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Private Equity: Procurement Value Creation

Scaling Synergies or Compounding Challenges?

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How fragmented procurement practices derail value creation in private equity roll-ups

Examining why procurement synergies in PE roll-ups often fail to materialize despite scale advantages.

Private Equity (PE) firms have been employing a roll-up strategy to create value by acquiring and consolidating smaller companies within industries that are highly fragmented, forming larger, more competitive platforms with the objective of leveraging economies of scale, enhancing market share, and improving operational efficiencies, ultimately driving EBITDA growth and increasing enterprise value.

While the financial thesis often hinges on achieving operational efficiencies, the reality is that many PE-backed platforms fail to integrate operations effectively or fully realize economies of scale. Several factors contribute to these shortcomings, including cultural resistance, lack of standardization, fragmented systems, and insufficient focus on post-merger integration. These challenges result in missed opportunities for cost savings, operational improvement, and synergy capture. The gap between the investment theses and the realization of cost savings and execution can be particularly evident in procurement, where firms often overlook significant cost-saving opportunities:

1. Overemphasis on Immediate Cost Savings

PE firms often focus only on quick wins to drive immediate EBITDA improvement, neglecting strategic initiatives like supplier development, risk mitigation, and sustainability. This short-term focus typically results in missed opportunities for deeper and more sustainable savings over the investment lifecycle.

2. Complex Supplier Networks Post-Acquisition

Acquired companies often come with fragmented and overlapping supplier networks that are not consolidated post-acquisition. This complexity increases inefficiencies, reduces negotiating power, and perpetuates higher costs.

3. Lack of Cohesive Integration Strategy Across Roll-ups

Companies often operate independently after acquisition, retaining separate procurement teams, systems, and supplier relationships. This fragmentation prevents leveraging economies of scale, volume discounts, and supplier consolidation opportunities.

4. Inadequate Focus on Procurement Synergies Post-Acquisition

PE firms often prioritize revenue growth and EBITDA margin improvement through other means (e.g. market expansion, pricing strategies), overlooking procurement as a key lever Procurement is deprioritized, and cost-saving opportunities through price harmonization, supplier negotiations, standardization, or cost modeling remain untapped.

5. Limited Visibility into Procurement Data

Inconsistent or incomplete procurement data across acquired companies hampers the ability to perform effective spend analysis. Without clear visibility into spend categories, suppliers, and contract terms, companies fail to identify savings opportunities.

6. Missed Opportunities for Supplier Collaboration

PE-backed portfolio companies very often focus solely on short term cost reduction rather than exploring collaborative opportunities with suppliers, such as joint innovation, co-development, or risk-sharing agreements. This narrow approach results in missed opportunities to unlock additional value beyond direct cost savings.

Conclusion

The promise of Private Equity roll-up strategies lies in their ability to transform fragmented businesses into cohesive, high-performing platforms that unlock value through scale, efficiency, and market dominance. However, as highlighted, common pitfalls such as short-term focus on cost savings, fragmented operations, limited visibility into spend, and lack of defined integration strategy can prevent platforms from capturing the full spectrum of procurement cost reduction.

By addressing these challenges head-on, Private Equity firms can ensure their roll-up strategies deliver on their promise. The key lies in translating strategic intent into actionable execution—bridging the gap between vision and reality to realize the true potential of the platform.

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