

# RUBIX

## Insite™ MRO procurement made simple

White Paper



Tackling MRO complexity to realise the  
benefits of supplier consolidation –  
an opportunity for UK manufacturing.

# RUBIX

# 01

# Introduction

*For most manufacturers, procurement strategies for direct spend items – such as raw materials and items forming part of the finished product – are carefully planned and scheduled to ensure value for money, high levels of availability and optimal inventory holding.*

With indirect items such as maintenance, repair and overhaul (MRO) products and industrial consumables however, the procurement process is typically far more unpredictable and ad hoc. Purchasing from multiple local suppliers, holding excessive amounts of inventory due to unpredictable usage and thousands of order and invoice transactions are common occurrences for many manufacturing companies. As the cost for each individual item is generally relatively low, rationalising procurement is not frequently prioritised – and when it is, the task at hand can be complex and daunting.

Take for example a manufacturer holding 10,000 stock-keeping units (SKUs), being

purchased by numerous individuals from stores staff to engineers, technicians, managers and production staff, and with no regulation over supplier choice or frequency of ordering. A single high-use item – perhaps an abrasive disc, spanner or disposable glove – could be being purchased by different people, from different suppliers, at different prices, at the same time, and without consideration of stockouts or overstocking. Across one plant this could prove a minefield, but across a multi-site organisation, standardising the brand, model, price and stock could seem an insurmountable challenge. It is generally recognised that whilst spend on MRO and industrial supplies can represent around 15 to 20% of total spend this category can equate to 80% of purchasing transactions.<sup>1</sup>

Optimising the MRO procurement process can therefore not only deliver significant savings in terms of pure product cost, but also in administrative costs, a reduction in inventory, and supply base.

*“ Direct material purchasing is where most companies apply significant focus, exerting strong control over their upstream supply chain. Purchasers in this area typically have a high level of experience in the manufacturing process. However, for most manufacturers, optimising indirect spend is much more difficult due to the complexity of this category and existing working practices – buyers may not be able to identify when a deal is a good deal. In starting on the journey to optimising MRO procurement, many purchasers find they have more questions than answers. ”*

# 02

## Uncovering the true cost of MRO

In a study by the Aberdeen Group,<sup>2</sup> a survey summarised the key challenges cited by those tasked with procuring industrial and MRO supplies.

Lack of visibility into spend was highlighted as a significant challenge faced by organisations aiming to streamline and optimise MRO procurement, closely followed by an inability to ensure compliance with supplier contracts.

Where multiple individuals are empowered to purchase, duplication of orders is highly likely as teams work in local silos and there is no centralised control over ordering, leading to a lack of accountability for MRO procurement.

Within multi-site organisations, buying practices at site level often result in individual loyalty to local, niche suppliers, meaning hundreds of companies may be issuing invoices to a single site. While the niche supplier may not be charging a premium for the products to which individual buyers feel loyal, using a large amount of such suppliers increases the administration time associated with ordering and receiving goods as well as processing payments. These suppliers often have a relatively small share of the company's overall spend and are therefore unlikely to invest in delivering value adding initiatives.

A lack of traceability also leads to an inability to create accurate purchasing plans and strategies, as organisations rarely have a true picture of the volume of items used

and the correct amount to be held in stock to maintain optimal service levels. The unpredictable demand of MRO items can lead to holding 'just in case' stocks which ties up cash in inventory and, as there is often a lack of traceability and a large number of people responsible for procurement, further stock could continue to be ordered due to a shortage in one area when large supplies are available elsewhere.

The survey also highlighted the challenge of gaining year on year cost savings. This problem can be exacerbated where a company sources its indirect items from a large number of suppliers, where each vendor is providing only a small number of products sourced by the company.



