

Unlocking the Hidden Value of
Enterprise MRO Services



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1.0 ABSTRACT & INTRODUCTION

In today's competitive global marketplace, leading manufacturers are finding that they must address and optimize their MRO supply chain in order to minimize their risk exposure and better compete on the world stage.



1.1 ABSTRACT

In today's competitive global marketplace, leading manufacturers are finding that they must address and optimize their MRO supply chain in order to minimize their risk exposure and better compete on the world stage. Increasingly, they are turning to MRO business process outsourcing (BPO).

The challenge of effectively managing the MRO supply chain is an issue that continues to trouble even the most progressive manufacturing organizations. More recently, process improvement philosophies and techniques like Lean and Six Sigma have exposed the waste and enterprise risks associated with traditional approaches to MRO management. Knowing how most organizations view MRO is interesting, but this just addresses the symptoms. Understanding the root of the problem is of greater importance and more valuable in terms of identifying holistic, lasting solutions.

1.2 INTRODUCTION

The formal definition of MRO is straight forward. The Business Dictionary defines MRO as:

"Supplies consumed in the production process but which do not either become part of the end product or are not central to the firm's output."

As defined, the MRO category can include everything from paper towels to mission-critical spare parts. Without a clearly defined approach, how do you keep mission critical parts from getting lost in the pile of paper towels?

Today's manufacturing organizations are looking to its procurement leaders to identify new and innovative solutions to this age-old problem. Because there are numerous stakeholders and multiple points where MRO touches the organization, there is typically strong resistance to change.

However, in order to drive change, procurement professionals must first identify and then corral and align all of the disparate elements and stakeholders of the MRO supply chain - not an easy task.

The stakeholder groups are many—suppliers, freight companies, sourcing & procurement, the storeroom, maintenance, operations, and finance & accounting—and often have conflicting, if not competing, interests. This typically results in a continuation of the status quo—short-term, reactive fixes—and the root problem grows in both scale and complexity.

2.0 THE TRADITIONAL APPROACH

Companies suffer from the overall lack of control resulting in mismanaged storeroom inventory, and most importantly, loss of production.

THE TRADITIONAL APPROACH

With numerous stakeholders focusing on their piece of the organization, it's not surprising that MRO is not traditionally addressed from a holistic organizational perspective. MRO is segmented into functional silos that fit the burgeoning agendas of competing stakeholder groups. This absence of a clear understanding of the impact (and potential risks) of the MRO supply chain across an enterprise can lead to significant, material risks and overlooked inefficiencies, leaving organizations to constantly put out fires rather than to strategically and pro-actively address their MRO supply chain.

When MRO is addressed, the focus is mostly on reducing spend through simple point-solution providers or via deals with distributors that promise value-added services and volume discounts.

This approach occasionally delivers on the short-term promise of piece-price savings, but in the long-term, it has resulted in run-away spend, obsolete inventories, disproportionate (to aggregate spend) administrative costs, and working capital tied up in the storage of unproductive and or obsolete assets.

MRO is generally addressed much the same way it was 50 years ago. And while the day-to-day minutiae of the MRO supply chain may seem innocuous, the reality of being without a mission-critical part when a line goes down can cost a company thousands of dollars in lost production.

The consequence of not addressing your MRO supply chain holistically is a number of inefficiencies that could not only stand in the way of overall growth, but could cripple production:

- Lack of actionable data and visibility of spend
- Unplanned equipment downtime
- Stock outs of mission-critical parts
- Working capital tied up in obsolete MRO inventory
- Uncontrolled growth of spend and supply base
- Inflated finished goods inventory
- Maverick spend & Non-compliance
- Frustrated stakeholders
- Poor on-time delivery & high MRO freight costs
- Multiple, inefficient storeroom(s)

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The root cause of these problems is an unmanaged MRO supply chain in which disparate stakeholders end up in an endless game of Whack-a-Mole. Functional silos see repeated failures. There is limited accountability or ownership and no recourse for change. Companies suffer from the overall lack of control resulting in mismanaged storeroom inventory, and, most importantly, loss of production.

While MRO isn't a direct spend item, the result of ignoring how it impacts the overall supply chain could prove detrimental to your business processes and functions. Organizations have a strategic approach for direct materials and goods, so why are they approaching something as mission-critical as the MRO supply chain any differently?

3.0 CHANGING TIMES

The trend towards increasing focus on better managing MRO functions indicates that the old method of living with the problem is no longer sustainable.



CHANGING TIMES

There has been a recent up-tick in the number of manufacturers who are turning their focus to better managing their MRO functions.

Why is the industry reacting now?

