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nationalgrid

 **The Hackett Group**
World Class Defined and Enabled

Top-Down Opportunity Scan Results Report

Summary Pack

May 2019

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HAVE BEEN REDACTED BY THE HACKETT
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Introduction

Peer Groups

Summary

Detailed results

Hackett Contact Details

‘The Hackett Group is the world’s leading IP led consulting firm, working with business leaders across the globe to address key business issues and challenges across the SG&A organisation, from strategy to execution’

Fast
Accurate
Unbiased and
Actionable



Skilled consultants powered by IP



End-to-end transformation support



Data & insights from the world’s best performers



Digital tools, insights & capabilities

The Hackett Group Difference; empirical insights derived from an unrivalled set of intellectual property assets on SG&A performance

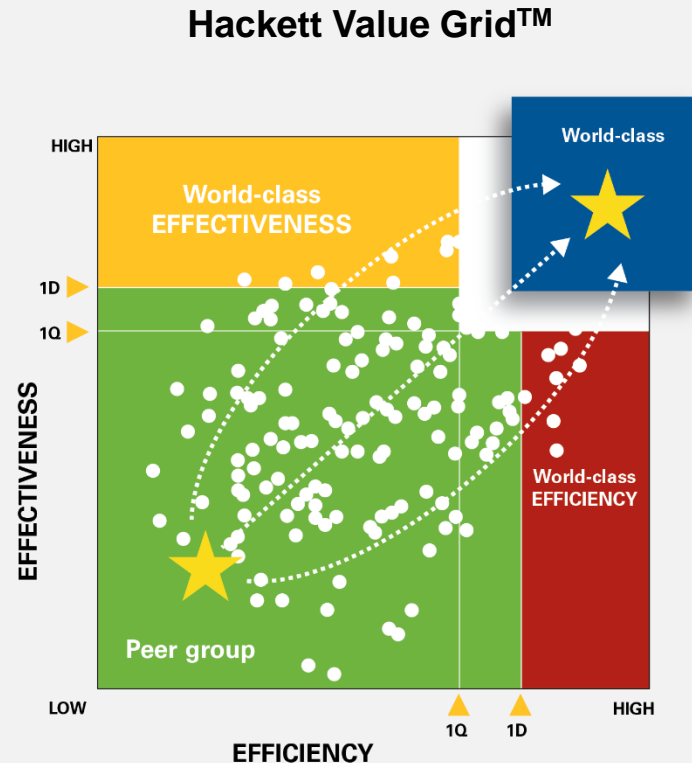
Hackett has Empirically Defined World-Class

EFFECTIVENESS

- Effective decision support
- Better alignment to the needs of the business
- Higher quality & accuracy

EFFICIENCY

- Lower total costs
- Faster cycle times
- Higher productivity
- Optimized working capital



Hackett's intellectual property explains how to close the gaps

97%

of Dow Jones
Industrials

89%

of Fortune 100

90%

of Dow Jones
Global Titans

87%

of DAX

53%

of CAC

30,000

Performance metrics

15,000

Benchmarking studies

2,000

Best practices

700

Process maps

330

Implementation & configuration guides

35

Best practices scorecards

The Top-Down Opportunity scan – Mapping function level

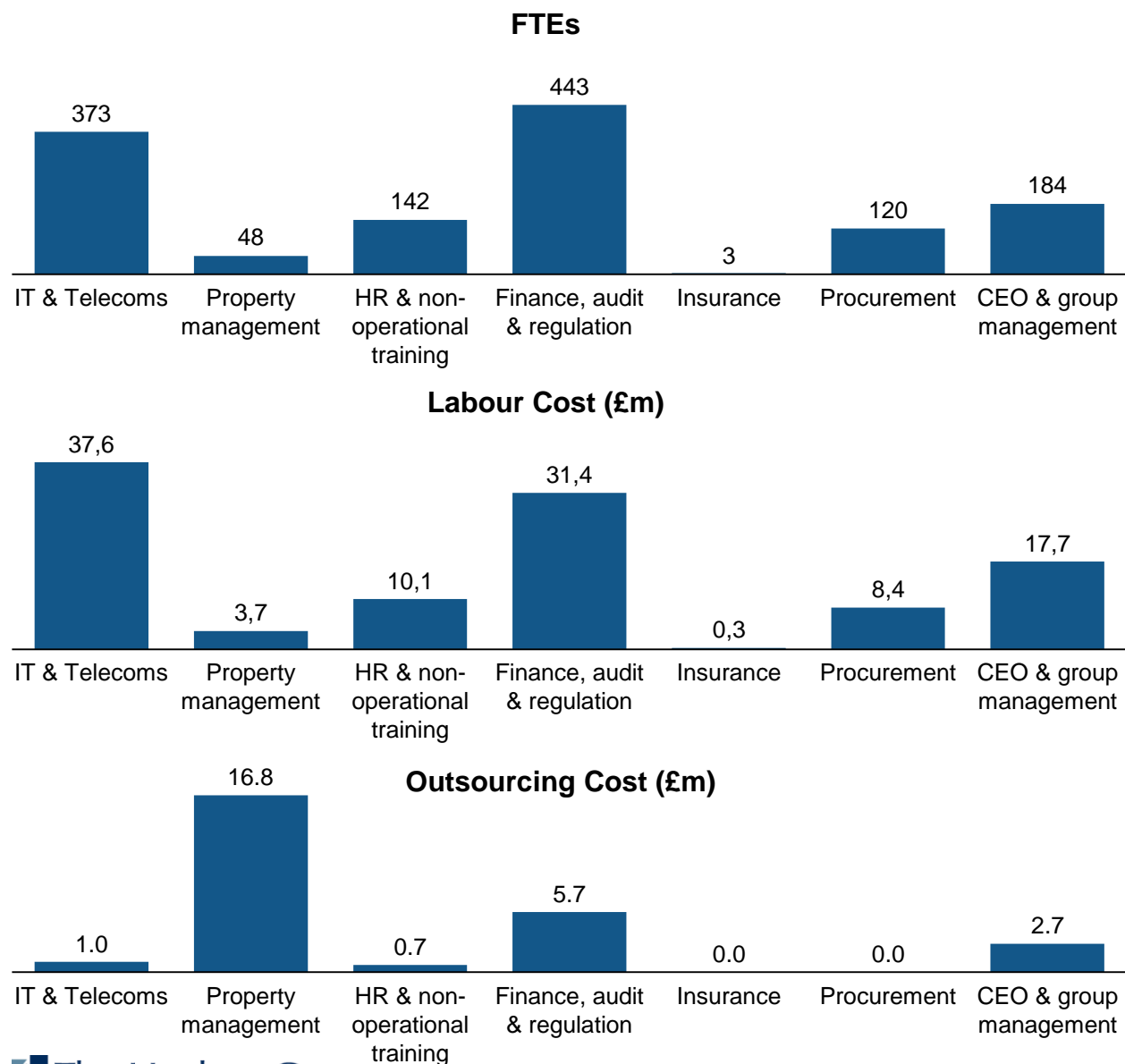
- Mapping between National Grid's and Hackett's functions

National Grid's functions	Hackett's functions
• Finance, audit & regulation	• Finance
• HR & non-operational training	• Human Resources
• Procurement	• Procurement
• IT & Telecoms	• Information Technology
• Property Management	• Real Estate & Property Management
• Insurance	• Risk Management
• CEO & Group Management	• Selected Executive & Corporate Services

Functional Normalisers

Normaliser	National Grid figures FY21	Function to be normalized	Definition
Revenue	£2.853 bn	Finance, CEO & Group Management, Real Estate & Property Management	<ul style="list-style-type: none"> Net revenue represents externally reported revenue less returns and allowances External revenue only Inter-company revenue should not be included
Sourceable spend	£1.998 bn	Procurement	<ul style="list-style-type: none"> Spend refers to the cost of direct and indirect materials and services purchased (i.e., disbursements) in the period measured by this benchmark Expenditures on taxes, employee base salaries & bonuses, charitable contributions, organisational memberships, dividends, securities, interest payments, and stock repurchases are excluded
Employees	6960	HR	<ul style="list-style-type: none"> Full-time, part-time and seasonal staff employed by the organisation to perform paid work as required This is the number of "heads" rather than "full-time equivalents"
End-Users	7755	IT	<ul style="list-style-type: none"> Full Internal End User: An individual (typically either an employee or contractor) that spends at least 10% of his or her time using a dedicated company provided, funded, supported computing device that is part of the company's IT infrastructure (i.e. desktops, laptops, hand held devices, etc.) to support his or her business function. The user must have a dedicated IT device and direct access to internal applications / systems to execute specific transactions on behalf of the company and have access to basic end user IT services. Examples: SG&A resource / Information Worker, Power User, Developer, Designer, etc. Partial Internal End Users (Shared Devices): For multiple users of shared devices (e.g. kiosks, shop-floor workstations, POS, etc.), use the device count as a proxy end user equivalent. Shared devices used in multiple labour shifts or for groups of people are counted as a single end user per shift, and users are not counted separately since the device is shared. Network printers are not counted as a workstation. Example: There are 4 nurses using one PC at a nurse's station in a hospital. These are counted as 1 end user, not 4. If this scenario occurs across 3 shifts, this is counted as 3 end users, not 12. POS workstations and kiosks are counted as a single end user if the workstation or kiosk is in use at least 10% of the time. Each user of the workstation or kiosk is not counted separately.

