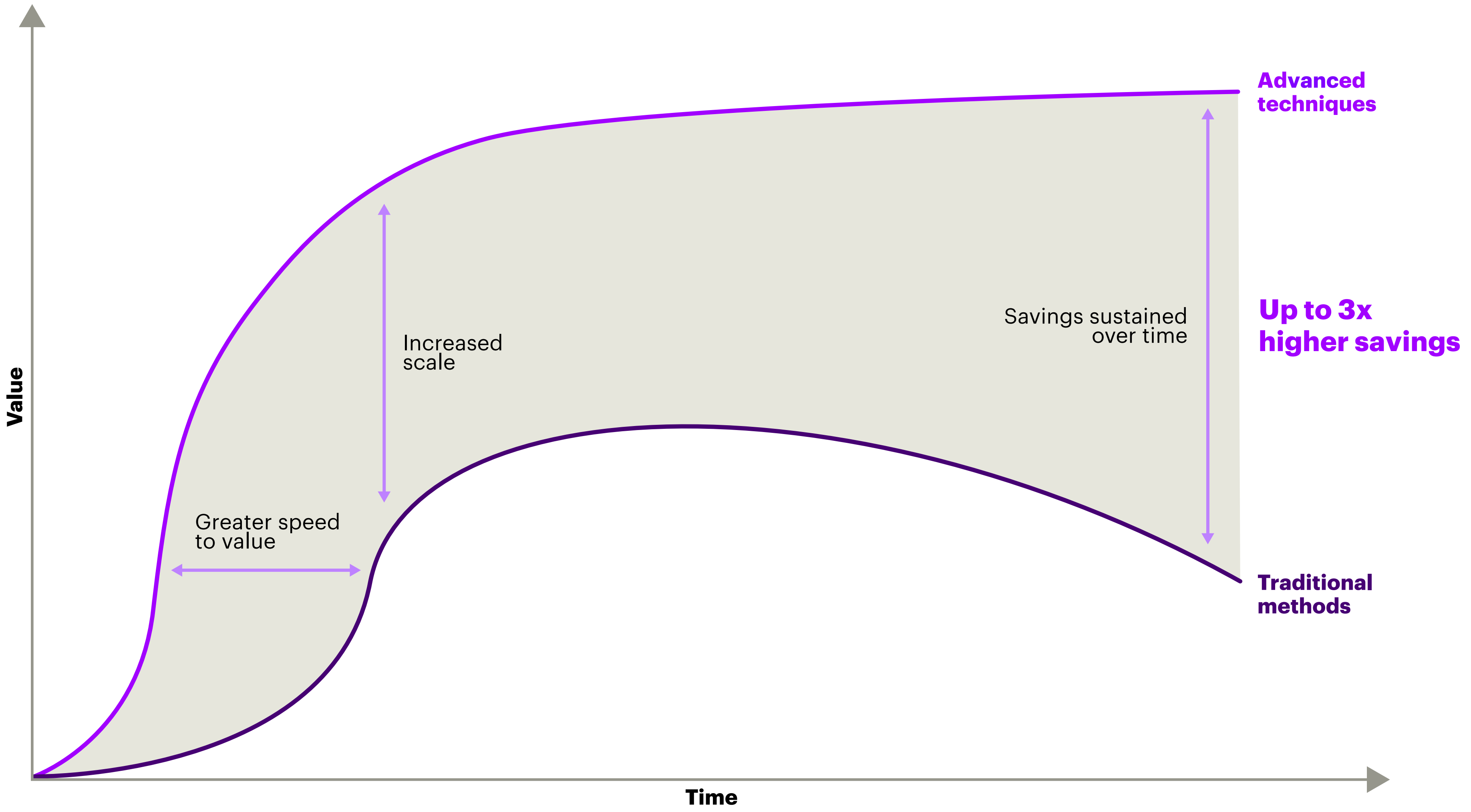
Savvy firms know there is more to procurement than chasing lower prices; they tap into a wider set of non-price levers to drive real, sustainable value. True impact comes from including commercial levers like value-based deal constructs, as well as non-commercial and technical levers.

Leading PE firms are wary of settling for procurement value creation initiatives limited to price-focused tactics such as renegotiating with incumbent suppliers or comparing a few bids. Instead, they identify strategies that focus on total cost of ownership (TCO), setting ambitious savings targets that push teams to maximize results.

One example of such a non-price lever is design-to-value as a way to look at products and think about substitute specifications and materials. Another often overlooked technique is by challenging demand: beyond the price, these firms also look at what, how much and when they buy.

