Accenture Spend Trends Report

Q3 2014

Insights Born from Experience

We are pleased to bring you the newest edition of the Accenture Spend Trends Report, a quarterly strategic report that brings together the best thinking, insights, and intelligence from our global team of more than 1,100 category specialists.

Our team helps more than one hundred clients optimize billions of dollars of spend across the globe. This means they are in each major supply market dozens, sometimes hundreds of times a year. The result: powerful aggregate supply market intelligence and a unique set of cross-client spending and spend management insights.

With this unique combination of intelligence and insight, we have compiled a summary of the top trends we are seeing in each major area of spend—whether changing market dynamics or new spend management strategies—and offer new initiatives to consider.

Our core commitment is to deliver actionable insights and market intelligence to you, our clients. We welcome and encourage your feedback to help make this report more valuable to you.

Keith Hausmann
Managing Director, Procurement BPO

Accenture Operations

CATEGORY EXPERTISE	ANNUAL PROJECTS	SUPPLY MARKET EXPERTS
MRO / Facilities	1,125	~ 80
Logistics	203	~ 40
Marketing	1,197	~ 80
Corp. Services	1,796	~ 70
IT/Telecom	2,460	~ 120
Direct Materials	160	~ 20
Capital (EEC)	1,562	~ 40
Travel	456	~ 30
Energy / Sustainability	965	~ 40
Sourcing & Contract Management Support	--	~ 600
TOTAL	**9,924**	**~ 1,120**

Author:
Mark Hillman—Manager, Market Insights & Analysis—Accenture Operations

Category Specialist Contributors:

Logistics—Ed Sands, Scott Youngs, James Colcher
IT/Telecom—Brian Turley, Ryan Shadle, Eric Dulin
Marketing—James Keetley, Suzanne Liss, Dave Mula
Corporate Professional Services-Facilities & Contingent Labor—Sezgin Kaya, Manfred Vogels
Travel—Dan Maschoff, Allan Brown, Mike Lynch
Equipment, Engineering, & Construction (EEC)—Luis Gile
Basic Materials & Maintenance, Repair & Operations (MRO)—Ravi Sethi
Energy—Cobb Pearson

Copyright © 2014 Accenture. All rights reserved.

Executive Summary

Markets are sending a variety of mixed signals as volatility has returned in a big way: global stock markets have sold off by more than 10 percent, GDP growth forecasts have been reduced (sluggish Europe, turbulent emerging markets), and oil prices declined by 20 percent; meanwhile, the safe haven U.S. dollar appreciated markedly and bond yields hit record lows. Despite the recent volatility, most underlying fundamentals and sentiment indicators remain in positive and expansionary territory and the economic recovery rumbles on. In that context, the pullback in interest rates and key commodities could provide relief to corporate buyers and consumers and the focus should remain on potential pockets of cost pressure.

Notable Macro Trends from the Second Quarter:

- Labor markets continue to slowly improve. As unemployment rates fall (U.S. 5.9 percent; Eurozone 11.5 percent), pockets of wage inflation are emerging in sectors like manufacturing, technology, and logistics.
- Mergers & acquisitions (M&A) activity has reached five-year highs as companies look to invest to drive growth and market expansion. Notably spin-off activity is also an emerging trend driven by investor activism and focus on unlocking shareholder value.
- Business capital investment continues to expand, up 4 percent in 2Q 2014 and 6 percent in 1Q 2014, with full-year forecasts at 7 percent. High corporate cash levels, low interest rates, and increasing capacity utilization all support this cycle, potentially pressuring input costs.
- Energy prices pulled back strongly in the quarter with oil declining 20 percent from its peak and natural gas remaining soft. Yet geopolitical risks remain, highlighting the importance of monitoring prices in real time to capitalize on opportunities and aligning strategy with price-risk tolerance.

Q3 Spend Trends: The Big Five

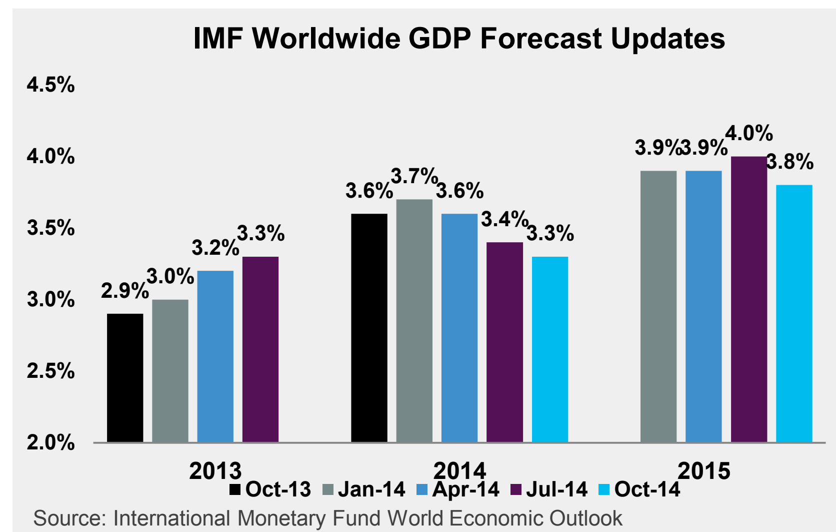
- **Logistics: Increasingly Tight Supply Market Raises New Cost/Service Risks:** The North American over-the-road freight market continues to tighten, giving carriers pricing power and ability to “fire” difficult customers. Shippers should self-evaluate whether they are incurring avoidable costs or service risks heading into the holidays.
- **IT: Don’t Ignore Savings Opportunity in Hardware Maintenance:** As companies seek global support, hardware maintenance remains an area where significant savings are available (30-60 percent) if organizations are willing to consider third-party maintenance options.
- **Marketing: Approaches Differ about How to Solve Marketing’s IT Challenges:** As marketing becomes increasingly data-driven, talk of the “Marketing CTO” is all the rage. While marketing CTOs are still rare, there are clear opportunities for marketing, procurement, and IT to partner to maximize the impact of marketing IT spend.
- **IT & Capital: Corporate Actions from M&A to Spin-offs Affecting Supply Markets:** Industry consolidation via mega-deals in the construction area, for example, may mean more cost pressure for buyers. Spin-off activity is also on the rise, in IT for example, creating potential savings opportunities for prepared buyers.
- **Direct Materials: Soft Natural Gas and Ethane Prices Send a Message to Ethylene Users:** Natural gas and closely linked ethane prices have pulled back, but the Ethylene market has stayed resilient. Users should take the opportunity to insulate themselves from the risk of a price rebound in these critical feedstocks.