- The steady increase in the level of automation and sophistication in production processes has led to a resurgence in US manufacturing. However, the acceleration of innovation as seen in direct product manufacturing has not been matched by the supporting MRO supply chain infrastructure and the industry is demanding improvement.
- In the early 1980's, the term World Class Manufacturing was first introduced, and started the momentum of ISO, Lean and Six Sigma. Today, companies are driving the concept of "Best in Class" operations at every level within an organization. Fortune 100 companies are finding that, in order to remain competitive, they need their non-core processes to match those of their core processes in both efficiency and sophistication.
- Globalization and the growth of companies through mergers and acquisitions have created larger operations with multiple sites and information systems that exacerbate the complexities and highlight the need for simplification and optimization in the MRO space.
- Current software solutions fail to perform adequately for MRO: ERP/MRP systems were created for back office functions and are ideal for the procurement of direct materials and raw materials planning but they are not designed to fit the level of complexity associated with MRO supply chain management.
- Enterprises are focused on core activities, controlling indirect spend and outsourcing non-core activities to experts with specific dedicated knowledge and ongoing expertise. Processes such as payroll, security, and IT have been outsourced and have proven efficiencies, making the outsourcing of these functions a best practice.
- Policy changes like Sarbanes-Oxley created new reporting requirements for all departments, including non-core competency areas—lack of compliance can be costly.
- Trends towards centralized procurement models, technology and process improvements indicate

that procurement professionals have more standing and are better able to affect change.

- The BPO model has proven credible in other areas of the organization, such as payroll, logistics, travel, marketing, IT and facilities management. With so many business processes being outsourced reliably, and paying off, the industry is ready for a new approach to MRO.
- Organizations are increasingly focused on risk management and mitigation. The risks to the supply chain posed by failing to address MRO include supplier risk, inflation risk and safety-related risk along with the risk to the production process.

Bottom line: The old method of living with the problem is no longer sustainable.

Several options exist for procurement leaders seeking to better manage their MRO supply chain.

- **Build the solution internally:** One option is to invest internally in the team and technology needed to build and maintain a robust supply chain management system. The challenge, however, in building this non-core function internally is that it is expensive and still requires massive ongoing resources to speed to results and achieve impactful ROI.
- **Category management, e-procurement, VMI:** Partial Solutions usually only address one silo resulting in whack-a-mole, reactive projects as opposed to a holistic, strategic approach.
- **Single-source distributor:** While this seems like a convenient solution, no one supplier can address all of an organization’s MRO needs. A single supplier cannot provide a holistic solution, because they are focused on selling product.
- **MRO Business Process Outsource Providers (BPO’s):** End-to-end outsourcing solution has become the increasingly logical conclusion.



Figure 1: A complete supply chain solution will include value added services to further control costs.

4.0 A NEW APPROACH

A strategic approach to MRO creates unprecedented efficiency in both cost and production for all stakeholders. Instead of just lowering the price on parts, the focus is now on lowering total cost of ownership.



A NEW APPROACH: UNLOCKING THE HIDDEN VALUE OF ENTERPRISE MRO

Just like with other supply chain solutions, a third-party BPO model applies expert resources to a non-core responsibility. A truly Best Practice approach to MRO addresses the end-to-end supply chain comprehensively and in an integrated fashion, combining lean six sigma principles with a holistic view, so that the entire system is optimized at every opportunity. The result is a strategic approach to creating unprecedented efficiency in both cost and production for all stakeholders; instead of just lowering the price on parts, the focus is now on lowering total cost of ownership.

With that in mind, a more comprehensive and accurate definition when considering the new approach for Enterprise MRO is the combination of all technical and corresponding administrative, managerial, and supervisory actions associated with MRO, as well as the supplies consumed in the production process but which do not either become part of the end product or are not central to the firm's output.

4.1 Data Standardization & Management

Data is the cornerstone of any modern business and a critical part of any successful MRO solution. The

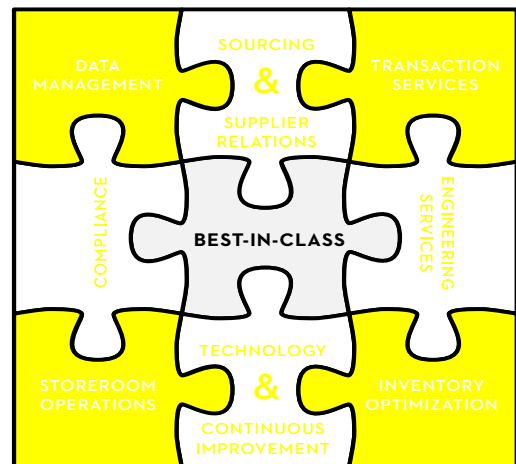


Figure 2. A best-in-class BPO solution takes a holistic approach to address all elements of the MRO supply chain.

effective management of accurate, reliable information provides visibility and empowers better decisions that can translate into a competitive advantage. It all starts with a baseline. Once you measure your baseline, you can launch continuous improvement measures from there. Processes are streamlined, workflow improves and productivity increases. Redundant practices are eliminated and the whole organization saves time and money.

