



2015

Utility Procurement Best Practice Study

ProcureAbility

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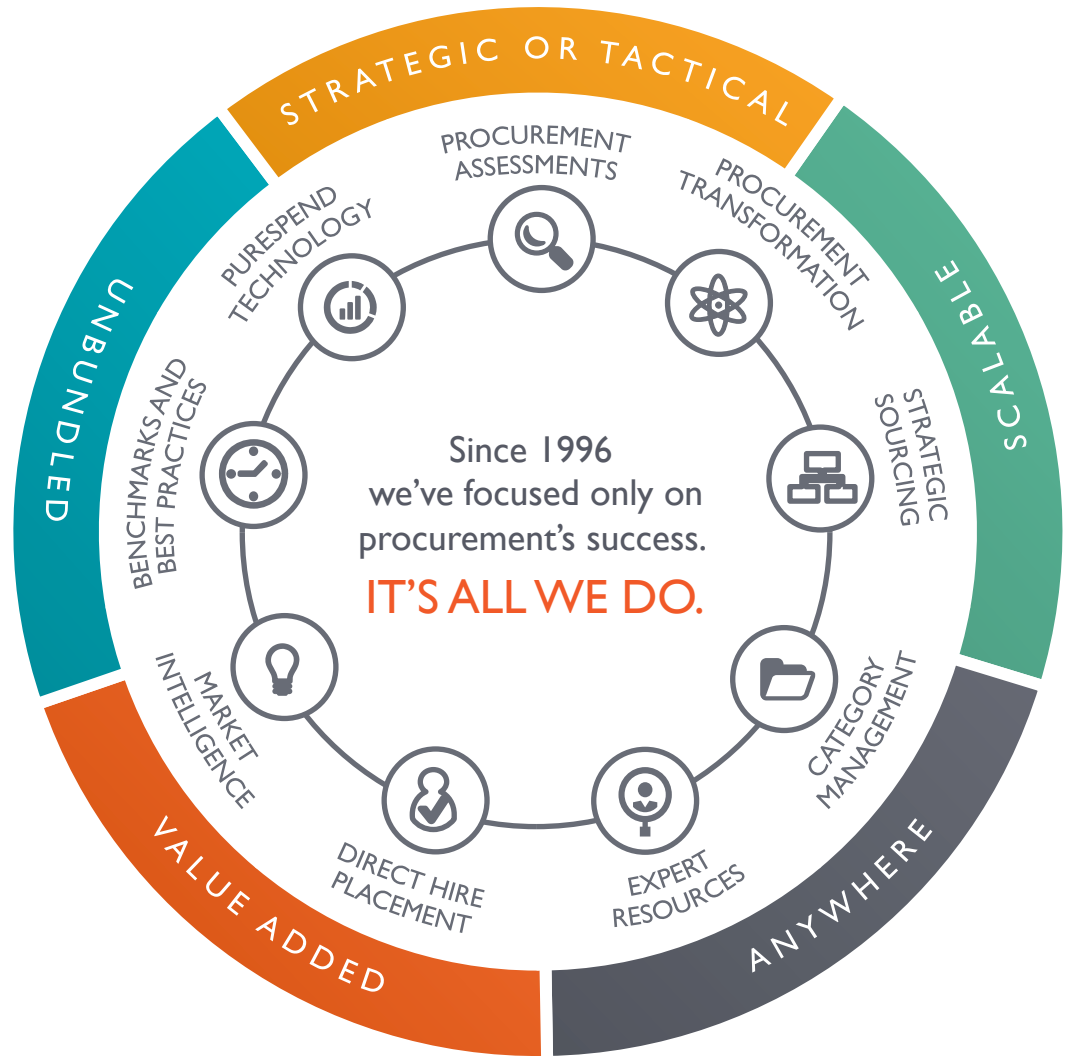




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The utility industry

We classify utility services as



Transmission



Distribution



Generation



Gas

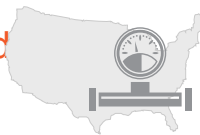


Shareholder-owned electric utilities estimated to make **record Capex of \$103 billion in 2014**, up 14.4% from 2013!



