

Global packaging company develops a pan European risk management strategy

Impress is an international provider focused on metal packaging solutions for the consumer goods industry. They produce over 10 billion cans per year that are represented in all aspects of everyday life from baby food to soups, paint cans to cigar boxes, and hairspray to tuna cans. The Impress Group employs over 7000 people in 45 production facilities globally. In Europe alone Impress have 32 sites spread across 11 countries. Unsurprisingly in such a manufacturing intensive business energy represents a significant proportion of costs.



Why a “Strategy Review”?

Impress were very concerned over the unprecedented energy price increases and extraordinary market volatility. This risky pricing environment had created increasingly complex decisions in terms of market timing, contract length and supplier product selection resulting in wild swings in annual budgets by 50-60%. It was also clear Impress faced similar challenges across all European operations as markets appeared to be closely correlated.

Strategic questions faced by Impress:

- **What future market risks do we face?**
- **Which product shall we buy into?**
- **When, how often, and for how long?**
- **What policies should we deploy to protect ourselves from excessive risk?**

- **How should we communicate a change of strategy within the group?**

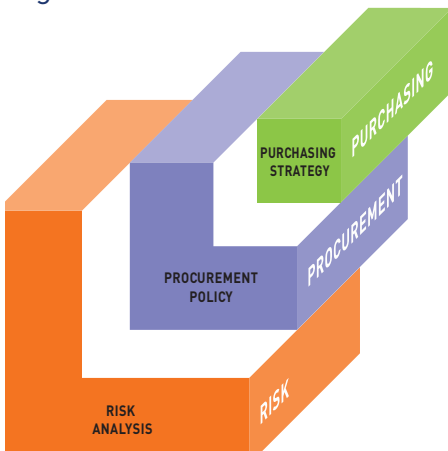
Previously stable market conditions had meant energy purchasing had required a lower level of maintenance using conventional procurement methods. However Impress now realised change was necessary as their existing strategy, policies and resources had been developed under quite different circumstances.

During an initial meeting with Rob Klunder, European Purchasing Coordinator, EnergyQuote were able to clearly illustrate a new strategy was necessary to provide clear guidelines to support decision-making and contain risk. EnergyQuote proposed a simple modular approach to strategy creation by first assessing Impress’s “appetite” for risk, out of which would evolve a procurement policy and finally allow the development of a full blown European energy procurement strategy (see fig 1).

“A full strategy appeared to be a giant step for such a decentralised company.”

Historically Impress had a decentralised approach to buying energy across Europe, so directly enforcing a European strategy seemed to be a giant step without first building understanding between stakeholders of what such a process would involve. Therefore it was agreed EnergyQuote would conduct an initial 1 day “Strategy Review” with the purpose of agreeing a framework for developing a full strategy and identifying all the risks faced by the Impress sites.

Fig 1



What was involved in a “Strategy Review”?

The “Strategy Review” proved to be a revelation and a vital step in convincing key stakeholders of the importance of overhauling their existing strategy. First a highly qualified expert with experience in consulting Europe’s largest energy users, governments and oil majors was appointed. He worked through a structured questionnaire with the main country purchasers to identify key facts about the portfolio of sites, current practices, legacy issues and the role of energy in the business. With this information he was able to present a consolidated picture of Impress in relation to current market risks and potential market developments.

Furthermore this consultant ran through an overview of the best practises required by good corporate governance and a review of how risk management theory could be applied to the issues currently confronting Impress.

The outcome of the strategy review was a set of principles and a process map to guide the subsequent development of a new energy procurement strategy including:

1. A clear understanding to all stakeholders of what is demanded of an energy strategy
2. A clear business case for commitment from senior management
3. A checklist Impress must confront before embarking on a strategy development process
4. A clear view of the market risks being encountered, and risks still to be met
5. An understanding of what best practises involve in the context of energy market risk.

The beneficial consequence of conducting such a review was that the European Purchasing Coordinator quickly gained support from senior management and regional purchasers for a full strategy. In Impress’s case the most challenging change the strategy review implied was the need for centralisation across Europe of a risk management policy. It had become clear during the review that Impress was facing similar pricing risks across all markets. Rob Klunder, European Coordinator commenting on the principle reason for taking this approach:

“It was the irrefutable fact that Western European markets were facing the same pricing risks that drove the absolute need for a centralised risk management strategy.” commented Rob Klunder.

