Private Equity's Edge

GenAI-powered Procurement for Sustainable Value

Private Equity

As market dynamics have shifted, more funds have turned their interest to portfolio value acceleration (PVA), moving beyond traditional financial value creation. In the past, there was little need to engage operationally, but the tables have now turned.

Operating Partner – European Mid Cap Fund

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Executive Summary

Recent geopolitical shifts, particularly in trade policies, with rising tariffs and increased protectionism, have introduced new uncertainties for portfolio companies with global operations. These shifts highlight the increasing strategic value of procurement, both as a lever for value creation and as a critical tool for mitigating cost volatility and managing risk.

One of the most reliable ways to boost portfolio value and achieve successful exits is to accelerate operational transformation and deliver sustainable bottom-line improvements. Procurement is a key driver in both cases.

Key areas of procurement optimization go beyond traditional supplier negotiations. By adopting advanced value levers, optimizing demand, refining technical requirements and using advanced procurement tools, companies can unlock over 60% of the total savings potential. When combined with net working capital initiatives and strategic supplier renegotiations, unlocking immediate cost reductions, improved cash flow, and quicker exits at favorable valuations.

While adoption of Generative AI (GenAI) remains limited, it can still enable advanced procurement. By analyzing commodity trends, identifying synergies, and flagging renegotiation opportunities, GenAI supports data-driven decision making and enables operational improvements and productivity gains.

Private Equity (PE) firms embracing a mix of short- and long-term procurement optimization strategies will be best positioned to navigate market challenges, close valuation gaps, and drive superior returns. They can expect to capture 20-30% of the potential gains from overall procurement potential within the first 90 days.

Operational value creation:

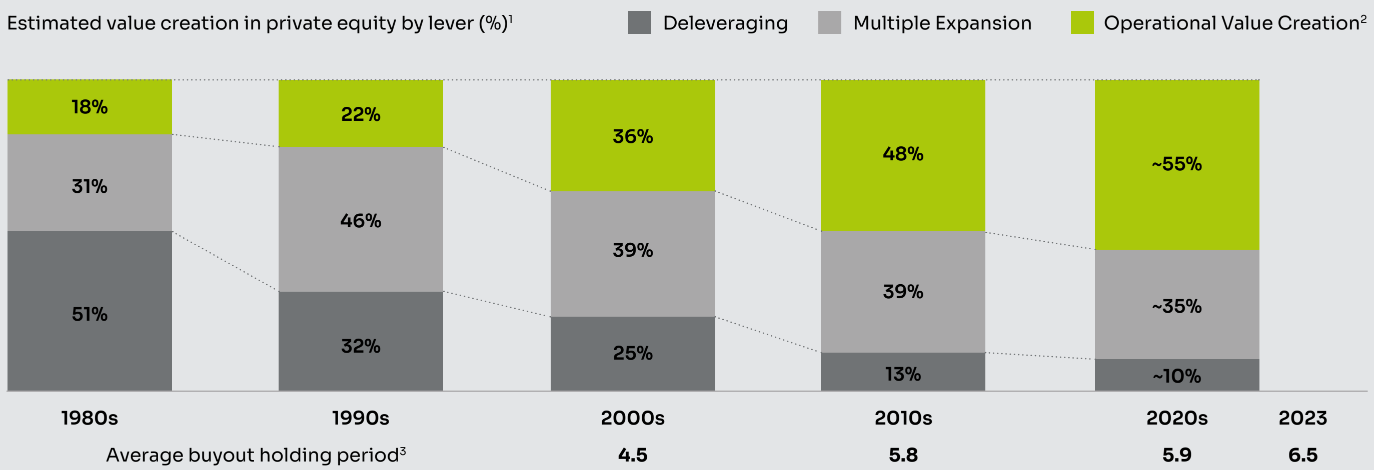
The numbers that drive private equity returns

Private equity leaders report mounting pressure to drive value creation in the face of economic uncertainty, rising costs, and constrained capital availability. Private equity must continue to adapt to the new paradigm where operational value creation often outpaces traditional, financial value creation strategies. In this context, procurement is one of the most underappreciated enablers.