Copyright © 2014 Accenture. All rights reserved.

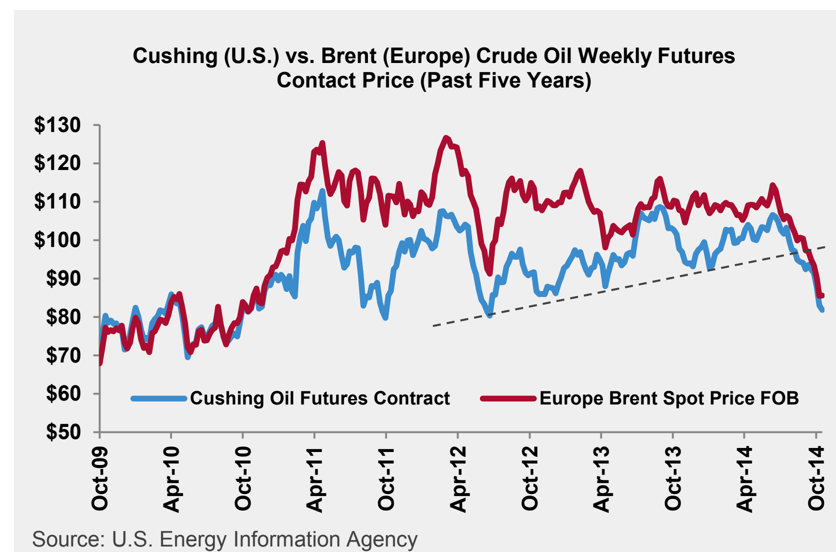
Macroeconomic Backdrop

Worldwide Gross Domestic Product (GDP) Growth Forecasts Move Lower Again: In its most recent GDP forecast update, the International Monetary Fund (IMF) lowered its 2014 global GDP growth forecast to 3.3 percent from its prior 3.4 percent estimate, and lowered its 2015 forecast by 20 basis points to 3.8 percent growth in 2015. The U.S. rebounded strongly from its contraction in Q1 with 4.6 percent growth in Q2; the full-year outlook for the U.S. is 2.2 percent growth. Europe is one area of concern. Growth has been anemic, and the IMF cut its growth outlook to 0.8 percent and 1.3 percent in 2014 and 2015, respectively. Continued tension between Russia and the Ukraine is one risk to monitor, but the European Central Bank looks set to continue its accommodative monetary policy. Emerging economies continue to experience volatility, but China grew 7.3 percent in Q3 and should deliver 7 percent growth in 2014 and 2015. Latin America is also facing GDP growth challenges with the IMF cutting its outlook for GDP growth in Brazil to 0.3 percent and 1.4 percent for the next two years.

Sentiment Indicators Remain Positive; Energy Prices May Provide Relief for Corporations and Consumers: Despite the macro growth concerns, most forward-looking indicators, from consumer confidence readings to purchasing managers' index (PMI) data to regional U.S. Fed surveys remain in positive/expansionary territory. One swing factor to pay close attention to is the price of oil (not to mention natural gas). The global Brent benchmark oil price has been trading 20 percent below its average price for the past three years, and paradoxically, major oil producers like Saudi Arabia have not cut production, but are offering discounts to take market share at these lower price levels. Most (but not all) industries benefit from lower energy prices and the follow-on impact on logistics costs, while consumers benefit from lower gas and fuel costs and higher disposable income. One analysis put the global cost savings at $1.8 billion per day based on current global output and the potential stimulative benefits could reach $1.1 trillion globally as other commodities fall in sympathy. While future prices are impossible to predict, there is no doubt that the recent pullback in oil and gas prices provides an opportunity for energy buyers to take a fresh look at how they balance fixed and floating price contracts and match their buying strategies with corporate price risk tolerance.



Source: International Monetary Fund World Economic Outlook



Source: U.S. Energy Information Agency

Copyright © 2014 Accenture. All rights reserved.

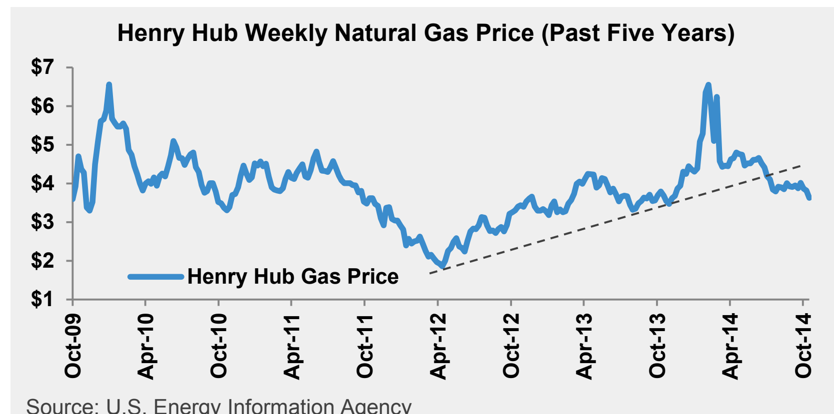
Macroeconomic Backdrop

Capital Investment Still Expected to See Solid Growth in 2014: After being flat in 2013 vs. 2012, capital investment for S&P 500 listed companies has begun to perk up with 6 percent growth in the first quarter and 4 percent growth in the second quarter. Analysts now expect full-year growth to be approximately 7.2 percent in 2014, an increase from last quarter's forecast of 6.7 percent growth.

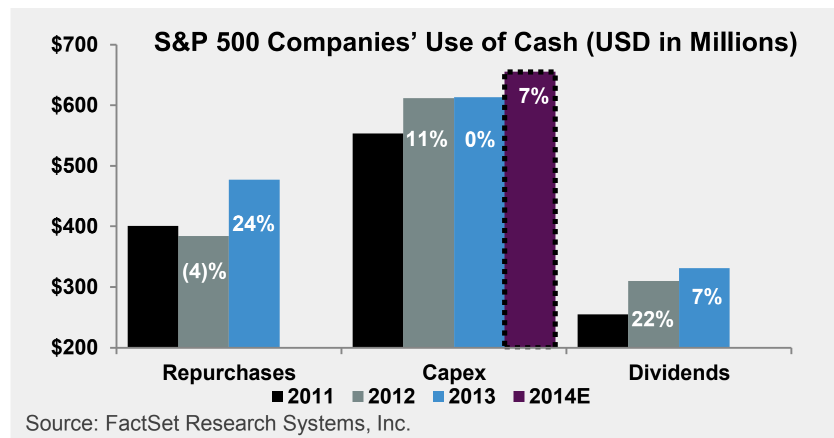
Many factors support a strong backdrop for investment spending. Cash on corporate balance sheets grew 7 percent year over year in the second quarter of 2014 to $1.35 trillion, a near-record level. Financing remains relatively cheap—banks continue to loosen credit standards, interest rates are low, credit growth is increasing, and corporations are generating cash inflows through debt issuance at favorable rates. On the demand side, capacity utilization continues to rise and corporations will need to invest in upgrading and modernizing aging capital assets.

