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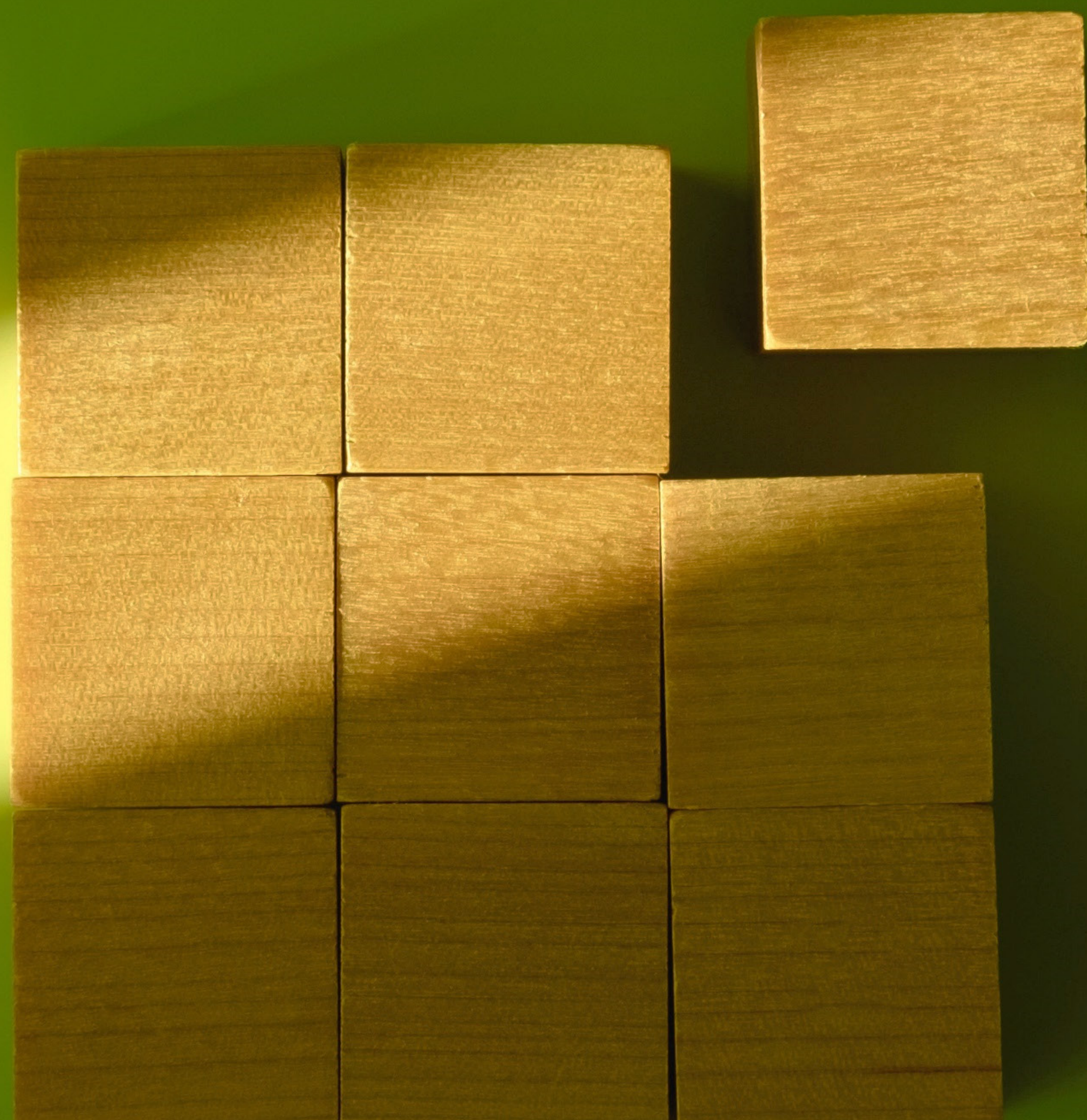
Faster together

Cross-portfolio cost advantage for PE — In weeks



When it really matters.[sm]

A strategic, AI-enabled approach to portfolio-wide value creation

Private Equity portfolios are leaving material savings unclaimed—not because the opportunities don't exist, but because traditional approaches can only surface them one company at a time. In a world of higher rates, elongated holds, and narrow exit windows, that stately pace is costly. In a world of artificial intelligence, it is also unnecessary.

New AI-enabled techniques now allow sponsors to identify and capture savings simultaneously portfolio-wide, with results in weeks, not months, and with minimal administrative burden for the firm or its portfolio companies.

Why this matters now

Certainly, the need is there. The PE industry faces common challenges. Higher interest rates have raised performance hurdles; weak growth and economic and political disruptions have challenged financial projections; exits are harder to find, making holding periods longer. All these factors have hurt returns and distributions to investors and hurt the industry's ability to attract investors.

