

Hot topics*

for private equity companies



Hot topics* Private equity

During these times of economic volatility, private equity firms are aggressively looking to maximize value across their portfolios. This economic volatility is evident in the face of falling consumer demand for certain products, nervous financial and currency markets, and rising oil and commodity prices. All of these factors are having adverse impacts on companies' supply chains. These impacts include:

- Dealing with rising input costs of sourced raw materials, goods and/or services;
- Having costs associated with people, facilities and transportation that are not "right sized" to market adjustments in demand;
- Bank covenants at risk due to working capital pressures resulting from excessive inventory and extended receivables; and
- Increasing supply chain risk as a result of not proactively managing financial and operational issues within the supplier base.

As a result, Supply Chain Management represents a significant opportunity for private equity firms both within and across their portfolio group of companies to:

- Drive out cost savings in procurement/sourcing, manufacturing/warehousing and logistics;
- Improve working capital through lean inventory practices and changing policies/practices in receivables/payables management; and
- Implement a risk-based approach to supplier management that enables businesses to make decisions that balance price and risk while reducing the costs of dealing with troubled suppliers.



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Case studies

Supply Chain Management

Client	Issue	Approach	Outcome
Portfolio company in the retail industry	Our client was experiencing a significant reduction in revenue with an 80% reduction in prior year earnings.	PwC worked closely with the executive team to restructure the supply chain organization. We also reviewed key processes in the distribution and transportation functions and “right sized” distribution standards and transportation/delivery schedules.	Our client achieved significant short-term cost savings as a result of a supply chain reorganization and distribution centre standards redevelopment.
Portfolio company in the industrial manufacturing industry	The economic climate, combined with a highly leveraged ownership transaction put cash pressures on our client. Our client was looking for ways to increase their cash levels in the near term.	Through our collaboration we identified the specific working capital issues currently facing our client, gained a deep understanding of the geographies and working capital levers which represented the greatest opportunity and assessed the magnitude of the working capital issues and benefits represented by the process, organization, metrics, technology and policies within the organization.	Our client identified a savings of \$5-8M in inventory based on global supply chain process and organizational changes. An additional \$1.5M in non-material spend reduction was also identified and is currently being realized. Additional cost reductions in procurement as well as global inventory reduction strategies were realized.
Portfolio company in the automotive industry	Our client was concerned about the worsening economic climate and lack of visibility of the financial vulnerability of critical suppliers. They had a limited understanding of the potential impact supplier failure could have on the company.	PwC assessed the financial viability of over 200 suppliers across the organization. Key metrics were used to assess supplier vulnerabilities. PwC analyzed and prioritized risks of the company’s 200 largest and most critical suppliers to assist in the financial viability assessment of their current supply base.	Following our engagement, the client gained a clear understanding of the financial position and strength of its suppliers. Using this methodology a number of suppliers were identified as risks to the company within months of the suppliers’ insolvency.
Portfolio company in the aerospace and defense manufacturing industry	Our client had concerns about the lack of adequate risk management and control within its current supply chain risk practices.	PwC closely reviewed the current supply chain risk management practices within a major program for the sector. A workshop was conducted to assist the company in determining the critical objectives of the organization and identified leading risk indicators that may affect those objectives.	As a result of our collaboration the client gained a deeper understanding of the supply chain risk management practices within a major program for the sector.
Portfolio client in the retail industry	Our client was forecasting a modest reduction in revenue with flat sales expected for the balance of 2009. The private equity firm and executive team made a decision to embark on a cost reduction initiative and supply chain was deemed a significant target opportunity for the organization.	PwC worked to review the distribution and transportation practices of this organization through a series of detailed interviews, data and reporting analysis, industry benchmarking and activity observation. We worked collaboratively with the client team throughout the project assessment phase.	A number of productivity improvements were identified in the distribution centre and cost reduction opportunities were identified in the area of inbound freight. PwC identified outbound freight vendors consolidation opportunities and evaluated the fixed-to-variable labour ratio on areas that included distribution, monogramming and engraving. We are currently working with our client to realize over \$1.5M in annual cost savings from the above identified opportunities.

Providing a wealth of service to Canada's private equity industry

Our private equity industry practice provides a full range of services covering the many facets of a private equity transaction. These include:



Contact us today to find out how PwC can help your private equity firm.

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