

The utility industry is facing rapid change, and supply management practitioners have to increase their skills to meet the challenges of the power grid of the future.

Powering Up Their Game

By Mary Siegfried

Steady, gradual change has been the hallmark of the utility industry in decades past, but change is occurring at a rapid pace today thanks to robust technology and sustainability options for tomorrow's power generation system. And that means supply management practitioners in the industry will have to up their game if they want to play an instrumental role in building the power grid of the future.

The ripple effect from decisions the power industry makes will be wide ranging, says Andy Flores, a partner at Scott Madden in Atlanta. "After all, there's nothing more important in our country in terms of its competitive advantage than the stability of its power grid."

Exciting Time in Industry

Experts say there's an air of excitement in the industry as it juggles priorities ranging from modernizing the grid to integrating renewable energy options. "Right now, energy is attracting a lot of attention and specifically electric energy," adds Flores. "Many utility companies are taking a hard look at their business models as distributed generation, large-scale storage capabilities and renewable generation technologies come online. As those shifts occur, supply management must also adapt to change. I think these are very exciting times."

Marlon Merritt, who has worked in the utility industry for more than 13 years, agrees that not only is it a good time to be in the industry, but specifically to be in supply management. "It's a great time to be in the supply chain profession because the landscape is different than ever before," says Merritt, director, strategic sourcing and category management at Duke Energy in Charlotte, North Carolina. "The supply chain

discipline is creating a new brand and cementing our reputation in the industry, and I think it's great to be at the forefront of that."

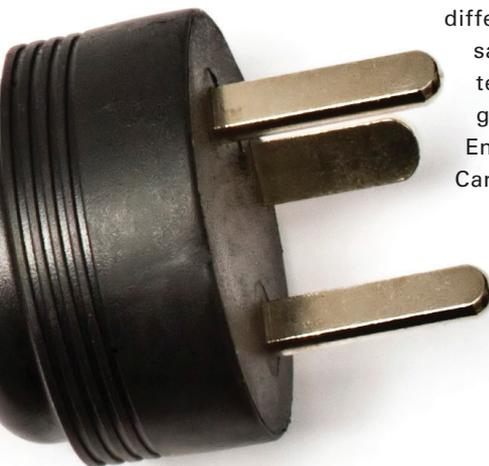
Supply management experts and practitioners also know that with dramatic changes on the energy horizon, they have to deliver greater value. They say that involves a greater emphasis on category management, inventory optimization, supplier relationships and building business unit partnerships.

Supply Managers "Up Their Game"

Flores says the first step in providing greater value is understanding the overall business and creating genuine partnerships with business units. "Supply management practitioners have to up their game, and upping their game requires thoroughly knowing the business of those they serve," he says. "That may sound like a back-to-basics concept, but truly adding value means you engage business units to understand their business, and the goods and services they procure. That is the holy grail," he adds.

That was the mind-set of American Electric Power (AEP), headquartered in Columbus, Ohio, when it committed to transforming its supply management organization. A pivotal step in that journey came in 2013 when the company made an organizational change, naming a vice president of supply chain, procurement and fleet who reports directly to the CFO.

"Clearly the company was sending a message that supply chain and procurement was going to be more of a strategic player across the organization," explains Scott Pannelle, director, supply chain center of excellence at AEP. The challenge was aligning the organization with business units as it transforms from a service organization to one that "is bringing facts to the table and challenging decisions about how the company spends its money," Pannelle says.





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Following on the heels of the organizational change, supply management pinpointed four primary areas where it needed to evolve, Pannelle says. They include: (1) category management, (2) inventory optimization, (3) continuous improvement (part of a companywide initiative) and (4) improving the corporate catalog process and searchability.

Focusing on Category Management

Category management is a primary focus area at AEP, as it is for many supply chain organizations in the industry. “We have category managers whose primary concern is not only to understand the supply base and the market for a category, but to understand the business drivers of that category,” Pannelle explains. “We also know that category management is not something we can do solely as a procurement organization, but we have to collaborate with our business partners to make it work.”

The emphasis on category management involves marketing and discussing the organization’s skills at the highest levels, which is possible now with a vice president who has a connection to the CFO, Pannelle says. It also means assembling a staff with a skill set rooted in category management competencies such as facilitation and change management. Pannelle says performing category management requires more than traditional procurement skills, which is why AEP’s candidates to fill these roles come from its business units and external organizations in addition to its procurement department.

Merritt says using category management and building business unit partnerships at Duke Energy allow the supply management organization to advance the company’s agenda. But first, it had to prove that its team understood issues such as

micro- and macroeconomics, supplier intelligence, lean and Six Sigma processes, he explains. With the attention on emerging smart grid technologies, renewable energy options and infrastructure upgrades, supply management practitioners have a whole new learning curve to support the business units. “We’ve certainly had to elevate our discipline to assist the business unit partners in addressing their financial pressures,” he adds.

Handling Inventory Issues

The utility industry is an asset-intensive business — creating unique challenges for supply management as it strives to optimize inventory. “Our industry is based on the reliability of producing and distributing energy,” Pannelle says. “We have to have the right equipment in the right place to restore power quickly if needed. That’s why people get nervous when we talk about reducing inventory.”

