

Rachel Johnson, Cherryland Electric Cooperative ([00:16](#)):

Welcome back to co-op energy talk. I'm your host, Rachel Johnson, the member really manager here at cherry land electric cooperative. In this episode, we are talking about something incredibly scintillating and something that many industries are struggling with at the moment, which is the supply chain. And essentially, you know, kinda like what happens if we don't have the materials, we need to keep your lights on restore your power, help you build your new home. Cetera. Well, thankfully for cherry land, that's not a cool question. We've had to answer because for more than 40 years, we've been a member of the rural electric supply cooperative or Resco. They are our primary supplier for everything from poles and transformers to meter bases and spools of wire. And since they are, co-op just like us, uh, they also operate not for profit and we get capital credits from them based on their margins.

Rachel Johnson, Cherryland Electric Cooperative ([01:01](#)):

In the last five years, cherry land has received nearly \$372,000 in capital credits from Resco. But more importantly, what our partnership with Resco gives us is a long term relationship that is tied to making sure that we have access to the supplies we need to build and maintain our system and keep our members lights on. So we had a, a opportunity recently to sit down with Doug, who is the VP of sales and manufacturer relations at Resco. And just kind of talk through who Resco is their history, how long they've been around, and then dig deeper into the trends he's seeing in the demand for raw materials and electric supplies and how it's impacting cooperatives, and also how COVID impacted the supply chain and what challenges we're facing today and may face in the future, just to help make sure that our members and all of the listeners of co-op energy talk, understand the very real supply chain challenges we face, but also understand that our partnership with Resco has us well equipped to meet those challenges. So there's really a lot to know about Resco, which stands for rural electric supply cooperative. And that's why I'm really excited to have, uh, Doug Booker here with us today, who is Roscoe's VP of sales and manufacturing relations. So, Doug, I was hoping you could maybe kick us off by just kind of, I guess, introducing yourself and also just talking kind of high level about who Resco is and what, what you all do.

Doug Booher, RESCO ([02:18](#)):

Sure. Well, thank you for having me this morning. Uh, yeah. Resco as you mentioned, rural electric supply cooperative, we're a member owned, not for profit distributor of electric distribution and transmission material. Uh, we were founded in 1936 by the co-ops in the state of Wisconsin. We're a, as I mentioned, a nonprofit entity, um, we cover currently 11 states, uh, in the upper Midwest. We are an aggregator of material for the co-ops. We, we were founded by our members to be a buying group and we take that function seriously today, and it's something we continue to do.

Rachel Johnson, Cherryland Electric Cooperative ([02:56](#)):

So Doug, you talk about working with co-ops across 11 states and obviously, you know, you started in Wisconsin, that's expanded. Why, why is it that co-ops want to become Resco members and, and what is the value to co-ops of having Resco working on our behalf on supply chain issues?

Doug Booher, RESCO ([03:13](#)):

Yeah, I, I think the, the value is the model, um, you know, being, not for profit, we return many excess margins at the end of the year in the form of capital credits. Uh, very much like, like Cherryland and the other co-ops that we work with, um, you know, there there's there's power and volume, and I think the opportunity to aggregate material purchases and quantities helps, um, whether that standard of

material across the board, the more utilities using the same, like product gives buying power to everybody, uh, joint planning and forecasting. Uh, we work very closely with our members, especially in times like this for forecasting projects and demand. Uh, and we try and take in into account also inventory, um, position. We, we carry, um, roughly 30 million in inventory across seven warehouses. Uh, cherry Linda serve primarily from our Mount pleasant Michigan location. Uh, but we do have redundant inventory across the states if needed. So the, the model and, and, and we promote the model all the time as a nonprofit entity, we don't have the same motives as, as some of the other business models have. And, uh, we try and be very, very fair and competitive with what we provide for service and, uh, and levels of inventory. Thanks,

Rachel Johnson, Cherryland Electric Cooperative ([04:36](#)):

Doug. And I think just to put that in perspective for cherry lands members, if you think about what you just said, you said, we, we keep 30 million in inventory across our warehouses. Cherry land is a, a 50 million a year utility. We keep a under a million dollars a year in inventory here. And so for us to have access to \$30 million worth of inventory, the purchasing power that that brings without having to keep all of that on our balance sheet, which wouldn't be realistic at all anyway, uh, is, is, is incredibly valuable for our members. And as you point out, especially in times when supply chains are tight and the ability to, you know, there's, it's always fun to be nimble, but sometimes you also just need to have a little more power than nimbleness. So can, can we dig a little bit into some of the supply chain issues that you are seeing right now affect the co-ops and kind of sure how, how we're handling it. So let's maybe just kind of start at the global level. Like, what are you seeing with supply chain today?