“ While MRO supplies account for only 15 to 25% of total material spend, they represent, in most organisations, a highly disproportionate ratio of total procurement efforts and expenses. MRO usually involves 75 to 85% of line items bought: man hours expended in purchasing, receiving, storeskeeping and intra-company materials movement; purchase orders issued; invoices processed; accounts payable cheques; cost and material accounting; data entry; database maintenance; bidding, sourcing and negotiating; inventory obsolescence and overstock; expediting and tracing of open orders; missed or late deliveries; errors and quality deviations.<sup>1</sup> ”

## 02 Uncovering the true cost of MRO cont.

In this instance, it is virtually impossible to drive meaningful year on year savings. There is often little or no incentive for an individual supplier to offer price reductions for leveraged volume, or for them to dedicate resources to cost savings or continuous improvement activity.

The implication therefore is an excessive number of MRO parts and SKUs, supplied by hundreds of local suppliers with no incentive to negotiate on price; a high volume of transactions expending unnecessary administration time; lack of standardisation and best practice amongst the supply base; and high obsolescence of MRO part numbers which may be frequently recreated despite high volumes of stock already in place.

The complexities of MRO procurement mean that the costs associated with

procurement and inventory management are greater than the product item price, increasing the total cost of ownership many times over. In fact, in a typical cost profile of MRO and industrial supplies, only 40% of the total product spend can be attributed to the product itself. Some 35% is down to the cost of inventory – storage, handling and obsolescence costs – while the remaining 25% is accrued through the cost of procurement. This includes the hours of work associated with selecting products, ordering and receiving and making payment, as well as the cost of errors. This means that for every £100k of annual spend on MRO and industrial supplies products, the total cost of ownership is around £250k or more when all factors are considered.

## Total Cost Elements of MRO & Industrial Supplies

Product Item Price  
**40%**

Product Inventory  
**35%**

- Cost of capital
- Storage costs
- Stock obsolescence
- Internal handling & put away

Cost of Procurement  
**25%**

- Product selection
- Quotations & PO raising
- Receiving & accounts payable
- Internal handling & paperwork

**£100k Product spend  
= £250k Total Costs**

# 03

## Understanding best practice in MRO & industrial supplies procurement

As part of an in-depth report by the Aberdeen Group<sup>2</sup>, the study showed that 'best in class' companies were successful in achieving cost reductions of 19% by taking a considered approach to MRO and procurement. However, the benefits were not purely financial – best in class organisations also: achieved a 14% reduction in parts inventory; reduced supply base by 17%; and recorded a reduction in administrative costs of 18%.

The study, based on a benchmark of 150 companies, found that the organisations performing poorly could only record savings of 2-3% across each of the above categories, while even average companies noted a saving of between 7 and 9%, pointing to a clear opportunity for the majority of organisations.

*“To maintain and improve plant uptime, having the correct MRO products available at the time of need is imperative. While it is tempting to keep high inventories in stock, bringing on board a strategic MRO supplier can drive down unnecessary inventory and the associated costs. Effective MRO partners will often be able to deliver critical parts within 1-2 working days, therefore eliminating the need to hold these products on-shelf in stores. ”*



## 03 Understanding best practice in MRO & industrial supplies procurement cont.

So what constitutes 'best practice' in MRO and industrial supplies procurement and how are cost and production efficiency benefits really achieved?