4.2 Sourcing and Supplier Relations

After completely cleansing the data and achieving a clear understanding of the unique targets and goals of an organization, an integrated supplier will establish productive relationships with your

existing supply base and seek mutually beneficial relationships with new suppliers. The goal is to source the right vendor for the right product based on price and other factors. They provide strategic sourcing recommendations including right sourcing, supplier consolidation, re-sourcing, product standardization as well as performance management, risk assessment and continuity of supply—all to deliver the lowest total cost of ownership.

4.3 P2P Transaction Services

Business Process Outsource providers will manage all MRO transaction services from requisition through supplier payment including order processing, order confirmation, order expediting, returns, supplier invoice reconciliation, receiving, three way match and supplier payment for goods and services. By implementing a BPO solution, manufacturers benefit from streamlined processes, leveraged category knowledge, and improved efficiency and accuracy of the transactions that flow through the organization. That translates to controls and compliance resulting in increased savings.

4.4 Vendor Compliance

Compliance and standardization are key value drivers of any MRO optimization plan. The goal is to have 100% supplier compliance against the measurable spend. State-of-the-art BPO organizations will have processes in place to measure key performance indicators and to manage continuous improvements. These organizations will automate transactions for most stock items in a way that delivers compliance and ensures the selected suppliers are receiving the spend intended for them. Sourcing teams work closely with buying teams to review stock item purchases to ensure compliance and regularly review the established sourcing guidelines for ongoing performance. Controls on spend are maintained both internally and externally.

4.5 Engineering Services

One of the most exciting benefits of a dedicated team of experts focused wholly on MRO is the ability to

analyze an organization's operations and identify hidden opportunities in standardization, OEM commercialization, tooling efficiencies, warranty and repair tracking, energy efficiency and sustainability, and process review that can often go unnoticed or unrealized among the myriad of stakeholders who often don't have the resources to apply to these kinds of initiatives.

4.6 Best-In-Class Storeroom Operations

BPO's provide qualified, experienced on-site staff to operate storeroom activities, manage inventory and deliver premier customer service to the manufacturer's stakeholders. These resources are supported by state-of-the-art technology to deliver efficient storeroom management and long-term, continuous improvement.

4.7 Inventory Optimization

Traditionally, inventory is managed with a min/max or over/under approach. Specialized systems customized for MRO by BPO service providers can improve upon that greatly by analyzing data, recognizing patterns, and utilizing demand planning to predict specifically for each part and process to optimize inventories, reducing excess overhead and freight costs in the process.

4.8 Technology and Continuous Improvement

Third party organizations have the advantage of being focused exclusively on, and investing specifically in, the purpose-built custom systems and technology required to support operations, optimize the entire MRO supply chain and provide sustained value through continuous improvement efforts. Traditional ERP systems are not designed specifically with MRO in mind to help organizations truly achieve best-in-class performance. While the efficient management of MRO may be consistent across businesses, a knowledgeable integrated solution provider will address key, specific opportunities to support and drive a successful program, giving their clients access to these purpose-built systems, without having to incur any fixed costs.

5.0 SUMMARY

The best, most comprehensive and efficient solutions go beyond short-term piece price savings, to deliver lasting business value in each dimension of the supply chain.



SUMMARY

The traditional approach of controlling spend through simple point-solution providers has delivered on the promise of piece price savings, but at the cost of run-away MRO spend, obsolete inventories and rising administrative costs. The current economic environment and macro trends are pointing more clearly to the logic of a holistic, end-to-end outsourcing solution.

Now that organizations have addressed and streamlined their direct spend, they are looking deeper into their business to make their indirect spend work smarter and in synchronization with other more direct aspects of their business. They are turning to MRO BPO solution providers to make their supply chain more efficient.

The best, most comprehensive and efficient solutions go beyond short-term piece price savings to deliver lasting business value in each dimension of the supply chain. Enterprise MRO integrates and unifies efforts and improves outcomes across the organization moving beyond internal islands of interest to a common vision of success.

ABOUT SDI

At SDI, we specialize in MRO as it relates to your entire supply chain.

From Parts
to Partners

We believe in getting to the bottom of your business and gaining a complete understanding of the issues and needs across your entire organization to give you greater control over your MRO spend, eliminate obsolete and excess inventories and reduce associated administrative costs—all with the goal of optimizing your supply chain and helping you run things more smoothly.

We've been focused on MRO for over 43 years. That's long enough to understand how important MRO is to your business—because if your supply chain is inefficient, even the smallest parts could cause big problems. By working in tandem with every part of the organization and truly unifying efforts, we help organizations just like yours improve outcomes.

We help you to stop chasing the symptoms of a costly problem and start looking at the root of the issue. Then, together, we build a holistic solution that has a lasting impact on your business overall.

For more information regarding SDI's MRO Supply Chain Management Services, please contact jim.owens@sdi.com