Doug Booher, RESCO ([05:29](#)):

Well, supply chain is extremely stressed. Um, we're at a point where frankly demand has outpaced production capability for a lot of the manufacturers across the board. And, and it's not just necessarily one manufacturer of a certain product, it's all manufacturers of light products. So the demand is such that, uh, for transformers, for example, there's, there's four to six main manufacturers in the industry of distribution transformers. And every one of them is at peak production capacity. Every one of them is full. So we talked about, you know, at one time, just in time and lean inventory and, and low levels were the trend and they made a lot of sense. Uh, actually today we are asking our members to take a hard look at their inventory and on certain key areas, uh, maybe they want to increase what they're carrying and what they have. Um, you know, the demand is, is, is real.

Doug Booher, RESCO ([06:31](#)):

Um, we are seeing a lot of growth, interest rates are low. People are building, um, they're doing a lot of work plans. And so, uh, the demand continues to rise. Um, unprecedented levels for me, I I've been in the industry pushing, you know, 28 years and other than the housing market, boom, in 2007 and 2008, we haven't seen, you know, lead times the way they are. And so that demand is, is stressing a lot of different things and, and I'm happy to, you know, to go into some of the detail on what's causing it if you'd like,

Rachel Johnson, Cherryland Electric Cooperative ([07:06](#)):

Yeah, I, and I think, uh, let's do talk about those two things, uh, kind of separately, so demand. Sure. And then we can talk a little bit about supply, but, um, uh, cuz I definitely want to dig into the, uh, because you're, when you talked about lean, it just really struck me like, yeah, this, this kind of abiding idea, we're starting to see some of the consequences of it, but on the demand side of things, can you talk

about where those pressures are coming from? Cause one trend I'm watching really with some interest at cherry land is as people are moving out of cities because they can now work from anywhere, there are certain rural areas that are poised to benefit from that growth, but that growth also requires infrastructure. Right. So, so what other, what kinds of trends do you think are leading to the demand pressures on the electric supply side of things?

Doug Booher, RESCO ([07:52](#)):

Well, it's definitely growth in the rural areas. Um, people, whether it's been tired of being cooped up in COVID and what up more space to roam or whatever that happens to be, we certainly see growth outside the, the cities, um, which is where most of the co-ops fall for infrastructure purposes. Um, I think, you know, as broadband continues to grow and there's more internet access in the rural areas, people can work from home, more people wanna work remote and, and that's driving that demand. Uh, so there's definitely a push for that infrastructure and, and the challenge of getting it out there. Um, you know, a lot of material that we sell is used for the electric utilities, but it's also used for the make readies and the build out for fiber optic. And so there's some pressures there now that maybe weren't there five years ago where two different sectors are looking for the same product to do the same thing. And again, capacity is limited. So it, it makes it very challenging to have enough material for both groups to build like they wanna build and then you've got incentive dollars and, and those types of things out there pushing it to

Rachel Johnson, Cherryland Electric Cooperative ([09:04](#)):

What kind of an impact do you think the federal infrastructure, um, spending packages will have?

Doug Booher, RESCO ([09:10](#)):

I think it will be interesting to watch because what we're seeing a lot from the demand then goes into the raw materials to build. And so, you know, if you look at what aluminum and copper and steel and those commodities have done in the last 18 months, um, the, the inflation it's creating, uh, you know, Resco tracks every unit, every item we set L throughout the year and we look at what our cost has done on material. And, and we saw roughly a 10%, um, level of inflation on the material that we purchase and resell in 2021. Um, and that's the average, there were many items that were a lot higher. So specifically to the infrastructure bill, you know, one of the things that we think about is, you know, the steel that it takes to build the tank of a transformer. That's the same steel that they're going to use in an I beam for a bridge.