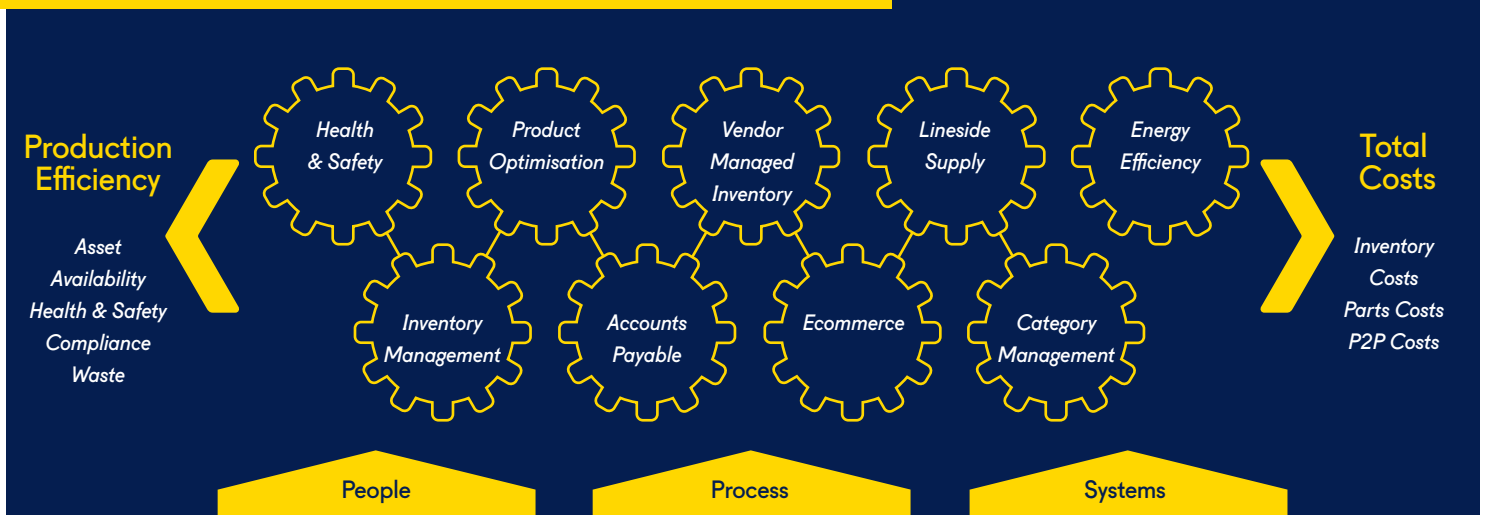
A number of factors, which regulate people, processes and systems, contribute to best practice. To extract the greatest value, each facet should be seen not as a standalone concept but as a cog in a wider machine, linking to other aspects of procurement and bringing people and processes together to ensure everything – and everyone – operates uniformly.

Product optimisation and inventory management are closely related, for example. Organisations should regularly review usage of both OEM (original equipment manufacturer) and substitute parts to ensure the most suitable products are purchased and in stock, while applying lean and 5S principles helps avoid overstocking, obsolescence and stock-outs within an engineering stores environment. Product optimisation ensures that the same or similar items are not being purchased through multiple suppliers, reducing the supplier base, while rationalising the design and layout of the stores facility simplifies inventory management on site.

Applying best practice to MRO can also contribute to enhanced energy efficiency and even health & safety.



## Industrial Supplies & MRO Best Practice



### 03 Understanding best practice in MRO & industrial supplies procurement cont.

Careful analysis of personal protective equipment (PPE) needs can help avoid over-specification and the associated overspend while maintaining correct protection for employees. Similarly, reviewing energy-intensive assets such as motors, drives and pumps to ensure the most efficient models are available – as well as implementing a robust repair/replace policy – can cut costs through reducing energy consumption.

In terms of processes and systems, best practice in accounts payable and e-commerce are also linked – both online ordering and receiving consolidated invoices electronically cut down on transaction costs as well as saving employees' time, freeing them up for value-adding projects. Efficient category management meanwhile, through implementing supplier service level agreements (SLAs) and scorecards, should aim to achieve in excess of 80% contract spend consolidation compliance.

To further optimise efficiencies among production or maintenance employees, lineside supply is an important factor to consider which involves making high volume industrial consumables available close to the point of use, rather than a long 'walk and wait' trip to stores. This approach improves plant productivity by ensuring employees remain at or close to their work stations.

Best practice, however, cannot be implemented successfully without being aligned to clear goals. Joel Roth, in his book 'The 20% Solution: A practical guide to dramatic cost reduction in MRO procurement', notes that: "When asked for their MRO goals, many procurement managers offer vague statements like 'lower costs, better service, higher quality.' Or, 'I'd like to cut prices by 10%.' Goals that are general are useless; they must be specific and measurable. Moreover, goals must be related to activity levels: it is probably unrealistic to expect a 20% cost reduction if production volume is increasing by 20%."