AEP is approaching this delicate subject by benchmarking with peers and determining desired service levels and the criticality of components, Pannelle explains. The supply chain organization is turning to analytics to help optimize inventory. “We are applying analytics to help us determine what we really need versus what is a cushion. It is a unique environment in our industry. I think we will find that we don’t have enough of certain pieces or parts in some areas and that there’s an opportunity to trim and maintain different levels in other areas.”

A data analytics tool is about to be piloted at various sites to help better manage inventory levels, Pannelle says. “We’ve worked close to a year socializing the concept with the business units,” he says. “We want that alignment with them on inventory issues, and we are saying to them, ‘Let’s proceed together.’”

Flores says managing inventory

for ongoing asset maintenance has been historically difficult for the utility industry. “Moving away from a philosophy of ‘just in case’ or ‘when in doubt, add it to inventory’ to a philosophy of data-driven decision-making on inventory adds and stocking levels is becoming a major area of focus for utilities,” he adds. It’s also one that needs processes as well as technology tools.

Improving Relationships, Planning

Duke Energy’s supply chain organization is working to create a “pull system” with its business units so they “invite us to an advanced seat at their strategy and planning tables, instead of us pushing supply chain governance on them,” Merritt says. And, the organization is incrementally making inroads.

Merritt says the organization has designed strategies for some key categories, which the business units have successfully leveraged to support their work. More and more, supply management team members are invited to business units’ long-range planning sessions. “We help them look objectively at the marketplace and understand what might be happening five to 10 years down the road,” he explains.

This proactive participation has helped Duke Energy in two key areas — supplier relationships and planning. Merritt says working with suppliers is no longer solely a supply management role.

“Once we have key suppliers in place, we forge a solid supplier engagement plan among the business unit, the supply management organization and the supplier,” he explains. “It’s not just the supply chain staff managing an agreement. It’s a group discussion on performance, opportunities, new strategies and innovation. It’s what role suppliers can play and

how they can help us.”

Supply management is more regularly attending business unit engagement meetings and offering quarterly supply chain updates with senior leaders at Duke Energy. “We have strategically located supply chain leaders in the geography in which our business unit partners operate to enable a local face of supply chain with actual boots on the ground,” Merritt says.

The organization’s involvement in demand planning also has improved. Supply management practitioners are attending business unit planning meetings in which long-range plans are being discussed, although Merritt wants the organization to be more involved in helping business units as they estimate project costs.

“We can provide the needed market intelligence and help them build a better estimate through advanced cost modeling principles, which is a game-changer in support of financial acuity,” he explains. “It is happening now in pockets, and we are trying to adopt this methodology globally as well as expand the knowledge of planned work to our supply partners to inform early involvement in supplier engagement.”

Future Trends

As in most industries, change is constant in the utility industry. Flores points to trends that will affect the industry and impact supply chains both now and in the future.

Coal unit shutdowns. The emphasis on clean power generation means there will be shutdowns or repowering of older facilities unable to comply with regulations. Flores says supply management organizations will need to deal with issues such as

unique supplier skills needed to close down coal ash ponds and how to recover materials from plant closings, including inventory and equipment. “Coal unit shutdowns will reshape power generation in the very near term and the effect on supply management will be significant,” he says.

Connect and Learn

Supply management practitioners in the utility industry can further their education and connect with other professionals at **UPMG — Connect 2015**, September 20-22, 2015, in Denver, Colorado. The conference will include speakers and workshops focusing on strategic solutions, talent management and process excellence.

Information and registration for the 84th Annual Utility Purchasing Management Group Conference is available on ISM’s website www.instituteforsupplymanagement.org.

Order 1000. This order removes the “first-mover advantage” for incumbent utilities. It means non-incumbent utilities can bid on transmission projects, Flores explains, increasing competition and driving changes on the supply and buy sides. “Now utilities will have to compete for some projects. There is a level of precision inherent in this competitive process

that is not traditionally faced. I’m not sure that supply chains in the utility industry are at a maturity level yet to be fully ready for this transition,” he adds.

Integrating cross-functional teams. Utilities face an increasing number of major projects such as transmission build-outs. Integrated planning — and supply management’s role in it — will be critical to successfully execute those projects. “Part of the maturity of an organization is demonstrated by how good it is at front-end planning,” Flores says. Supply management must understand which suppliers will be needed, the major materials to be used, the planning cycle and milestones throughout the project. “Without that business context, you are just another service provider. And without an executive push for cross-functional operations and an overall organizational commitment to it, you will never get there.”

While every industry is unique, Flores notes that all supply management practitioners can learn from the utility industry as it grows and changes. From power generation, they can learn that nothing is forever — technologies change, and adaptation and anticipation of change is a core skill. From power distribution, they can see that it’s all about the last mile and providing excellent customer service.

“The amount of change the industry is facing in the coming decade requires supply chain organizations to up their game in terms of providing value and a competitive advantage,” Flores adds. “I think it is an exciting time to be in a lead role in a supply chain organization in the utility industry.” **ISM**

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