U.S. utilities employed 560 thousand people in August 2014, **up 0.3% annually** and 1.6% monthly

In the U.S., share of natural Gas in the electricity generation mix has **expanded from 10.1% to 20% in 2013**



T&D investment estimated at \$819 billion from 2014-2035



- 31% Transmission; 69% Distribution
- Building infrastructure, refurbishment, replacement, renewable integration

Trends

- Increasing energy efficiency, resulting in stagnant U.S. electricity demand
- Tightening regulations on coal plants, with continued transition in generation fuel mix to shale gas and renewables.
- Regulatory, technological, competitive forces pushing the industry towards a potentially disruptive phase - innovation and new business models will be required to meet challenges.
- M&A activity likely to continue to gain synergies and take advantage of regulated rate base growth opportunities

Source Data: SNL Financial, EEI, EIA, BLS, IHS, MarketLine

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About The Study

Focused primarily on
Utility Companies in North America



Transmission



Distribution



Generation



Gas



The purpose is to **identify industry-specific best practices** and trends in the Procurement space, as well as to **quantify key operational metrics** for comparison of participants

Most metrics and practices were organized along **three primary themes**:

VALUE CREATION

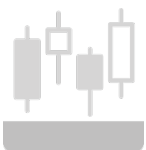
those practices and metrics relating to Procurement's ability to generate value to the organization

OPERATIONAL EXCELLENCE

those practices & metrics relating to Procurement's ability to operate an efficient and cost-effective operation

STRATEGIES FOR GROWTH

trends and anticipated changes in the Procurement landscape over the next 3-5 years

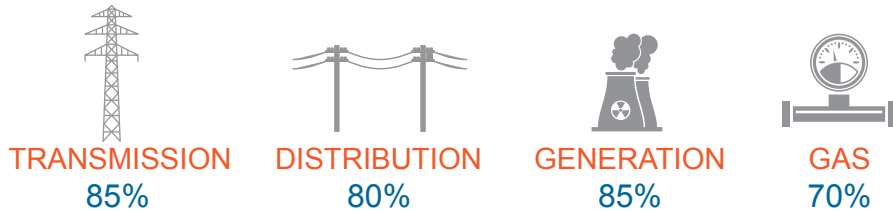


We gathered and evaluated **53 quantitative benchmarks*** and **qualitative practice points**

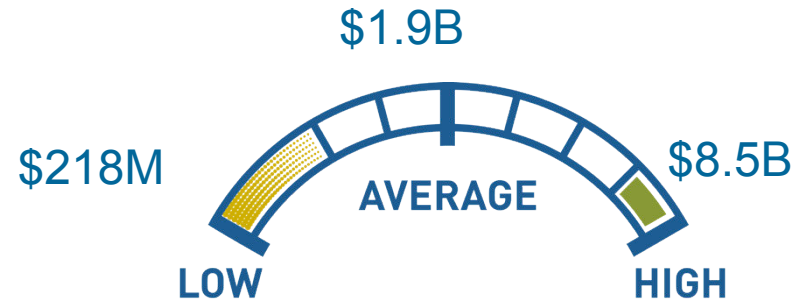
*Only participants have access to the full range of benchmarks

