Alliance Cost Containment

Managing Procurement Costs for PE Firms + Portfolios

ACG PERT WEBINAR - Q1 2021
Background

- Specializes in indirect spend optimization
- Platform to increase EBITDA and valuations
- Performance based fee structure
- Full transparency of the value generated by indirect procurement
- Privately held, headquartered in Louisville, KY

- CEO and President of Alliance Cost Containment (ACC)
- 20 years of executive strategic sourcing and group purchasing experience
- Under his leadership, ACC has experienced exponential growth, received numerous awards
Discussion Topics

ACC Overview
Indirect Expenses
Common Misconceptions
Best Practices
Covid-19 Impacts
ACC’s Services for PE Portfolio Companies

**Due Diligence Support**

- **Preliminary Savings Analysis**
  - Estimate savings potential during the due diligence phase
  - Identify supplier risks

**Indirect Cost Reduction**

- **7% – 35%+ Indirect Expense Reduction**
  - Implement cost reduction in 30+ expense categories
  - Improve EBITDA and portfolio valuations without any disruption to operations

**On-going Savings Audits**

- **Measure, Verify and Track On-going Savings**
  - Audit realized cost savings for bottom line impact
  - A value creator during exit phase
## Indirect Expense Categories

<table>
<thead>
<tr>
<th>Bank Fees</th>
<th>Fleet</th>
<th>MRO</th>
<th>Storage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>Food / Beverage</td>
<td>Office Supplies</td>
<td>Telecommunications</td>
</tr>
<tr>
<td>Cloud Services</td>
<td>Freight</td>
<td>Packaging</td>
<td>Temporary Staffing</td>
</tr>
<tr>
<td>Coffee / Beverage</td>
<td>HR Services</td>
<td>Pallets</td>
<td>Travel</td>
</tr>
<tr>
<td>Copier / Printer</td>
<td>Insurance</td>
<td>Payment Services</td>
<td>Treasury Management</td>
</tr>
<tr>
<td>Document Management</td>
<td>Janitorial</td>
<td>PPE</td>
<td>Utilities</td>
</tr>
<tr>
<td>Equipment Rentals</td>
<td>Mail Services</td>
<td>Printing / Promotional</td>
<td>Vehicle Leasing</td>
</tr>
<tr>
<td>Facility Maintenance</td>
<td>Mats / Linens / Uniforms</td>
<td>Safety / Security</td>
<td>Waste / Recycling</td>
</tr>
</tbody>
</table>

*and others....*
Common Misconceptions of Indirect Spend

- Low savings potential
- Not worth the time or effort
- Spend is already optimized
## Savings Example:
### $450M PE Backed Manufacturing Co.

<table>
<thead>
<tr>
<th>Select Categories</th>
<th>Spend</th>
<th>Savings $</th>
</tr>
</thead>
<tbody>
<tr>
<td>MRO</td>
<td>$9.6M</td>
<td>$1.1M</td>
</tr>
<tr>
<td>Freight</td>
<td>$6.7M</td>
<td>$.85M</td>
</tr>
<tr>
<td>Packaging</td>
<td>$2.6M</td>
<td>$.75M</td>
</tr>
<tr>
<td>Insurance</td>
<td>$1.2M</td>
<td>$.20M</td>
</tr>
<tr>
<td>IT, Telecom</td>
<td>$1.9M</td>
<td>$.20M</td>
</tr>
<tr>
<td>All Other Categories</td>
<td>$4.0M</td>
<td>$.70M</td>
</tr>
<tr>
<td><strong>ANNUAL SAVINGS</strong></td>
<td><strong>$26M</strong></td>
<td><strong>$3.8M</strong></td>
</tr>
</tbody>
</table>

### Annual Spend Reviewed

<table>
<thead>
<tr>
<th>Indirect Cost Reduction</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Annual Savings (12 months)</td>
<td>$3.8M</td>
</tr>
<tr>
<td>Gross EV Creation @ 10x</td>
<td>$38M</td>
</tr>
<tr>
<td>Less: Implementation Fees &amp; costs (lifetime)</td>
<td>($2.1M)</td>
</tr>
<tr>
<td>Implied NEV Creation @ 10x</td>
<td>$35.9M</td>
</tr>
</tbody>
</table>
## Savings Example: PE Network Effect