Doug Booher, RESCO ([10:05](#)):

It's the same steel that's going into buildings. It's the same steel in a ground rod. And so, uh, what we're seeing a lot of and, and hearing from the manufacturers are actual allocations and the steel mill are putting our providers or our suppliers on allocations that in terms puts Resco on allocations. And so in the first time, in, in my career, we have manufacturers coming to us and putting us on allocation of available product and saying, we're only going to you X amount in 2022, you need to figure out Resco how you're going to sub allocate that to your customers and your members. And so to the point of being a member of Resco, uh, our members definitely get top priority as we're allocating material when there's only a limited amount of production available. Sure.

Rachel Johnson, Cherryland Electric Cooperative ([10:58](#)):

And I would think that on two levels we're benefiting. So one is the fact that as members we benefit from getting priority allocation through Resco, and then Resco, by being able to do that on behalf of co-ops across 11 states gets a little more priority than if it was just cherry land, going to one of these steel manufacturers and saying, Hey, we're gonna need a solid 50 transformers next year. Maybe you could help us out, right. That just wouldn't rise to the, the top in terms of priority. But what's, what's interesting about what you're saying is it's not just growth in the electric industry or in our infrastructure, that's putting pressures or adding to the demand for the products we're reliant on. It's all these other things that play weather it's brought or federal infrastructure packages, or just increase in housing in non co-op territories as well. All of those things, there's a are, are putting pressures on limited resources. So on the, if we switch over to the manufacturing capacity and supply side of things, what are the trends you see with, with manufacturers besides allocating, besides allocations that you think people should be aware of?

Doug Booher, RESCO ([12:01](#)):

Well, I, I think they're facing the same challenges that, that every other industry is whether it's labor, whether it's freight and shipping, uh, whether it's capacity to produce. I mean, early on a lot of what we saw COVID related had to do with, uh, raw material and component parts that were coming from overseas that were needed to, to do finished good product. And so early on, there was a, there was that delay in getting the components that they needed to build. Um, now what we're seeing more of from a COVID related situation is workforce Hmm. Uh, we're seeing shifts go down and, you know, if, if, uh, use a, you know, cable manufacturing facility, for example, you know, they may run 12 to 15 people, a shift on a certain line to build cable and they can lose a whole shift if COVID happens to go through.

Doug Booher, RESCO ([12:59](#)):

So, um, there's some COVID related, um, loss of productivity right now. Um, again, freight is a, is a huge deal. Um, whether it's trying to get things off of ships that have, have been in port from overseas, get those moved out, um, long haul trucking, there's a shortage now of trucks available. I, I saw a really interesting stat a few weeks ago from one of our manufacturers that said for every nine loads that need to be hauled from Texas north there's five trucks available to do that. And so, uh, we hear a lot of times that delivery is a challenge in finding the right trucks to do it and, and people available. So I would say, uh, those two things are really impacting what can be done and then just labor in general, uh, finding enough people, uh, to fill the plants.

Rachel Johnson, Cherryland Electric Cooperative ([13:57](#)):

The, the interesting thing about supply chains is nobody pays attention to them until they scream and they're screaming right now. And then when you really start to peel it back and look at it, it's just so complex. So many moving pieces that all have to happen in the exact right order at the exact right time, in order for someone, and to be able to flip a switch that their electric co-op is powering. And when you really peel all that back, and you're saying, oh, trucking issues in Texas, I, that shouldn't matter, but it does because it's also interconnected. Um, and I, and I, and you talked earlier about, you know, lean six, SIG six Sigma, and just in time inventory models, what do you see co ops doing right now, kind of in response to supply chain, um, issues and are, are they changing their strategies as it pertains to inventory? They

Doug Booher, RESCO ([14:45](#)):

Are, they are everyone I think is, uh, is trying to make sure they're in their own positive inventory position. Um, you know, it, one of the things that we truly try and balance is real demand versus what I would call panic buying. Um, and, and it's kind of self-fulfilling as, as lead times get longer, uh, people order more, which puts, um, stress on the process lead times, go out further, people order more. And so it kind of dominoes out there. Um, but we are seeing people, you know, get away from just in time, try and keep a little additional inventory on, on their, on their shelves. Uh, we're seeing prioritization of, of project. Um, you know, if there's only gonna be a finite amount of material to use, um, you, you probably need to balance priority of projects. Um, you may, you may set new minimum levels of inventory that you are going to keep, um, should a storm come through.

