

Major Grocer Takes Scientific Approach to Creating Budget Certainty

MVPe Program effective tool for managing risk and long-term budget predictability



Company Profile

Giant Eagle is a regional supermarket chain with approximately 218 store locations in PA, OH, WV, and MD. Ted Smith, the Director of Indirect Sourcing, is responsible for managing the sourcing of all items not for resale. In addition to power and natural gas, this team leads or supports the sourcing activities for several other categories including marketing, IT, transportation, equipment, store supplies, and others.

The Challenge

Several years ago, the Giant Eagle team was sourcing short-term Fixed Price agreements from multiple suppliers based on lowest price. Giant Eagle needed a way to take a more strategic approach and aggregate their procurement process.

When Ted Smith joined the team, purchasing goals were structured around a moderate level of risk tolerance and a fixed price strategy that locked the price for a predefined volume, based on usage patterns, where any incremental load was purchased at market price. This strategy still exposed Giant Eagle to unpredictable results.

Like most grocery store chains, Giant Eagle operates in a highly competitive industry, where unpredictable power costs can significantly impact their bottom line. After experiencing extreme power price volatility with this strategy, the grocer could have reverted back to a fixed price strategy. Instead, they chose to evaluate other blended strategies that could still give them the flexibility to take advantage of market opportunities while achieving the budget security they desired.

Throughout this process, driving consensus at the executive level on the best course of action was critical to success. The Giant Eagle team together looked for a more diverse approach that achieved budget certainty and mitigated the volatility risks they had experienced in the past.

“With your 401K, you’re not online every day managing those stocks, are you? I’m not—I manage my 401k through a money manager because I don’t have the time or expertise to manage it well on my own. MVPe is like that money manager for my company’s power supply.”

–Ted Smith, Director, Indirect Sourcing, Giant Eagle

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The Solution

With the help of Constellation, Giant Eagle developed a smart power purchasing strategy that addresses those challenges.

Previously, Giant Eagle purchased electricity through a blended strategy in which it fixed quantities of load. With Constellation's expertise, the grocer implemented a strategy that was based on securing percentages of load instead: a Flexible Index Solution. Today, Giant Eagle purchases a significant portion of their total load through this strategy which they actively manage with MVPe, an algorithmic program in which smaller percentages of load are purchased at regularly scheduled intervals over a longer time horizon—similar to the concept of dollar cost averaging in investing. This Flexible Index Solution coupled with MVPe helped Giant Eagle reduce exposure to electricity price volatility. Ted Smith explains, "We're in the market every month making purchases. MVPe allows us to actively manage over time, rather than trying to time the market."

The Results

Giant Eagle now makes smaller, more frequent purchases without being burdened by each transaction decision. They set their goals in advance, monitor progress and the program does most of the work.

"The Constellation team recognized that we were looking for a more strategic solution, but needed to figure out how to structure it, which is when they introduced MVPe. Now we have a cutting-edge strategy that has really benefited our company."

—Ted Smith, Director, Indirect Sourcing, Giant Eagle

Highlights

- Balances needs of internal stakeholders
- Serves as effective tool for managing risk and long-term budget predictability
- Streamlines purchasing process with pre-approved purchasing parameters
- Reduces anxiety over making purchasing decisions at right time
- Simplifies process with ease of invoicing and reporting
- Frees up time for company team to devote to other sourcing decisions to further improve bottom line

Why Constellation

There are several options for buying power, but Giant Eagle recognizes that few suppliers can provide the breadth and sophistication of purchasing strategies like Constellation's. "My job is to save money for this company, but I can't do it without the Constellation team," states Ted. "The relationship we have is significant and makes my job easier. They bring us sophisticated, innovative solutions, and I rely on them to help us continuously evolve our power buying strategy."

Constellation brings market intelligence and longstanding expertise to help customers continually evolve their strategy. With the help of the Constellation team, Giant Eagle has successfully deployed a customized and innovative strategy that meets the needs of their business.

Constellation is a leading competitive retail and wholesale supplier of power, natural gas and energy products and services across the continental United States. Constellation's family of retail businesses serves residential, public sector and business customers, including more than two-thirds of the Fortune 100. Learn more at www.constellation.com.

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