National Grid Baseline



In-scope FTE & costs	National Grid
FTEs	1,313
Labour costs (£m)	109.1
Ave. labour rate per FTE (£)	83,120
Outsourced costs (£m)	26.9
Process costs (£m)	136
Other Cost (£m)	13.8
Technology Cost (£m)	30.9
Total Cost (£m)	180.8
Revenue (£bn)	4.0
Total spend (£bn)	2.0

* Excluding pass through

Introduction

Peer Groups

Summary

Detailed results

Hackett Contact Details

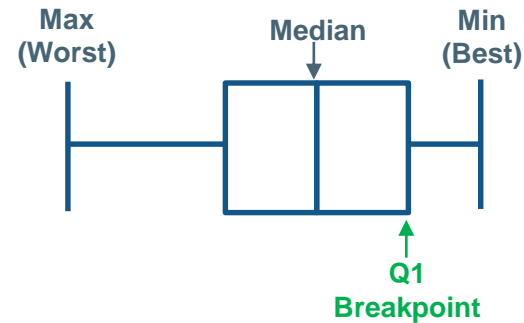
The project leverages three external benchmarks

1. Peer Median

Redacted

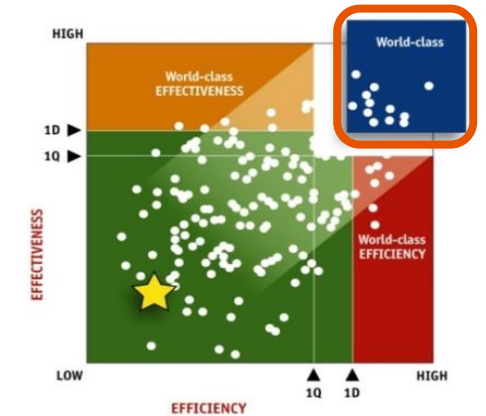
- External Peer benchmarks provide median comparisons with companies that have been selected in order to align with previous Ofgem work in 2016.
- The median value of this group will form the basis of Peer comparisons

2. Peer First Quartile (Peer Q1)



- Peer first quartile represents the first quartile performance of the peer group selected for each individual metric.
- Peer first quartile therefore represents the top 25% performance of the Peer group for each function.
- No organisation is first quartile in every metric, and an organisation who is first quartile in efficiency may not be first quartile in effectiveness
- Peer Q1 can help set aspirations in terms of cost performance, but does not represent targets until measures and roadmap are agreed.

3. World-Class



- Hackett defines World-Class performance for a specific function, via a proprietary Value-Grid KPI matrix, across industry and company size
- Only organisations that on an overall function level achieve first quartile in effectiveness and efficiency are analysed and defined as World-Class
- The median value of this group forms the basis of World-Class comparisons
- World-Class help set aspirations by function and process – however, do not represent targets – until measures and roadmap are agreed

Peer Group: Comprised of companies aligned to the benchmark used by Ofgem in 2016

Redacted

Redacted

2016 Ofgem Peer companies still in Hackett's database

Included in 2016, data no longer in database

Total coverage: 19 of 35 companies are available: 54% coverage

Introduction

Peer Groups

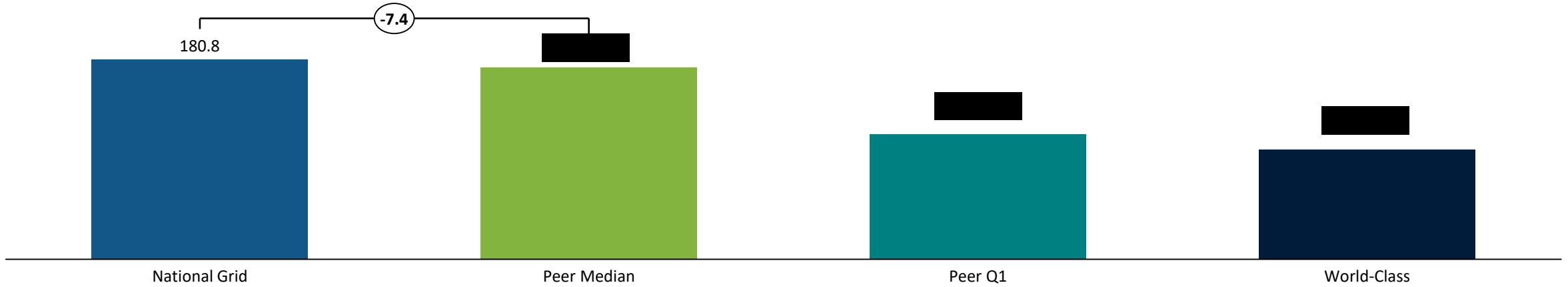
Summary

Detailed results

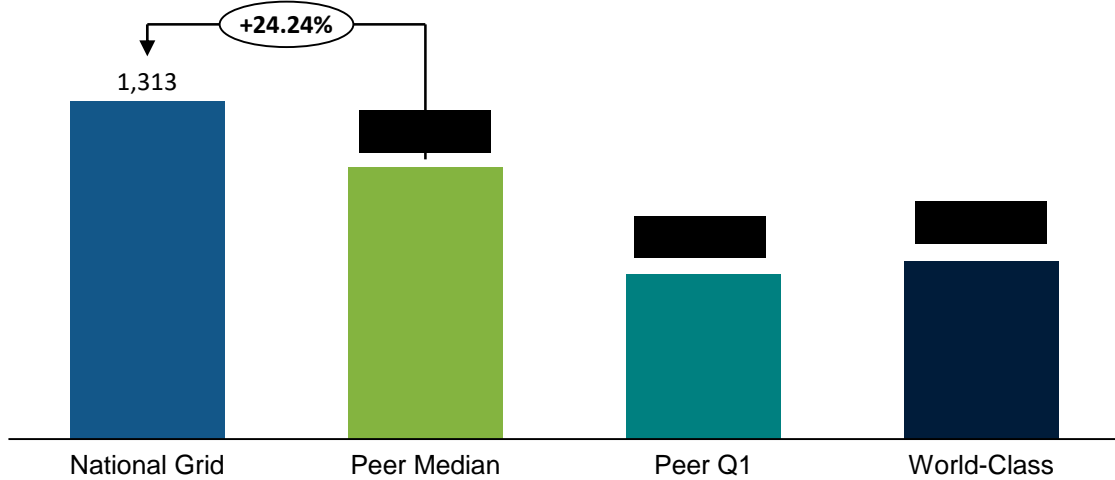
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There is a £7.4m cost gap to the Ofgem peer median, and a £67.6m cost gap to peer Q1

