Strengthening the supply chain
Cost pressures of recent years have seen power and utility companies renew focus on their supply chain expenses. But as the procurement process within the sector becomes more complex — exacerbated by the smart transformation, large infrastructure renewal and build projects, and a growing regulatory burden — utilities increasingly large portfolio of suppliers across diverse industries and based in many countries.

These multiple relationships give rise to a number of new and challenging questions for utilities. How can companies identify an appropriate group of suppliers to meet the needs of particular projects? What services can be outsourced, and which are more efficiently managed in-house? How can suppliers be encouraged to work together to achieve cost savings? And what is the best way to derive optimum value from these relationships?

**Extra pressures on supply chain**

Despite these supply chain questions, few utilities have brought this important function into the boardroom by appointing a supply chain director. This lack of leadership is limiting the ability of companies to adequately address the key challenges they now face and is reducing opportunities to improve supply chain performance that can benefit the entire company. And these potential benefits are significant — we have seen improvements to supply chain logistics save a utility more than half its operational costs.

We believe it is time for utilities to learn lessons from other sectors, such as consumer products, where supply chain leadership is well established. In these sectors, the appointment of supply chain directors responsible for the entire procurement cycle is de rigeur, and these senior managers take an important seat at the board table.

They also work closely with the CFO in a “business partnering” relationship, which is highly collaborative, enabling and supportive, allowing both roles to work across other functional areas of the business rather than focusing purely on core responsibilities. An EY survey showed that, among companies that said they had adopted the business-partnering model, 48% reported earnings before interest, taxes, depreciation and amortization (EBITDA) growth increases of more than 5% over the past year. Only 22% of those with a more traditional relationship reported the same.

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**Strengthening the supply chain**

An efficient supply chain can improve a power and utility company’s performance, profitability and predictability, particularly during large capital projects. So, why do so few give the function the board-level leadership it deserves? Mark Yeomans reports.
Significant operational savings

The key benefit of appointing a supply chain director who partners with the CFO is the ability to establish a clear line of sight between a utility's corporate strategy and the supply chain. Savings lie mostly in:

1. Large capital and infrastructure projects: the major investment decisions behind large capital programs are best made with the close involvement of a CFO who can ensure they are aligned with strategic objectives. Close collaboration also allows early warning of any unexpected problems, such as delays or overspends, enabling senior management to better communicate these issues to regulators and shareholders.

2. Maintenance and repairs: business partnering with the CFO helps maintain a supply chain that is lean, yet resilient enough to cope with disruptive events.

Building supply chain success

Building a procurement strategy that can withstand the rigors of current conditions and position a utility for success in the future is a long-term process that begins with the appointment of a board-level supply chain director. EY is supporting utilities through this process by first defining their procurement strategy, managing suppliers and helping the supply chain director work closely with the CFO to achieve the benefits of business partnering. As utilities’ supply chains become more complex, it is more critical than ever than companies do as much as they can to ensure their alignment with strategy in order to unlock hidden value and strengthen financial performance.

EDF Energy’s smart supply chain

As EDF Energy prepared for the mandated deployment of smart meters to all its UK customers, the utility approached EY to help build the optimum supply chain network for both its internal and third-party field force teams. Our team worked with EDF Energy to:

1. Define the processes and requirements of the future supply chain as part of the end-to-end smart metering deployment design
2. Assess the capability of potential third-party suppliers, via a request for information (RFI) process, which also informed the design of the national supply chain network design
3. Use CAST software modeling to assess internal and third-party logistics solutions against a theoretical optimum
4. Develop a supply chain network infrastructure strategy and policy document to define the future supply chain operation and management by either internal staff or third-party providers

By developing a detailed analysis of potential logistics solutions, we supported the company’s leadership to make an informed decision on their future supply chain network and decide the best approach to procuring the most suitable logistics services.

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Mark has more than 30 years’ experience in the supply chain and has worked in the power and utilities sector for 10 years.

He has led projects in almost all regions of the world in supply chain transformation, demand and supply planning, change management, performance improvement, and organizational design and development.
About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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About EY’s Global Power & Utilities Center

In a world of uncertainty, changing regulatory frameworks and environmental challenges, utility companies need to maintain a secure and reliable supply, while anticipating change and reacting to it quickly. EY’s Global Power & Utilities Center brings together a worldwide team of professionals to help you succeed — a team with deep technical experience in providing assurance, tax, transaction and advisory services. The Center works to anticipate market trends, identify the implications and develop points of view on relevant sector issues. Ultimately it enables us to help you meet your goals and compete more effectively.

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