The following examples of SMART – specific, measurable, achievable, realistic and timely – goals applied to the optimisation of MRO procurement help to demonstrate this principle:

- Improve signed-off operational cost savings by 25% over 3 years through vendor consolidation and partnering with strategic suppliers
- Reduce purchase to pay costs by 20% through the application of consolidated invoicing and vendor reduction

- Reduce working capital tied up in inventory by 10% over two years through the use of vendor managed inventory and consignment stock
- Reduce product consumption by 25% for fast moving consumables by implementing industrial vending
- Reduce the number of MRO related SKUs by 25% over three years through product standardisation and OEM conversion

***“Applying best practice to MRO can also contribute to enhanced energy efficiency and even health & safety. ”***

## 03 Understanding best practice in MRO & industrial supplies procurement cont.

Developing strategic relationships with a smaller number of suppliers can help achieve all of these objectives, as stronger partnerships lead to the delivery of valueadding services. By replacing a large, fragmented supplier base with fewer, longer-term relationships, organisations can leverage reductions in transaction costs and operational cost savings as the vendor is as motivated as the company itself to not only achieve savings, but add value through close collaboration. With fewer suppliers also comes more streamlined ordering, a reduction in the number of invoices, and less time spent on administration and stock handling.

Returning to the concept of best practice in MRO procurement, one additional factor can be implemented which has the potential to impact all other aspects – from product optimisation to category

management – and manage the setting and measurement of goals: vendor managed inventory.

Choosing to outsource the management of industrial supplies and MRO is a strategy recognised by the Aberdeen Group as part of its 2006 report.<sup>2</sup>

For organisations operating at ‘average’ level (that is, undertaking some best practice activity but recording savings of only around 7-9% compared to the 19% possible), the report recommends outsourcing specific areas of MRO procurement and management as one method of improving performance. The report notes that, as external providers understand market dynamics they are therefore able to leverage more favourable agreements, and also focus on more strategic cost reductions.

Far from considering MRO procurement a box ticked for companies ranked as best in class, the report recommends outsourcing key elements to maintain savings and make further gains in cost and efficiency benefits.

*“ The key to maximum benefits and value in MRO procurement cost reduction is to determine your needs and objectives, then find a supplier-partner whose core competency matches those needs and objectives. This is far more important than seeking competitive bids and the lowest price. It is also the reason that a negotiated partnership is almost always the most productive arrangement.”*





# 04

## Implementing Insite™

*With the outsourcing of elements of MRO through vendor managed inventory and the use of on-site supplier personnel recognised within the industry as a viable tool for increased cost savings and enhanced efficiency, identifying a trusted supplier with whom to collaborate is just stage one of a multi-faceted partnership.*

A suitable value adding supply partner must have excellent relationships with the manufacturers of MRO products and industrial consumables – able to not only leverage buying power, but also benefit from technical expertise, exclusive product ranges and OEM support. The supplier must be able to demonstrate past results, validated if possible by independent third parties, detailing the cost savings achieved alongside customer testimonials. They should have a track record of successfully implementing lean engineering stores and vendor managed inventory solutions, demonstrated by their own best-in-class supply chain, and show how their activities have delivered added value over and above pure cost savings.

One of Rubix's key solutions for MRO procurement and management is our Insite™ service - effectively a dedicated Rubix branch housed within a customer site geared entirely to meeting the needs of that organisation.

By dealing with only one supplier, ordering is rationalised and purchasing power is leveraged. Without each local site ordering from their preferred supplier with different

costs and codes, time spent processing paperwork is vastly reduced. Only one invoice per month can be produced, covering all items consumed, meaning organisations do not have to tie up resources in non-value adding activity – a major benefit of supply chain consolidation. When orders are received, they can be shipped as part of a consolidated delivery, creating further handling efficiencies as well as economies of scale.