In terms of other uses of cash, dividend growth was 11.5 percent for the twelve months ended in July 2014 compared to 24 percent growth in 2013, while share repurchase activity actually declined year over year in the second quarter. As the stock market continues to reach new highs, share repurchases become more expensive, which could cause more companies to shift dollars toward spending on capital investment or M&A activity.

M&A Activity at Five Year Highs: The M&A market continued its robust pace, driven by factors including continued low interest rates, record cash levels, strong currency in the form of stock prices, and tax optimization (so-called tax inversion) strategies. In a newer twist, however, the last two quarters have seen an uptick in corporate spin-offs (Hewlett-Packard and eBay™/PayPal™ are just two examples). In some cases, activist investors are driving for change, and in other cases, corporate boards are looking to enhance shareholder value by separating business with differing growth rates, and therefore different valuation profiles. These separations create challenges for the management of procurement at the resulting entities, but also opportunities for organizations who are clients of these firms.



Source: U.S. Energy Information Agency



Source: FactSet Research Systems, Inc.

Keep an Eye on Pockets of Cost Inflation: The recent market volatility has effectively put inflation risks on the back burner thanks to the strength of the dollar, weaker growth outlooks, and pullbacks in major commodities. However, pockets of labor inflation are evident, and the recent pullback in prices could reverse quickly. In this context, companies should leverage market intelligence to stay a step ahead of the volatile cost environment.

Copyright © 2014 Accenture. All rights reserved.

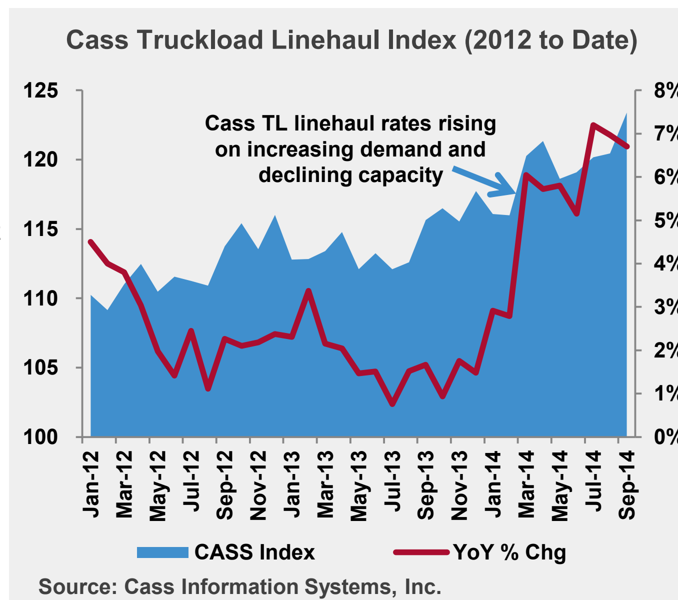
Top Trends in Logistics

How to Avoid Getting "Fired" before the Peak Holiday Season: With the September quarter earnings season ramping up, analysts (and logistics/procurement professionals!) are listening for clues as to the health of the over-the-road carrier market. Although top-line GDP growth—and therefore demand—may be more sluggish than many had hoped, there are a few signs that the constraints on the supply side of the market are abating. Utilization rates are high, and driver recruitment continues to be a challenge for carriers. Drivers' wages are on the rise, and more carriers look set to increase driver pay in order to attract and retain the labor they need. This confluence of trends creates a scenario where over-the-road freight is a seller's market, and carriers are in the enviable state of having all the demand that they need. As a result, we've seen some carriers "fire" certain customers—or at least charge premium rates to "more challenging" customers. Clearly, shippers want to avoid falling into this category, and face higher rates—or worse—the prospect of not being able to secure capacity heading into the peak holiday shipping season. It's worth asking the question: "How difficult am I to do business with," and use the answer to motivate better efficiency and collaboration, both internally and with key shipping partners.

Key Action: "Hard to do business with" relates mostly to data and collaboration, i.e., a shipper with inaccurate forecast data, poor processes for communicating about demand, lots of expediting, and so on. Establishing better collaboration and improving data quality can not only improve internal efficiency, but can help avoid incurring avoidable costs, or worse, major customer service issues.

Big Data in Logistics Is in High Demand, but Suffers from Under-Investment: The concept of harnessing "big data" to make better business decisions based on analytics and insights is well-understood, but in many companies we observe big data-related investment going toward functions like eCommerce, leaving logistics relatively under-resourced or under-funded. While logistics data maturity varies by type of shipper, lack of high quality data can be a big area of exposure for shippers. Consider one simple example: if a shipper under-forecasts demand, it puts the organization at risk of not being able to secure capacity when needed. Conversely, when a shipper has excellent information about expected volume and demand, it can secure more favorable terms from carriers and minimize expediting and other charges. In our experience, shippers with the ability to capture, cleanse, and analyze their logistics data are in a much stronger position to optimize total shipping costs through lower rates and avoidance of unnecessary charges.

Key Action: Shippers should ask themselves whether "big data" is a competitive advantage or a thorn in the side, and consider whether they can build the case to fund investment in better analytics capabilities or whether to leverage third parties to help build this capability.



