BEST PRACTICES FOR MRO SUPPLY CHAIN TRANSFORMATION

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EXECUTIVE OVERVIEW

Strategic Sourcing and supply chain initiatives involving Maintenance, Repair and Operations (MRO) rarely reach their full potential in today's marketplace. Corporate America is littered with MRO projects that have only scratched the surface in terms of potential, and languish in their inefficiency without even knowing it. The MRO supply chain is typically filled with manual processes without real controls, resulting in waste. For the most part, the root causes for these shortfalls are due to the application of generic sourcing and inventory management principles without a complete understanding of the nuances related to the MRO supply chain.

Understanding and addressing these nuances up front can mitigate previously unforeseen risks and open up opportunities for innovation and process improvement. The objective is to transform the MRO supply chain from the initial state to one with appropriate automation, performance monitoring, metrics and delivers an overall reduction in total costs. The following discourse presents ten essential points to consider when developing a meaningful and continual MRO supply chain transformation.

UNDERSTANDING THE COMPLEX WORLD OF MRO

Indirect Spend, specifically Maintenance, Repair, Operations, and Services (MRO) is a growing segment as a percentage of the U.S. economy. MRO presents unique opportunities for corporations and institutions to reduce expenses, streamline processes, increase returns on assets, and improve operational effectiveness.

Even though the ROI for a successful MRO transformation can be in the triple digits and the savings in hard dollars can reach up to and over 25% off of current costs, many initiatives fall short of their objectives and others just flat out fail. MRO is different than Direct Materials, Logistics, Information Technology, and Marketing and while this difference presents enormous opportunities for improvement and ultimately cost reduction, it also presents unique challenges that must be addressed in order to achieve a successful MRO supply chain transformation. Understanding the fundamentals of MRO is the first step to setting realistic objectives and building a flexible framework that will allow for the breadth and depth of MRO and facilitate a successful transformation. Below are characteristics of MRO that differentiate this area of spend from others and must be taken into consideration when planning for your MRO transition.

1 The number and diversity of the end users for MRO is much greater than other spend categories. Unlike direct materials which impact those working on the finished goods, the consumables associated with MRO touch everyone from the technician working on the production equipment to the front office administrative support. By consolidating the enterprise-wide volume under the umbrella of one or a few preferred suppliers, an organization can enjoy deeper discounts than with spend segmented across various suppliers.

2 MRO involves small dollar transactions across large numbers of suppliers. Given that there are often thousands of SKUs required to support production and the fact that it is not uncommon for a company to utilize fifty to one hundred times more suppliers for MRO than for direct materials, the volume of small dollar transactions across numerous suppliers results in higher transaction costs per dollar spent for MRO.

3 There is poor and inconsistent MRO supply chain related data across business units. SKU descriptions are often left up to the person filling out the stocking request and results in duplicate parts with different nomenclature. This complicates usage analysis and makes it difficult to predict cost reduction opportunities. Key sourcing data like manufacturer and manufacturer part number is often incomplete, inaccurate or just not available. Because of the number of SKUs involved, MRO data collection can be a daunting task.

4 MRO utilizes decentralized purchasing processes. Consolidating the MRO spend across an organization with the intent of centralizing the purchasing process often presents challenges that just aren't worth the effort. Incomplete and inaccurate descriptions, end user preference, and in house knowledge of product specific nuances are a few of the factors that interfere with the centralization of MRO. In addition, MRO frequently involves local relationships that have long supported the facility and, in many cases, the community itself.

5 There are a small percentage of tech-savvy suppliers for MRO. With direct materials, the volume spent on a limited number of skus through a finite numbers of suppliers provides leverage to encourage, if not require, suppliers to invest in technology that increases efficiencies and ultimately reduces costs for both parties. In general, the world of MRO transaction processing remains technologically unsophisticated and the number of SKUs processed through numerous suppliers doesn't provide the same clout as direct materials.

6 There is an inordinate cost associated to service disruption in relation to cost of MRO products. To put it simply, a $5 bearing can shut down a line that processes thousands, tens of thousands or even hundreds of thousands of dollars of product.