About the Participants

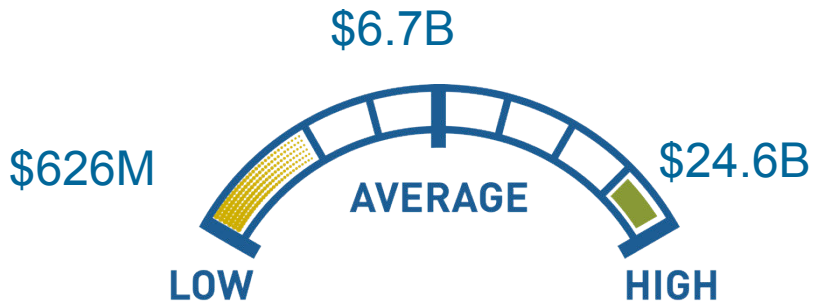
20 PARTICIPANTS*



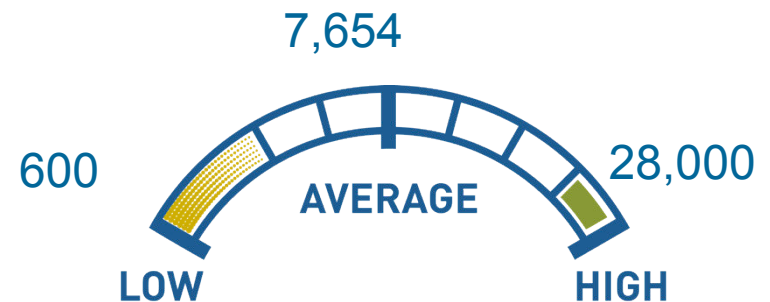
EXTERNAL SPEND



REVENUE

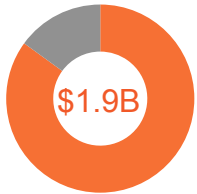


EMPLOYEES



*2 Participants are Transmission only & 1 Participant is Generation only

Key Findings

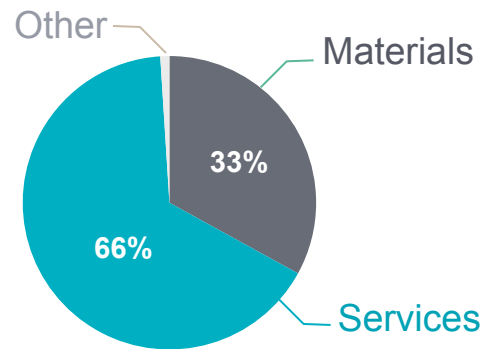


The average participant **spends \$1.9B per year**, with 85% of that actively managed by Procurement.

Top Initiatives that Created Value:

- Strategic Sourcing/ Competitive Bidding
- Negotiations
- Strategic Partnerships
- New Procurement Software Implementation
- Inventory Management

Spend Distribution:



The average MWBE spend was **18.2%** of total spend

Participants saved, on average, **4.6%** of total spend annually

Procurement costs, on average, **0.48 cents** per dollar spent



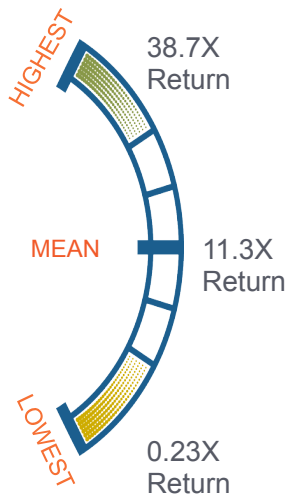
Participants returned, on average, **11.3 times** their cost in savings each year



Creating Value Benchmarks

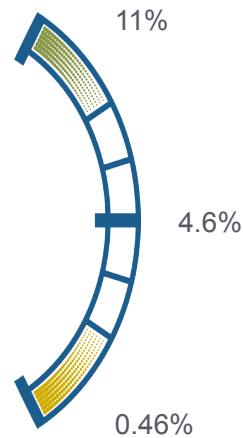
The Value of Procurement is Significant

Procurement organizations return, on average, **11.3x** their cost in savings annually...



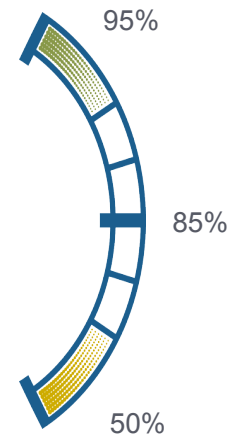
Return on Procurement Investment

Savings, on average, **4.6%** of total spend each year



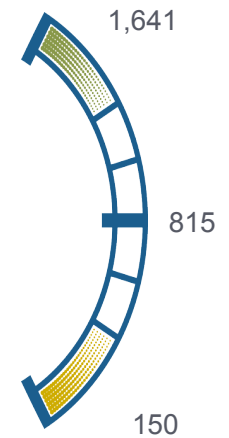
Savings as a % of Spend

Managing **85%** of total corporate spend, on average



% of Spend Under Management

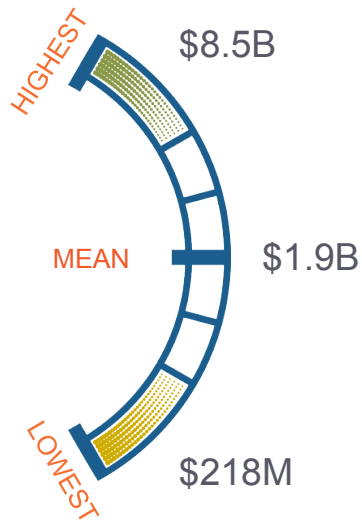
Initiating **815** sourcing events each year



