

Rethinking the Distribution Operating Model: Targeting Resources and Work

Opportunities exist for utilities to redirect spending, up to 15% of O&M and capital, to needed infrastructure and reliability improvements. To do this, managers will need to creatively rethink the entire distribution operating model—rather than performing incremental process redesign. The key is to make work disappear (rather than just reengineer) and to challenge basic assumptions about the business.

Utility executives are facing greater challenges in managing their distribution operations today:

Demand for increased investment

- Aging infrastructure that requires increased replacement or repair
- Heightened sensitivity to reliability, with resulting pressure to “harden the infrastructure” against storms
- Continued load growth and, in particular, surges in peak load or demand

Limited capital availability

- Continued pressure on earnings and cash flow
- Inflationary pressures from rising input costs (labor, energy, raw materials)
- Limited gains in efficiency and productivity from “traditional” sources
- Competing opportunities to invest internally both within and outside the regulated businesses

Addressing infrastructure challenges and improving reliability—while still delivering earnings—will require significant investment. But opportunities exist for utilities to redirect spending, up to 15% of O&M and capital, to needed infrastructure and reliability improvements. Even top-performing distribution companies can remove or redirect 5-10% of costs without adversely affecting service, freeing up funds for aging infrastructure.

To do this, managers will need to creatively rethink the entire distribution operating model—rather than performing incremental process redesign—to identify where work can be eliminated (without harm to reliability or customer satisfaction) and where resources should be refocused to add the greatest value.

The key is to make work disappear (rather than just reengineer) and to challenge basic assumptions about the business.