TEN BEST PRACTICES

1   Design, Lead and Manage Your Initiative as a Continual Process

Unlike a typical project which by definition implies a discrete start and stop, your MRO supply chain initiative must be a continual process. By defining the initiative as a continual process the people involved can commit to the overall strategy and embrace the initiative as essential, continual and an ongoing responsibility for all involved. For example, signing the deal doesn't mean the MRO supply chain is enhanced, it simply means pricing is established. The reality is the supply chain could be in jeopardy. The implementation, compliance and performance tracking are crucial components of the process to ensure success.

2   Integrate Stakeholder Interests

Spend the extra time to understand the stakeholders in your initiative and consider the changes they are looking forward to seeing as well as the challenges this transformation may impose. A robust enterprise-wide MRO strategy will influence and touch many different locations, departments and user groups. Do the homework to convey the specific impact for these stakeholders up front. This preparation can serve as a conduit for their participation and identify vested interests needed for the success of the initiative. Dissenters can be advocates if their interests are taken into consideration.

3   Know Your Numbers

In MRO, developing the business case is just the beginning. By nature of this category, resistance in MRO can come in many forms. Feedback will come from stakeholders to change the scope and depth. Understanding the numbers and how they interact with proposed changes and exceptions is crucial when considering this feedback.

Include finance and operations in verifying the baselines, so the cost impact of constraints, opportunities and obstacles can be calculated. Specific to MRO, expand the scope to more than dollars. Include elements such as number of purchase orders and receipts, resource hours, service metrics, transaction accuracy, etc.

## 4   Last Year Does Not Equal This Year

One thing constant in MRO is change. Usage from last year will not equal usage in the current year; it may be close or may be drastically different. Empower leaders to make the necessary adjustments during the process to ensure targets are within reach by developing a model that can easily encompass the change.

5   Technology is Not an Excuse but a Requirement

Supply Chain information technology is mature, reliable, low in cost and readily available. The key is to fully understand and document the processes and goals while being honest about the existing internal capabilities. Even though MRO as an industry segment has been behind the curve, today the right partners should have a full complement of options for you to utilize in a non-disruptive fashion around your existing processes and systems. The appropriate technology will streamline processes, increase transaction accuracy and ensure compliance, resulting in lower overall costs.
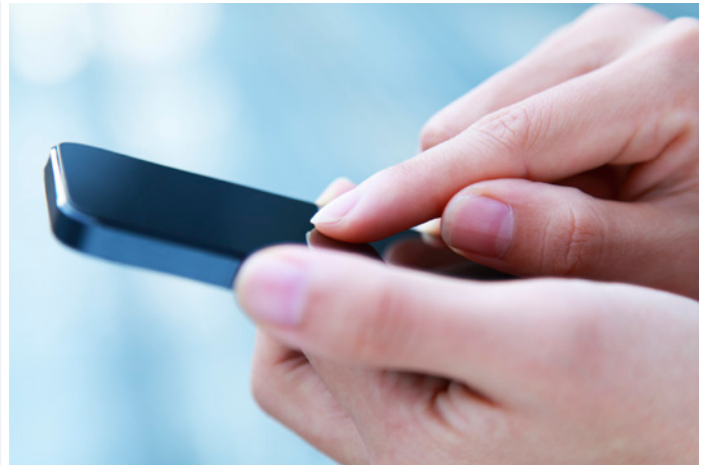
6   Swim Upstream and Downstream

If the MRO supply chain transformation initiative operates within the procure-to-pay process, the impact your team may have in realizing opportunities for improvement that reside with suppliers' supply chains could be overlooked along with the end-user's acquisition costs. Extending the stakeholder analysis outside the traditional boundaries exposes the total costs and may present savings opportunities. One question to ask is, "Are we creating or removing costs from the other nodes in the supply chain?"