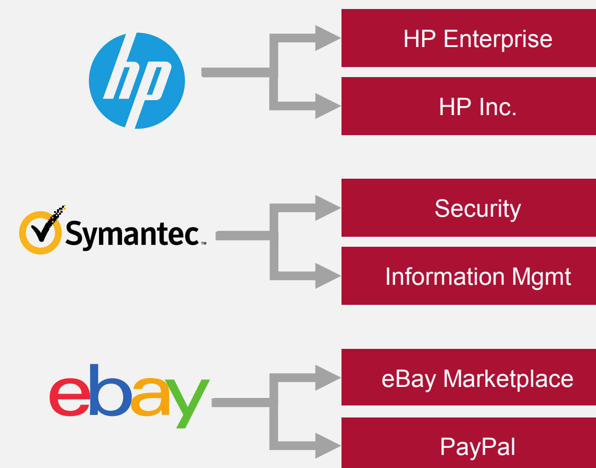
Source: Cass Information Systems, Inc.

Copyright © 2014 Accenture. All rights reserved.

Top Trends in Information Technology

Don't Ignore the Trend Toward Third-Party Maintenance Options for Hardware Support: As our clients look at various ways to optimize their IT cost structure, increasingly, third-party maintenance options for hardware support look like a no-brainer. The quality of third-party support options continues to increase, offering not only significant savings potential, but better global coverage. Most enterprises want a direct global support model, and as a result often look to their largest hardware supplier to manage global hardware support; however, no single supplier has a truly global support model. Although these large hardware providers are ideally suited to provide support for their own hardware, the reality is that most companies have a diverse mix of gear (i.e., servers from one vendor, storage gear from another, networking gear from a third) not to mention a mosaic of data center software. The primary supplier will end up using third-party services to support the hardware/software outside its own brand or in certain geographies where it lacks coverage. This prime/sub-contractor model results in higher costs for the enterprise, and potentially lower service levels. This begs the question, why not go to a third-party maintenance option directly rather than rely on the primary OEM?

Notable IT Corporate Separations (Announced)



Source: Accenture

Key Action: Whether considering outsourced support for the first time, or re-examining existing agreements, be sure to consider third-party options. Despite complexities such as unbundling existing hardware and software maintenance agreements, the savings potential can be substantial (30-60 percent), not to mention the benefits of inventory management services, flexible SLAs, and other benefits.

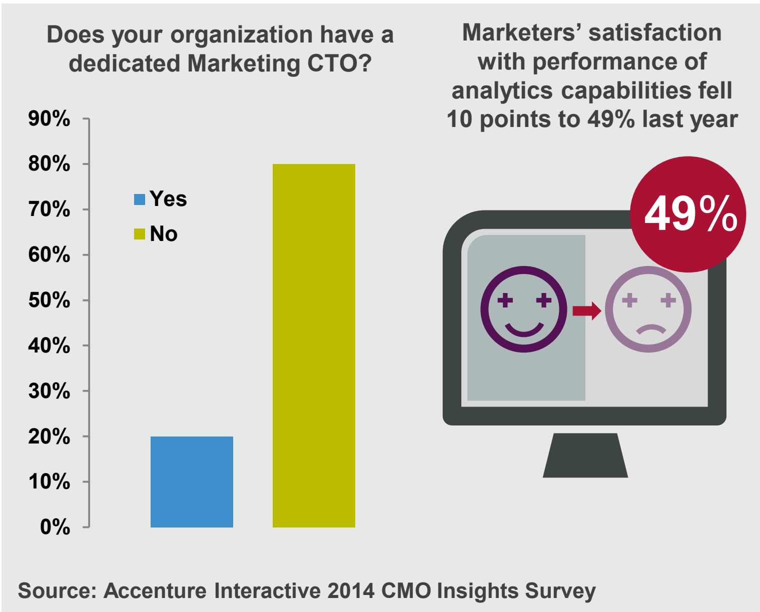
Breaking up Is Hard to Do, but Raft of IT Provider Split-ups May Mean Opportunity for IT Buyers: The past year has seen a dramatic explosion of M&A activity, nearly doubling year over year and reaching pre-financial crisis levels. At the same time that mergers are on the rise, there has also been an increase in corporate separations often driven by activist investors putting pressure on Boards to take dramatic action to increase shareholder value. This trend has made its way into the tech provider market as well…at the same time that SAP announced a strategic Cloud move to acquire Concur, three major tech companies—Hewlett-Packard, Symantec Corporation, and eBay Inc.—all announced plans to separate into smaller companies with more focused product portfolios. HP's separation into HP Enterprise (Enterprise Software, Services, Hardware) and HP Inc. (PCs and Printers) has the most impact for enterprises given its size and breadth. How buyers respond will depend on each enterprise's IT footprint, but the marketplace has been altered, presenting opportunity for IT buyers.

Key Action: While these split-ups alter the market landscape, they serve as a reminder for IT organizations to go deep with spend analytics to understand how their IT spend profile aligns with strategic vendors. Market shifts like these provide an opportunity for buyers to leverage the increased uncertainty/risk premium in negotiations with major vendors like HP and their competitors looking to grab potential market share, resulting in potential savings and the opportunity to improve service level commitments and other softer elements of enterprise deals.

Copyright © 2014 Accenture. All rights reserved.

Top Trends in Marketing and Media

Is the Marketing CTO Finally Moving into the Spotlight? Not for Everyone…At Least Not Yet: To state that Marketing is becoming an increasingly data-driven and technology-enabled discipline is to state the obvious. The volume of first and third-party customer data is exploding, providing marketers with new insights and analytics-based intelligence with which to drive marketing campaigns, improve targeting, and measure ROI/adjust strategy based on near real-time feedback. As programmatic marketing becomes a more accepted practice, technology is permeating more steps in the automation of marketing processes. Gartner research goes so far as to predict that by 2017, Chief Marketing Officers (CMOs) will spend more on IT than CIOs (at least in the high-tech vertical). With this onset of technology, there is increasing discussion in the industry about the emergence of the dedicated Marketing CTO (Chief Technology Officer). This is an important consideration for marketing teams: how to implement the technology infrastructure required to remain competitive in the new analytics-driven marketing paradigm. Despite talk of the emergence of the "Marketing CTO," it's not clear that this is an industry standard practice yet. We conducted an informal survey of our Procurement BPO marketing clients and revealed that only 20 percent have a dedicated Marketing CTO. Surprisingly, for the remaining 80 percent, none indicated that they had plans to hire a Marketing CTO in the next twelve months. More broadly, however, marketers acknowledge that there is a technology gap—the Accenture Interactive 2014 CMO Insights Survey found that one in four CMOs cite lack of critical technology or tools as their biggest barrier to digital integration, and only 49 percent of marketers claimed satisfaction with the performance of their analytics capabilities (10 percent fewer than in last year's CMO Insights survey).