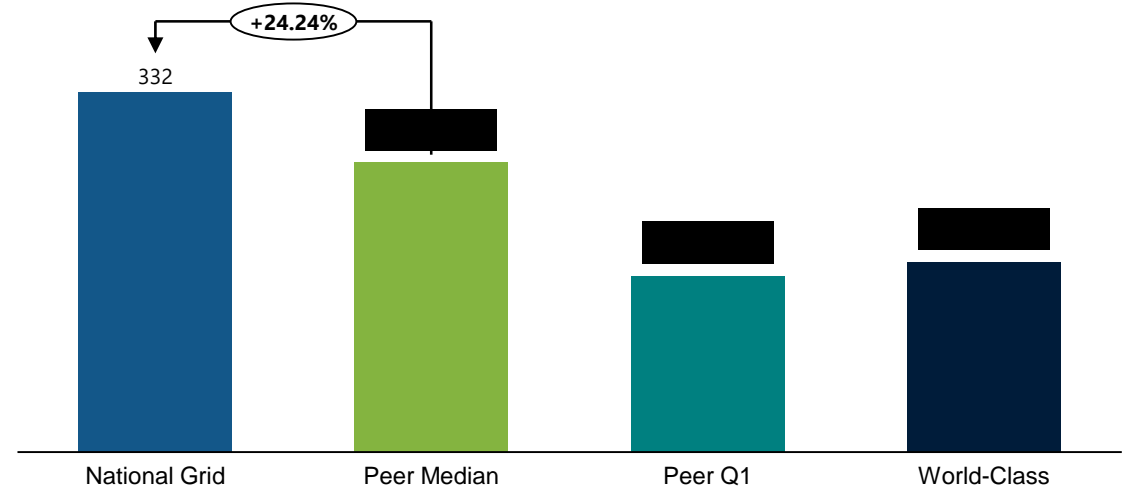
Total Costs (£m)
(Labour / Outsourcing / Tech / Other)



Total in-scope FTEs



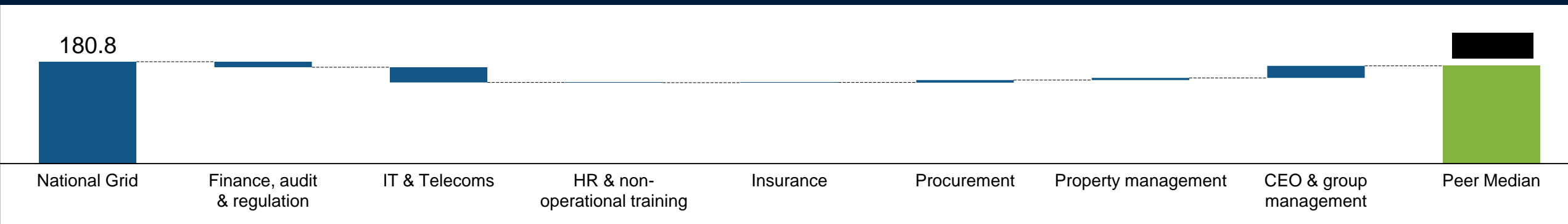
Labour Rate per FTE



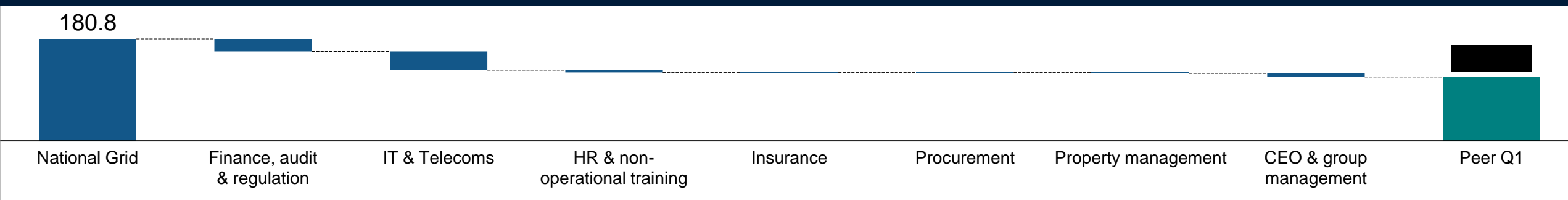
Total cost gaps

NB: Gaps are mathematical gaps and do not represent default targets

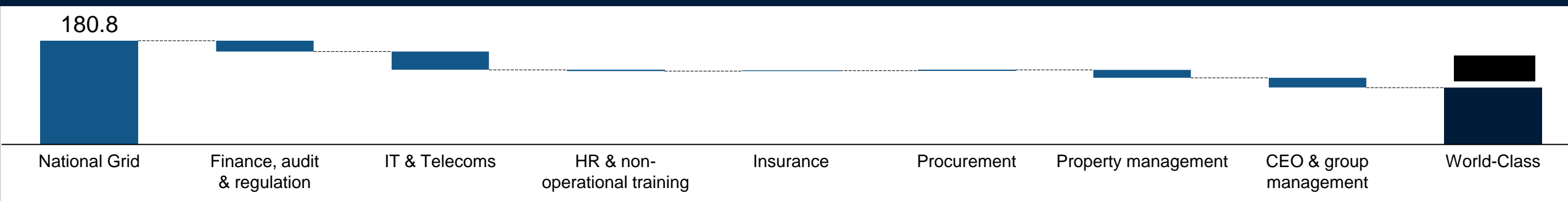
Total¹ cost gap to Peer Median (£m)



Total¹ cost gap to Peer Q1 (£m)



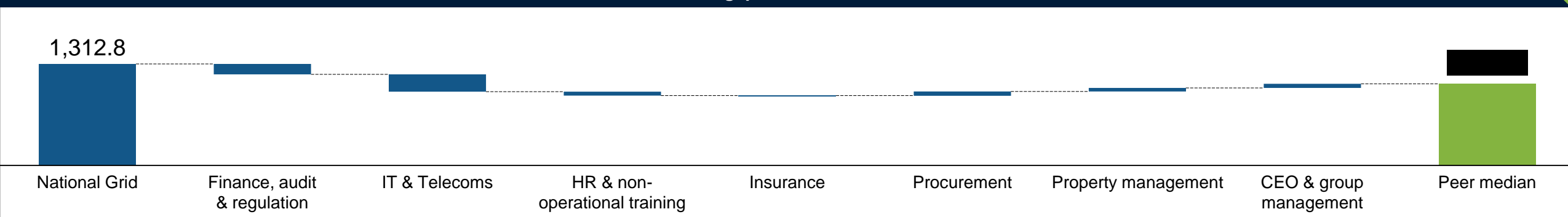
Total¹ cost gap to World-Class (£m)



