

Member Advisory

From Finding the Gaps to Bridging the Gaps: An Electric Cooperative's Need to Source Strategically

America's Electric Cooperatives face ever-changing technological, political, and social landscapes impacting the electric industry and the cooperative business model. An ever-increasing number of events – including accelerating rates of process and technology changes, use of data-driven analytics, mounting compliance requirements, feedback from more empowered member-owners, and changes in demographics and motivators – is driving implementation of innovative energy services and personnel management practices for electric utilities.

This ongoing evolution from a commodity-centric model to a consumer-centric model has propelled the examination and assessment by NRECA of new practices for our members to consider.¹ A key challenge for America's Electric Cooperatives is how to achieve the most efficient outcome for our consumer-members while concurrently rewarding and motivating a highly skilled and committed, yet often over-tasked, workforce. This involves identifying practical utility-side and end-use solutions, including shared services and other resource strategies. In terms of organizational techniques, NRECA is placing its emphasis on business approaches and on technology options.

The Devil is in the Details: Perform a Functional Assessment

There is no single pathway for evolving utility operating models. There is a place to start, however. An honest, critical evaluation of current state is necessary to determine how the existing model can evolve to better support an electric cooperative's objective to expand flexibility into its operating model. Advancing the cooperative business model includes a functional assessment analyzing workloads and applications in the *front (consumer-oriented)*, *middle (design-oriented)*, and *back (support-oriented)* office operations and resources. In terms of the front office, it is about gaining insight regarding consumer-members and understanding things like consumer-member segmentation, product promotion, sales, and satisfaction. The middle office assessment involves a review of the effectiveness of the control structures, risk measurements, product design, and things like resource adequacy, load forecasting, dynamic modeling, cybersecurity, and rates and pricing. And finally, the back office review is about understanding the cooperative's billing, financing, HR, IT, legal, and regulatory needs.

This is the first step: Measuring current performance levels of the cooperative's people and organizational functions, and appraisal of the front, middle, and back office process efficiencies and competencies. This should yield an ample analysis of the "as-is" state of

¹ NRECA's Member Resolutions "urge NRECA to identify, educate and recommend potential business models or processes for electric cooperatives to take in adapting to the ongoing evolution from a commodity-centric model to a consumer-centric model that encompasses energy products and services such as distributed generation, automated metering infrastructure, and energy efficiency."

your electric cooperative or function. The purpose here is to establish a baseline from which subsequent analyses can be performed and decisions made.

Process Improvement: Finding the Resource Gaps

For utilities generally, and cooperatives specifically, the consumer-centric model is enabled by practices that are less generic, more flexible, and more relevant to specific functions rather than taking a one-size-fits-all approach.

The functional assessment exercise is about more than just insight into supply-chain management and collaboration. It is about achieving durable process improvement and new personnel practices designed to increase capabilities and productivity. It may well involve organizational structure and cultural changes within the cooperative, such as knowledge-sharing, a continuous improvement focus, and alignment with the strategic business objectives.

The second step is about moving from the analysis of functions to an analysis of resources (staff and strategic partners). It is about understanding what it will take to get the job done, and determining where the gaps lie.

Similarly, if the cooperative is replacing something such as a technical system (AMI, broadband, etc.), it is crucial that the present need as well as future need be evaluated to best procure the new resource. These new resources may be hardware or software solutions, but they can also include labor market decisions.

Aligning Objectives: Bridging the Gaps

The gap analysis – as laid out above – is intended to identify vulnerabilities and threats. Bridging those gaps is about identification of specific personnel needs and other resource needs (hardware, software, etc.). Evaluation of the electric cooperative model involves aligning strategic business objectives with utility needs, through staff engagement, member engagement, and addressing technology shortages.

Understanding the link between member-owner satisfaction and emerging infrastructure is useful to create sustainable, long-term value on a win-win-win basis for the member-owners, distribution cooperatives, and G&T cooperatives.² Things like smart grid capabilities evolve rapidly and this increases utility strategic investment risks. Cooperatives that incorporate the front-middle-back office assessment and gap analysis approach (i.e., assessment of reliability, efficiency/cost savings, compliance, and customer service, etc.) into planning/sourcing decisions have been able to translate their investments into sustainable value for their members.³

² 79% of all distribution cooperatives are members of a G&T cooperative.

³ There are many challenges in the electric industry, and for electric cooperatives, one significant issue is generational diversity. For example, a younger workforce in the front office electric cooperative environment compared to an aging and technical workforce in other departments may create very different motivations, attitudes, and professional expectations.

