Fine Tune Advises Private Equity Leaders on "Fake Savings" Within Portfolio Companies

Procurement departments regularly report savings which never materialize impacting company bottom-lines

CHICAGO, IL, US, August 11, 2020 /EINPresswire.com/ -- Fine Tune, a provider of 'nuisance expense' management solutions, is warning about the prevalence of "Fake Savings" being reported within Private Equity held portfolio companies and exposing shortcomings in corporate category-management efforts.

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> *Rich Ham, CEO, Fine Tune*

According to Fine Tune, "Fake Savings" is cost savings that exists only in a procurement department's projections, but never materializes to the extent projected—if at all—on the P&L.

"We've been witnessing this phenomenon for quite some time – corporate procurement incentive plans frequently reward personnel based on projections of savings rather than actual results," said Rich Ham, CEO, Fine Tune. "At the Private Equity level, though, we know that what really matters is the money actually flying out the door—not projected 'savings' in procurement departments."

The issue of "Fake Savings" is especially prevalent within certain burdensome and complex indirect categories. Service contract expenses such as uniform rental, waste disposal and pest control are particularly acute examples. These categories challenge portfolio companies both from a hard-dollar spend standpoint and a productivity standpoint. Furthermore, as a result of the negotiation-execution gap in these categories, they tend to drive wedges between procurement and operations when intended savings doesn't materialize.

"'Fake Savings' comes with wasted time and effort, bonuses paid for results that aren't real, and broken promises leading to inter-departmental friction," continued Ham. "Ultimately, 'Fake Savings' harms the short term and then harms the long-term even more."

Fine Tune is urging Private Equity portfolio managers and partners to immediately review the incentive plans and protocols surrounding the reporting of "savings" in their procurement departments. If it is discovered that cost savings initiatives are rewarded based on projections (upon or even before implementation and proof of actual savings), an acute vulnerability to “Fake Savings” likely exists, and the incentive to manage costs on an ongoing basis is lacking.

Furthermore, procurement departments should be encouraged to seek out solutions which come with assurances of actual cost reductions throughout the full term of multi-year engagements. Projected savings doesn’t always materialize and certainly doesn’t magically turn into earnings the moment it is projected. But real, actual cost savings moves the needle on the P&L and the impact is multiplied in future transactions.

Ham continued: “Since 2002, Fine Tune has been sourcing, negotiating, auditing and managing many of the nation's largest accounts within our targeted ‘nuisance’ categories. As private equity leaders ask their portfolio companies to do more with less, they’ll need to augment in-house resources with intelligent strategies to drive real and lasting bottom-line results.”

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About Fine Tune
Headquartered in Chicago, Illinois, Fine Tune partners with companies to source, negotiate, manage and audit certain ‘nuisance expense’ programs. Led by executive-level industry insiders, Fine Tune has also developed proprietary auditing software which monitors client invoices to ensure adherence with the implemented agreements. Several of the world’s most recognizable brands have chosen Fine Tune, including Cargill, Pep Boys, Siemens, Advance Auto Parts, and Caterpillar. For more information, visit www.FineTuneUS.com.

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