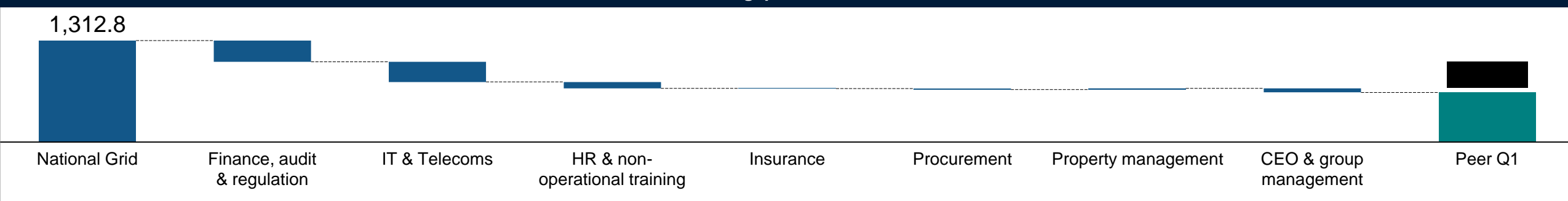
Total FTE gaps

NB: Gaps are mathematical gaps and do not represent default targets

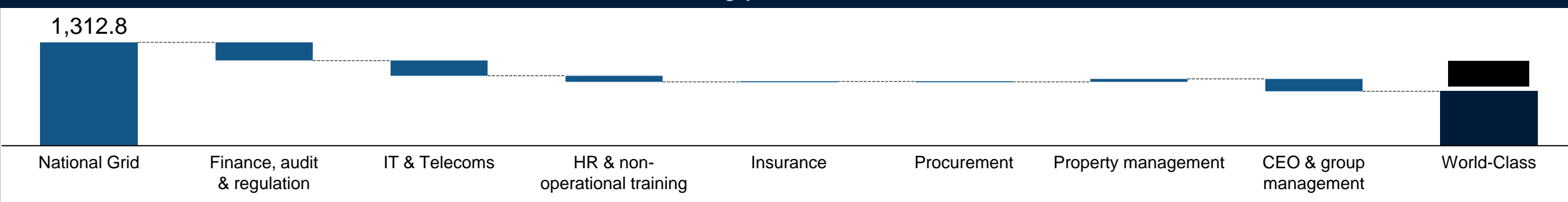
FTE gap to Peer Median



FTE gap to Peer Q1



FTE gap to World-Class



Introduction

Peer Groups

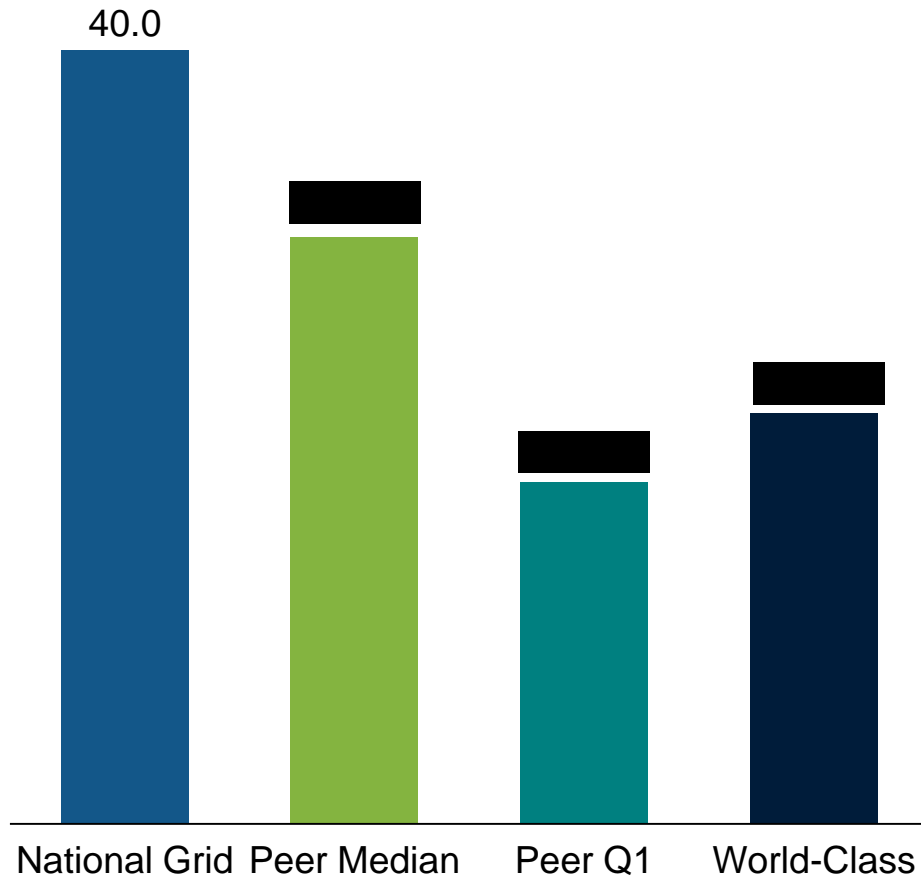
Summary

Detailed results

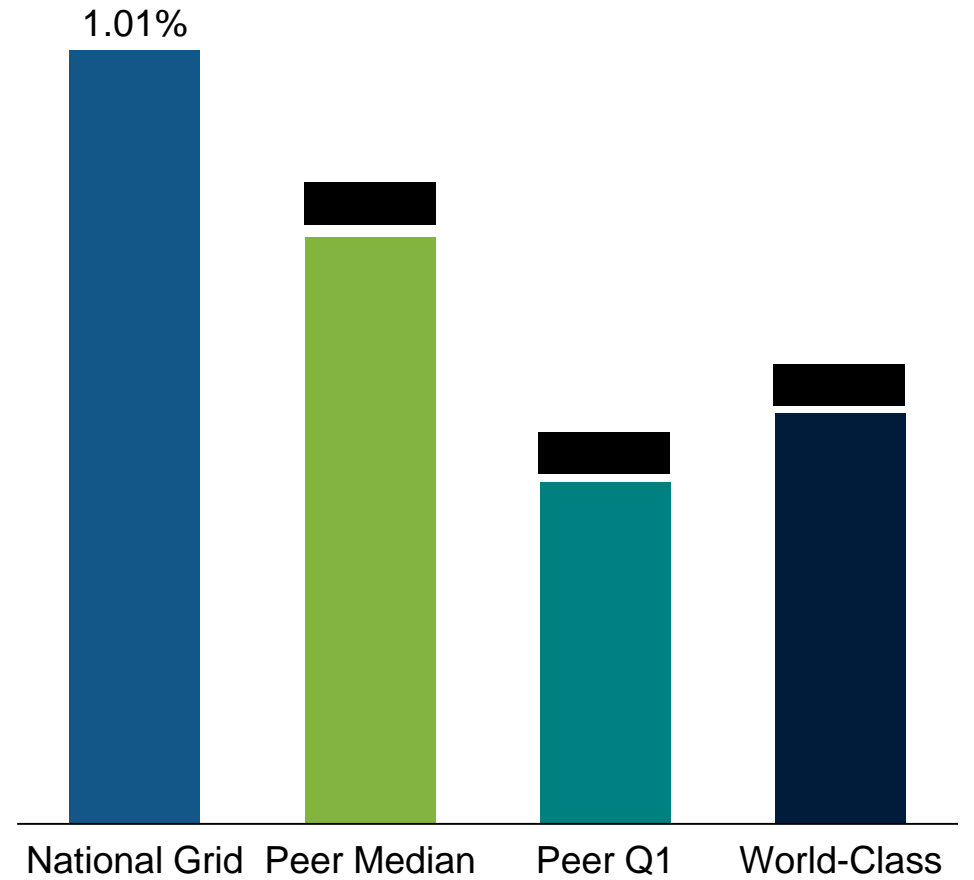
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Finance, audit & regulation total costs

Finance, Audit & Regulation Total Cost (£m)

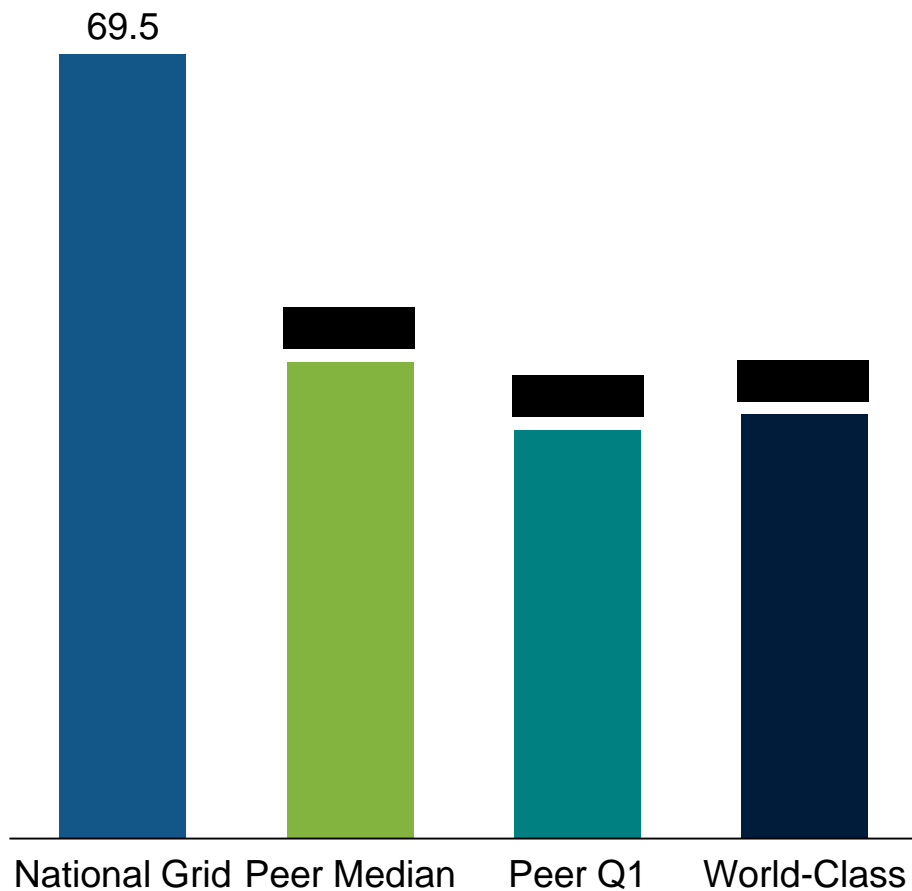


Finance, Audit & Regulation Total Cost (% revenue)

