



Supply Chain

## Better Supply Chain Management: Take Control of MRO Spending

Don Sears | Jan 26, 2018

Looking for new ways to find savings in your manufacturing operation? Dive in to MRO spending and find out how to tackle the chaos in inventory management and process and policy controls. Become accountable and reap the TCO rewards.

It's no secret to purchasing managers: You can no longer afford to ignore or dismiss maintenance, repair and operations products used every day on the shop floor. It might not feel like these components and parts used to machine products and keep workers' body parts out of harm's way are part of your cost-control duties. If you want to influence MRO spending, they need to be on your radar, say MRO, supply chain management and purchasing experts.

The nuts, fasteners, helmets, gloves, eyewear, machine lubricants and cutting tools all matter because they all have a cost to acquire, to store and to replenish. And what if you have separate manufacturing operations with their own profit and loss numbers and distinct budgets? How are MRO supplies being handled across separate operations?

When done right, supply chain management has the potential *to truly reduce total cost of ownership*. When left unattended, MRO costs can account for upward of 40 to 45 percent of manufacturing expenditures, according to Supply Chain Management Review. As the Material Handling & Logistics white paper "*It's Time to Rein In MRO Spending: 7 Tactics for Reducing MRO Inventory Costs*" finds, you can uncover MRO cost-saving opportunities in "hidden places" by eliminating departmental roadblocks and bad inventory management habits.

### Take Measure of Spending Across the Supply Chain and MRO

"MRO supply is often overlooked as an 'inventory' responsibility; as a consequence, it is rarely handled with the rigor and attention that it should be," *writes* Supply Chain Management Review in the article "The Case for Managing MRO Inventory." "... MRO supply activities have little direct accountability, and are driven too often by stockouts rather than any overarching supply chain plan."

Anecdotally, the article shares examples where MRO inventory is expensed but sits somewhere on the shop floor "without any identifiable locator system, ID, or a usage history." The result? It's difficult to understand true costs. If MRO products are unaccounted for or there is little to no information about

how often an item is used, MRO spending can become chaotic and costly pretty quickly.

“If the MRO storeroom is unreliable, engineers and other workers often will take more than they need and create uncontrolled substocks in the plant,” **says** George Krauter, supply chain expert and author of *Outsourcing MRO: Finding a Better Way*. “If there is vertical integration, duplications could be optimized.”

More organizations are beginning to see how to drive process and supply-delivery efficiencies that balance **shop floor needs with cost control**. Research firm Aberdeen Group **finds** best-in-class MRO performers report superior operating margins, lower maintenance costs, better return on assets and less unscheduled downtime (2 percent versus 5 percent) when compared to the industry average.

## Do You Understand All of Your MRO Costs?

It’s easy to see how truly out of whack MRO costs can become when you peel back the onion of your procurement process. MRO spending encompasses everything from the cost of a purchase order to the timing of products on the shop floor based on their usage.

“When you ask a customer how much it costs to generate a purchase order, they most often tell you anywhere from about \$75 to \$100 per purchase order,” **says** Darr Greenhalgh, senior manager of customer business solutions at MSC. “And as you do an evaluation and assessment of what they’re buying, you’ll find the cost of the product in the purchase order is far less than that.

“You can’t just apply a singular approach to how you buy. You wouldn’t have your 2-cent fasteners coming in every day just to hit your production line on time. And similarly, you wouldn’t want to take your \$200 diamond carbide cutting tools and pile up six months’ worth of them because of the individual piece-price cost and cost of inventory carry.”

To get a deeper understanding of the real-world methods for taking control of MRO, explore **“8 Total Cost of Ownership Questions for an MRO Supply Chain Expert.”**

***Learn how to take control of your MRO operations with inventory management solutions including vendor-managed inventory, customer-managed inventory and vending systems.***

## Get to Know the Final Product and Embrace MRO Supply Chain Culture

Consider this: MRO spending is larger than the **piece price per widget** or individual grinding wheel. A focus on buying the lowest-priced MRO item to reduce costs is not the only way to achieve cost containment, though it is often used by purchasing teams. MRO spending should be understood in the context of an operation’s daily, weekly and monthly needs, say supply chain experts. In this respect, purchasing managers and their teams could need to become more intimately familiar with their business’s manufacturing and maintenance work.

To understand MRO spending, it’s critical to first realize there are a variety of uses for these supplies. In simple terms, across manufacturing operations there is production and there is maintenance—two

distinct but equally important areas that coalesce on the shop floor.

Furthermore, the purchasing department does not want to be known for adversely affecting downtime or quality.

“The behavior of the purchasing department signals a company’s true goals to its supply chain,” *writes* Ned Hill, a professor of public administration at Ohio State University, in an Industry Week article, “How To Keep Your Supply Chain From Killing You, Part 4.”

“Quality will suffer if suppliers think that the purchaser talks a ‘quality matters’ talk, but walks a ‘lowest price over everything else’ walk,” Hill points out.

The degree to which purchasing is integrated with developing and specifying final products will also affect a business’s supply culture, according to Hill. “Is it a team, or is the spec tossed over a departmental wall, and purchasing managers told to scurry around and get quotes?”

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Professor of Public Administration and City & Regional Planning, Ohio State University

To help bridge the purchasing shop floor divide, here are 10 MRO and supply chain questions to answer:

- When do components and tools need to arrive?
- Where will MRO supplies be located?
- Are parts, tools and other key supplies near to the work being performed?
- Can MRO supplies be tracked and accounted for (and locked and accessed by authorized workers)?
- What is the impact of the MRO item on production output and downtime?
- What is the impact on machine maintenance operations?
- Is maintenance on a predictable and repeatable schedule?
- Are there MRO key performance indicators in place?
- What safety and compliance laws affect MRO supplies?
- Are there defined processes and policies for all affected areas?

To embrace a supply culture in MRO spending, educate yourself on your business’s metrics, policies, procedures, systems and people. Get pointers in our white paper: *“It’s Time to Rein in MRO Spending: 7 Tactics for Reducing MRO Inventory Costs.”*

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