Applying the full suite of advanced procurement techniques can deliver up to 3x higher savings across the investment lifecycle compared to traditional, price-focused methods (see Figure 2).[8]

Figure 2: Advanced techniques provide speed, scale and sustained cost-reductions, achieving up to 3x higher savings than traditional procurement methods. (Illustrative)



Source: Insight Sourcing, Impendi and Accenture experience working with more than 500 mid-sized companies across 18 industries.

Client example

Cutting costs to fuel growth

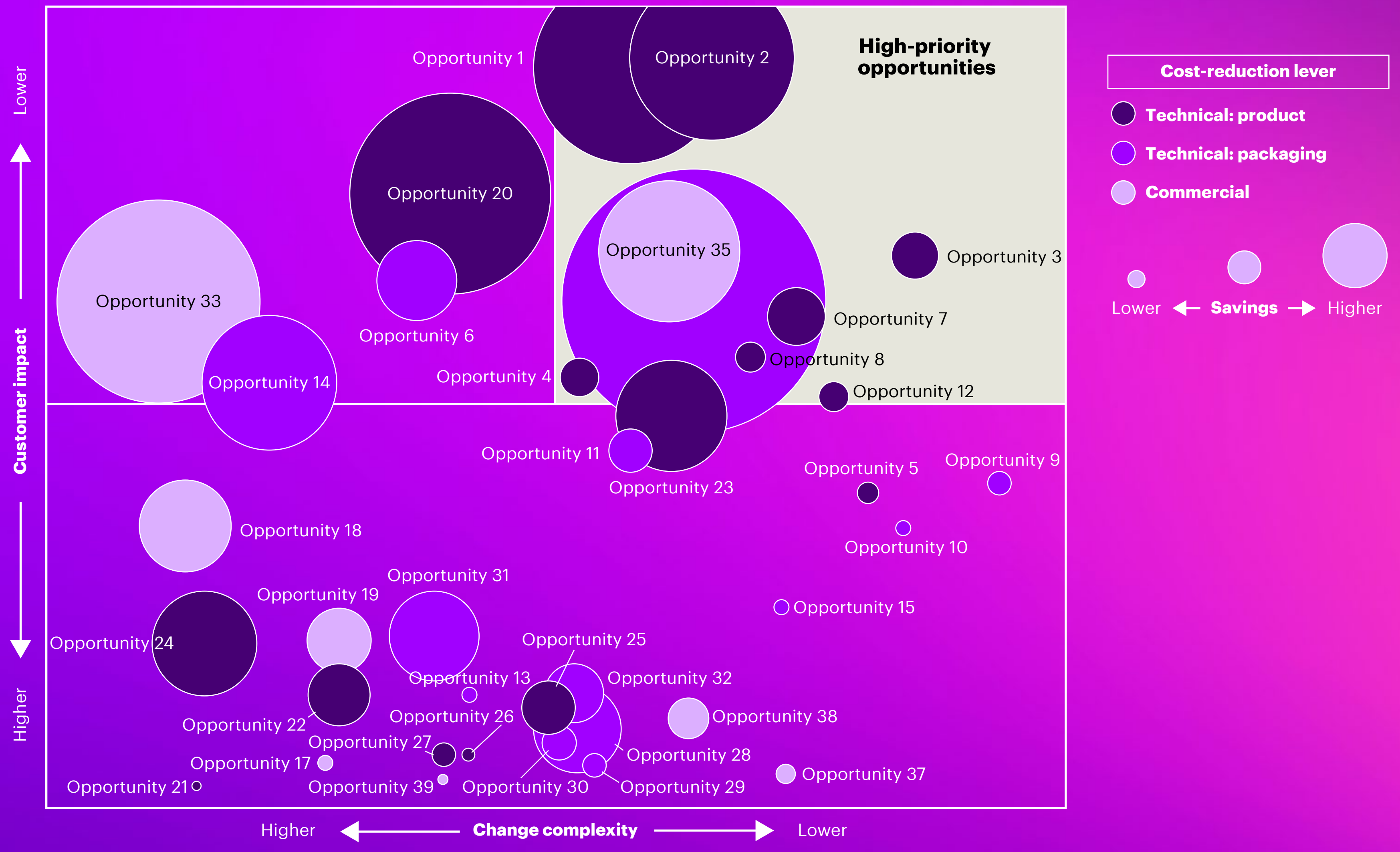
A North American DIY consumer goods company struggled to increase its market share and meet sales targets for its sawhorse product line. Leadership saw cost reductions—without loss of product quality—as a path to more competitive pricing and increased sales.