of Sourcing Events

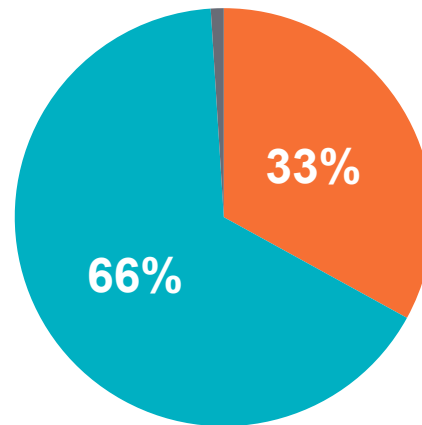
External Spending Trends

Spending Ranges of Participants



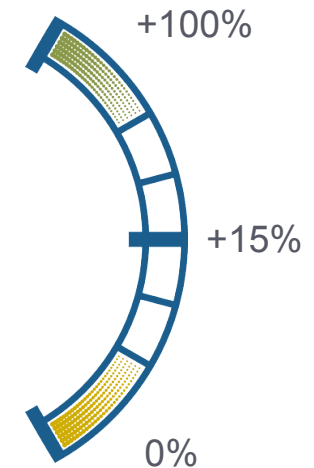
TOTAL SPEND

Spend Distribution



- Materials Spend
- Services Spend
- Other Spend

Expected Change in Spending Over the Next 2 Years



% CHANGE

Top categories not managed

95% of participants had categories that were not managed by Procurement.

The top categories not managed were:

Category:

Fuel

Travel

HR Activities/Benefits & Insurance

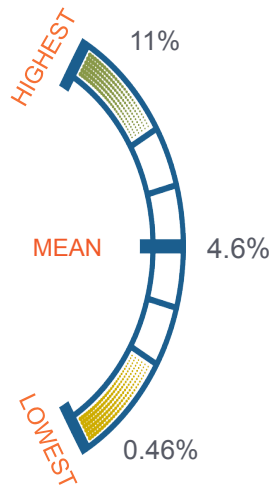
Real Estate

Purchased Power

Rail Transport

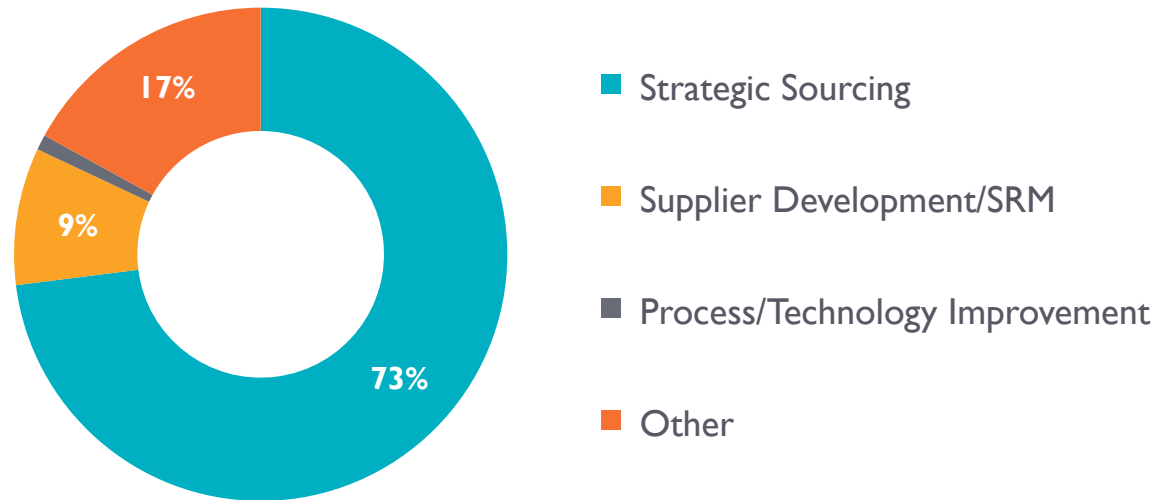
Legal

ANNUAL savings



TOTAL SAVINGS AS
A % OF SPEND

SAVINGS STREAMS AS A PERCENTAGE OF TOTAL SAVINGS



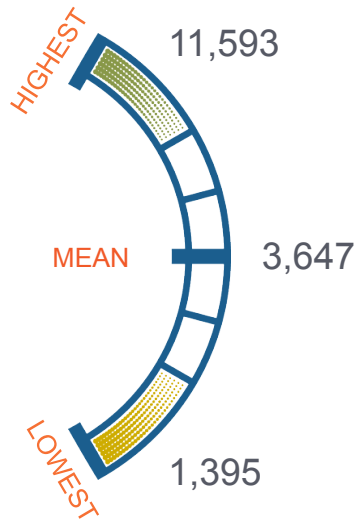
Respondents reported that **65%** of savings, on average, were realized as “hard savings” as opposed to cost avoidances