A collaborative sourcing approach that actively engages the cooperative's internal supply chain, operations management, and vendor (or member) partners throughout the entire process helps to align objectives. This is a true enterprise-wide strategic sourcing approach, and brings us to the final query: The question of whether a cooperative builds, buys, or hires.

Strategic Sourcing Approaches: Leveraging Existing and New Resources

Many cooperatives have executed successful "strategic sourcing" programs to reduce costs and improve service to their members.⁴ The following are examples of how some cooperatives have leveraged resources.

Building a New Model: Sandhills Utility Services

Strategic sourcing is meant to be the economic answer to a cooperative's resource constraint. One way to source the new resource is to build the resource. To build a resource does not necessarily mean a cooperative will need to build a system network or warehouse; it could refer to building a new business model to solve the resource problem.

Sandhills Utility Services is an example of how a new business model was developed to address a resource constraint. In North Carolina, four distribution cooperatives (Central EMC, Lumbee River EMC, Pee Dee EMC, and South River EMC) had an interest in bidding on the local military installation's utility privatization contract. There was concern that the risk and resources required to realistically compete would be challenging to manage by one cooperative alone. As such, the four distribution cooperatives formed a new entity, Sandhills Utility Services, intending to pool resources to bid on the contracts. This model has proven to be a successful solution, allowing these cooperatives to leverage the cooperative network to strategically source their needs and run their utilities.

Strengthening Your Workforce: Cybersecurity

One of the most critical areas for sourcing is in the labor pool. The war for talent is real. The transforming technical landscape is driving a real change in the required skills and abilities of new and existing staff. Aligning the changing talent pool with the changing organizational needs is no small challenge. One of the key labor pool shortages is in the area of cybersecurity.

The need for additional cybersecurity workforce is well-documented. It is one of the most sought after technical skills⁵: 82 percent of employers report a shortage of

⁴ Throughout the course of 2018, NRECA intends to publish on cooperative.com examples and case studies of cooperative strategic sourcing programs as part of an on-going initiative being led by the Business and Technology Strategies team.

workers with cybersecurity skills.⁶ Cybersecurity has been at the forefront of news in recent years, due to the increase in the number of cybersecurity related incidents in the U.S. and worldwide. An average salary for a cybersecurity analyst can be upwards of \$120K,⁷ and most cybersecurity jobs are located in urban areas of the country. Attracting and retaining talent in cooperative communities has always been challenging because these skills are in high demand in all sectors.

Clay Electric Cooperative⁸ in Florida is an example of a utility addressing this dynamic and finding strategic sourcing avenues to hire. Clay Electric strengthened its cybersecurity personnel by engaging at high school and community college levels for potential recruits. Another good approach is having a presence at a local university and by joining programs such as the FBI InfraGard, in which businesses and government work in partnership to share information on cybersecurity threats.

The Enterprise-Wide Strategic Sourcing Approach: Where Do We Go From Here?

Cooperatives are well positioned to take advantage of cooperative principle no. 6: *Cooperation Among Cooperatives*. By working together through strategic sourcing, there are opportunities to make better use of government resources, share lessons learned, train and mentor technical experts, and address issues (such as cybersecurity risks) with group buying business models.

NRECA's resources include staff dedicated to helping cooperatives address the fast-changing environment. We are currently collecting case studies and analyzing different approaches to personnel management and resource needs. This includes examples of an electric cooperative pursuing strategies by itself, in collaboration with partners, or through a national approach. As we gather and publish specific case studies, our focus will be on how other cooperatives have tackled workforce and resource problems, and lessons learned from those experiences.

Contacts for Questions

For questions, please contact:

Lauren Khair, Regional Economic Analyst, at Lauren.Khair@nreca.coop

Paul Breakman, Senior Director-Cooperative Systems, at Paul.Breakman@nreca.coop.

⁵ NRECA Tech Advisory, *Bridging the Skill Gap with Co-op Involvement*, available at: <https://www.cooperative.com/interest-areas/CRN/Documents/memberadvisoryskillsgapoct2017.pdf>.

⁶ McAfee, *Hacking the Skills Shortage*, available at: <https://www.mcafee.com/us/resources/reports/rp-hacking-skills-shortage.pdf>, last accessed on January 19, 2018.

⁷ Mondo, *6 Cybersecurity Roles Netting Top Salaries*, available at: <https://www.mondo.com/blog-highest-paid-cybersecurity-jobs/#>, last accessed on January 19, 2018.

⁸ <https://www.electric.coop/co-op-cybersecurity-staff-recruitment/>