Each customer Insite™ is managed by experienced Rubix personnel who have first served in one of a network of nationwide branches where they gain technical product knowledge and customer service skills. Becoming part of the team, they are then able to use this experience to proactively co-ordinate internal and supplier technical experts to deliver a range of operational cost savings associated with MRO such as product optimisation and energy efficient initiatives.

Insite™ managers provide dedicated onsite customer support, helping customer stores, engineering and maintenance teams to identify and source the correct products from Rubix's extensive range. This activity allows engineers and operational personnel to focus on value adding activity and improves plant productivity.

At the outset of an Insite™ implementation, Rubix works closely with customers to understand current processes and systems as well as their MRO and industrial supplies needs.

*“For a partnership with an MRO supplier to be successful, a number of prerequisites must exist. Responsibilities for each party must be clearly defined, with standards and objectives agreed at the outset. As this is a partnership approach, rather than a traditional supplier customer model, regular reporting and reviews at the appropriate level must also be conducted to both communicate successes and highlight development areas – especially across multi-site organisations. ”*

## 04 Implementing Insite™ cont.

Key performance indicators (KPIs) and SMART goals are set jointly, to an agreed timetable, with Insite™ managers working closely with in-house teams to identify and deliver MRO related efficiency and total cost improvements.

Rubix has a strong track record of delivering operational cost savings for customers, many of which have been facilitated by the use of our Insite™ service. In the UK, for strategic customers, these efficiencies represented around 14% of their total purchasing spend.

By reducing the amount of customer owned inventory and replacing with in-house consignment stock, paid for only once used, customers are able to reduce the amount of working capital tied up in stock. Lead times are also reduced as,

should an item not be in stock within the Insite™ itself, it can be delivered from our central NDC – on the same day if required.

For some customers, Insite™ can be extended to include a managed stores operation. This covers the outsourced management of a customer's engineering stores function by Rubix. Expertise in optimising and managing stores functions in line with lean methodology, as practised at its own NDC and branch network, means Rubix can support improvements in efficiency and inventory management practises.

Insite™ staff have a wealth of experience in MRO essentials, meaning value-adding projects can be suggested which can further reduce costs and create efficiencies.

In order to achieve these results, our cost saving approach follows a three-stage process:

1. Identify opportunities for cost savings or efficiency improvements.
2. Produce an operational cost savings report or Lean A3 document, detailing the initial problem, solution and monetary impact. Cost savings achieved are calculated against measurement criteria set with customers at the outset.
3. Report and share best practice across a multi-site customer group and within Rubix – giving rise to the opportunity of replicating success at multiple sites.



# 05

## In Summary

*As a solution for the optimisation of MRO procurement disciplines, Rubix's Insite™ service provides the buying power of a major pan-European supplier with the personal touch of on-site MRO product experts who are able to quickly integrate with a customer's team to deliver high levels of customer service and cost saving delivery.*

Insite™ helps customers improve purchasing leverage through vendor consolidation and improved contract compliance, cutting down on the local loyalties experienced by many multisite organisations and vastly reducing the overstocking, stockouts and obsolescence of stock that is common when procurement is lightly regulated and performed by multiple teams.

By cutting down on purchasing administration and invoice transactions, Insite™ can also reduce purchase-topay costs.

Finally, implementing an Insite™ can improve productivity through faster identification of parts, allowing the Insite™ manager to act as a single point of contact to co-ordinate all aspects of the supply chain, and by ensuring the correct product is in the right place at the time it's needed.

More than 100 Insite™ locations are in operation across the UK, covering both single and multi-site organisations, delivering cost savings and efficiency improvements on a daily basis.