75% of respondents said savings initiatives do not result in budget reductions

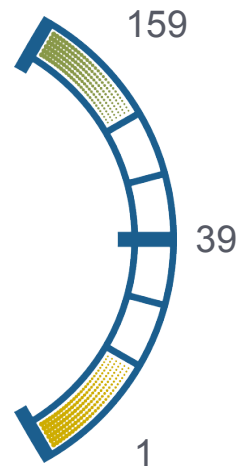
Managing Suppliers

The average procurement organization manages **3,647 suppliers**, 39 of which are considered strategic relationships, and **140 suppliers accounting for 80% of total spend**

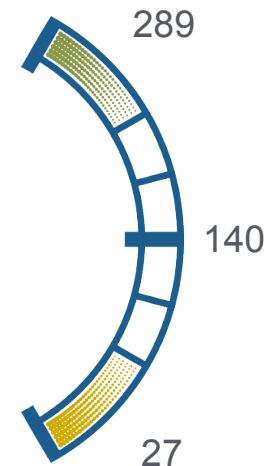
Total Active Suppliers



of Strategic Relationships



of Suppliers Accounting for 80% of Spend



Top initiatives that created value

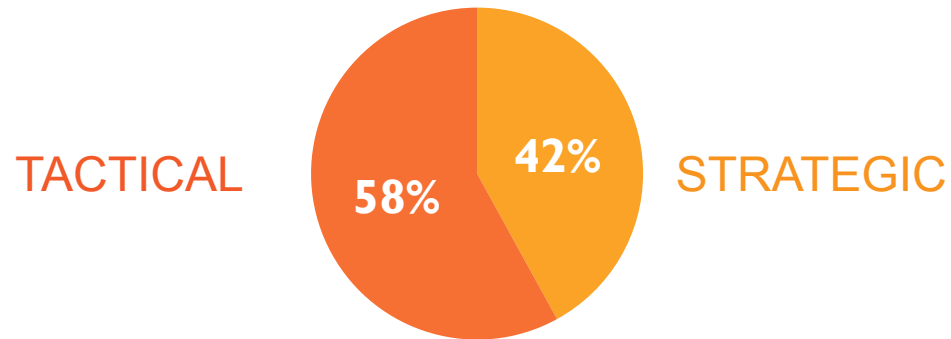




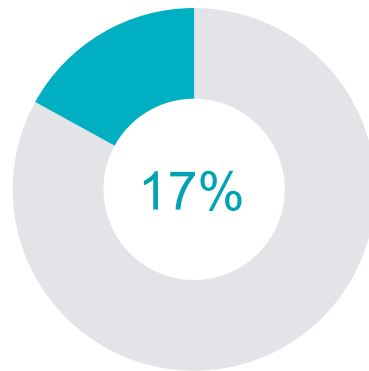
Operational Excellence Benchmarks

About procurement employees

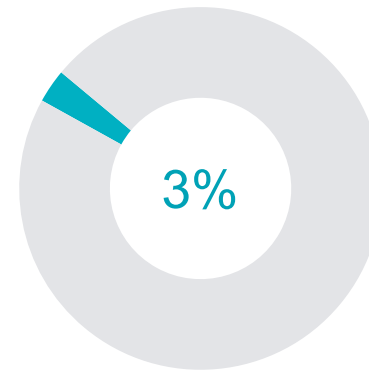
Types of Employees



ON AVERAGE:

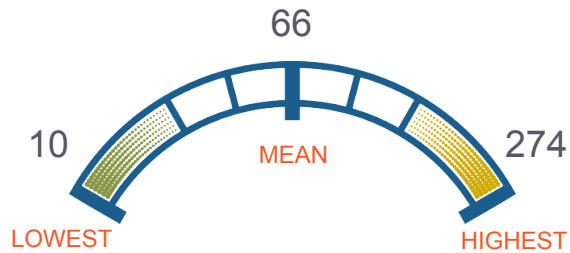


of Total Procurement
Employees are
Managers

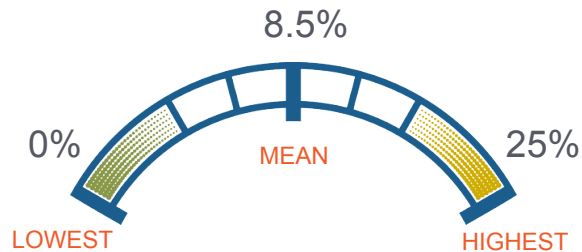


of Total Procurement
Employees are
Contractors

Employee Distribution



Total # of Employees
In Procurement



Employee Turnover

Procurement Employee Type/Function:

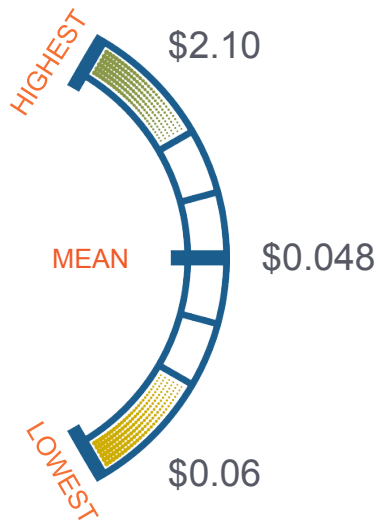
Industry Average:

Executives/Managers	15.7%
Strategic Sourcing Professionals	16.7%
Procurement Operations Professionals	30.1%
Contract Management	21.6%
Center of Excellence Professionals	1.7%
Administrative Support Employees	3.7%
Contractor Staff	5.5%
Other Employees	5.1%

On average, a procurement organization experiences 8.5% annual turnover

Procurement costs, on average, **\$0.048** per dollar spent

Procurement Cost
Per Dollar Spend



Spend Managed Per
Procurement Employee



Center of Excellence

75% of participants utilized a Center of Excellence

Top roles that the COE plays:

Metrics Reporting	60%
Process/Methodology Oversight	60%
Spend Analysis	55%
Technology Oversight and Training	45%
Market Intelligence	35%
Category Knowledge Management	30%
Skills Development	30%
Other (Supplier Diversity, Investment Recovery, Benchmarking...)	

Top benefits of a CENTER EXCELLENCE reported

- Improved metrics & reporting
- Development of specialized expertise
- Process improvements
- Increased visibility into spend & spend penetration
- Supply chain strategy development
- Development of management presentations
- IT improvements

The procurement organization

55% of participants reported directly to a Shared Services organization.

Department	% of Participants Not Managing
Shared Services	55%
Finance	30%
Operations	10%
Procurement/Supply Chain (to CPO then to President)	10%

Top Skills Targeted When Hiring

Top Skills Targeted

Strategic Sourcing Experience	95%
Communication Skills	95%
Strategic Thinking Ability	90%
Financial Analysis/Analytical Skills	85%
Industry Specific Experience	75%
Category Specific Experience	75%
Facilitation Skills	75%
Market Research Experience	70%
Presentation Development Skills	65%
Cost Modeling Experience	55%
eSourcing Experience	40%

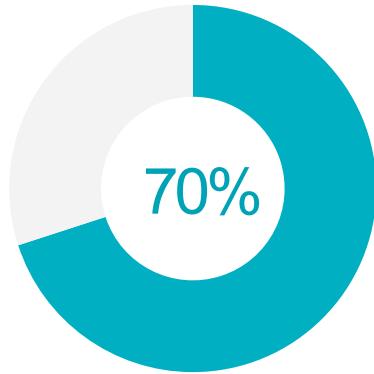
Top Approaches to Developing & Retaining Talent

- Training & career development
- Job rotations & cross-functional development
- Formal mentoring programs
- Special projects assignments
- Competitive pay & benefits