To support this goal, the company analyzed the competitive landscape, identifying similar products and documenting competitor retail price points. It then conducted a teardown of its own and competitor products.

This was followed by a design-to-value analysis. The process generated more than 30 cost takeout ideas, including product changes—such as using alternative materials for leg caps and optimizing steel thickness and bracket geometry—and process improvements including reducing packaging complexity and optimizing the manual.

A framework helped rank these opportunities according to the priorities of the company, their savings potential and implementation effort (see Figure 3). Combined, these changes are expected to drive $25+ in unit cost savings and improve margins by more than 20%, delivering on leadership's mandate of more competitive pricing.

Figure 3: Technical and commercial cost reduction opportunities can be prioritized based on perceived consumer impact, change complexity and total cost savings. (Illustrative)



3. Craft a winning playbook

Don't simply wait for procurement opportunities to reveal themselves within your portfolio—create them.

A proven, repeatable playbook is a huge differentiator as many PE firms lack a pre-established approach. Without an institutionalized procurement value creation playbook, firms lose out on 33% of the value potential, on average, and the gains they do achieve are realized more slowly and less consistently.[9]

A robust procurement value creation playbook should cover the full investment cycle—everything from diligence and the first 100 days to the further hold period and exit readiness. This structure enables PE firms to consistently capture procurement value creation early in the investment cycle and sustain it over time.

While playbooks should take a holistic approach addressing all key levers, they should also be customized to the specific needs of the industry the portfolio company operates in and the situation at hand, like available in-house resources and the PE management team's intervention posture.

Preparing a few application archetypes from a longer menu of options can enable teams to deploy a tailored approach at speed.

33% of the value potential is lost by not having a proven, repeatable procurement playbook.

Client example

Strategic procurement in infrastructure

Whether in resources, transportation or digital infrastructure, strategic procurement should cover both CapEx and non-CapEx categories across the entire business.

A PE-backed global data center provider achieved average savings of 11% across key equipment categories in its home market. They then expanded this approach both functionally and geographically to include demand forecasting and capacity analyses, pipeline management, supplier due diligence, capital budgeting and reporting.

Beyond generating approximately $300 million in savings, this strategy enhanced supply chain management—ensuring on-time delivery, improving spend visibility, proactively managing supplier resilience and driving continuous improvement and value engineering opportunities.

Stakeholders now meet strategic objectives more effectively, optimize supply partnerships, maintain continuity and ensure ongoing supplier engagement.

Beyond generating $300 million in savings, the company enhanced its supply chain management.

Client example

Driving value and reducing risk with a structured approach

A PE-backed automotive company, formed through a roll-up of more than 20 add-on investments, grappled with a highly fragmented procurement structure and underdeveloped supply chain risk practices.

The portfolio company management established a clear vision for its procurement organization, coupled with multi-year category strategies aimed at balancing cost savings with supply continuity. The strategy leveraged a full spectrum of procurement levers, including make-or-buy decisions, volume consolidation, best-cost country sourcing, spec optimization and incumbent negotiations. By selecting the best-cost suppliers across the Americas and Asia, the company secured formal agreements that provided pricing protection from commodity volatility.

Through this structured approach, the company addressed more than $350 million in annual spend across 18 Cost of Goods Sold (COGS) categories. This resulted in an EBITDA impact of more than $24 million, a stronger collaboration between engineering and procurement and reduced supply chain risk.

Documented as a playbook, this approach now serves as a guide for future add-on deals.

The company addressed $350 million in annual spend, resulting in a $24 million EBITDA impact.

4. Solve the talent puzzle

Portfolio companies often lack the resources, expertise, technology and confidence to pursue procurement opportunities on their own.

A procurement talent shortage, especially in the mid-market, is posing a challenge. Our analysis of over 80,000 unique C-suite roles at nearly 8,000 companies with revenues below $5 billion revealed that only 10% had a senior executive in a procurement role. Even when including broader supply chain responsibility, less than one in four companies (23%) had a dedicated, senior leader over a centralized, strategic procurement function.[10]

Thinking about the right way to resource these value creation opportunities is critical. PE firms can augment their portfolio company teams by engaging external procurement specialists who bring relevant category and industry experience, can accelerate the most impactful value levers and even deliver procurement value creation "as-a-service."