The question becomes, how best to bridge the technology gap and deliver what Marketing needs. Our informal survey showed that about 70 percent of our clients rely on IT or third-party providers to fulfill technology requirements. Yet, the Marketing CTO has a broader role—to not just fulfill marketing technology requirements, but also drive a digital strategy roadmap that enables marketers to leverage technology to drive overall strategy. IT needs to support the "infrastructure," but the CTO needs to help define the strategy. It's clear that whether you elect to appoint a Marketing CTO or not, building a tighter collaborative relationship with the IT organization will help determine success or failure.

Key Action: If it hasn't already, Marketing should confront the challenge of defining its technology requirements today, and for the next several years, and give thought to who will deliver which pieces of the marketing technology roadmap. Whether a Marketing CTO is driving the selection and implementation of required technology or not, partnering closely with IT and IT procurement will ensure faster implementation times, fewer unexpected technical roadblocks/surprises, and better leverage on IT spend for marketing. For example, we've seen successful clients appoint a senior member of IT staff as the liaison to advise and participate in marketing technology steering committee discussions to build this relationship.

Copyright © 2014 Accenture. All rights reserved.

Top Trends in Corporate Services: Facilities and Workforce Management

Despite the Tremendous Potential for Financial Benefits, Organizations Struggle to Optimize Their Real Estate Portfolio: As discussed in our recent whitepaper, The Real Estate Hangover, at an aggregate level corporations hold 30 percent more physical real estate than they actually need. All this excess space creates a real financial drag in the form of ongoing operational costs to support this portfolio (janitorial services, security, energy costs, etc.). While there is ample opportunity for organizations to better manage these operational costs, the real force multiplier comes from portfolio optimization—reducing the amount of excess space, redesigning workspaces to support modern work styles—and generating near-term cash from asset dispositions and the elimination of ongoing operating costs streams. The question is—if optimizing the real estate portfolio presents such a large value creation opportunity, why are so few companies doing it? Part of the issue lies in the fact that shedding real estate feels "permanent" and asking employees to re-locate workspaces can be emotionally charged. However, articulated properly, the process of optimizing space can positively impact employee morale, productivity, and brand perception.

Key Action: The first challenge for most companies is getting their hands around the size of the opportunity, which requires centralizing data about space utilization and employee mobility trends to understand how much excess exists. Consolidating space offers the opportunity to introduce new innovations such as hoteling, telecommuting, and flexible workspaces/floor plans that can turn a major change event into new opportunities for enhanced employee collaboration and flexibility, while eliminating significant recurring cost streams.

Organizations Should Re-Examine Workforce Management Solutions Strategy in light of Rapidly Transforming Vendor Management Systems (VMS) Landscape: We often observe that companies don't employ a clear, comprehensive strategy when buying and deploying technology solutions to support end-to-end HR and VMS needs. Part of this is due to a fragmented solutions landscape which has forced organizations to cobble multiple applications together to support their needs, resulting in technical issues and sub-standard analytics. However, with SAP's recent acquisition of VMS provider, Fieldglass, Inc., one provider (SAP) can claim a suite covering the HR administration (SAP + SuccessFactors, Inc.) and HR sourcing process (Ariba, Inc. + Fieldglass) spectrum. With the use of contingent labor becoming an increasingly critical part of the talent acquisition strategy for global corporations, an integrated offering sounds appealing, and the deal will almost certainly provoke a competitive response, such as a VMS provider like IQNavigator being gobbled up by a larger suite competitor like WorkDay, Inc. or Oracle Corporation.

Key Action: We are advising clients to re-examine their contingent labor challenges and goals, from process automation to analytics, and the road map to achieve those objectives. Crystalizing requirements to support your business objectives will shape how you respond to the rapidly evolving HR/VMS solutions space.

Copyright © 2014 Accenture. All rights reserved.

Top Trends in Travel

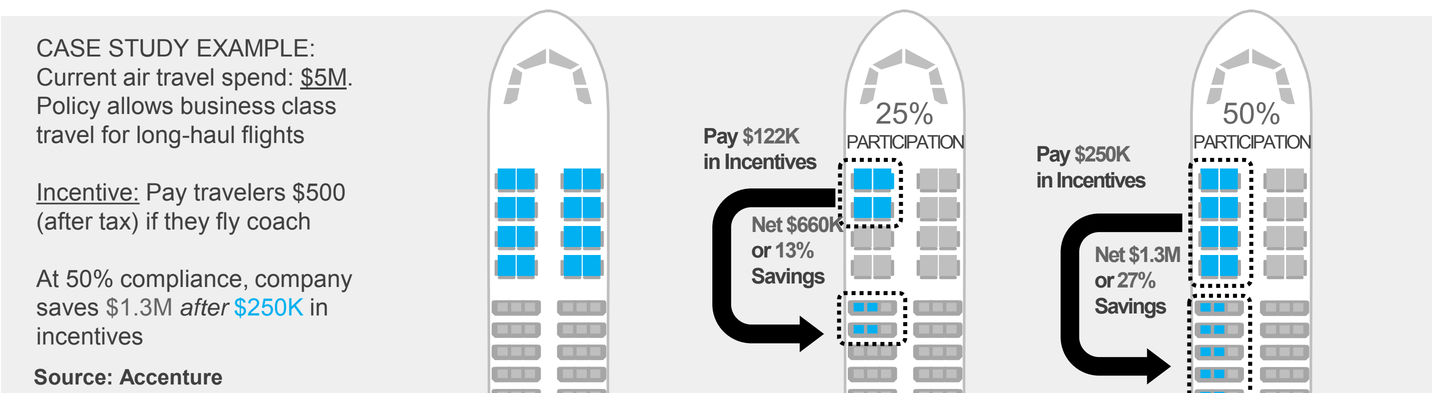
Procurement Teams Leverage Strategies like Gamification to Help Control Costs: Virtually every market in the travel space is increasingly becoming a seller's market. Airfares are on the rise due to tight industry-wide capacity and increasing demand as the economy continues its recovery. Airlines finally have pricing power again, and corporate travelers are seeing the effects in higher fares. At the same time, hotel occupancy rates are also on the rise, leading to higher room rates and more fees for add-ons (Wi-Fi, breakfast, etc.) that were once complimentary.

In this tougher supply market environment, it is becoming much harder for corporate buyers to negotiate better deals. Suppliers know the demand and supply landscape quite well, and can therefore tell when a buyer's threat to move spend to a competitor is hollow. As a result, air carriers are eliminating discounts across the board, and with full hotels, vendors are less likely to play ball.

