

E-procurement means more than slimmer supply chains

Cinergy Corp. is the latest energy firm to have discovered how much fat there is—or rather, was—in its supply chain. However, the Cincinnati-based utility holding company, power generator, and electricity trader has been using Pantellos, the Texas-based utility e-procurement exchange, for more than just buying stuff. Cinergy even has Pantellos fielding software vendor sales calls.



Craig Weida, Cinergy's VP for reengineering and shared services



Craig Weida, Cinergy's VP for reengineering and shared services, explains that his firm has left no stone unturned in the search for synergy and savings since 1994, when the company was created by a merger of Cincinnati Gas & Electric Co. and Indiana-based PSI Energy Inc. As in most mergers of that size, "The richest area for savings

is inside the supply chain," he says.

By making use of the services of Pantellos, which was launched in January 2001, Cinergy has saved big. Weida won't release specific numbers, but he does offer ballpark figures for two recent, large deals. He says Cinergy was able to save 20% to 30% on a purchase of power transformers, without having to settle for cheaper but less-worthy models, and 5% on a rural construction services contract. Those percentages translate into significant sums because of the amount of money and labor involved, respectively. Both deals were done on Pantellos using reverse auctions, a process in which Cinergy invites vendors to bid within a limited time period for the right to supply a specific piece of equipment or service. It then—in most cases—accepts the lowest, rather than the highest bid.

For Cinergy, the benefits of using Pantellos are strategic as well as tactical. "It has allowed us to expand our supply chain beyond corporate walls," Weida explains. However, the savings potential, which Weida calls "a big surprise," remains the biggest draw. Supply chain savings have a huge impact on utilities' financial health, because they go straight to the bottom line. Weida says Cinergy's investment in doing business with Pantellos has more than paid for itself. Again, rather than cite specific figures, he offers that the ROI for last year alone was in the range of 5:1.

From soup to nuts

All of parent Cinergy's "children"—its electric utilities, its T&D operations, its unregulated businesses, and corporate headquarters—now are hooked into Pantellos, Weida says. The services they buy include not

only participation in reverse auctions but also access to e-catalogs, third-party logistics planning, finalizing sourced agreements, and contingent workforce management. Electronic invoicing and payment processing is under development, Weida says.

Cinergy's enterprisewide use of Pantellos was made possible by the integration of its enterprise resource planning (ERP) system with the exchange's IT platform. "Integration was difficult at first, but the link has now been in place for two years, so it was worth it," Weida says. "And once we had integrated with Pantellos, we didn't have to integrate separately with each of our suppliers; that's a big plus."

When asked to rate which of Pantellos' services has benefited Cinergy most, Weida first pointed to one that hasn't gotten much publicity: evaluating software and systems and modeling their implementation. "We used to be inundated by vendor sales calls," he says. "Now, we refer them to Pantellos, which takes the information and evaluates—on its systems rather than ours—whether a new product might be better or more cost-effective than one we're using. They can even provide guidance about how to implement a new technology," Weida adds. He explains that the process works as follows: Pantellos does the due diligence on the new technology, implements it internally, and then offers the findings to participants on a pay-per-use basis.

Another Pantellos service that Weida says has been a boon to Cinergy is managing catalog content. "Like integration, it was tough in the early stages because of the steep learning curve we and our suppliers had to negotiate. But now keeping track of new equipment offerings is much easier," he says.

For Cinergy, which owns several utilities, collaborative purchasing of gear and services—another Pantellos service—would seem to be a no-brainer strategy. However, says Weida, collaborative purchasing is more difficult than one might think, because everyone has to be on the

same page. What helps here are two Pantellos policies: It does not force suppliers to aggregate, and it allows utilities to interact with suppliers on a one-to-one or on a one-to-many basis.

The supply chain of the future

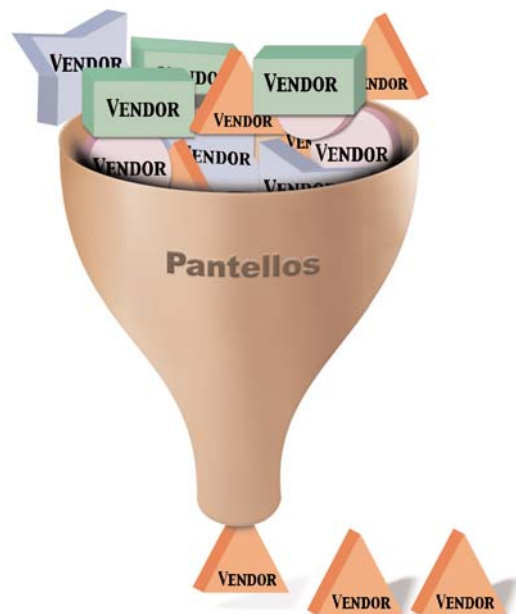
As for Cinergy's supply-chain plans, Weida says his near-term goal is to integrate the firm's enterprise systems with those of its top 200 suppliers fully integrated with the Pantellos marketplace. "We're about 70% there and anticipate being complete by the end of this year," he reports. Paperless transactions generate hidden savings throughout the purchase-to-pay business process. Once everyone's systems are linked, further cost savings could be "substantial," because Cinergy makes a whopping 300,000 to 400,000 supplier transactions annually.

Looking further out, Weida foresees a day when Cinergy's supply chain management department will be staffed by as few as five people, and only the rare transaction isn't paperless. One benefit of the full automation of purchasing will be the leveling of the supply side's playing field, he predicts. All suppliers will have the same chance to succeed, whatever their size.

That day is coming faster than you think, Weida thinks. To make the point, he mentions a reverse auction Cinergy was concluding for rural construction services. One bidder that most would call a "mom and pop shop" was bidding from a computer in the public library of a small Indiana town. "Pantellos taught them how to participate," Weida says, "but all any supplier needs to bid is a computer, a Web browser, and an Internet connection." "That's the way Pantellos is supposed to work," Pantellos VP Steve Newland chimes in.

Despite the promise of automated supply chain management, implementing the process is a hurdle for utilities and does require change. For example, Weida says Cinergy had to reengineer its purchase-to-pay process to make it Pantellos-compatible. As a result, portions of that process were eliminated, and the day-to-day jobs of many employees changed.

But in today's world, the only constant is change. Realizing that, Weida says, "We developed a busi-



ness case for [the reengineering], described our strategy to top management, and took pains to let employees know how it would impact them. Once top management bought into the project, we shifted our emphasis to reinforcing its rationale and keeping everyone up to date on its progress." This only goes to prove that even the best IT projects need good communications to work. ■

—Theo Mullen