Key trends for PE value creation:

- **Uncertain cost of capital:** Following the recent increase in interest rates, the outlook for cost of capital remains uncertain, forcing deal teams to look beyond traditional levers to achieve sustained profitability.
- **Cautious recovery in deal activity:** Deal activity was subdued throughout 2024 and hopes for a meaningful rebound in early 2025 have still to be realized. Private equity firms are under intense pressure to deploy dry powder, but tighter financing conditions and economic uncertainty are keeping many on the sidelines. As a result, the market mood is cautious and highly selective, and the bar for value creation is higher than ever. Buyers must justify every deal with a clear and immediate route to improved performance, cost efficiencies, or strategic repositioning. Delivering tangible results quickly post-acquisition is no longer a competitive differentiator. It is now a prerequisite.
- **Greater reliance on operational levers:** Operational improvements now drive over 55% of total returns, up from just 18% four decades ago. In today's environment, getting procurement right — and fast — has become a critical factor in meeting valuation targets.

Exhibit 1: Value creation in PE has been changing from deleveraging towards operational value creation and the trend is expected to continue



1. Adjusted for payouts during the holding period. 2. Operational Value Creation measured by sales growth and change in EBITDA margin. 3. Data available from 2000.

Source: BCG analysis, based on HHL-BCG research

Global PE firms report that delivering rapid results is essential to de-risk valuations and stabilize portfolios, particularly since the rising cost of capital has intensified the need for short- to medium-term cash flow improvements. Rapid cashflow gains underpin value, while quick operational wins help expedite exits for overdue assets, enabling firms to seize market opportunities and secure more favorable valuations.

In practice, we are observing portfolio companies achieving profit and loss (P&L) improvements in under 90 days through focused initiatives—offering a quick boost without compromising broader strategic goals. However, PE firms must balance these short-term opportunities with long-term planning.

From top-to-bottom line:

Procurement as the emerging catalyst for value creation in portfolio companies

Historically, financial engineering has been the backbone of PE value creation strategies, but ongoing global economic shifts call for a strategic reassessment in which operational and bottom-line focused performance receives increased attention (see exhibit 1). By focusing on operational efficiency, strategically managing costs, optimizing capital allocation, and strengthening portfolio companies' finances, PE firms can make their portfolio companies more resilient and better positioned for sustainable growth and long-term value creation.

Sales, general, and administrative costs (SG&A), which typically represent around 20% of total spending, have historically been key areas for cost optimization within private equity portfolios. Traditional levers such as offshoring, process streamlining, and shared services have proved effective in delivering savings and efficiency gains.

However, SG&A represents only a portion of a broader value creation opportunity. Procurement, which comprises a significantly larger share of total company spend, offers an even greater lever for performance improvement.

Within SG&A specifically, marketing and information technology (IT) are significant cost centers, each offering distinct opportunities for value creation. Marketing spend typically accounts for 5–15% of total operating expenses, with traditional value creation levers such as improved agency management, performance-based media buying, and streamlined workflows often yielding savings of 10–20%[1]. Similarly, IT spend generally comprises 3–8% of revenue, and can yield savings of 15–30%[1] by consolidating software licenses, renegotiating cloud contracts, and standardizing support functions.

For example, at one portfolio company, a detailed review of software license usage revealed that over 30% of licenses had not been accessed in the past 12 months, leading to an immediate cost saving of $2 million through the termination of unused licenses and renegotiation of contracts.

As technologies such as GenAI begin to reshape operations, the opportunity expands beyond SG&A. GenAI is enabling new levels of efficiency and optimization across the broader procurement function, unlocking value across the full spectrum of external spend. We discuss how PE firms can harness GenAI to benefit their procurement optimization in the next section.

[1] Source: Inverto. Percentages based on addressable spend from recent (last 5 years) projects.

When a fund engages in operational value creation, procurement delivers significant impact with no downside. It does not disrupt the operating model. However, procurement is rarely elevated and prioritized as it should be.