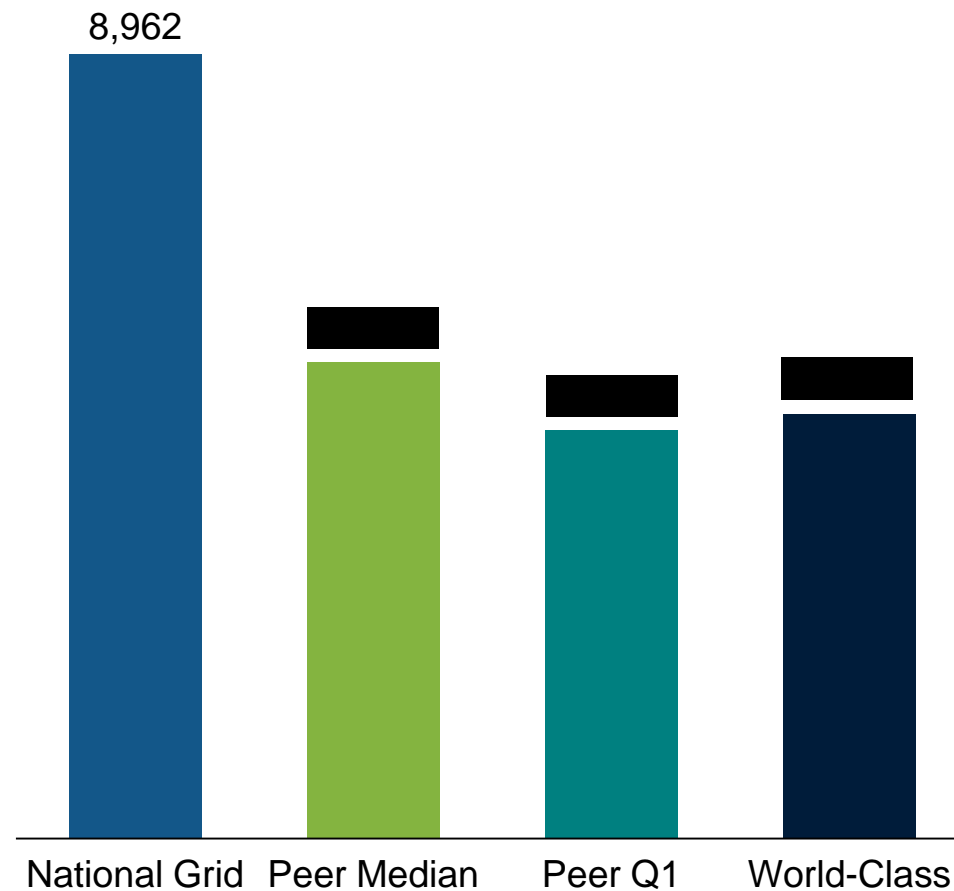


IT & Telecoms total costs

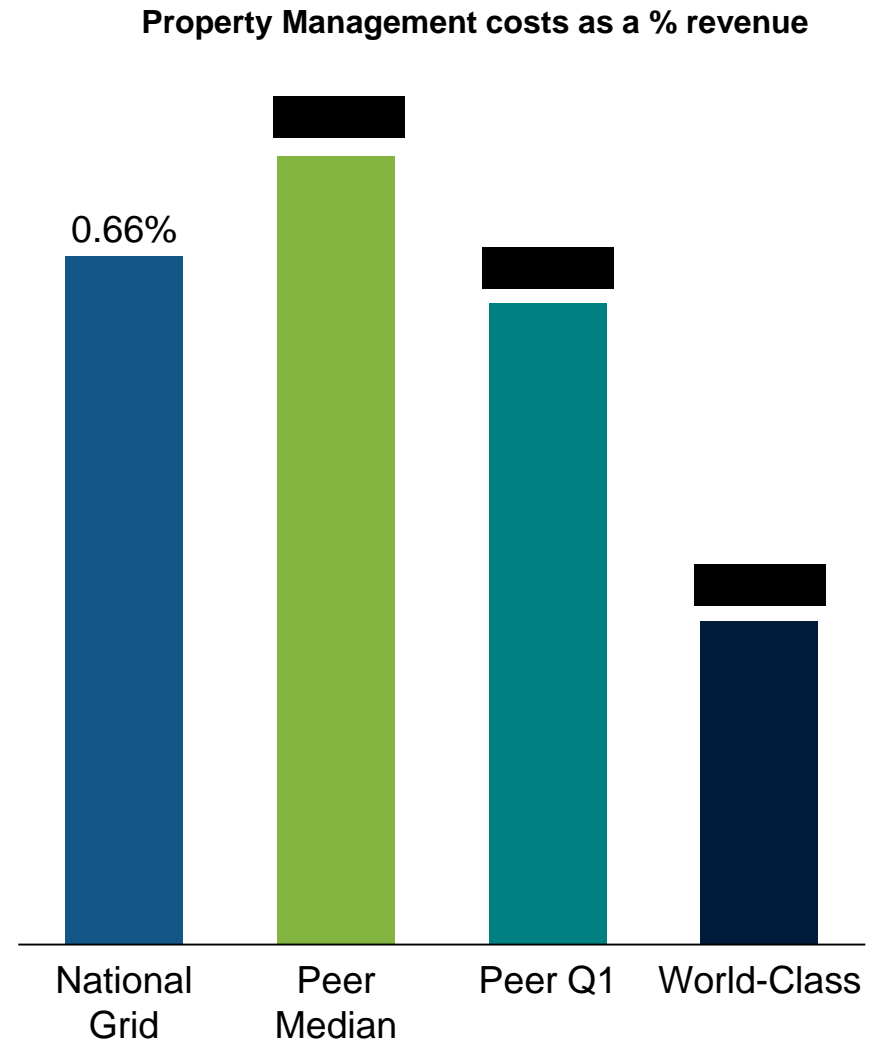
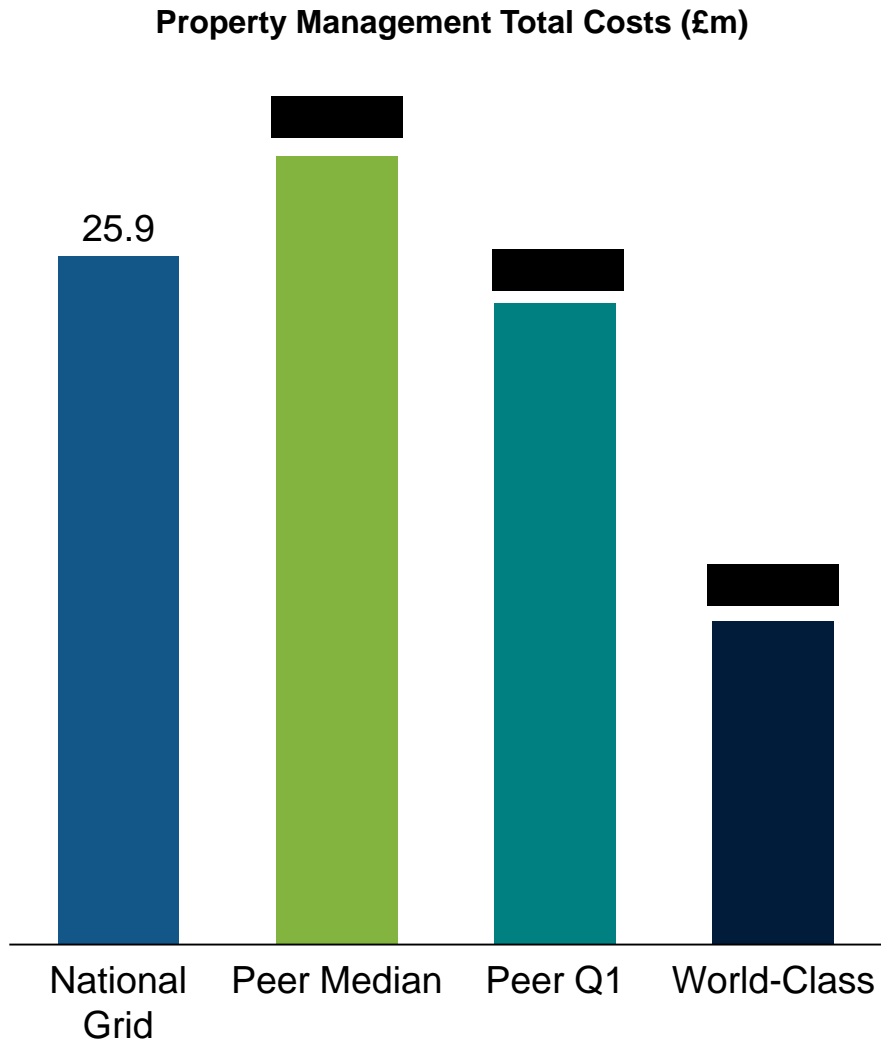
IT & Telecoms Total Cost (£m)



