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Exerpt

Energy Outlook
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Energy prices are on the rise again and will seemingly go higher as the global recession eases. What are you doing to mitigate the risk of escalating energy prices?

The price of oil appears to be rising again. The price of West Texas Intermediate C rude looks set to average $56/barrel in Q2 and averaged $65/barrel in June, up from an average of $43 in Q2 on glimpses of an economic recovery. Although the price of natural gas fell on average in Q2, it is forecast to more than make up for these losses i n the next two to three quarters.

What should supply management professionals do to manage the price? This is the same question that we had last year at about this time. Boston Strategies International's fifth annual white paper on sourcing strategies, "E nergy Prices Re-Shaping the Supply Chain: Charting a New Course?," uncovered and ranked six possible strategies for dealing with rising energy prices: buy at the spot price and hope for the best, buy forward contracts and hope for the best, stockpile in an ticipation of continued rising prices, charge a surcharge in pricing to cover it, embed increases but not decreases in your pricing (always a winner), and value engineering (which ultimately tends toward energy independence).

The best strategy depends on what type of production operation is being run (continuous versus batch or project), and the degree of alignment between costs and pricing in your company. Luckily there is time to plan which strategy is best for your company. Although we may see a bright patch, the problems in the banking sector are still deep, which will restrain demand and may make for a prolonged recovery. Sluggish demand could keep oil prices from rising significantly for some time.

Given the adequate planning time horizon and the long -run potential for a return of inflationary oil prices, now may be a good time to practice value engineering, or reengineering of transportation and logistics processes, to reduce your company's energy footprint.

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