Operating partner – US-based large cap investor

PE companies must harness the full potential of **GenAI**

Thanks to the rapid development of GenAI, procurement is entering a transformational phase. AI-powered tools are now enabling private equity firms and their portfolio companies to complement traditional optimization strategies with innovative approaches to spend analysis, supplier management, and cost reduction. This dual focus, optimizing SG&A internally and procurement externally, offers a holistic framework for driving operational efficiency and achieving sustainable improvements in profitability.

The following section delves into how GenAI is redefining procurement strategies, positioning it as a powerful driver of value creation across portfolios.

Traditional cost-saving approach

Procurement presence & governance

- Focused primarily on negotiations and supplier consolidation
- Reactive, siloed procurement processes with limited oversight

Use of technology & advanced levers

- Reliance on manual processes for sourcing and savings execution
- Limited use of advanced strategies like product standardization or supply chain redesign

Data transparency & decision making

- Decisions often made with fragmented, outdated, or incomplete procurement data
- Reliance on experience-based decisions rather than predictive insights

Case example

An aerospace asset owned by a US PE firm implemented basic procurement strategies, such as supplier consolidation and low-cost country sourcing. Running e-auctions on consolidated demand reduced the addressed cost base by 10%.

Advanced cost-saving approach

Strategic procurement governance

- Procurement leads cross-functional, cost-focused task forces collaborating with engineering, finance, and operations
- Integrated governance ensures alignment of procurement with broader business goals and efficiency initiatives

Technology enabled strategies

- Use of category management systems, e-auctions, and AI-driven procurement tools to automate sourcing and optimize supplier performance
- Employ advanced levers like should-costing, standardization, product redesign, and neutralization to unlock deeper savings without compromising quality

Data-driven insights & transparency

- Real-time, centralized spend analytics provide visibility into savings opportunities and supplier performance across legal entities
- Predictive analytics and benchmarks on large data sets drive smarter, forward-looking decision-making

Case example

A large European PE investor achieved a >15% cost impact by harmonizing and optimizing electrical components across brands in its indoor lighting portfolio, leveraging data, technology, and collaboration.

GenAI is a big topic, but people have not really found the benefits yet. We expect to see the impact during the next year or two.

Large US PE investor

GenAI-powered solutions offer new ways to reduce costs and create additional value. While traditional operational improvements form a solid foundation, adopting these advanced tools can accelerate results, provide deeper insights, and enable more agile decision-making.

Leveraging cutting-edge technology not only enhances operational insights but could also yield workforce efficiency. For instance, it can address key issues that PE firms are regularly faced with, such as:

- **Lack of data harmonization:** GenAI can clean and harmonize data from multiple systems, providing a unified data set for better decision-making and performance improvements.
- **Monitoring portfolio company performance:** GenAI can link financial data to offer deeper performance insights and recommend actions to improve profitability.
- **Improving workforce activity analysis:** GenAI can analyze how employees spend their time to identify efficiency gains and optimize resource allocation.

Despite GenAI's potential, adoption among PE firms has been slow. Joint project work and recent conversations with PE investors show that most are still in the observation phase, waiting for proven use cases before fully committing. While numerous firms are experimenting internally with tools such as ChatGPT, little has been done to implement these technologies at their portfolio companies.

This mirrors findings from BCG's latest 2025 study, From Potential to Profit: Closing the AI Impact Gap, of 1,800 C-suite executives, which revealed that while 75% rank AI and GenAI as a top-three strategic priority, only 25% have achieved significant value so far.

GenAI is a key risk and opportunity for our portfolio companies. We have a team that drives our initiatives on this, and they are strongly focused on protecting our ongoing business.

Large European PE investor

Advanced procurement catalysts for portfolio value acceleration

There are clear opportunities to harness GenAI's potential in portfolio companies, especially in procurement. As PE investors increasingly emphasize operational improvements to strengthen margins and enhance bottom-line performance, procurement emerges as a critical lever for value creation. Its data-intensive nature provides fertile ground for GenAI to deliver efficiency, cost reduction, and improved decision-making. Active cost management and supplier optimization are especially vital in today's challenging economic environment, offering strategies to optimize the external cost base and boost profitability.