Doug Booher, RESCO ([15:49](#)):

If every bit of material you have have that's critical to storm response is allocated to projects. Uh, how are you going to respond to a storm? So I've, I've had some utilities say, look, you know, it used to be, we always kept a minimum of 10 transformers available and they've increased that. And they've said, we're always gonna, this is our floor. Here's where we're gonna stay. Um, we you've had some utilities, um, talk about their work plans. Uh, we, we see, you know, most of the spend we see from the utilities there's in two different forms. It's either gonna be new projects, commercial or red residential that are revenue producing. There's something new for the co-op or work plan jobs, which in most cases is the retirement of old and, and rebuilding with either a larger wire taking overhead to underground, doing something in that manner. So we've had some members say, we're going to pause a little bit on our work plan business. Um, we know interest rates are low and it really be a great time to do it, but because of the situation and supply chain, uh, we're, we're going to slow that down a little bit. So, uh, we are seeing, we are seeing that trend and, and especially the prioritizing, if we're only gonna have a certain amount who and how do we do it? Sure.

Rachel Johnson, Cherryland Electric Cooperative ([17:07](#)):

And I mean, I think certain we're, we're having those same conversations here at cherry land. We, we pride ourselves on the amount we am best in rebuilding our system on a regular basis, but the, we can't do that at the cost of not having something available to, you know, turn the power back on in the, in the event of an outage or something like that. The other thing I th and I suspect other co-ops are doing, but there's a whole member relations aspect to this as well. Mm-hmm <affirmative> so, you know, when we ha we've historically had to situation where, oh, you're building a subdivision, come get all the meter bases whenever you want. You can just take 'em out there that, you know, we'll just give you a bunch of pad Mount transformers, and we may not hook 'em up for three years, but they're out there, they're ready. And now we're having to kind of have a closer communication relationship with our members, because we wanna release that product to them at the exact time that they're actually going to build and turn it on because we don't have as much confidence in the, in kind of our backup supply as we maybe have historically. So I think you'll see, you'll see more of that as well, which will just require a really strong relationship between the co-ops and the people they serve too.

Doug Booher, RESCO ([18:11](#)):

Yeah. And, and I, and I would add to that, one of the things that we're trying very hard at Resco to do is obviously communication on any of this is key. Whether, whether it's internal communication between the purchasing group at a, at a member and the operations and the staking and, and all of that communication between our members and us, you know, the more notice we know of projects, the more we can plan and try and be prepared. And we communicate then to our manufacturers. But the one thing I, I probably said too often, but I think is really important is that managing expectations, um,

we're working really high, hard to manage the expectations of our members and, and be as transparent as possible in, in what is real, what is realistic. And our hope would be to your point, that member services and stakers and operations, people are doing the same with the end user, the, the homeowner, the consumer, and saying, you know, it used to be, we could build out a subdivision of 15 homes in six weeks. It's probably not gonna happen in six weeks right now, just because of material availability. So again, communication and managing expectations, I, I think are critical for everybody involved from the manufac and, and their suppliers. Uh, you know, when they don't get good information from the steel mills or whoever on, when they're gonna have product, they can't give us good information. So it, it really is important all the way through. Yeah.

Rachel Johnson, Cherryland Electric Cooperative ([19:44](#)):

And I, and, and one thing that I, I find very valuable about our, our, um, relationship with Resco is that it is a relationship and we view it as a long term relationship and a partnership. And that changes how you think about this, right? Because then we are saying to you, like, here's a, here's kind of a real pain point for us, or here's some something we really know is coming up in the future. And we're thinking we're gonna be in this relationship with y'all for a really long time. We've been, we've been doing it for a while now. You've been, you know, you've been here for 36 years, or, I mean, since 1936. So we, it, I think it gives us a different perspective on all of these things, cuz we're, you're not just our supplier, you are our partner. And because we view it as a partnership, it changes how we, we think through some of those challenges. And, and I, and I wanted to do this podcast right now because I think you all and cherry land have done a very good of not necessarily having what's going on behind the scenes, be visible to the members we serve. And that's something to be really proud of because it's such a tremendous advantage to them that we have Resco on our side. And, and it's, it's kind of great that they don't know you exist cuz that's a sign we're doing it well. Right,