Buy vs. build, through value-based deals, often leads to better, faster and more sustainable returns.

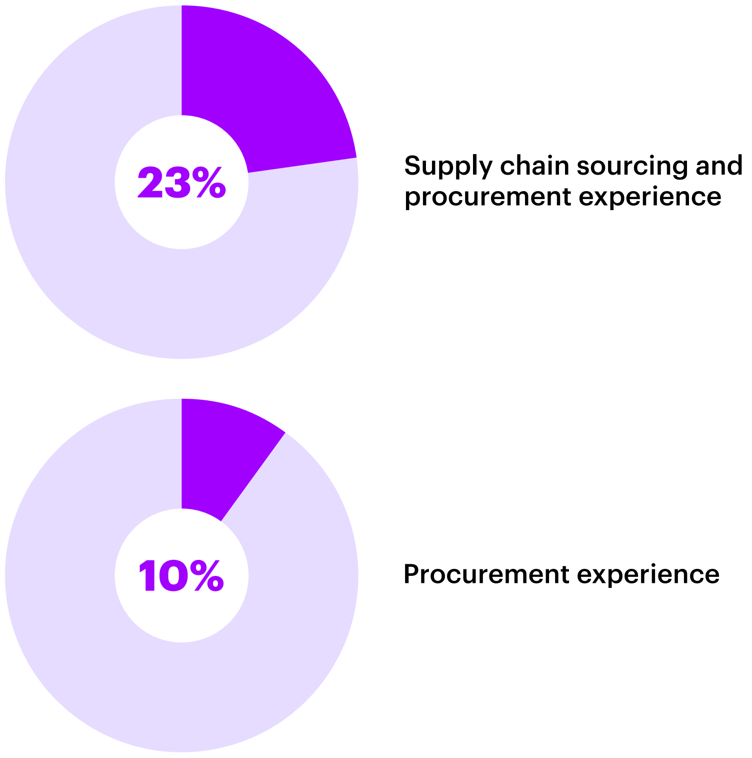
But it's not just about hands on keyboards. Emerging technologies are enabling leading PE firms to fundamentally rethink procurement within their portfolio companies. Leveraging procurement technology—including (generative) AI—can accelerate value realization, address portions of the spend stack previously deemed too labor-intensive to optimize manually and ensure savings reach the bottom line.

C-suite leaders of companies with annual revenues under $5 billion report that workforce extension is the top driver of technology investment within their organizations as they grapple with shortages of key skills and employee retention. Moreover, they cite new technologies like AI and other tech advancements as the number one driver of innovation within their organizations.[11] Our research suggests that generative AI has high potential for automating and augmenting tasks across procurement roles, including those of procurement clerks, buyers and purchasing agents—opening up significant new efficiencies.[12]

A common issue many portfolio companies face is a lack of spend visibility, with data not properly cleaned and classified, and dispersed across different source systems. A digital backbone—such as a performance platform that creates a data and AI layer across existing systems as an alternative for an ERP transformation program—lays the groundwork for sustainable value creation.

Companies that invest in their digital core and procurement technologies can gain visibility into more spend, optimize more spend, mitigate risk exposure and supply disruptions, drive compliance to negotiated deals and efficiently scale procurement. All of this combines to increase speed-to-value and savings capture.

Figure 4: Most portfolio companies lack the leadership needed to capture the full value potential of procurement.