Subsequently it was this and other clearly defined analysis that drove the strategy development with the Group Sourcing Director and European Purchasing Coordinator, and led to the strategy being finally approved by the group COO.

Objectives of a Strategy:

- A well-informed, precisely-tailored, fit-for-purpose strategy
- An strategy that is immediately actionable
- A strategy that is robust for current circumstances and adaptable for years ahead
- Commanding top-level support, and readily understood throughout the organisation
- An optimal strategy chosen from a range of solid alternatives
- A strategy that conforms with best practices and good corporate governance
- Clear understanding of the implications for resourcing, organisation and process
- A checklist to ensure identification of changes in circumstances that will warrant reviewing and updating the strategy.

EnergyQuote Strategy Implementation

Given the complexity and high risk and return options within the emerging energy markets; more than ever before there is a need to set a framework of best practices for managing risk as part of the Energy Strategy. Ultimately the decision to take a certain type of contract depends upon a company's Strategy and risk profile and their interpretation of these in the context of predicted market trends.



Risk management is fundamental as the market evolves from a wholesale pooling arrangement to spots and futures market, and suppliers are offering customers a greater product choice. The amount of risk reward involved varies from product to product, with the range varying from the simplest index, just tracking the market average price, to the ability to lock and unlock positions through the term of the agreement.

The creation of a concise energy strategy is a must as it allows a company to build on clear principles and establish a clear path to follow. It certainly helps make product evaluation quick and seamless and facilitates pre-tender selection. The energy strategy is built on layers which are; risk analysis, procurement policy and purchasing strategy. Each layer should be examined individually but works best when treated as a whole.

Risk Analysis

To allow for effective risk analysis the first vital stage is an awareness of risk from the top to the bottom of the organisation.

Some areas a company should consider are:-

- Review of corporate attitude to risk
- Relative importance of energy prices to company overall competitiveness
- Overall credit position
- Corporate governance
- The importance of certainty (see fig 2)

Fig 2

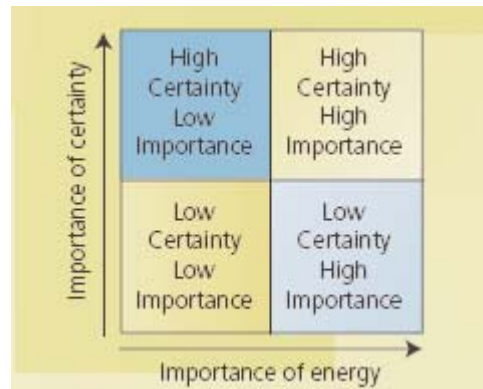


Energy Procurement Policy

Armed with a comprehensive Risk Management Strategy consideration should be given to the energy policy by the relevant stake holders. The company's procurement objectives and risk profile, identified by the Risk Management Strategy will form the back bone of the Procurement Policy (see Fig 3). It is recognised that the target price depends on the number of purchases made plus the experience of the purchaser.

A policy is best formulated through working in partnership with a market analyst and executive purchaser, or energy trader. The Procurement Policy forms the boundary to which the Purchasing Strategy can operate and helps to ensure the company's risk tolerance is not exceeded. Establishing clear defined procurement objectives significantly increases the effectiveness of the Purchasing Strategy and likely outturn of achieving the company's business success criteria.

Fig 3



Purchasing Strategy

The Purchasing Strategy operates within the boundaries of the Procurement Policy. Dependent upon the type and mechanics of the selected product (see fig 4), various financial triggers can be set by the company to help make tactical purchasing decisions. By linking business rules to certain trigger points, actions can be processed that offer the stake holders a higher degree of certainty and control. Analytical consideration should also be given to monthly forward prices which help provide target and budget positions, which feed into the management reporting.

Fig 4

Product	Characteristics									
	A	B	C	D	E	F	G	H	I	J
a) Fixed	✓	✓	✓		✓					
b) Indexed	✓	✓		✓	✓					
c) Index Capped Collar	✓	✓		✓	✓	✓				
d) Block Lock				✓			✓	✓		✓
e) Block/Unlock				✓			✓	✓		✓
f) Financial*				✓		✓	✓	✓	✓	✓

*Derivative product

- A** Volume constraint
- B** Time constraints
- C** Guaranteed budget compliance
- D** Outperform budget
- E** Resource constraints
- F** Maximum cost limits
- G** Importance of commodity cost
- H** Knowledge of energy market
- I** FSA compliance
- J** Attitude to speculation

Taking the next step

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