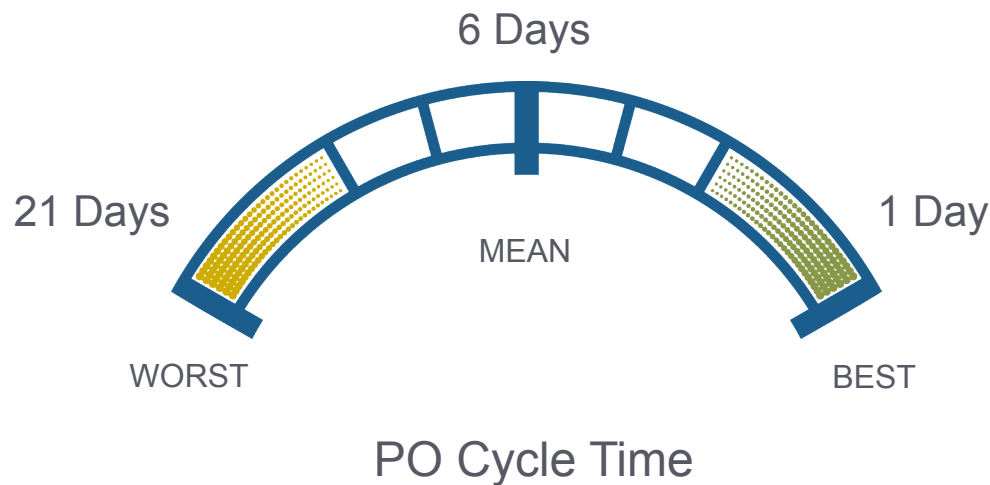


Average Training per Employee Each Year is 24 Hours

Payment Terms & Cycle time



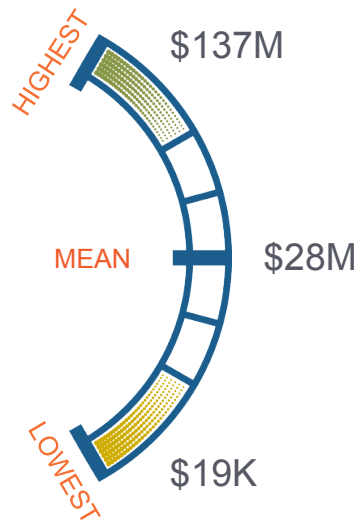
of participants using
Net 30 payment terms



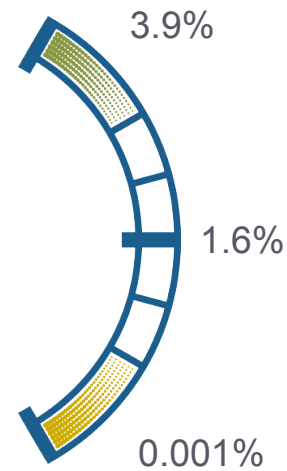
Average PO
Processing Cost is
\$141

PROCUREMENT Cards

Annual Procurement Card (P-Card) Spend



P-Card Spend as a % of Total Spend



Top initiatives that contributed to operational excellence

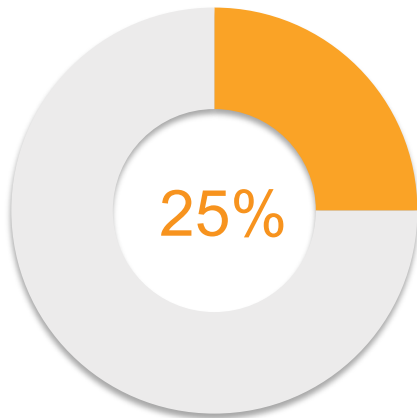
- Procurement software implementation/ automation initiatives
 - Bidding software
 - Electronic contract manager
 - eSourcing
 - SRM
 - Legal Database
- Improved organizational design
- Centralized supplier management
- Improved supplier performance tracking
- Inventory optimization
- Greater visibility of procurement metrics
- Hiring of additional resources
- Supplier vending machines
- Lean six sigma
- Hosted catalog



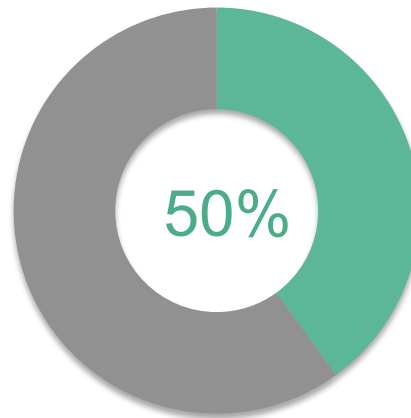
Strategies For Growth

Organizational Trends

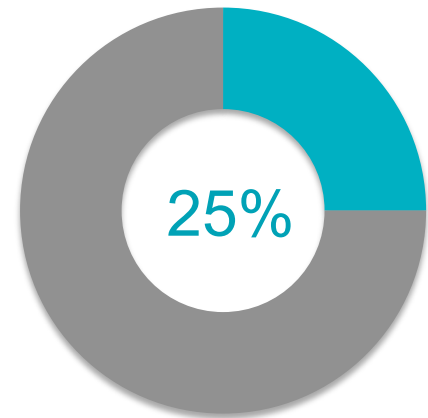
Over the next two years,



of respondents expect their organization's size to **increase** (by an average of 6.5%)