A prime example of how digital tools can be used to manage external uncertainties is Inverto's [Trade Tariff Mitigation Simulator.] Designed to tackle the impact of shifting trade policies, it enables portfolio companies to simulate tariff scenarios, assess vulnerabilities across global supply chains, and prioritize mitigation strategies in real time. By combining data harmonization with predictive analytics, the simulator empowers decision-makers to adapt swiftly to geopolitical and regulatory shocks; demonstrating how AI-adjacent tools can unlock immediate value in procurement.

The following section outlines two advanced procurement tools that can be deployed to unlock the full potential of GenAI. These tools address challenges at every stage, from achieving transparency to enhancing negotiation outcomes, streamlining operations, and ensuring compliance. They empower portfolio companies to achieve immediate impact and sustainable long-term value creation.

The Enabler: Full spend transparency for portfolio companies using **Cube of Cubes**

Effective procurement begins with achieving full visibility of spending patterns. When private equity firms acquire companies, one of the main challenges is integrating fragmented data from a variety of systems to achieve spend transparency. The Cube of Cubes solution consolidates spend data from different sources into a harmonized structure, offering full transparency into previously siloed data. This enables a unified view of vendor names, categories, and spending patterns, allowing procurement teams to optimize strategies, benchmark data, and identify cost-saving opportunities across portfolios or in individual companies. By utilizing advanced data analytics and visualization, procurement teams can make real-time decisions and uncover synergy opportunities across portfolio companies, regions, categories or other entities.

Leading portfolio companies have successfully harnessed the Cube of Cubes framework to unlock real-time, actionable insights that drive procurement excellence. Examples of key questions that can now be addressed include:

Unit price disparities

How do unit prices for comparable products or services vary across supplier contracts? Are there opportunities to standardize and align pricing to reduce inefficiencies and improve margins?

Simplification opportunities

Can SKU complexity, product variants, or unnecessary specification requirements be rationalized to unlock cost efficiencies and operational simplicity?

Scale leverage

Is there an opportunity to consolidate fragmented spend across the portfolio to better leverage scale and negotiate improved terms with strategic suppliers?

Strategic supplier partnerships

How can procurement teams align spend across portfolio companies, business units or geographies to establish deeper partnerships with key suppliers, driving enhanced value and portfolio-wide synergies?

A notable example of this solution in action was seen in the merger of two global pharmaceutical companies, where a real-time dashboard was implemented to identify 90 common synergies across the organization, resulting in €30 mn in savings. This integration fostered cross-company collaboration and allowed procurement teams to leverage collective purchasing power. This visibility lays the groundwork for the next stages of procurement optimization, enabling data-driven strategies to maximize cost savings and drive sustainable value creation.

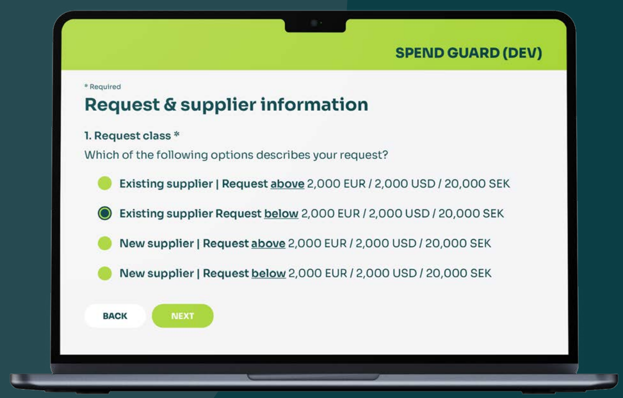
The governance hub: AI Spend Guard assures compliance and efficiency

As margins tighten and regulatory scrutiny increases, proactive financial governance is essential to sustain long-term value. Traditional spend analysis often reacts to discrepancies rather than preventing them, leading to inefficiencies and uncontrolled costs. AI Spend Guard (as illustrated in Figure 5) addresses this challenge by continuously monitoring purchasing behavior, ensuring compliance with contracts, and preventing unauthorized or non-compliant spending before it occurs. This solution safeguards budgets, enforces procurement policies, and enhances financial control by proactively detecting and mitigating risks in real time.

