Clearing the Hurdles to Energy Management Centralization

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Introduction

Centralizing the energy procurement function for an industrial or commercial company is not a simple task. For all companies, hurdles abound; some within the company and some outside of it. Overcoming these hurdles requires strong leadership, a disciplined strategy and the ability to successfully prepare for the challenges ahead. With a strong leader guiding the effort to centralize and an understanding of expectations, the rewards at the finish line will prove worth the effort.

Schneider Electric has assisted hundreds of North American and global companies as they have navigated this path. In the various scenarios described below, we show how companies have had to overcome different challenges related to successful implementation of a centralized energy management program. While the specific issues are unique to each organization, some common threads do exist – and these key hurdles must be cleared in order to achieve success. Schneider Electric has found the five that typically arise are:

1) Resistance to centralizing
2) Lack of focused expertise
3) Multiple and conflicting strategies
4) Undefined procurement roles
5) Absence of reliable energy spend data

This paper explores each of these hurdles and provides a quick review of approaches we use to overcome them. Understanding the obstacles that lie ahead will enable your company to clear these hurdles, giving you a much higher rate of success and the highest quality outcome.
People generally resist change, especially if the purpose of the change and the process for achieving it are not clearly spelled out by a respected leader within the company.
Resistance to Centralizing

Executive support and effective communications are critical.

For many companies, centralizing a function or process is not a simple task, and energy management is no exception. There are many internal issues to address, from varied perspectives and viewpoints on risk, to reporting structures that can be difficult to alter.

When one team within a functional group seeks to gain control of energy procurement, it will likely meet resistance. People generally resist change, especially if the purpose of the change and the process for achieving it are not clearly spelled out by a respected leader within the company. The companies that see the best results and implement the most effective energy management processes are those that have a strong leader engaged in the process who delivers clear and effective communication along the way. Typically, the leader of the process is a director or other executive level within the company.

When energy buying decisions are moved to a central team, many internal stakeholders will have questions about what this means for them, their facilities and the evaluation of their job performances. This can create resistance from facility staff members who previously had been in control of buying their own energy. Therefore, it becomes important to ensure that the people resisting this change can and will have reason to embrace it. An effective leader will help them see that this is not only a “win” for the company but for employees as well. It becomes incumbent upon the directors and executives leading the process to communicate that this change affects the entire company in a positive way. Centralizing energy procurement does not mean simply taking away duties from one person; rather, it is a focused process which allows individual facility personnel to continue and even increase their focus on issues and projects that affect their specific site. In the end, it means that they will be able to more effectively perform their core duties.

As an example, one Schneider Electric client had its Executive Director of Facilities driving the process to centralize and individual facility management staff ultimately embraced the move. This company, a global organization in the automotive sector, needed to make a number of changes inside its organization, and the possibility existed that certain key individuals might resist this change. However, due to the leader’s commitment, ongoing communication and strong business rationale for the changes, the process was highly successful. A specific example of this successful transition was in the reduced time it took the company to approve energy contracts. A two-week decision process for executing energy contracts (during which many buying opportunities evaporated) became a two-day process. This had a significant, positive financial impact on the organization. This Schneider Electric client found that to capture market opportunity, it needed to overcome internal resistance to procurement process changes.
Lack of focused expertise

Facility managers do a great job at just that; managing facilities. However, they are typically not energy professionals with the depth of expertise to make complex energy related decisions which require a high level of resources and market intelligence. Facility managers often have a narrow perspective on the energy market: they see only the data for their single sites. In addition, they do not have the time or resources to gain the proper level of understanding of other energy markets that may be affecting their energy prices and supply. This single data set and limited market exposure combine to restrict the effectiveness and foresight of site-level energy management decisions. As a result, site managers are not able to benchmark usage or spend levels against other company facilities; and, they can become dependent on advice from energy suppliers, who have a bias toward their own portfolios.

One energy market can be highly influenced by energy supply and price dynamics in other regions and states. A successful procurement process must include visibility and expertise beyond the capabilities of any one facility. A centralized team of procurement professionals focused on the “bigger picture” of pricing and supply dynamics can implement a much more effective energy price and risk management strategy. This then allows the site managers to focus on specific issues affecting their sites, which becomes a financial and operational “win” for the company.

As the centralized program takes hold, it is important to inform site personnel that they will still be held accountable, maybe even more so, for the amount of energy they use. No longer burdened with supply issues or pricing levels, they can shift their focus to initiatives related to reducing energy consumption. One Schneider Electric client found that when site managers were no longer burdened with buying, they focused more time on lowering consumption and carbon emissions. By allowing site managers to focus solely on these site issues, the client achieved the highest optimization of energy spend and consumption for each facility.
Multiple conflicting strategies

Energy procurement is most effective when companies have access to the appropriate resources and unbiased market intelligence. However, an organization must also have a plan for reacting to the information. Developing a sound energy management strategy allows a company to make effective decisions based on the proper information. For example, when energy markets are wildly fluctuating, a company should have one opinion regarding future commodity pricing and not allow each facility to make decisions based upon its own view of the market. In order to successfully leverage market developments, all stakeholders must agree on a strategy that accounts for local energy market nuances. However, it is difficult to manage various energy markets when no two are alike. Regional nuances and competing suppliers make it impossible for companies to adopt a “one size fits all” energy management strategy. An approach to contracting for energy that succeeds in Texas may be unsuccessful in Illinois. Likewise, even though one supplier may serve both North Carolina and Virginia, it may not be the best choice in both states. In light of this, some companies have wrongly concluded that a central strategy cannot be effective. However, a centralized strategy is highly effective when combined with local energy market knowledge and ample resources to execute that strategy.