The best path to address these problems is stronger portco performance. AlixPartners recently conducted a survey of PE industry experts and leaders to identify leading practices for value creation across the entire PE value chain—from fundraising to exit—and the number-one practice, as advocated by 86% of respondents, is for PE firms to take a hands-on approach to portco value creation. Most portcos agree; 60% say they want more hands-on support from their sponsor.

The AlixPartners Approach: Rapid Cross-Portfolio Cost Assessment (R-CPCA)

As private equity (PE) firms seek new ways to serve investors, they can find a new horizon of opportunities to create value by means of rapid, clustered initiatives that enhance performance across multiple portfolio companies (portcos) simultaneously.

The R-CPCA enables sponsors to evaluate 6–20 portfolio companies at once, uncovering 5–15% savings on addressable spend with minimal disruption.

1. **Intelligent spend cube** — AI-enhanced spend normalization across portcos.
2. **Contract term normalizer** — Rapid comparison of supplier terms.
3. **Opportunity heatmap** — category-level insights across it, corporate services, logistics, benefits, tail spend, and more.
4. **Execution blueprint** — coordinated cross-portfolio sourcing + company-specific procurement excellence.

It's one thing for a PE firm to employ and empower operating partners to work closely with individual portcos; it's another for a firm to try to achieve cost and revenue gains across multiple companies at once. Several factors have deterred them. It would take months to gather data and documentation from just one company, and the complexity and resources would grow exponentially if more were added. Though leading PE firms have supported their portcos with Group Purchasing Organization (GPO) programs, preferred strategic vendor agreements and programs around insurance and the like, deep assessments on individual company opportunity tended to be one-offs.

With new AI-empowered synthesis horsepower and a thoughtful approach, it is now possible to assess opportunities across multiple portcos simultaneously and rapidly—something that was virtually impossible before.

With the right approach and technology, PEs can now conduct a light-touch assessment across sex, a dozen, or more portcos at once, with minimal data and bandwidth required from the management teams (meaning less need to arm-wrestle for buy-in).

How does this work in practice? We have worked with multiple PEs to run the rapid cost assessment play, focusing on third-party spending. By applying our Rapid Cross-Portfolio Cost Assessment (see box) we have been able to deliver a complete analysis of third-party spending across from 6 to 20 companies,within a 4-8 weeks. The analysis permits apples-to-apples comparisons for virtually all procurement, ranging from materials to telecommunications to transportation.

With the data in hand, the PE firm's deal and operations teams worked together with portco management to:

- Identify differences between what companies were paying for similar goods and services and use that information to negotiate better terms
- Discover opportunities to leverage combined purchasing power
- Analyze tail spend (the lowest 20% of spending—usually scattered among scores of vendors—that is typically managed inefficiently) across the entire portfolio
- Develop implementation plans for each portco by incorporating ideas and best practices from one another
- Uncover new and unique opportunities within each portco

In these engagements, savings ranged from 5% to 15% for addressable spend across major categories. For example, some companies learned that their fleet management costs, although good for their sector, were higher than those that certain other industries paid, and therefore imported some of those approaches.

This approach can be applied to virtually any general and administrative cost—from real estate to cloud services. To make it work, three conditions should be met as follows:

1. The category should be material to each company and all of the companies, because buy-in and engagement are important success factors.
2. The spend should have enough common elements so that you can use the same methodology for all portcos and the portcos can then share best practices. For example, an initiative to address customer retention might work across a group of retail companies, but not across a mix of, retail, healthcare, and industrial companies.
3. The focus should be on the building of capabilities such as skills, processes, and tools, and not on the building of structures. You don't want to add to the firm's overhead or to burden portcos with unnecessary work.

The right governance is critical:

The project must have strong authority but be light on bureaucracy. The team should be sponsored by PE operating partners and led by people with broad operational experience and AI expertise. The team enlists relevant portco executives—usually chief financial officers (CFOs)—whose job is to provide information for analysis. Only when an analysis is complete and recommendations are possible should operating managers become more deeply involved. As a program rolls into its execution stage, portco executives should form a community of practice to share what they're doing and learning and make the gains sustainable. Most PE firms already sponsor programs like that for CEOs and CFOs, and so it takes only a simple step to expand the programs to include procurement officers, as in this case, or other senior leaders.

An approach like these builds both value and capability in a core business function—and does it fast. These initiatives also improve the knowledge, tools, and skills of each portco in using AI. Focusing on the basics is especially important nowadays, when the glittering promise of AI can be too easily distracting. AI is an important enabler in our approach (e.g. it can sort through contracts and compare terms for dozens of companies in a matter of minutes) but it is a tool, not the objective, deployed because of what it can do, not for its own sake.

The PE firm, for its part, now has a new value-creation tool at its disposal. It learns how to run cross-portco initiatives like this that are heavy on value creation but do not create a permanent cost center—a tool it can use for other projects to enhance margins and build management capabilities. This approach is replicable and effective and makes both operating partners and portco executives become more effective and aligned in the long run to a successful exit.

AlixPartners

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About us

For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.