Doug Booher, RESCO ([20:48](#)):

Right, right. Yeah. I appreciate the, the, the sentiment because it is true. And, and we look at it, you know, that we don't wanna be just another supplier to our members. We wanna bring value to the process and, and make sure that what we're doing makes your lives easier and that you can ultimately take care of your membership.

Rachel Johnson, Cherryland Electric Cooperative ([21:08](#)):

Mm-hmm <affirmative> so we have just a couple minutes left, but I was hoping you could for this like last couple minutes, talk about what, what keeps you up at night. So as we're looking out over the next year or two, we know that these issues that are happening, the supply chain, aren't gonna just magically disappear. What are the risks that you all are kind of attending to and co-ops to be aware of as we make our plans as well?

Doug Booher, RESCO ([21:30](#)):

I, I, I think the, the biggest risk, or what keeps me up is, is the allocation position that we're in. Um, you know, it's, it's unusual for us to be told you can only sell a specific amount of anything. Um, historically the manufacturing, the distributors, um, our members growth is critical, right? Everybody needs to grow and, and not be stagnant and continue to have new opportunities. And, and I think, um, in this environment, growth is going to be a challenge. Um, when, you know, when we are given everything's based on his historical usage. And so when a manufacturer looks at us and says, well, Resco in 2021, you

bought, um, a specific amount. And in 2022, we'll give you maybe 3% more than that when we're all looking for 10 to 15% growth. So I, I think allocations are, are definitely a cons earned for me.

Doug Booher, RESCO ([22:29](#)):

And the fact that it's not a flip of a switch for the manufacturers to ramp up their capacity. Um, you know, they have four to six months lead time for the equipment. They need to ramp up, they need space, they need employees. And so, uh, unfortunately there's no quick fix. Um, what I would say is going back to the housing, boom, and then the housing burst of that bubble things corrected themselves very quickly in oh 7 0 8 lead times that were historically historically long. Um, all of a sudden went back to industry norm because things, you know, change that rapidly. I don't envision that in this situation. I think there's a lot of things in play. Um, you, we mentioned interest rates, we mentioned infrastructure bill. We mentioned demand outside of electric products. Um, I, I think we're in for, you know, a years of needing to manage and communicate very carefully.

Rachel Johnson, Cherryland Electric Cooperative ([23:33](#)):

Yeah. It's a, it's a good point. And I mean, ultimately what it, what it reiterates is the need for strong demand side management, um, strategies. And, and I appreciate your point about growth too, cuz you're right. There's always, I mean, and growth is great. <laugh> so obviously, and, and into electric utility, the more kilowat hours we can spread our cost across the better we can keep our rates low for our members, which is ultimately the number one priority. And at the same time that growth brings with it real challenges and especially in a tight supply side market. Um, and, and we'll, we'll continue to see that over the next couple years, but I, I wanna thank you again for taking the time to join us because I, what I hope while we've talked about some real challenges, what I hope the listeners leave this podcast with is just a really high degree of confidence that they're well served by Cherryland and by extension, by Resco as our, our supplier partner. So thank you for taking the time to kind of meet with us and talk through some of these issues today and, and it might, and I have a feeling Doug, we might see you on the podcast again. I don't think this is the last time we need to talk about supply chain.

Doug Booher, RESCO ([24:36](#)):

No, no. And, and thank you for including, including me and, and Resco, and I can assure you, uh, and your members, we're, we're doing everything we can to, uh, assured source of supply and, and make sure we have the material you need. And, and I'd be happy to join in the future if you'd like.

Rachel Johnson, Cherryland Electric Cooperative ([24:51](#)):

So thank you. Thanks, Doug. We appreciate your time. And again, that was Doug Booker, the VP of sales and manufacturer relations at Resco and I am Rachel Johnson and I hope you'll join us again next time for co-op energy talk.

Speaker 3 ([25:15](#)):

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