A centralized strategy can also give a company the ability to ensure procurement teams align to the overall corporate procurement and risk management strategy. This will ensure that the energy procurement function is operating within the boundaries of the company’s overall approach to risk management. To arrive at this centralized strategy, one client engaged Schneider Electric’s team to perform an in-depth analysis study of its global sites. The study provided a roadmap that guided the client through the process of effectively implementing a centralized energy management strategy.

In the study, Schneider Electric’s identified both regional and local market factors that the company needed to consider. The final recommendation included short-term and long-term market recommendations for the company’s sites around the world. Additionally, these recommendations included an assessment of various risk profile levels. The client now had a single, centralized energy management plan and when it was applied to energy procurement the client was able to lower its energy commodity risk and contract efficiently and effectively.
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Undefined procurement roles

As companies shift from site-driven strategies to a central strategy, they often form a controlling team to guide the program. In some cases – typically for smaller companies – one individual can be successful in this role. Usually, however, a committee is established to give input on the strategy, implement organizational change and evaluate results. If this committee does not have the proper individuals and if those individuals are not given clear, specific direction, the program will falter. To succeed, a company must eliminate confusion regarding authority levels and scope of oversight.

Forming a strong, organized central committee is part art and part science. Initially, a company should give strong consideration to those people most directly affected by energy spend and risk levels, from departments such as procurement, finance, accounting and operations. Other team members may be added in order to ensure that future opportunities can be swiftly acted upon, such as a member of the organization’s legal department.

Each company is structured differently, so the final makeup of this team cannot be determined by a simple formula. Schneider Electric regularly leads clients through the process of establishing productive and efficient internal energy management processes and committees. In doing so, Schneider Electric seeks to resolve key questions such as:

- What risk level is the organization willing to absorb?
- What individual or group will have contract signing authority?
- If a sound opportunity presents itself, but the cost is higher than the team’s approved sign-off level, what is the escalation procedure?
- How will we communicate the new procurement procedures?

These are just a sample of the issues that should be resolved. The specific questions to be asked and the people to be included will be unique to each organization. The goal, however, is to remove confusion from the process and establish a team that is both empowered to make decisions and aligned with the corporation’s overall strategic approach. In doing this effectively, companies can ensure they don’t miss market opportunities or assume undue risk.
Measures of Success

For large companies it can be difficult, if not impossible, to capture accurate and timely energy information at the site level. Many sophisticated, global organizations do not effectively or efficiently capture the energy information necessary to successfully manage either their expenditures or risk levels. In this case, they cannot centrally manage the organization’s energy spend. Companies that succeed in controlling their energy spend centrally develop reliable and efficient processes for capturing energy data at the site and energy meter level.

Managing energy spend across a portfolio of sites requires access to reliable and timely data. Simply having “invoice amounts” for each site and time period is not sufficient. The various determinants on an energy invoice that must be captured can be voluminous, and to sift through the information effectively requires experience. This information must be captured by knowledgeable individuals and collected into a database. Once the information is in the database, it must be accessible and reported to all relevant stakeholders within an organization. Furthermore, different states and countries have different (and sometimes highly stringent) requirements regarding data capture for carbon emissions tracking. Gathering requisite energy cost and usage data is critical for companies that wish to leverage the information as well as be fully compliant at all sites.

When one Schneider Electric client began the transition to centralizing its energy spend, it was unable to successfully collect information across the 32 sites in its portfolio. The central team worked closely with Schneider Electric to implement thorough and reliable processes for capturing and reporting energy spend and usage data. Once the company’s information was captured in Schneider Electric’s proprietary online reporting tool, this company had, for the first time, successfully “gotten its arms around” its total energy spend and consumption information. All sites and meters could then be accessed at the click of a button via a secure internet connection. At that point, the business had the foundation it needed to begin implementing strategies that minimized risk, lowered costs and reduced usage.
Conclusion

The rewards far outweigh the effort.

Despite the hurdles outlined, as well as others to be considered, the benefits of centralizing energy spend within an organization far outweigh the costs of overcoming them. Companies that have successfully implemented a centralized energy management program realize a number of significant financial benefits:

> Mitigate and centrally control the price risk for energy commodities
> Refocus site personnel on site-level initiatives
> Provide all internal stakeholders with access to reliable and comprehensive cost and usage data
> Secure unbiased, timely and reliable market intelligence
> Benchmark site cost and usage performance across all sites
> Engage in energy contracts in accordance with the company’s legal tolerances
> Swiftly capture energy market opportunities in a highly volatile market
> Establish carbon emissions baselines, set accurate reduction targets, and verify progress toward the reductions