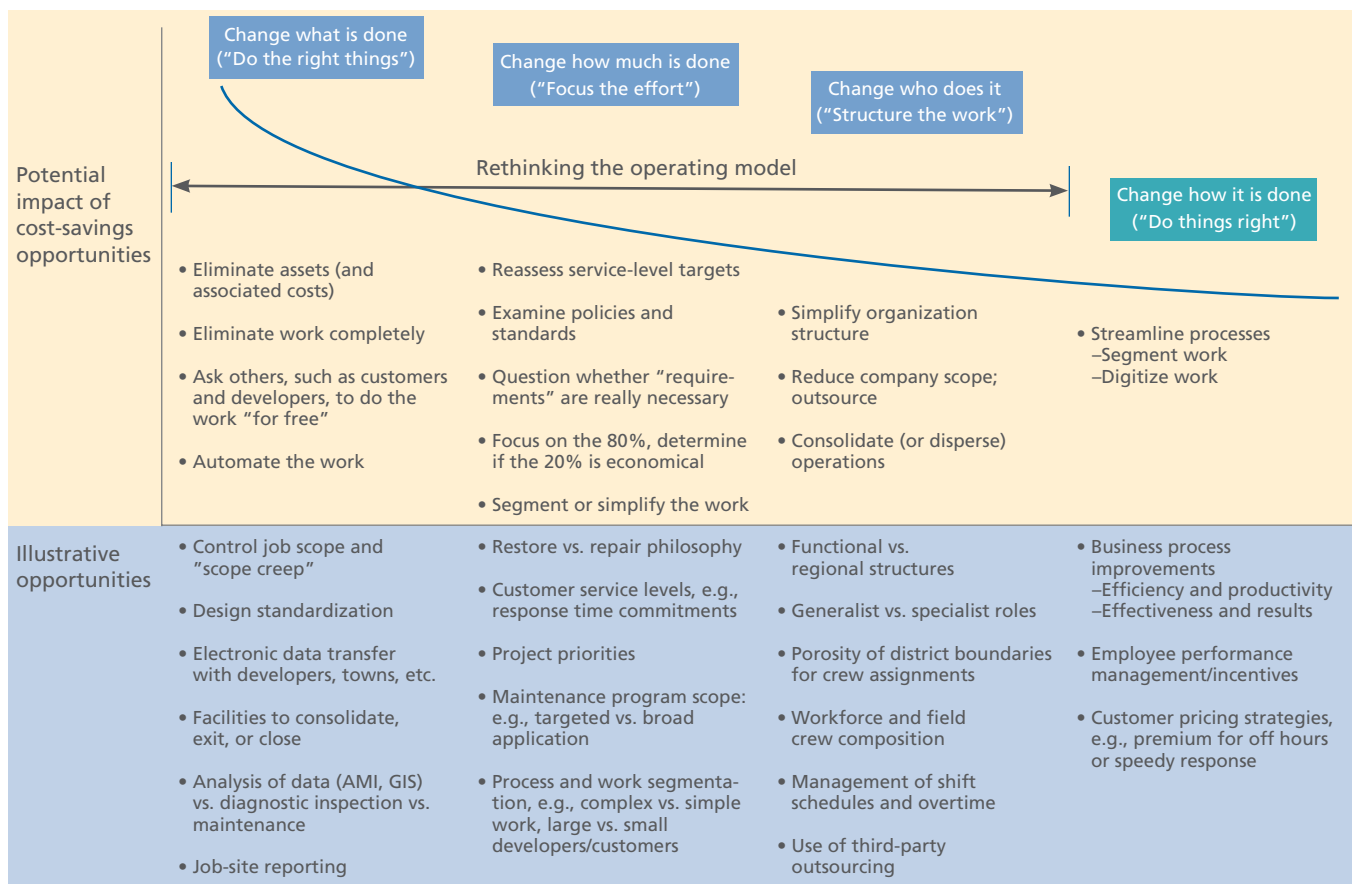


Challenging the Status Quo of Work

Distribution managers and staff typically focus on the day-to-day work of serving new customers, replacing and upgrading infrastructure, and “keeping the lights on”—not on examining what is done so as to eliminate the work itself. In fact, few people tend to view the work they perform as unnecessary.

Eliminating significant O&M cost from the organization requires challenging the fundamental operating model. This means rethinking *what* is done and *how much* is done, rather than simply *how* work is performed.

Rethinking the distribution operating model: Opportunities to reduce costs



Over time, many distribution organizations, even top-performing, “low cost” companies, can create—without realizing it—unnecessary work or process intensity. To uncover unnecessary work, managers must ask a number of penetrating and challenging questions to test basic assumptions about the business:

- What assets do we really need to own?
- How intensively do we need to perform certain activities?
- Who are the best people to perform each task?

The answers to these types of questions can generate significant value.

Exploding Long-Held Myths

Significant gains can be achieved by exploring and challenging current policies, practices, and structures that are built on long-held corporate myths.

These myths are perspectives, views, and beliefs within a company about what customers need, regulators require, or senior management demands. They often have not been revisited or challenged in many years. Our experience from working with utilities is that many myths can be debunked or refuted when reviewed by current management teams. And often, these myths are a source of major costs.

Illustrative myths or practices to challenge and explore

	Serving customers' needs	Maintaining the infrastructure	Working the regulatory process
Core processes	<ul style="list-style-type: none"> • "We must provide 24 / 7 non-emergency call center services; we can't stop at 8 p.m." • "Our customers like to talk to us. We could never require customers to use the IVR for certain types of calls." • "We have to review bill exceptions, otherwise we would be swamped with customer calls." • "Due to local labor and political pressure, we will never be able to close that call center." 	<ul style="list-style-type: none"> • "Raising field productivity will take a long time, and I'm not sure if we will ever have combined electric-gas URD crews." • "We can't outsource too much—we would risk the contractors going to other utilities." • We can't outsource all locating; it's too risky. Our maps are not accurate enough." • "If we close any more service centers, we will seriously harm our service levels." 	<ul style="list-style-type: none"> • "Economic development is very profitable for us. We do it well and should not cut back." • "Account managers are critical to our public image. Large customers want us to visit them proactively." • "We need most senior managers involved in the regulatory process. Their participation provides good ideas and high visibility."
	Providing back office (G&A) support	Managing people and the organization	
Enabling processes	<ul style="list-style-type: none"> • "We need to be able to reach our employees at any time, so they must have pagers, cell phones, and radios." • "We have already cut (staff, cars, inventory levels, etc.) as far as we should. Any more and service will suffer." • "We cannot outsource an entire function. The risk is too great." 	<ul style="list-style-type: none"> • "People work for a utility because of the stability. We could not have over 50% of directors' compensation be performance-based." • "Our culture will not let us operate like GE and 'weed out' the bottom 10% of performers." • "We need to have regional organizations so we can maintain local accountability." • "Our costs would go down with a functional organization." 	