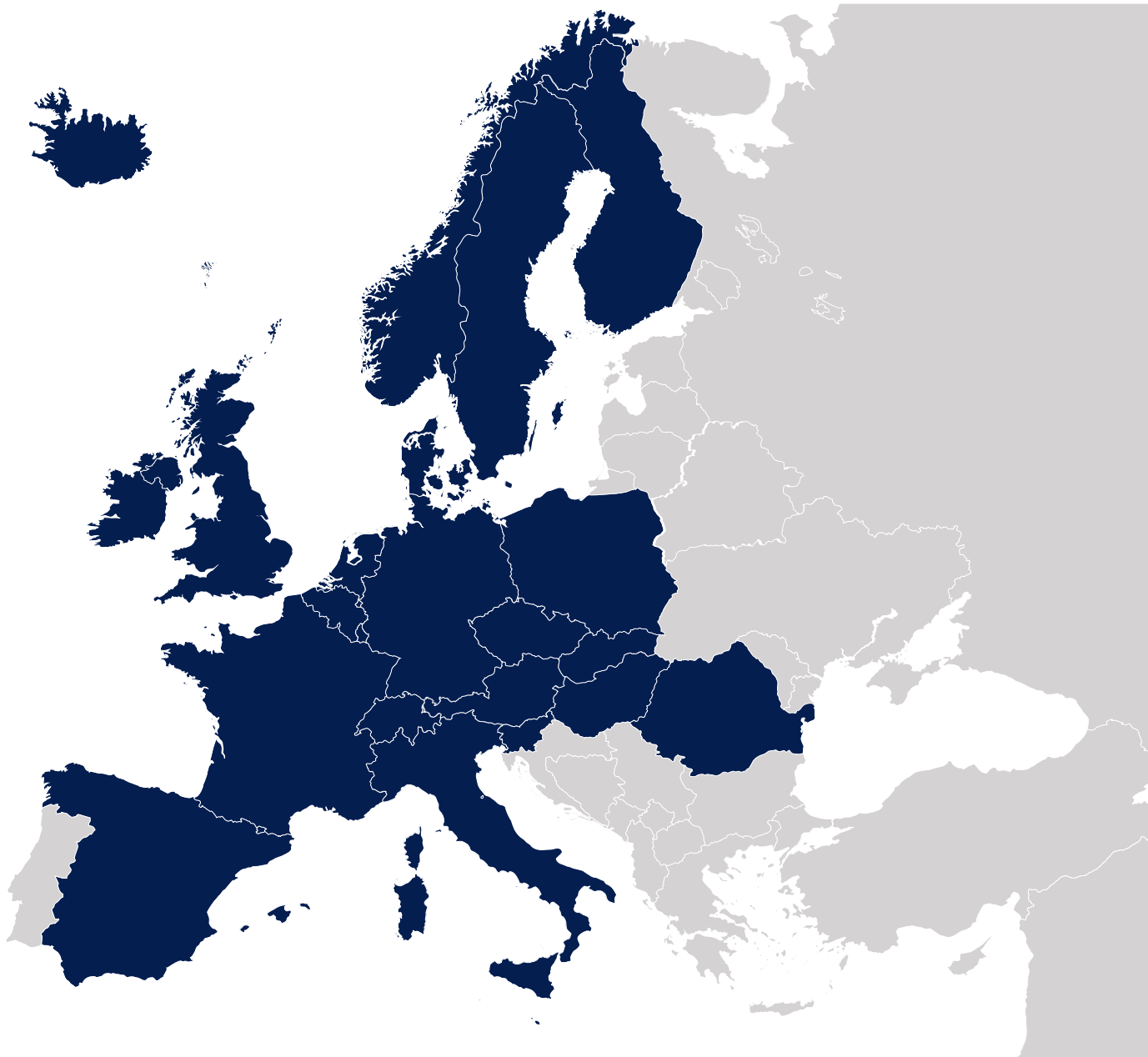
For further information visit [uk.rubix.com](http://uk.rubix.com)

### References:

1. The 20% Solution: A practical guide to dramatic cost reduction in MROP procurement – Joel Roth, 2008.
2. The Maintenance, Repair and Operating Supplies Benchmark Report: Strategies for Improved MRO Spend Management – The Aberdeen Group, 2006.



With our specialist expertise, international strength and local presence – combined with an experienced understanding of your industry – we're ready to keep you moving and help you reduce costs



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