To deal with these realities, travel teams will need to get more creative both about how they work with suppliers, but also how they motivate employees to think more like business owners, motivating them as a partner in helping to control travel costs. One approach is the gamification concept—using reward systems to influence traveler behavior and creating a win-win for the traveler and the business.

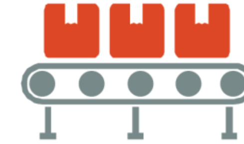
Consider the effect of paying a traveler, say $500 after tax, to book in coach rather than business class, even when policy allows the higher class of service. The cost of the incentive is dwarfed by the airfare savings. At a 50 percent compliance rate, a company with $5 million in air travel spend would save $1.3 million even after paying $250,000 in incentives (see example below). Another approach could be to reward travelers with prizes for the traveler with the lowest average room rate, or the best track record for purchasing the lowest fare possible. Programs like these, especially with tangible incentives for travelers, can drive significant behavior change—and meaningful savings.

Key Action: Gamification is a powerful tool that travel teams should investigate as one tool to drive savings. A good place to start is with some deep analysis of travel spend and policy compliance data, then testing a pilot program to gauge traveler acceptance and bottom line impact.



Copyright © 2014 Accenture. All rights reserved.

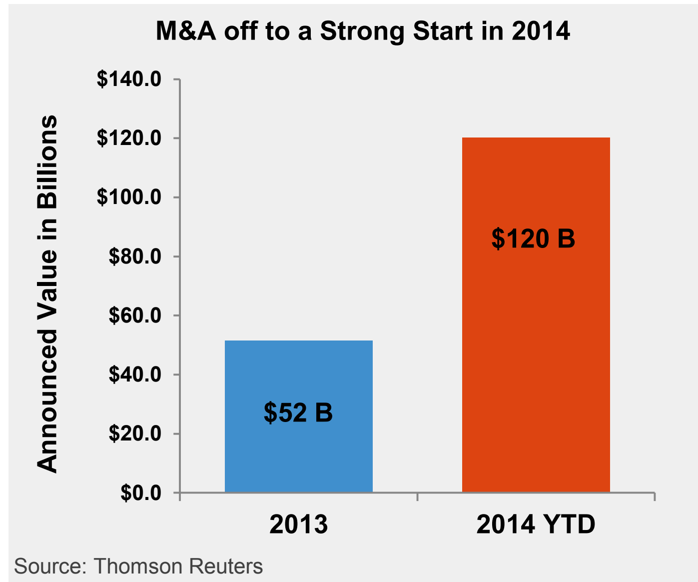
Top Trends in Equipment, Engineering, and Construction



Continuing High Volume of M&A in the Construction Materials and Services Space Should Put Buyers on High Alert: In last quarter's Spend Trends Report, we discussed several trends (e.g., the slow-but-steady rebound in the U.S. economy, slowly recovering public sector spending on infrastructure projects) that were contributing to rising price trends for heavy materials like concrete and aggregate. Now, buyers can add another factor to the watch list: the potential for industry consolidation via Mergers & Acquisitions (M&A) in construction materials and related markets to add pressure to construction costs.

Global M&A activity has accelerated dramatically in 2014. Deal activity in construction-related markets is notable for its sheer size. For example, global cement company Lafarge Group is merging with Holcim Ltd. in a $60 billion deal to create a company with the capacity to produce 15 percent of global cement demand, with more than 50 percent market share in eight countries. This reduces regional competition and potentially pushes prices higher for customers. Another notable deal is AECOM Technology Corporation's $6 billion buy of URS Corporation, resulting in a formidable Global EPCM (Engineering, Procurement ,and Construction Management) service provider with expertise in the transportation, facilities, environmental, energy, water, and government sectors, and 95,000 employees in 150 countries.

Key Action: The motivation for most M&A deals is to help the acquirer enter new markets, consolidate market share, and achieve greater economies of scale. Of course, the result for buyers is more supplier concentration leading to less competition and potentially higher prices and less negotiating leverage. The other potential negative is poorer customer service for customers as a smaller fish in a bigger pond. To help off-set the impacts of the current M&A wave, we advise clients to give extra focus to supply market structure and trends in consolidation, and integrate this insight into their sourcing plans. Resulting strategies can include breaking larger projects into smaller components and bidding out smaller pieces to encourage competition, to actively encouraging more smaller suppliers to participate in bids to promote competition and evaluate non-price factors (like service) more closely.



Source: Thomson Reuters

Notable Publicly Announced Transactions

Companies Involved	Type	Value
Holcim / Lafarge	Merger	$29B
General Electric Co./ Alstom Holdings	Acquisition	$17B
AECOM / URS	Acquisition	$6B
WSP Global Inc. / Parsons Brinckerhoff (unit of Balfour Beatty Plc	Acquisition	$1.2B
Hughes Associates, Inc. / RJA Group	Merger	undisclosed
HOK Group Inc. / 360 Arch	Acquisition	undisclosed
Peninsula Pacific Strategic Partners LLC / Brundage-Bone Concrete Pumping Inc.	Acquisition	undisclosed

Source: Accenture, Company News Releases

Copyright © 2014 Accenture. All rights reserved.

Top Trends in Basic Materials and MRO

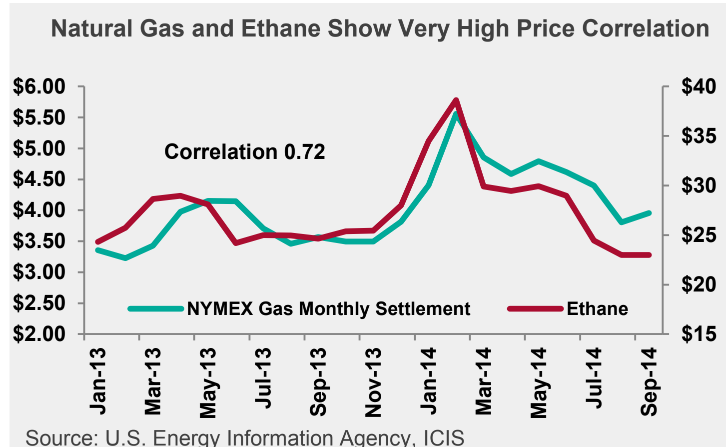
The Message from Soft Natural Gas and Ethane Markets? Act to Lock in Favorable Pricing and Hedging Strategies Now: Ethylene is one of the most pervasive and important chemical building blocks, used in a variety of products from detergent and cleaning products to rubber in sneakers and tires to packaging materials to niche uses like fruit ripening and as a welding gas. Ethylene is also a key element of polyethylene, a key ingredient in most plastics products.