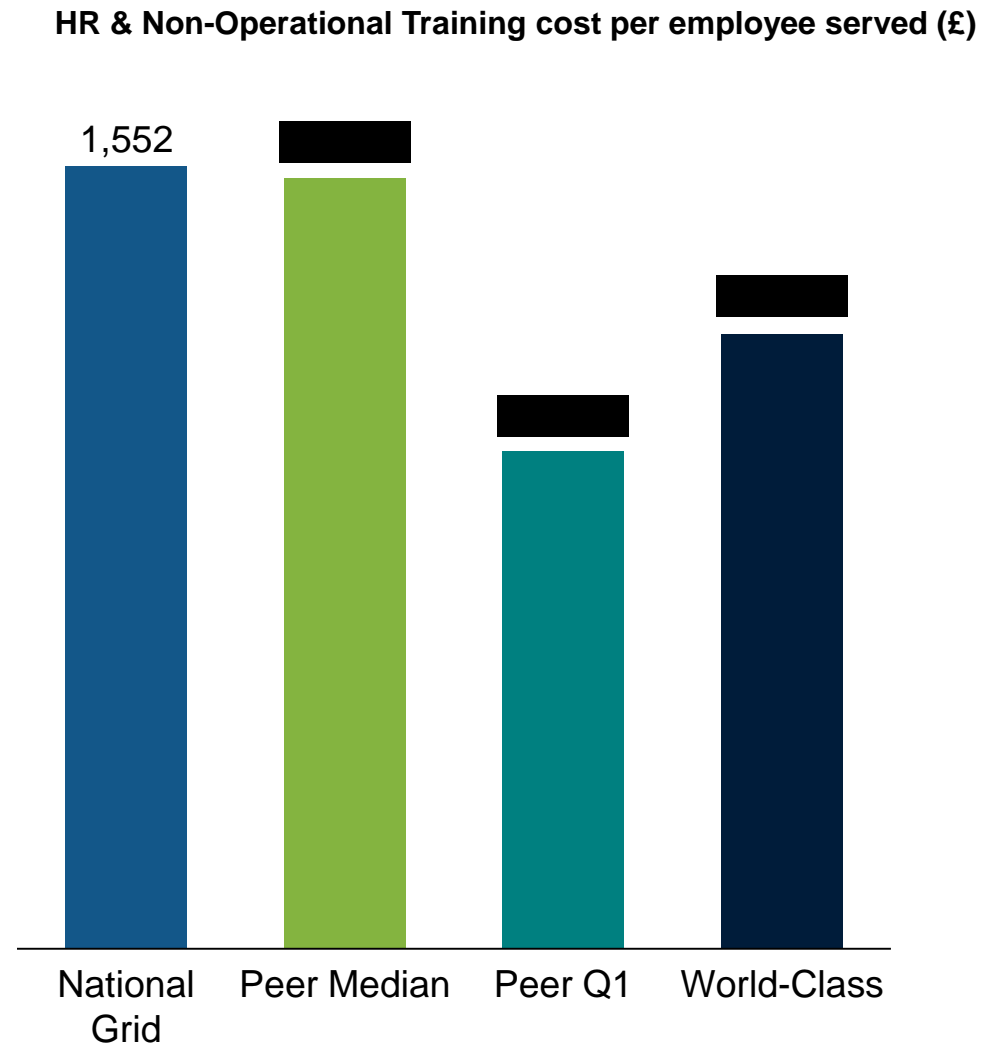
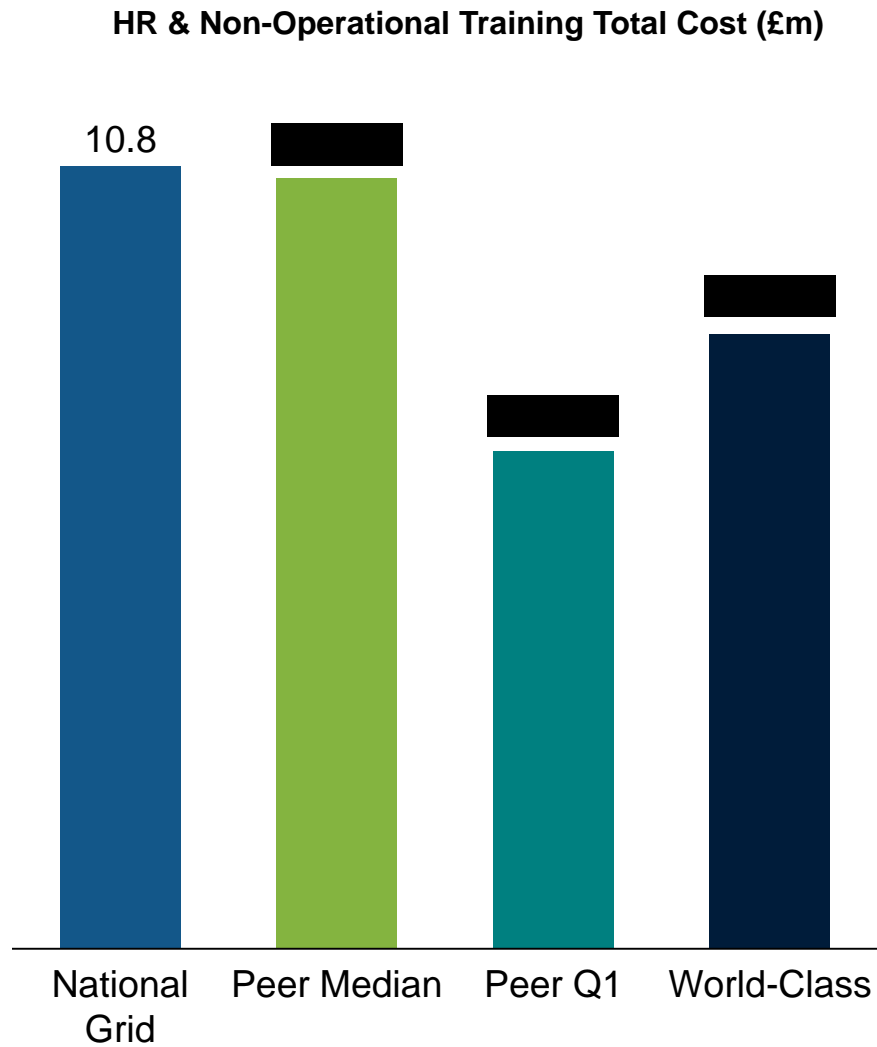
IT & Telecoms cost per end user (£)

