

UtiliPoint International IssueAlert™

In-depth news and analysis from the energy and utility industry thought leaders.



June 17, 2004

E-Procurement Still Sparkles

*Ken Silverstein
Director, Energy Industry Analysis*

Southern Co. just announced that it will be taking advantage of new features Pantellos, the supply chain services company for the utility and energy industries, is offering. That's part of the story of growth for Pantellos. In February, Pantellos reported positive financial news. For the year ending December 31, 2003, Pantellos recorded net revenues of \$17.6 million—a 27 percent increase from net revenues in the prior year. And the company ended the year with more cash on hand than projected in its business plan.

Indeed, the Internet remains the fast lane for utilities that want to improve supply chain management—one of the means by which utilities can improve efficiencies. Many companies are breaking from outdated mindsets and older methodologies and emerging as a force in a newer, technologically driven economy. Electronic procurement and electronic solutions are critical to many. But companies must first understand their core strengths and have the foresight to innovate, plan and execute to build value.

Traditionally, utilities are risk averse and the struggle is thus to transcend the old way of thinking. It's unnatural and risky for utilities to pursue new ways but their futures are still dependent on it.

A half a decade ago Reliant Energy searched the vortex of its business soul—a process that has changed the very essence of what the company is today. While its business decisions have caused consternation, its technological adaptations have not. It has

participated in several unregulated businesses, including the IntercontinentalExchange, one of the world's largest on-line, over-the-counter markets for energy and metals. And, it has partnered with a couple dozen other energy companies under the name of Pantellos to create an e-market place to procure goods.

Because utilities are subject to cost pressures, they are looking at electronic solutions to improve processes and increase efficiencies. E-procurement is one such method that doesn't depend on the health of the economy at-large. Instead, it is a tool to allow utilities to collect spending data and to channel that buying power to suppliers willing to negotiate the best rates.

Take Pantellos, which added seven new energy customers and more than 60 suppliers in 2003. Spending through its exchange reached \$1.2 billion in 2003 compared to about \$750 million in 2002. Customer savings since its inception a few years ago are reported to be \$400 million.

Essentially, utilities and their suppliers work through a common interface to determine exactly what items are needed—all at pre-set cost. It's a vast improvement from the way business was transacted previously, largely because most companies are able to accurately track such expenditures through e-procurement software, says Kelly Cook, managing director for Ariba's global energy business in Sunnyvale, Calif., in a prior talk.

“We don't tell company managers how to do their jobs,” says Cook. “We provide an integrated tool to leverage core competencies and to allow them to spend more effectively.”

Electronic Format

Rochester Gas & Electric asked its management to improve upon the utility's business processes. Toward that end, its paper-based procurement practice was clumsy and costly and executives there understood the need to adopt an electronic format—a move that would streamline the utility's procedures and enhance its buying power. Altogether, using Pantellos, the company has reduced its cycle times from at least 7 days to 2.9 days. It says costs can be recovered in 12 to 16 months.

The Tennessee Valley Authority says that an electronic market place is not just about increasing its purchasing power. It's also about creating value-added relationships with its power distributors. With a relatively small investment in an electronic procurement system, the company reasoned that it could not only eliminate costly inventories but it could also solidify its relations with the local municipalities that buy its wholesale power.

TVA figures that it can cut cost by one-half of one percent on the \$500 million that it expects to channel through the new procurement system each year. But more importantly, the company says that its distributors will be able to save between 2 percent and 15 percent on the \$280 million that they spend annually on non-fuel items. By giving more business to fewer suppliers, the utilities are maximizing their buying power—and TVA is winning over its chief customers.

“It takes a lot of the leg work out of the process,” says Larry Futtrell, purchasing agent for the Harriman Utility Board that buys wholesale power from the TVA. “This new methodology ensures the best possible prices.”

Southern Co., meanwhile, has just signed on to new features of Pantellos. It now will electronically transact with its supplier base, capture invoice early payment discounts and maximize the functionality and automation capabilities of electronic supply chain solutions. Customers will also be able to tie into the system without additional investments in hardware and software to do such things as track transactions and provide support to their buyers.

Upper Hand

Upper management must bear responsibility for extending software solutions beyond the confines of the local campus and into the operations of trading partners. If done right, it can result in both huge savings and productivity gains. If ill-considered, however, glitches occur and reliability suffers, leading to diminished sales and share values.

According to industry research, companies control about 30 percent of their cost and the remaining 70 percent is determined by its customers and suppliers. If Wal-Mart uses Proctor & Gamble to fulfill its toothpaste orders, then both companies must have instant access to inventory levels. Meanwhile, P&G's suppliers, such as those that make the caps and casing, must also have such information.

Advances in software technologies are allowing corporations to manage effectively their supply chains—a strategy that minimizes inventories, brings products to market faster and reduces human error. Efficiencies mount and profitability grows. And returns on investment can be measured in months, not years.

© 2004, UtiliPoint International, Inc. All rights reserved. This article is protected by United States copyright and other intellectual property laws and may not be reproduced, rewritten, distributed, disseminated, transmitted, displayed, published or broadcast, directly or indirectly, in any medium without the prior written permission of UtiliPoint International, Inc.

UtiliPoint's IssueAlert articles are compiled based on the independent analysis of **UtiliPoint** consultants, researchers, and analysts.. The opinions expressed in **UtiliPoint's IssueAlert** articles are not intended to predict financial performance of companies discussed, or to be the basis for investment decisions of any kind. **UtiliPoint's** sole purpose in publishing its **IssueAlert** articles is to offer an independent perspective regarding the key events occurring in the energy industry, based on its long-standing reputation as an expert on energy issues.

Reprinted with permission from UtiliPoint International **IssueAlert**. Further reproduction or distribution is prohibited without permission.