A significant feedstock for ethylene production is ethane, derived primarily from natural gas. Over the past several years, more chemical companies have announced expansion of cracker capacity (crackers "crack" ethane into ethylene and other chemicals) in North America to locate production closer to natural gas supplies. After reaching peak price and volatility levels in the winter months, U.S. natural gas prices—and therefore ethane prices—have retreated to much more favorable levels recently. Near-term forecasts are for gas prices to remain favorably low, but natural gas prices are expected to climb steadily in coming years as demand ramps up (increasing LNG exports, expanding domestic cracker capacity).

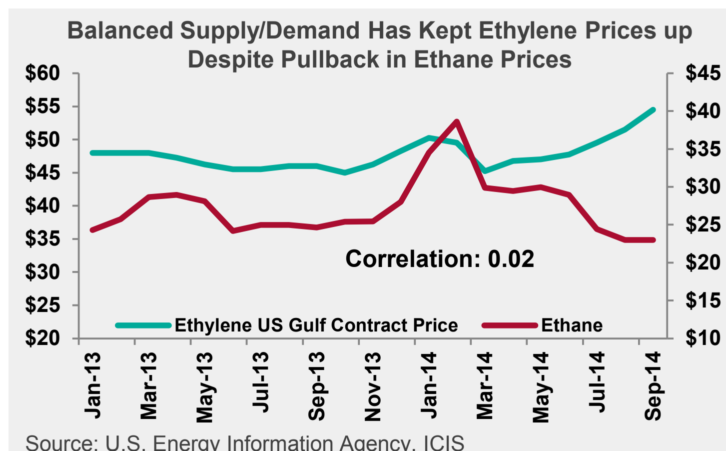
Longer-term (i.e., 2016-2017), expanding cracker capacity will mean more ethylene supply. But shorter-term, the ethylene market is very well balanced in terms of supply and demand, and therefore highly sensitive to supply shocks. Ethylene is priced based on the base feedstock price (ethane—closely tied to natural gas) plus conversion cost, plus an adder or margin for the producer. With balanced supply and demand, ethylene adders aren't going down. Meanwhile, the recent declines in natural gas prices (and crude oil prices) have come in the face of rising geopolitical tension in petrochemical producing regions and improving demand dynamics (the rapid gains in the U.S. dollar also explain some of the price decline).

What does it all mean? Can there be much more downside in natural gas and oil prices in the near-term? Ethylene users should operate under the assumption that critical feedstocks are exposed to higher-than-average risk of a supply-side price shock and should proactively act to protect themselves from a potential spike in prices.

Key Action: The recent declines in feedstock prices provide an excellent opportunity for buyers to consider options to protect themselves from price spikes and price volatility. Actions to consider include moving more volume from spot purchases to longer-term fixed-price contracts and examining options to hedge against potential price increases.



Source: U.S. Energy Information Agency, ICIS



Source: U.S. Energy Information Agency, ICIS

Copyright © 2014 Accenture. All rights reserved.

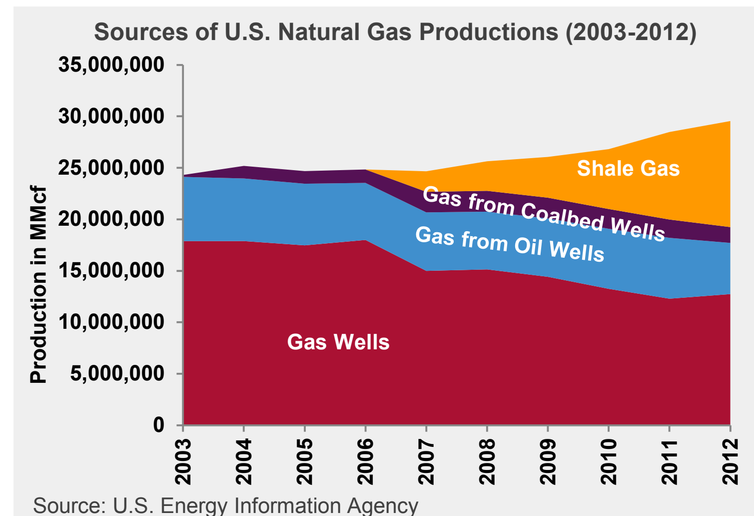
Top Trends in Energy

With Winter around the Corner in the Northern Hemisphere, Energy Buyers Should Closely Monitor Natural Gas Prices for Near-Term Opportunity…and Risk: U.S. natural gas futures prices traded in a surprisingly tight, sideways pattern for the last several months with Winter 2015 gas futures hovering near $4.00/MMBTU. Many market watchers (including us) have viewed natural gas prices of $4.00 to be a very good value based on last winter's price volatility, especially given the relatively low level of storage this spring/summer following the extreme weather this past winter. We all knew that it would be a challenge for North American gas storage levels to return to normal before the start of the Winter 2015 peak usage season, but storage refill rates have been much higher than expected, and relatively mild weather forecasts through the end of 2014 are favorable for building more inventory before the heart of winter.

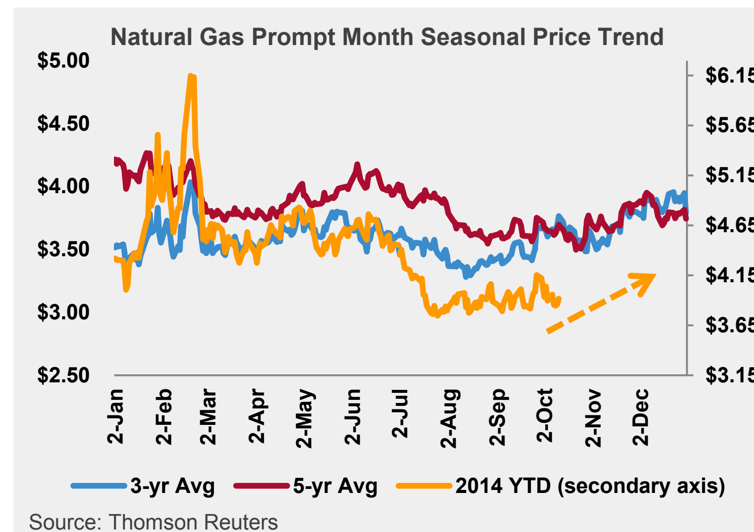
Based on historical seasonality, we should now be entering a rising price period as winter approaches. Yet, as we go to press, November 2014 futures prices have dropped more than 10 percent since the beginning of October, and Winter 2015 prices have hit their lowest point ever—around $3.75—with further weakness possible. Natural gas is a highly-volatile commodity, presenting risk for market takers but opportunity for those able to closely monitor fast moving trends.