expect their organization's size to **remain the same** (or are unsure)



expect their organization's size to **decrease**

Organizational Trends

Function	Centralized	Center-Led	Decentralized	Outsourced
Sourcing	79%†	11%	11%	0%
	79%‡	16%	5%	0%
Supplier Rel Management	67%	13%	20%	0%
	73%	13%	14%	0%
Contract Management	70%	10%	20%	0%
	70%	10%	20%	0%
Procurement Operations	85%	5%	10%	0%
	85%	5%	10%	0%
Risk Management	65%	18%	18%	0%
	65%	29%	6%	0%
Center of Excellence	69%	23%	8%	0%
	69%	31%	0%	0%

KEY:

† Current State (%)

‡ Plan for Next 1-2 Years (%)

Technology Trends

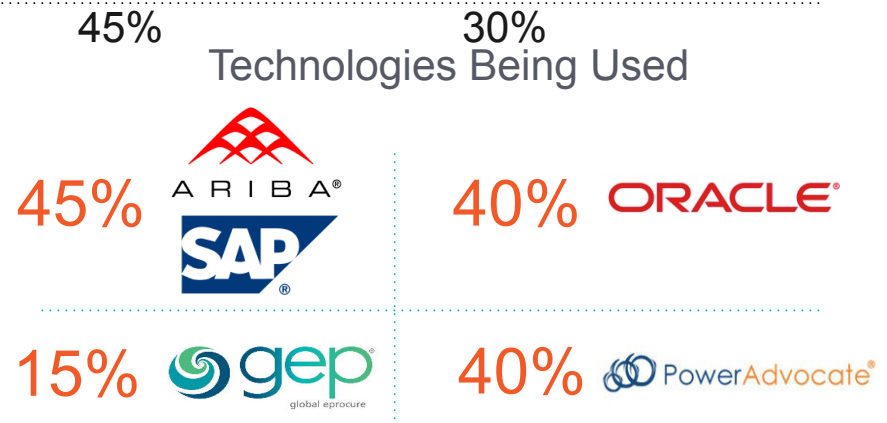


Technology Application

	% Using Technology Today	% Expecting to in Next 1-2 Years
Spend Analysis	65%	20%
Contract Management	60%	30%
Catalog and Requisition Management	60%	30%
eSourcing (eRFX)	55%	25%
Spend Data Cleansing	50%	20%
Invoicing Management	50%	25%

Supplier Management (SRM) Percentage of Transactions Conducted Electronically

Invoices	56%
P.O.'s	83%
Supplier Payments	63%
RFP's	56%



Top areas in procurement participants would like to see improved

- Technology
- Supplier Relationship Management
- Supplier Performance Evaluation
- Training
- Communications/Team Collaboration
- Stakeholder Engagement
- Strategic Sourcing
- Business Intelligence
- Safety
- Inventory Management/Reduction
- Category Management
- Spend Analytics
- Contract Development/Management Efficiency
- Reduction of Transaction Costs
- Forecasting
- Cyber Security
- Reporting Structure
- Increased Diversity Spend
- Consolidation of Procurement Systems

Top initiatives planned over the next 3 years

- Optimized Use Of Technologies
- Develop Formal Strategic Sourcing Department
- Inventory Optimization Process/ Vendor Managed Inventory
- Transition to Category Management
- Supplier Scorecards
- Supplier Relationship Management
- Strategic Planning
- Leadership Skills Development
- Investment in Employees
- Investment Recovery
- Negotiations Training
- Supplier Consolidation
- Procurement Process Standardization
- Maintain/Increase Asset Viability
- Review Cost Savings Structure
- Knowledge Transfer to Younger Employees

Top investments expected over next 3 years



People



Technology Upgrades/
Integration



Skills development &
training



Creation of a strategic
sourcing organization



Contract lifecycle
management



Supplier
management



Spend Analytics



Infrastructure



Asset Recovery

How participants expect procurement's role to change over the next 3 years

Greater role in
upfront planning

Focus on contract
compliance &
category strategies

More strategic,
less tactical

Provide more value
outside of purchasing

Provide greater
visibility into spend
management

Closer alignment with
stakeholders

If you would like to participate in this benchmarking study in the future, please contact us.

There is no cost to participate, and participants receive a tailored benchmarking comparison report on the full range of benchmarks & practices gathered as part of this study.



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