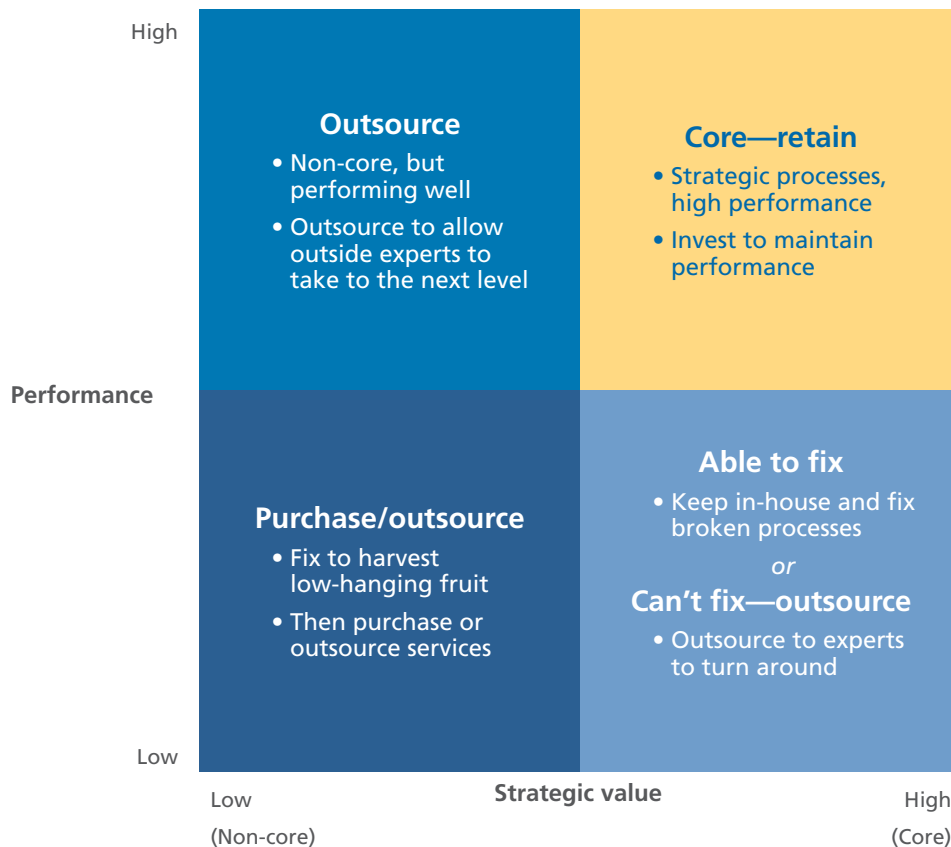
Taking an Outside-In Perspective

An outside-in perspective can be used to surface a full set of options and push managers beyond their typical ways of thinking. Benchmarking to understand how other utilities operate is an important first step. But to highlight additional strategies and opportunities, the following provocative questions also must be explored.

What would we do (or not do) and how would we do it, if we:

- Were starting a brand new company?
- Were a contractor (and not a utility)?
- Could only do 10 things in-house, with the rest outsourced (see exhibit below)
- Had to reduce functional costs by 25% (with no operational constraints)?
- Owned the company (this was your company and the profits were yours)?

Where would you position each function being considered?



Objectively Assessing Performance and Capabilities

A key underpinning of efforts to rethink the distribution operating model is an objective and honest assessment of a company’s performance and capabilities—both strengths and weaknesses. Developing a data-driven, process perspective to evaluate distribution costs, practices, and performance is a critical component in challenging basic assumptions about the business and taking out unnecessary work.