AI Spend Guard

Automated, GenAI-enabled approval workflow to enhance savings, ensure compliance, and boost efficiency

Form Submission



ID	Preferred Supplier	Requested Items	Requested Purchase Value
1	Hardware supplier I	Keyboards	28,645 €
2	**Hardware supplier II**	**Laptops**	**324,451 €**
3	Hardware supplier III	Mouse	1,312 €
4	Hardware supplier IIII	Keyboards	11,271 €
5	Hardware supplier IV	Tablet	30,896 €
6	Hardware supplier VI	Tablet	9,555 €

GenAI Evaluation

OpenAI

ID	Alternative Suppliers	Levers & Negotiation	Relevent Indices	Estimated Savings Potential
1	...	...		...
2	**Supplier I, Supplier II, Supplier III, Supplier IV, Supplier V, Supplier VI**	**Product Bundling, Volume Discounts, Payment Terms, Long-term contracts**	**S&P Technology Hardware Select Industry Index**	**4 - 8 %**
3	...	...		...

Generated Insights for Procurement

Alternative Suppliers	Supplier Info	Levers	Negotiation Suggestions	Savings in %
Supplier I	30,000 €	Long-term Contract	Commit to a 3-year contract for 10% annual savings	10%
Supplier II	150,000 €	Technology Leadership	Leverage cutting-edge tech for premium pricing negotiation	9%
Supplier III	50,000 €	Product Bundling	Bundle laptops with accessories for additional 3% discount	7%
Supplier IV	20,000 €	Volume Discount	Offer bulk purchase in exchange for 5% discount	5%
Supplier V	15,000 €	Payment Terms	Propose upfront payment for 6% discount	6%
Supplier VI	1,200 €	Eco-friendly Options	Negotiate for newer, energy-efficient models at a discounted rate	4%

Snapshot of AI Spend Guard
Source: Inverto

At a large European food producer, AI Spend Guard empowered the procurement organization with know-how and tools to optimize large purchases, delivering immediate savings and increasing cost-consciousness across the organization. The implementation resulted in a more robust purchasing policy and a clearer approval process that minimized maverick spend. The company achieved savings of €3 million (3% of addressable SG&A spend).

Conclusion and next steps

In today's shifting private equity landscape, the strategic focus has shifted from top-line growth to prioritizing bottom-line improvements. While traditional levers such as SG&A optimization remain vital, the increasing prominence of advanced procurement tools offers a powerful new way to strengthen profitability and value creation. Procurement, long underutilized, now offers the potential to address both internal cost structures and external spending, providing a holistic approach to operational efficiency.

Advanced GenAI-enabled solutions present a compelling opportunity to unlock this potential. Technologies such as the Cube of Cubes framework enable full spend transparency, identifying real-time cost synergies within and between portfolio companies. AI-powered tools such as the Tender Assistant enhance supplier engagement and operational efficiency, while AI Spend Guard ensures compliance and financial oversight by uncovering cost leaks. Together, these solutions deliver immediate liquidity gains and lay the foundation for sustained value creation and resilience.

To fully capitalize on these opportunities, private equity firms must adopt an integrated and decisive approach to operational value creation. By treating SG&A optimization and procurement efficiency as complementary but distinct pillars, firms can comprehensively address cost structures, mitigate valuation risks, and enhance portfolio performance. The adoption of AI-driven tools is no longer optional, it is now essential for driving immediate results and achieving long-term competitiveness.

The time to act is now.

By embracing these advanced levers and harnessing procurement's untapped potential, firms can accelerate exits, narrow valuation gaps, and set new standards for private equity value creation. Typically, we have observed firms realizing 20-30% of the full procurement potential within 90 days. While operational levers already account for 55% of total value creation, much of this potential remains unexploited. Those who take the lead will shape the industry's next chapter.

Inverto.

Inverto is a leading global consultancy specializing in strategic procurement and supply chain management. The consultancy goes beyond pure cost management to deliver business value and a competitive edge for its clients. Inverto transforms procurement and supply chain functions, enabling long-term success by fostering innovation, resilience, and sustainability.

Operating under the umbrella of BCG, Inverto expands BCGs extensive offering with a comprehensive array of procurement optimization solutions. Inverto currently employs more than 600 experts across three continents. Clients are globally renowned brands from all industries, as well as the world's leading private equity firms.

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