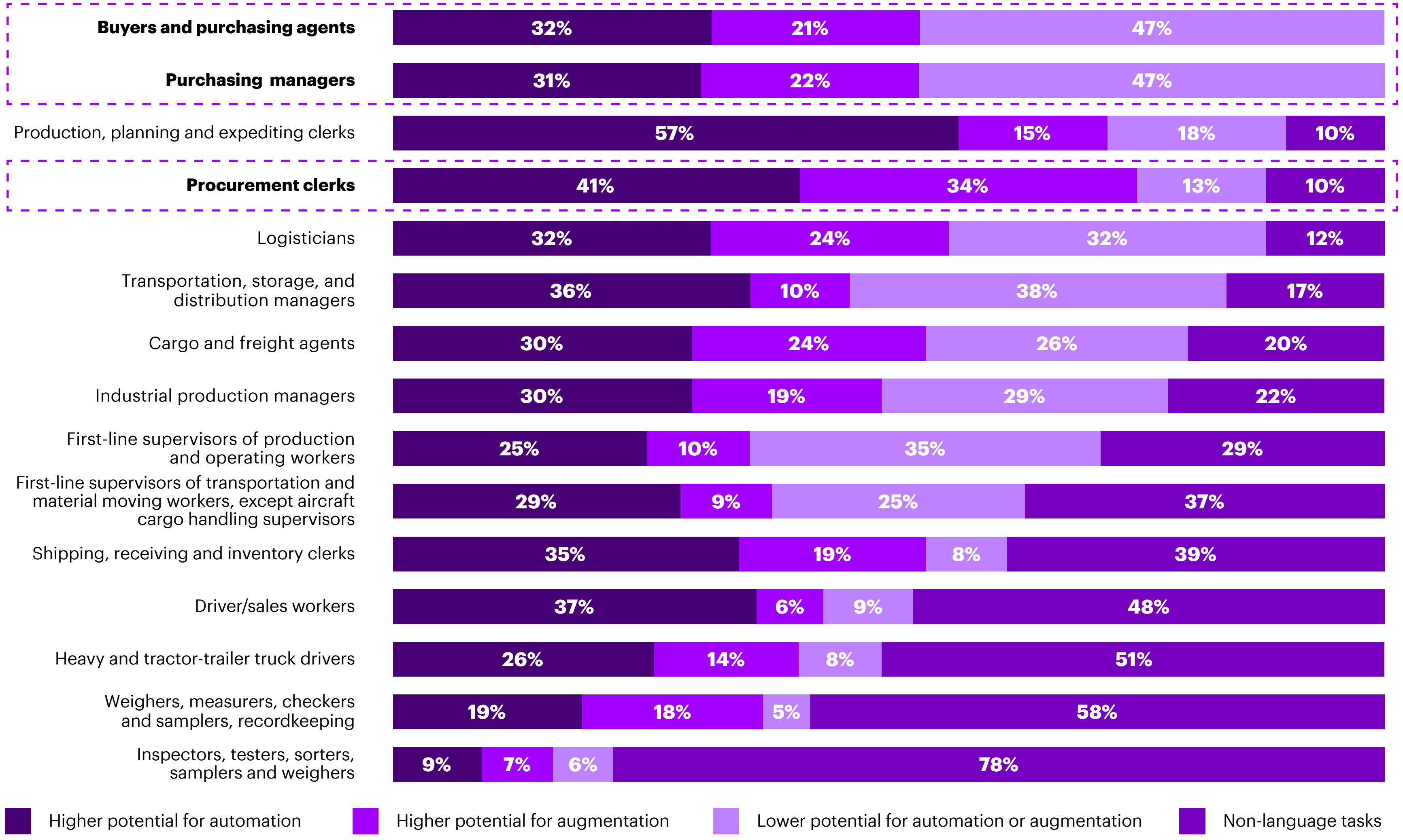


Source: S&P CapIQ analysis of 80,163 unique roles at 7,939 companies with revenues below $5bn, 2024.

Sourcing and negotiation tools are rapidly evolving, enabling procurement teams to manage more spend with a limited pool of talent (see Figure 5). This includes advanced sourcing and optimization, democratizing big data analytics and automating negotiations. Advanced analytics and AI form the foundation for developing predictive pricing capabilities for commodities, enabling data-driven decisions that reduce costs.

Advanced analytics and machine learning help identify savings by reducing part complexity. For a PE-backed manufacturer, this approach revealed ways to cut costs and accelerate time-to-market for a key product. By codifying technical attributes and analyzing attribute importance, clusters of parts with similar critical features were identified—leading to a 20% reduction in unique parts and a 10% decrease in costs. Shifting more volume to preferred suppliers further improved time-to-market and forecast accuracy while reducing inventory obsolescence.

Figure 5: AI can help address procurement skills shortages through its potential to automate and augment tasks for key roles. (% of tasks impacted by AI)



Source: Accenture Research based on US BLS and O*Net data, 2023, Estimates are based on human+machine identification of work tasks exposure to impact of generative AI.

Client example

Deploying a fit-for-purpose procurement performance platform

A PE-backed building materials company set an ambitious agenda to achieve 60% growth through acquisitions over the next three years. However, the company recognized that it lacked the operating model needed to effectively support this goal. Procurement faced limited spend visibility, a wide variety of decentralized data sources across 14 ERPs and insufficient insight into contracts.

The company teamed up with specialists to develop a comprehensive solution for spend, contracts and rebates—combining AI, functional expertise and leading vendor solutions to deliver actionable analytical insights.