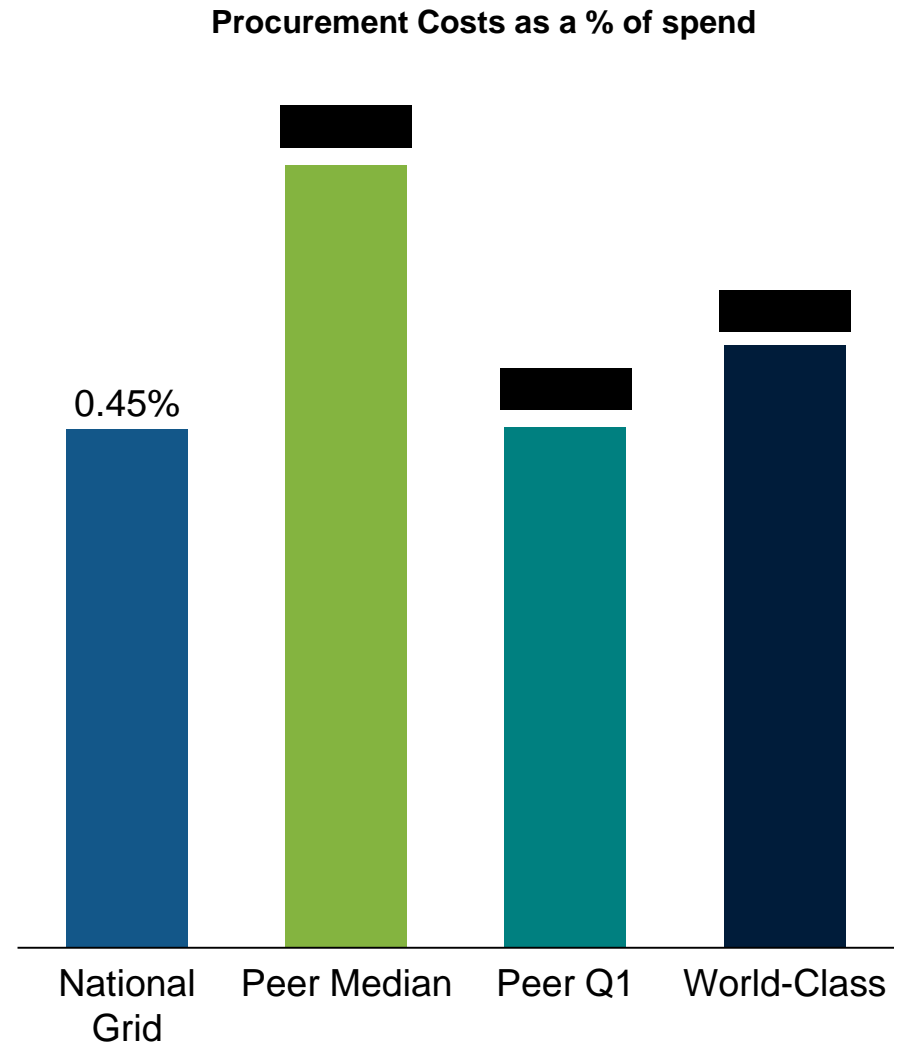
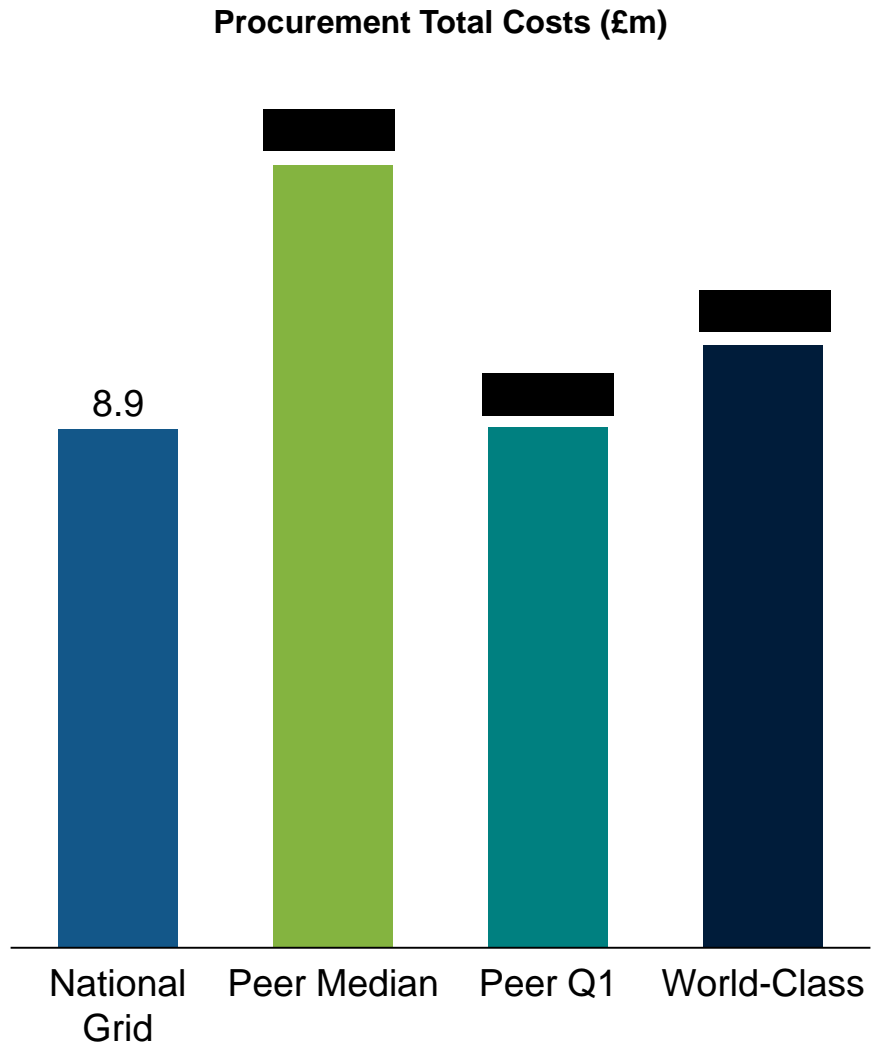


Property Management Total Costs

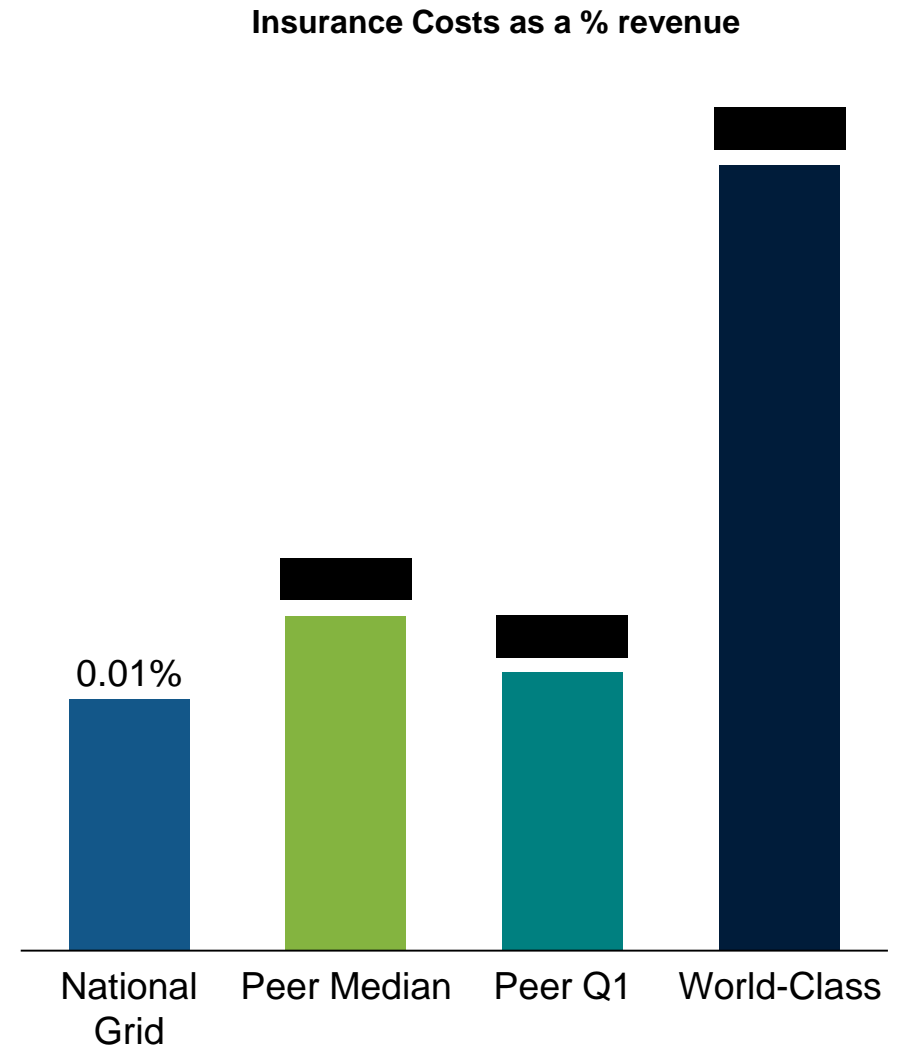
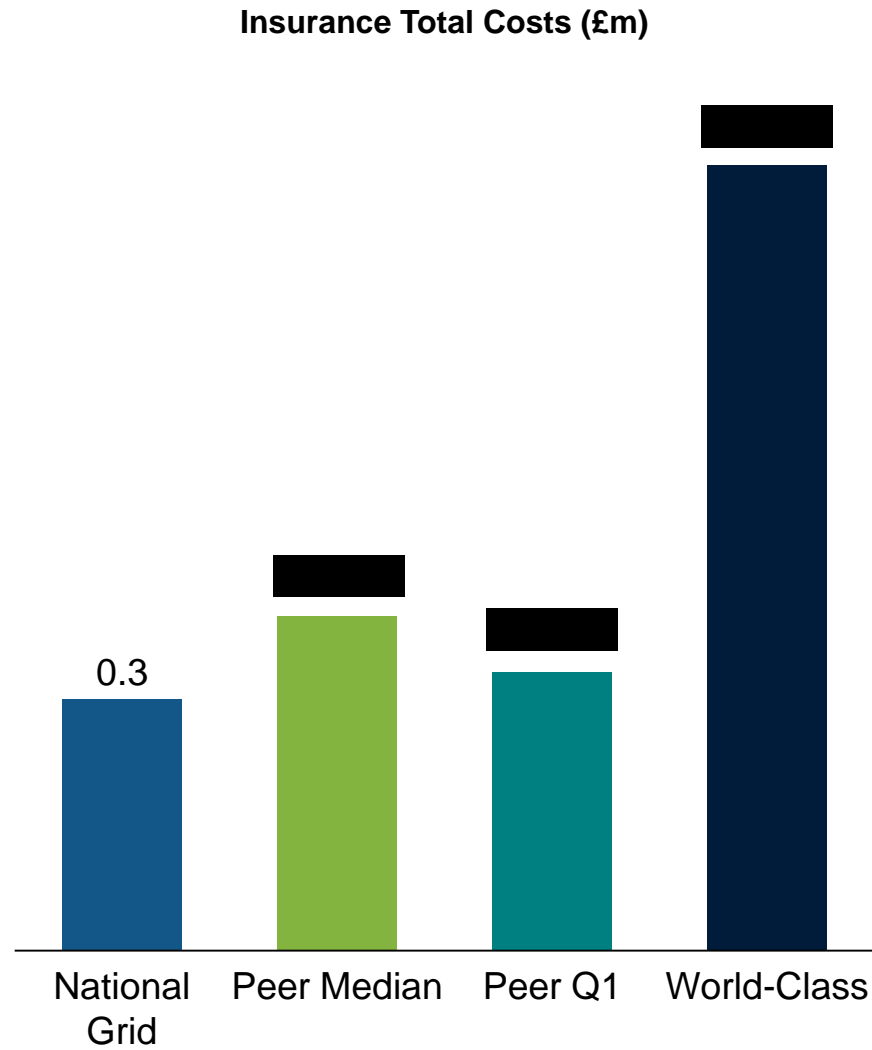


