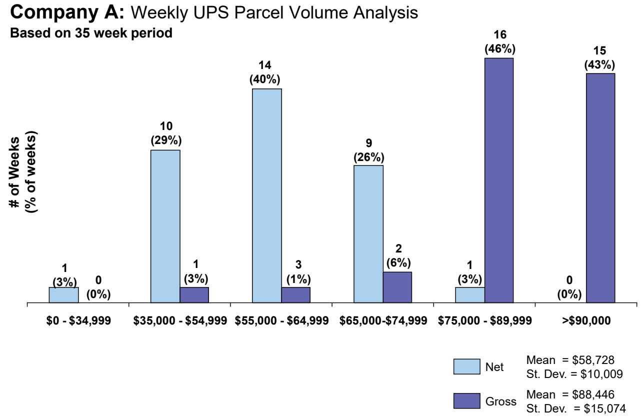
Cross-Portfolio Purchasing At Middle Market Private Equity Firm:
Unlocking Truck And Parcel Freight Savings At Portfolio Companies

The Challenge: One of Gotham's middle-market private equity clients was thinking about the possibility of leveraging cross-portfolio purchasing synergies over a broad range of areas, including freight, corrugate, insurance, legal services, and accounting. While hoping to capture savings in these areas, the PE client wished to maintain individualized financial relationships and service requirements between its portfolio companies and their vendors. PE firm asked Gotham first to determine target portfolio companies that would be good candidates to participate in cross-portfolio purchasing of freight and then to subsequently build and execute the purchasing strategy.

The Partnership:
Analysis: Gotham began developing a cross-portfolio freight initiative by building a fact base to identify candidates for combined freight savings. We analyzed historical freight records, including transport mode (LTL, FTL, or parcel), carrier, shipping lane, weight, volume, freight rating, rates/discounts, transit time, and customer. Three companies, with a collective freight spend of $11MM, were identified as strong candidates for cross-portfolio freight optimization. To supplement the freight history analysis, the Gotham team surveyed executives at each of the companies to understand service requirements and the rationale behind incumbent carrier selection. Important points of interest included former carriers, cost history, and ability to meet both the demands of the distribution centers and customers. Gotham's investigation revealed a number of opportunity areas for rebidding, including fees above industry standards and inconsistencies in carrier use and freight classes.

Company A: Weekly UPS Parcel Volume Analysis
Based on 35 week period



Strategy: Working with the PE client, Gotham developed a strategy for how the collective companies would solicit bids. Key elements of the plan included:

- Devising robust RFPs, including freight histories and service requirements
- Constructing a list of prospective vendors derived from incumbents, PE firm and Gotham contacts, and industry leaders
- Developing an evaluation matrix for ranking the bids and vendors
- Detailing a disciplined timeline for the RFP process and implementation.

Execution: With the aid of the PE firm's legal advisors, the team drafted a memorandum for the portfolio companies outlining the proposed working arrangement, including how the companies would solicit bids, negotiate, and conduct business on an ongoing basis. Next, the list of prospective vendors was finalized for both motor freight and parcel, and included asset-based carriers and 3PLs. The team then put together an RFP that contained consolidated freight histories and service requirements, which was sent to the vendors along with the legal memorandum, followed by conversations with the prospective vendors in order to familiarize them with the portfolio companies and proposed working arrangements. Shortly after the RFP went out, the PE firm exited the investment of one of the portfolio company members of the cross-portfolio purchasing initiative and entered into a new investment that had a favorable freight spend history for inclusion in the cross-portfolio process. Gotham quickly issued a revised RFP to reflect these changes.Once the bids were returned, Gotham performed a 2-year historical cost simulation to create cost projections given the terms of each bid. Pricing inputs included fuel surcharges, service type/freight class, rebates, and discounts. We then ranked the responding vendors based on projected costs and ability to meet the four categories of service requirements:

- **Service Continuity**: Strong customer service network and adherence to customer and company requirements
- **Financial and Service Reporting and Adherence**: Separate contracts for each portfolio company; electronic payments; transaction-based reporting; aggregate weekly, monthly, and annual reports; and electronic bills of lading
- **Third-Party Logistics Services**: Net cost savings relative to historical in ERP integration, EDI, and other IT
- **Cost, Management Fees, and Payment Terms**: Procedures for determining freight ratings and proof of deliveries.

Next, a meeting was held with the logistics and operations managers of the portfolio companies to shortlist potential vendors, followed by negotiations to reach final vendor selection decisions and transition planning.

The Outcome: PE firm's participating portfolio companies fully transitioned to the new carriers within 2 months, yielding a 13% savings in motor freight ($940K) and a 7% savings in parcel freight ($250K) in the first year. Beyond savings benefits, the new carriers have proven to be more reliable than the previous vendors.

444 Madison Avenue, 7th Floor • New York, NY 10022 • Tel: 212.497.9200 • Fax: 212.497.9210 • www.gcpny.com