Representative issues and opportunities to be examined

Strategy	<ul style="list-style-type: none"> • Target scarce resources to appropriately support objectives <ul style="list-style-type: none"> –Service requests and outage restoration –Maintenance and system reinforcement –New business • Leverage outsourcing where internal costs or capabilities are not adequately competitive • Develop the right procurement strategies for contracted services, equipment, and material • If needed, rebuild core capabilities to achieve best practices and reduce cost
Process	<ul style="list-style-type: none"> • Determine where to best use employees and contractors to effectively spend the budget • If needed, tune up core processes to achieve best practices and reduce cost • In construction, promote consistent hand-offs and controls; develop appropriate processes for simple vs. complex jobs
Organization	<ul style="list-style-type: none"> • Ensure that interfaces with other groups work smoothly (e.g., customer service, support services) • Appropriately allocate resources, e.g., among management, field forces (employees and contractors), clerical staff • Rationalize roles and organization—responsibilities, spans of control (staff supervised, budget managed), skills mix—to meet current challenges
Systems	<ul style="list-style-type: none"> • Further improve performance and processes by better leveraging existing systems and technology
Culture	<ul style="list-style-type: none"> • Develop an implementation approach and plans that can lead to successfully realizing the desired benefits

Reinventing the Fundamental Operating Model

The distribution operating model should be “reinvented” by both (1) addressing existing performance issues and (2) “starting with a blank sheet of paper.” A successful improvement effort will likely include changes to holistic or top-down approaches as well as to individual bottom-up operating elements.

Reinventing the distribution operating model: Representative changes

Elements of an operating model	
Strategy <i>What scope of services do we offer? How do we price the services? Where do we focus resources, e.g., on what core activities? What to outsource?</i>	<ul style="list-style-type: none"> • Tailor channels (relationships) to customer or developer segments, e.g., centralized vs. regional approach, face-to-face vs. remote contact, residential subdivision vs. C&I vs. small builders • Reduce scope of services offered, e.g., ask developers to dig trenches; eliminate low-value work • Adopt modified scheduling priorities and paradigms • Change pricing structure, e.g., simplify options and pricing, capture full (including upstream) costs
Process <i>How do we execute our core activities?</i>	<ul style="list-style-type: none"> • Streamline or segment processes, e.g., triage new business by complexity, send simple jobs to field, standardize offerings, eliminate account reps as a bottleneck for certain types of orders • Split customer design from capacity planning / engineering part of work • Drive consistency and standardization (modularization) across regions and employees
Organization <i>Who performs the work? How do we best organize and align people, capabilities, and resources?</i>	<ul style="list-style-type: none"> • Centralize or functionalize activities to leverage scale (e.g., initial developer contact, subdivision design, CIAC processing), drive consistency/standardization, or balance fluctuating workloads • Change roles, responsibilities, and hand-offs, e.g., generalist vs. specialist • Realign or reallocate resources across regions, customers, jobs, or skill types • Change skill level requirements or job descriptions
Systems <i>What technology, systems, and tools are required? What information is made accessible, to whom, how?</i>	<ul style="list-style-type: none"> • Leverage and improve legacy systems or invest in new systems for process breakthroughs • Take advantage of Internet and e-commerce; provide employees/developers with more access • Manage by measurement, using common data and systems • Integrate process flows with automation tools, e.g., mobile data
Culture <i>How do we build a culture of success?</i>	<ul style="list-style-type: none"> • Build a strong platform for change • Establish horizontal process management and feedback loops, with clear vertical roles • Strengthen accountability through targeted performance management, e.g., x-day guarantee

Summary

Many distribution organizations are trying to cope with the increasing cost and complexity brought on by aging infrastructure, revenue streams, and workforces. More progressive companies are taking action to rethink their business and operating models and increase the cash flow needed to rejuvenate infrastructure and improve reliability.

Forward-thinking distribution executives can meet the twofold challenges to maintain (or more likely improve) reliability while simultaneously delivering on earnings and budget commitments. Successful leaders must be ready to adopt new approaches and the business models needed to succeed.

Opportunities for Managers

Are there opportunities to rethink the way we do things? Opportunities to eliminate work?
Or make sure we do it right the first time?

- Can we identify activities that drive significant volumes of work out of proportion to the value produced?
- Which work has impact on performance, reliability, and the customer experience? Which does not?
- What changes may not significantly impact reliability or customer satisfaction?
- Can we influence changes in customer behavior to eliminate work?