This "ready-to-connect" solution prioritizes value over tooling, enables data harmonization, facilitates collaboration across sourcing and procurement and allows platform expansion to other business functions. Beyond optimizing spend, purchase price and payment terms, the platform also supports a reduction in warehouse costs.

The AI-enabled procurement platform helped this PE portfolio company achieve over €100 million in EBITDA improvement during the holding period, breaking even within the first year and delivering an ROI well above 10:1, with sustained bottom-line impact that could be monetized at the end of the period.

Client example

Amplifying portfolio company initiatives

In addition to the four guiding principles described earlier, some PE firms augment their portfolio company-specific value creation with cross-portfolio, leveraged purchasing.

One such firm with more than $500 billion in assets under management uses an embedded pre- and post-transaction value creation playbook to consistently assess opportunity and deliver value. Key initiatives included:

- Managing cross-portfolio spend visibility for dozens of portfolio companies, covering more than $55 billion in annual spend.
- Leading cross-portfolio sourcing efforts to leverage total spend across IT, professional services and targeted direct areas.
- Managing 35+ leveraged purchasing programs and 50+ vendors, driving over $7 million in incremental savings to the portfolio annually.
- Delivering $150 million in run-rate EBITDA impact annually.
- Hosting an annual operational excellence conference to share best practices between portfolio company procurement leaders.

The strategic power of procurement

As PE firms evolve their approaches to reshape their portfolio companies more profoundly than ever before, procurement is a fundamental yet underutilized value lever.

Leading firms know that optimizing their procurement approaches for speed, scale and effectiveness not only boosts margins but also frees up capital for reinvestment in other value levers—driving further returns and profitable growth.

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References

[1] Accenture analysis of S&P Capital IQ data, 2024.

[2] Accenture, It's time to rethink private equity due diligence, 2024.

[3] Source: Insight Sourcing, Impendi and Accenture experience working with more than 500 mid-sized companies across 18 industries.

[4] Accenture Private Equity Leaders survey, 2024. Between March and April of 2024, Accenture conducted a global survey of 251 senior PE professionals from North America (46%), Europe (34%) and Asia Pacific (20%), all from firms managing at least $5 billion in assets, who engage in dealmaking and investment decisions for buyouts.

[5] Ibid.

[6] Source: Insight Sourcing, Impendi and Accenture experience working with more than 500 mid-sized companies across 18 industries.

[7] Ibid.

[8] Ibid.

[9] Ibid.

[10] Accenture Research analysis of S&P Capital IQ data of 80,163 unique roles at 7,939 companies with revenues below $5 billion, 2024.

[11] Accenture CXO pulse survey, n=1,252 companies with under $5B revenue, 2024.

[12] Accenture Research based on US BLS May 2023 and O*Net

How we can help

Accenture Private Equity partners globally with PE clients across their investment life cycle. We provide end-to-end services that span due diligence and deal support, transition and transformation planning, as well as portfolio company value creation, using proven solutions underpinned by digital and technology. In addition to supporting the investment life cycle, we help PE firms reinvent the ways they create value through scaled portfolio capabilities, shared services and access to leading ecosystem partners.

With the acquisitions of Insight Sourcing and Impendi, Accenture now has 400+ sourcing & procurement specialists and 28 category centers of excellence across CapEx, direct and indirect spend. We drive measurable EBITDA impact and working capital improvement for 50+ PE firms through deep expertise and specific approaches for sectors including industrial, consumer goods & services, retail, health, high tech and financial services. Our methodology includes advanced levers—such as design-to-value, should-costing and stop spend—that, collectively, drive up to 3x higher savings than focusing on price alone.

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About Accenture

Accenture is a leading global professional services company that helps the world's leading businesses, governments and other organizations build their digital core, optimize their operations, accelerate revenue growth and enhance citizen services—creating tangible value at speed and scale. We are a talent and innovation led company with 774,000 people serving clients in more than 120 countries. Technology is at the core of change today, and we are one of the world's leaders in helping drive that change, with strong ecosystem relationships. We combine our strength in technology with unmatched industry experience, functional expertise and global delivery capability. We are uniquely able to deliver tangible outcomes because of our broad range of services, solutions and assets across Strategy & Consulting, Technology, Operations, Industry X and Accenture Song. These capabilities, together with our culture of shared success and commitment to creating 360° Value, enable us to help our clients succeed and build trusted, lasting relationships. We measure our success by the 360° value we create for our clients, each other, our shareholders, partners and communities.

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