HR & non-operational training total costs

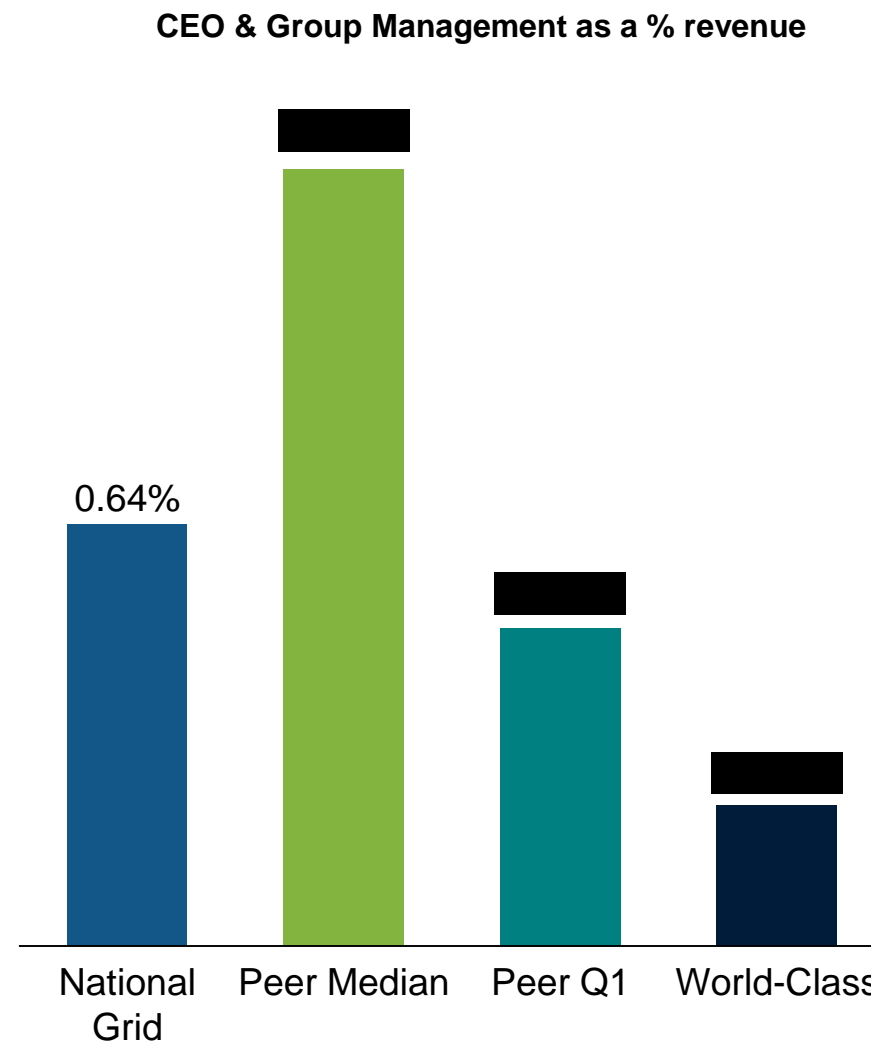
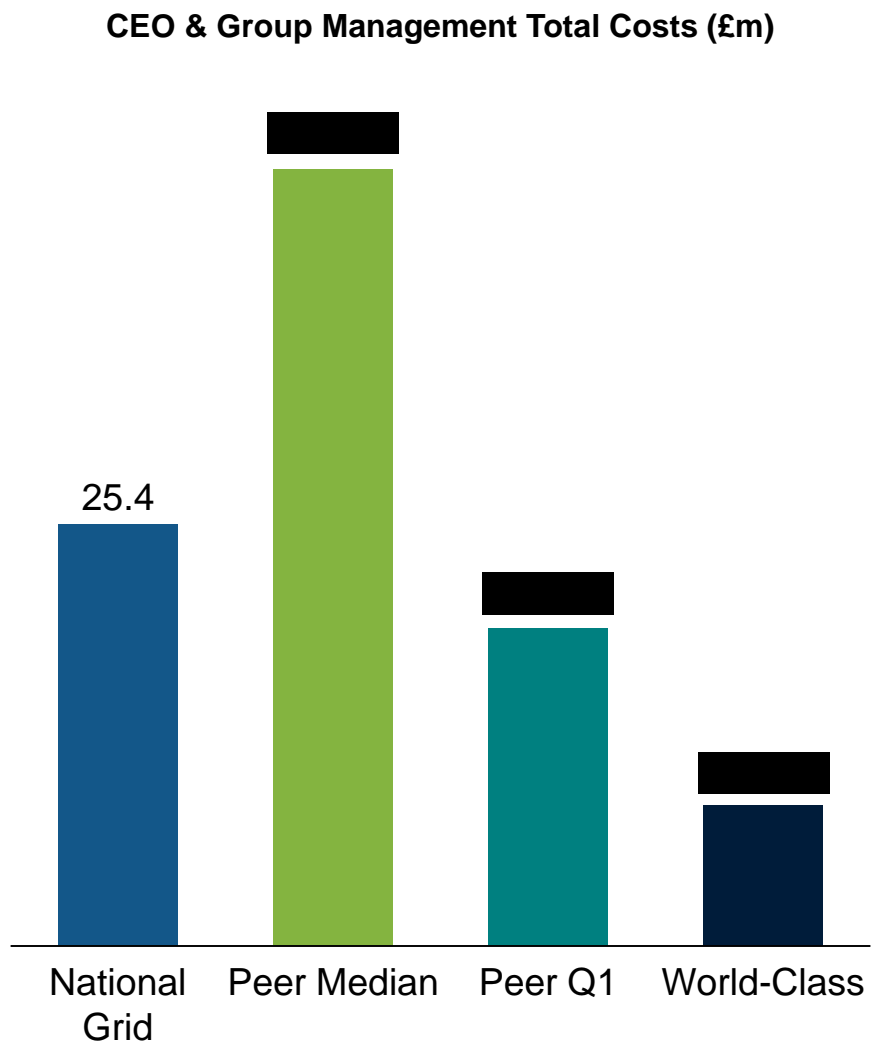




Insurance Total Costs



CEO & Group Management Total Costs



Introduction

Peer Groups

Summary

Detailed results

Hackett Contact Details



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