7   Align the Message and Method to the Action Required

In corporate America, it is not uncommon for someone to participate in a webinar, read an email, dial in to a conference call, attend a face to face meeting, text a message, and read a bulletin board all in one day. With so many options, picking the right medium and frequency is key to invoking the right action your initiative may need. In MRO, the spectrum of actions required could be as simple as informing a department of a new website to view a project status or it could be a fundamental change in the roles and responsibilities for an entire group of buyers. Would an email memorandum be appropriate for the former or the latter? Don't let the initiative fail because of ineffective communications.

8   Don't Make a Bad Process Faster
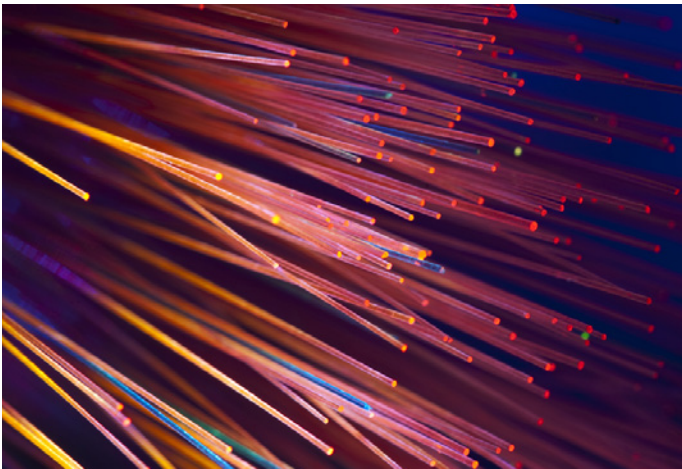
Traditionally, MRO processes rely upon poor and inconsistent supply chain data. Automating the processes with the inconsistent data only makes a bad process go faster. Data quality must be built into the process and maintained throughout. Analyze all of the steps in your existing processes, determine their value (not costs) and streamline or eliminate those that have no value.

9   Pilot Programs Make Change Easier

Building a robust straw man and utilizing a pilot program are extremely effective tools in ensuring success by achieving stakeholder buy-in, containing errors endemic with a new endeavor, seizing previously unknown opportunities, and building credibility when the initiative increases in scale. While this is true for any supply chain, the breadth and depth of processes and stakeholders involved in MRO require pilot programs to avoid failure.

MRO is typically considered the cost of doing business and is rarely seen as a core competency that needs to be nurtured. So why fight the uphill battle and develop the necessary tools in-house? Find a partner or partners with MRO management as a core competency and leverage their scale and investment. There is no need to reinvent the wheel. You should evaluate your partner on their capabilities to deliver solutions that are on the immediate horizon, but also vet them out for what they can provide in the continuum of the transformation.

Look for the following essentials in MRO transformation:

• Strategic Sourcing
• Spend Analytics & Reporting
• Dedicated Teams for End-to-End Transaction Processing
• Online Customized Catalog Creation and Maintenance
• Budgeting Controls & Workflow
• Compliance Monitoring
• Non-Linear Forecasting and Replenishment
• Inventory Management Systems
• Commodity Expertise

All of these solutions exist for MRO and can be personalized with relative ease. Prioritize these capabilities in terms of impact, time, and investment, and then align them with your company's MRO strategy.

ABOUT SDI

SDI, Inc is recognized as a leading provider of MRO (maintenance, repair, and operations) supply chain management services in North America. As a full service provider of supply chain solutions for MRO, SDI's solution includes a comprehensive range of services that can enhance or replace a client's existing supply chain process. SDI has developed an enterprise-wide solution that is not hampered by physical or virtual boundaries. Instead, it connects all of a client's facilities, both large and small, via one system with the freedom to provide an organization with a single MRO supply chain management program.

Since SDI is not a distributor, we're not aligned with any specific product lines or suppliers. We make objective, unbiased recommendations to develop the most fitting integrated supply management solutions for more efficient, cost-cutting transaction processing.

For 40+ years, we've demonstrated value by demonstrating to our clients how the supply chain works best when the supply chain works together. Lower costs, smarter inventories and increased performance are all natural results from a more connected, coordinated and optimized MRO process.

To experience a more connected, coordinated and optimized MRO supply chain, please contact **jim.owens@sdi.com**