



**E**nergy Buying Groups, like many other group purchasing organizations, seek to combine the consumption of many users in an effort to obtain better pricing for the commodity in question. As you might suspect, the process for bulk purchases of energy is not quite as simple as for other commodities. In this month's newsletter we will point out some similarities and differences between Energy Buying Groups and other group purchases. We will also touch on the common threads of successful programs.

While there are always exceptions to the rule, here are some key distinctions to be made concerning energy buying groups and other types:

### Similarities:

- Energy Buying Groups produce larger volumes of natural gas and/or electricity. This often attracts greater supplier interest, more bidding suppliers, and increased competition for the group's business.
- Larger volumes allow suppliers to squeeze their margins and still obtain an acceptable level of profit for their effort and risk.
- More accounts allow suppliers to reduce their per customer overhead and acquisition costs and pass on those savings.
- Since the buying group is formed and presented to potential bidders, they have little or no marketing and sales costs.
- There is often a single supply offer to all participants; this minimizes the need for suppliers to prepare customized quotes.
- Suppliers often work with a single aggregator rather than each individual account holder. This reduces their customer support costs.

### Now let's look at some Differences:

- Unlike our Office Products or MRO categories, retail energy cannot be stored for later use. We consume natural gas and electric when and where the need exists.
- There is no standard quantity that can be purchased.
- A supplier's "cost-to-serve" often differs greatly between buying group customers due to differing load profiles. A single group price may mean someone is subsidizing someone else.
- Customers are often under existing energy contracts with differing end dates. This makes it challenging to start a group.

- Unlike Corporate United's distributed items categories, energy prices are extremely volatile and subject to constant market movements. Suppliers are unable to guarantee pricing for an extended period of time while the customer is deciding whether or not to buy.
- Suppliers will want to examine the credit ratings of each individual account holder. They may assign different credit risks to the group's members and even want deposits from some.
- Buying group members may have differing risk tolerances and desires when it comes to pricing options and contract terms and conditions.

### The Energy Buying Groups that work well tend to possess many of the following traits:

- The individual account holders consume similar amounts of energy and in a predictable pattern.
- Customers possess similar credit risks.
- Customer accounts are located in the same utility service territory.
- The buying group has a single person, or a small group of people, making decisions on behalf of all members.
- The members share a common goal when it comes to purchasing strategies.
- One member is not subsidizing the price of another member.
- Member load profiles compliment each other - more attractive to suppliers when combined.
- Failure of one member to pay does not impact the rates charged to others.
- Members are committed to accepting an offer if it is less than a predetermined rate.
- The group is led by experienced, competent professionals offering independent and objective advice.
- Members are currently able to shop - i.e., they are not under contract with a deregulated supplier.
- Groups are comprised of members who are familiar with each other and/or who have had success with other group purchases.

Though they function under the same basic operational rules as other group purchasing organizations, Energy Buying Groups must overcome challenges specific to their industry to best serve their members. The most successful Energy Buying Groups choose their members deliberately and carefully facilitate purchasing and communications.