Looking ahead, normal seasonality, increasing natural gas demand, steadily rising exports, pipeline constraints in the northeastern U.S., and unpredictable winter weather all point to prices rising into the $5 range in coming months/years. However, upcoming winter forecasts are less clear. Milder fall weather should help replenish still depleted natural gas inventories, but predictions for a colder-than-normal January-March 2015 could cause a quick reversal in prices.

Key Action: Gas prices have stayed lower for longer, and with less volatility than most would have expected. Now is a good time for buyers to layer on final Winter 2015 protection at all-time price lows and develop a game plan for how to take advantage of value for longer terms. Meanwhile, strategies should be in place to respond to a sharp rise in prices and certain continued volatility.



Source: U.S. Energy Information Agency



Source: Thomson Reuters

LOGISTICS

INFORMATION TECHNOLOGY

MARKETING & MEDIA

CORPORATE SERVICES—FACILITIES & WORKFORCE MANAGEMENT

CORPORATE SERVICES—TRAVEL

EQUIPMENT, ENGINEERING, & CONSTRUCTION

BASIC MATERIALS & MRO

ENERGY

Copyright © 2014 Accenture. All rights reserved.

Sources and References

EXECUTIVE SUMMARY:

- International Monetary Fund World Economic Update, “Legacies, Clouds, Uncertainties,” October 2014. Retrieved from: http://www.imf.org/external/pubs/ft/weo/2014/02/
- Smith, Grant and Nguyen, Lananh. Bloomberg, “Citigroup Sees $1.1 Trillion Stimulus from Oil Plunge,” October 16, 2014. Retrieved from: : http://www.bloomberg.com/news/2014-10-15/citigroup-sees-1-1-trillion-stimulus-from-oil-plunge.html
- FactSet Buyback Quarterly: September 17, 2014, Retrieved from: http://www.factset.com/websitefiles/PDFs/buyback
- FactSet Dividend Quarterly: September 15, 2014, Retrieved from: http://www.factset.com/websitefiles/PDFs/dividend
- FactSet Cash & Investment Quarterly: September 18, 2014, Retrieved from: http://www.factset.com/websitefiles/PDFs/cashinvestment

LOGISTICS:

- Cass Information Systems, Inc., Cass Truckload Linehaul Index. Retrieved from: http://www.cassinfo.com/Transportation-Expense-Management/Supply-Chain-Analysis/Transportation-Indexes/Truckload-Linehaul-Index.aspx

MARKETING:

- Gartner, Webinar: “By 2017, the CMO Will Spend More on IT Than the CIO,” January 3, 2012. Retrieved from: http://my.gartner.com/portal/server.pt%3Fopen%3D512%26objID%3D202%26mode%3D2%26PageID%3D5553%26ref%3Dwebinar-rss%26resId%3D1871515

MARKETING (Continued):

- Accenture Interactive 2014 CMO Insights Survey, retrieved from: http://www.accenture.com/us-en/Pages/insight-cmo-digital-transformation-summary.aspx

EQUIPMENT, ENGINEERING, & CONSTRUCTION:

- Huet, Natalie, and Copley, Caroline, Reuters, “Holcim, Lafarge Agree to Merger to Create Cement Giant,” April 8, 2014. Retrieved from: http://in.reuters.com/article/2014/04/07/lafarge-holcim-idINDEEA3607P20140407
- de Beaupuy, Francois, Clough, Richard and Webb, Alex, Bloomberg, “GE Bids $17 Billion for Alstom Energy to Preempt Siemens,” April 30, 2014. Retrieved from: http://www.bloomberg.com/news/2014-04-30/ge-bids-17-billion-for-alstom-energy-as-talks-start.html
- Barr, Caelainn, Jinks, Beth and Monks, Matthew, Bloomberg, “AECOM Technology Agrees to Buy URS for About $4 Billion,” July 14, 2014. Retrieved from: http://www.bloomberg.com/news/2014-07-13/aecom-technology-agrees-to-buy-urs-for-about-4-billion.html
- Silver, Jim, Bloomberg, “WSP to Buy Balfour Beatty’s Parsons Unit for $1.24 Billion,” September 4, 2014. Retrieved from: http://www.bloomberg.com/news/2014-09-03/wsp-to-acquire-balfour-beatty-s-parsons-unit-for-1-24-billion.html
- “Hughes Associates and the RJA Group Announce Merger,” June 2, 2014. Retrieved from: http://www.haifire.com/articles/hughes-associates-rja-group-announce-merger/

Copyright © 2014 Accenture. All rights reserved.

Sources and References

EQUIPMENT, ENGINEERING, & CONSTRUCTION (Continued):

- Stafford, Diane, “HOK Will Acquire Kansas City-Based 360 Architecture,” August 19, 2014, The Kansas City Star. Retrieved from: http://www.kansascity.com/news/business/article1255299.html

- Brundage-Bone Concrete Pumping, Inc. (2014). Affiliate of Peninsula Pacific Strategic Partners, LLC Acquires Brundage-Bone Concrete Pumping, Inc. [Press release]. Retrieved from http://finance.yahoo.com/news/affiliate-peninsula-pacific-strategic-partners-120000034.html

ENERGY:

- US Energy Information Agency, US Natural Gas Gross Withdrawals and Production. Retrieved from: http://www.eia.gov/dnav/ng/ng_prod_sum_dcu_nus_a.htm

Copyright © 2014 Accenture. All rights reserved.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 305,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$30.0 billion for the fiscal year ended Aug. 31, 2014. Its home page is www.accenture.com.

Copyright © 2014 Accenture.

All rights reserved.

Accenture, its logo, and High performance. Delivered. are trademarks of Accenture.

This document makes descriptive reference to trademarks that may be owned by others. The use of such trademarks herein is not an assertion of ownership of such trademarks by Accenture and is not intended to represent or imply the existence of an association between Accenture and the lawful owners of such trademarks.