

Maintenance, Repair and Operations (MRO) Cost Reduction Project Case Study

Key Figures

Expenditure: \$40.0 mm

Savings Achieved: \$8.0 mm

Percent Savings (20%)

MRO Integrated Supply Project (Total Cost of Ownership)

Situation Overview:

- √ Major stockrooms utilized by client, 6 significant stockrooms exist with over \$1 mm of inventory in each
- √ Client manages stock rooms with internal personnel but utilizes a local integrated supplier to provide a number of items for the stock rooms located at the headquarters location
- √ Levels of control differ greatly from stockroom to stockroom
- √ Low inventory turns and high percentage of inactive inventory
- √ Over 300 MRO suppliers utilized across a variety of MRO categories
- √ In addition to the MRO purchasing for the stock rooms, maintenance, other parts of manufacturing and other facilities are also purchasing MRO items, often through different procurement processes and suppliers than the stockroom channel
- √ Three different inventory tracking systems are utilized in different parts of the company



Methodology Employed:

1. Analysis & Project Plan Development

- √ Conduct purchasing diagnostic (identify supply base, evaluate supplier consolidation & spend leverage opportunities, etc.)
- √ Conduct detailed analysis of process and potential process & workflow efficiencies
- √ Establish the fully loaded, total costs associated with MRO purchases including ordering, stocking and usage
- √ Analyze the cost burden of various processes and activities including requisition, purchasing, stocking, etc. and analyze the reasons driving these current processes and activities

2. Implementation

- √ Standardize to one inventory system or establish better link between existing systems
- √ Implement standard process for monitoring usage
- √ Dispose of inactive inventory
- √ Implement improved stockroom management process (outsourced) to achieve high turns and more control over usage
- √ Reduce supply base and implement partnership agreements with world-class suppliers in high usage categories
- √ Implement new purchasing processes to reduce costs associated with low \$ spot buys

Findings:

- ◆ Many practices and policies have combined to form a highly inefficient process that is adding major cost to the MRO total cost equation:

<u>Number of Steps</u>	<u>Spot Buys</u>	<u>Stock Issue / Replenishment</u>	<u>Impact</u>
Number of Steps	47	49	Increases time and process costs
Number of People Involved	6	5	Prevents accountability, consumes many resources
Number of Internal Handoffs	7	6	Creates more opportunity for error, increases cycle time
Number of Approvals	3	2	Increases cycle time and costs

- ◆ Purchasing processes add significant cost due to low dollar nature of a high percentage of ordering:
- ◆ There are high supplier fragmentation and costs associated with low dollar purchases. Additionally, few "A" and "B" suppliers, as described below are leveraged across client sites:

Figure 1: Monthly PO's - Distribution of Dollars

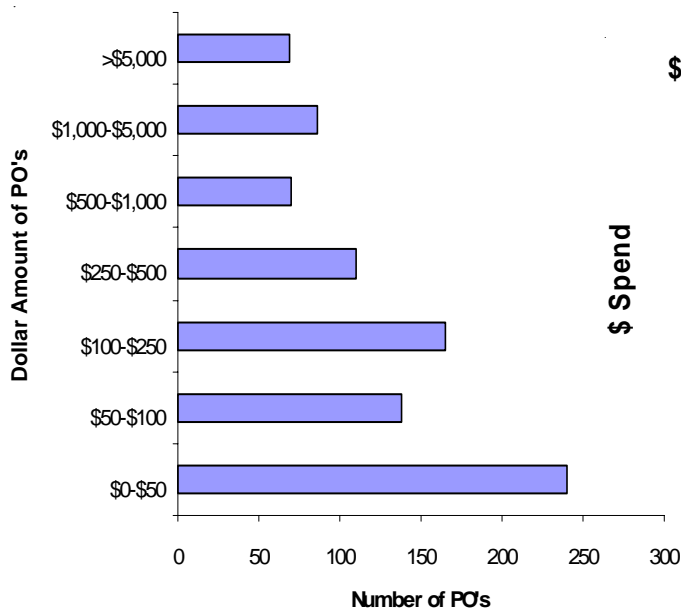
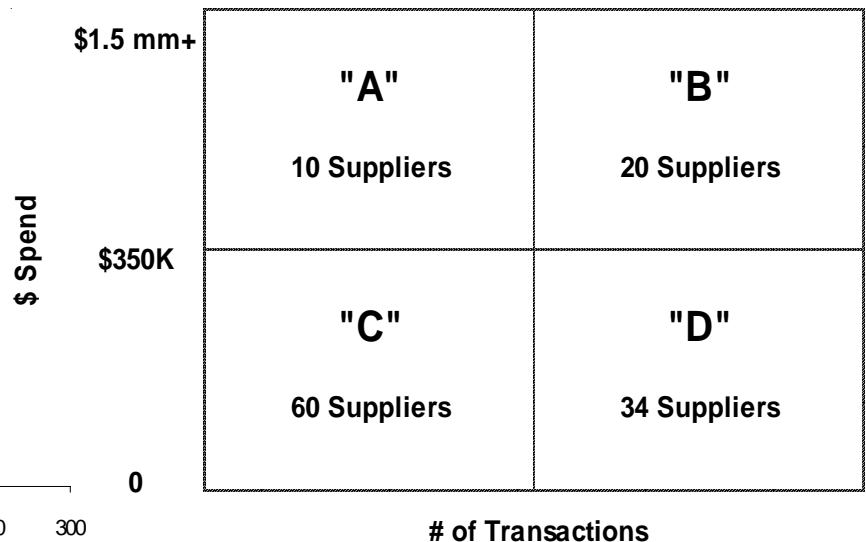


Figure 2: "Site A" - Supplier Matrix



Results:

The Integrated Supply Project netted total cost reductions of 20% or \$8.0 mm through the execution of two central strategies:

1. Process Improvements:

- √ Established plan to integrate inventory systems
- √ Re-engineered sourcing process to reduce work requirements associated with low value spending
- √ Outsourced stockroom management to a full-service integrated supply company to achieve headcount efficiencies and to establish joint continual improvement objectives
- √ Worked with integrated supply partner to dispose of inactive inventory
- √ Re-engineered ordering and stock dispersal processes to minimize internal “touches” and associated process costs

2. Purchasing Initiatives:

- √ Leveraged spend and consolidated suppliers in specific, high dollar MRO categories
- √ Established on-line ordering, consolidated billing and implemented other value added services offered by suppliers to impact the costs associated with MRO purchasing and usage