<table>
<thead>
<tr>
<th></th>
<th>Company 1</th>
<th>Company 2</th>
<th>Company 3</th>
<th>Company 4</th>
<th>Company 5</th>
<th>Company 6</th>
<th>Company 7</th>
<th>Company 8</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Spend</strong></td>
<td>$20M</td>
<td>$15M</td>
<td>$25M</td>
<td>$10M</td>
<td>$8M</td>
<td>$11M</td>
<td>$13M</td>
<td>$8M</td>
<td>$110M</td>
</tr>
<tr>
<td><strong>Estimated Annual Savings</strong></td>
<td>$3.0M</td>
<td>$1.0M</td>
<td>$1.5M</td>
<td>$.7M</td>
<td>$.8M</td>
<td>$1.2M</td>
<td>$1M</td>
<td>$.6M</td>
<td>$9.8M</td>
</tr>
</tbody>
</table>

- **Savings Example:**
  - **PE Network Effect**
    - **alliancecost.com**

- **EBITDA improvements through savings efficiencies**
- **“Network effect” of benefits across portfolio**
- **Competitive advantage during due diligence stage**

- **Confidentiality Note:**
  - **No disruption / minimum time required from portfolio companies**
Best Practices

- Make it a C-Suite priority
- Closely monitor the dollars
- Clean slate for vendor relationships
- Supplier contract management
- Watch for COVID-19 impacts
## Best Practice #1:
### Make it a C-suite Priority

<table>
<thead>
<tr>
<th>BEST PRACTICE</th>
<th>PERIODIC EXERCISE</th>
<th>DO NOTHING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continual drive for lower costs and improved efficiencies with objectives and key measures</td>
<td>Annual price negotiation</td>
<td>Suppliers are likely making high margin on your business!</td>
</tr>
<tr>
<td>Research and benchmarking of supplier innovations and best practices</td>
<td>Focus on service, delivery and minimal disruption</td>
<td></td>
</tr>
<tr>
<td>Reward and promote procurement staff based on delivered results</td>
<td>Try to do more with fewer resources</td>
<td></td>
</tr>
<tr>
<td>Strategic priority throughout the organization</td>
<td>An annual check-up</td>
<td></td>
</tr>
</tbody>
</table>
CASE STUDY:

TELECOMMUNICATIONS

• $15M annual spend

• 3-year contract with national carrier resulted in over $2M in savings per year for a Fortune 500 company

Results:

⇒ $1.3M in overcharges discovered

⇒ $3.2M total credits & rebates re-issued to client
CASE STUDY: BANK FEES

• 130+ unit restaurant operator

• Long-term relationship with bank that included credit facility

Results:

⇒ 3 years and $225K of erroneous bank fees were discovered during a category review

Best Practice #2 (continued):
Closely Monitor the Dollars
Best Practice #3: Clean Slate Approach to New Vendors

Case Study: COMMERCIAL INSURANCE

- $1 billion distribution company
- Previous CFO had a comfortable, 10-year relationship with insurance broker
- New CFO conducted competitive market review

Results:

⇒ 20% reduction in premiums ($1M savings)
⇒ Improved coverage & reduced risk
⇒ Discovered higher broker fees than had previously been disclosed
Supplier Contract Tips

• Have a single repository for all contracts
• Conduct quarterly review
• Be aware of potential savings and costly surprises in the contract language
Conclusions

Current Environment

Savings Roadmap
Current Environment

ACC is actively monitoring supply chain issues across expense categories to provide insights into likely cost fluctuation.
Get Started: Savings Roadmap

Preliminary Savings Analysis

• Confidential, no-cost review of vendor spend file
• Assess savings potential
• Identify supplier risks
• Categorize spend
• 2-week turnaround
Conclusion

Mid-Market PE Firm No. 1
8 Portfolio Companies Reviewed
$9.8M Total Savings

Mid-Market PE Firm No. 2
5 Portfolio Companies Reviewed
$1.3M Total Savings

Mid-Market PE Firm No. 3
9 Portfolio Companies Reviewed
$2.0M (Estimated to date)
Questions

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