



Paving the Path to Improved MRO Performance

By capitalizing on internal customer input and collaboration in developing a fact-based strategy, Tenzing Consulting provides a strong foundation for clients to optimize their MRO supply chain for greater business value.



A Tough Nut to Crack

Maintenance, repair, and operating supplies (MRO) can be dismissed far too easily as an area not worth spending a lot of time trying to improve. It's messy, it's difficult to organize, and can be seen as the necessary clutter of running a business—it's the spend category everyone loves to hate. And while these sentiments carry some element of truth, there's one more aspect of MRO that's just as true, it can be a gold mine of potential value when you commit to understanding and improving it.

A leading building products manufacturer with annual revenue of \$2.5 billion decided to make this commitment. With the help of the professionals at Tenzing Consulting, this company identified a major MRO cost reduction opportunity across its 45 facilities in North America. Its MRO universe encompassed such items as electrical supplies, safety supplies, lubricants, mills supplies, and many others representing annual spend of \$25 million.

Escaping the Usual MRO Assumptions

Historically, the company managed MRO at the local site level with no company-wide category management. After all, it wasn't strategic, and conventional wisdom dictated that local decision making close to the users was likely to yield the best results. Not surprisingly, then, with 45 different decision makers making decisions 45 different ways, the client faced many of the most common obstacles to reducing MRO costs and capturing greater value.

First, they suffered from poor or non-existent line-item data. They couldn't tell which parts were used most, where they were being purchased, at what costs, and with what frequency. They were awash in suppliers, each working from its own entry point into the company. The number of active suppliers across the category totaled more than 1,600.

In addition to a bloated supply base, the company's MRO inventories were frequently obsolete because no one had taken ownership of them. The natural tendency to order items and quantities "just in case" resulted in significant obsolescence. This lack of consistent management also created ancillary problems, including inventory shrinkage. Yet despite the obvious issues that the company's MRO practices had created, each site held on to very strong opinions on its preferences for its own suppliers and steadfastly resisted coordination among sites.

A Fact-Based Consensus Rights the Ship

Given the natural resistance of individual sites to accepting a coordinated solution, Tenzing advised the client that consensus, as daunting as the concept seemed at that point, was nonetheless the only way to achieve a viable and sustainable solution to the MRO problem. Any improvement program was likely to fail in the absence of plant-level collaboration and direct input to the strategy. The only way to change opinions in the field was through a fact-based MRO strategy. Based on that premise, the team embarked on a strategy based on achieving this consensus.

First, a Tenzing-supported “MRO Initiative Team,” which included key plant MRO participation from several lead facilities, served as the focal point for all communication, feedback, and decision making regarding the MRO strategy. This team then visited nearly 20 separate plants to interview key stakeholders, as well as to determine local business and service requirements. This became a critical source of data as the strategy developed.

The team then used information from its field visits to build a comprehensive data base of all MRO transactions. In the absence of data, the team created the data needed. They conducted a physical sweep of thousands of old paper invoices, and set up a new data system to audit past and ongoing spending. Only through such a deep, fact-based resource could the MRO Initiative Team confidently analyze the company’s MRO spend, part numbers, pricing, and assess pricing variances between sites. This understanding of the real and challenging levels of complexity of the category was fundamental to the goal of rationalizing what they bought and from whom.

Next, the team developed consistent, company-wide supplier performance criteria covering service levels, quality, pricing, terms, and shipping requirements. The focus was on total value rather than just price and became a critical element in the long-term solution, because it leveled the playing field for all sites under all circumstances. Now national and regional players could be considered in a company-wide evaluation.

Lastly, the team built a comprehensive implementation plan that set priorities by subcategory and plant-by-plant for deployment. The goal remained realizing savings quickly to build confidence behind a more widespread company-wide roll-out.

MRO Becomes a Hero

It didn’t take long for the client to realize exceptional results with value improvement along both price and non-price business dimensions. Some of the MRO improvements included:

- Savings on existing parts and approved substitutes ranged from 18% to 22%.
- The overall supply base was reduced by 60%, while consolidating the bulk of spend and line items to a single primary supplier across five major MRO categories.
- Redundant specs were reduced dramatically, while standardizing those providing the highest useful life and performance. For example, in safety supplies the team reduced the number of line items by 90% from over 1,000 to about 100 while reducing the supply base by 98% by consolidating from 50 safety suppliers to a single national provider.
- The procurement process was also streamlined to take advantage of supplier online tools and catalogs. This step ensured control, pricing stability, and provided ongoing data visibility that has helped reduce MRO inventory even further.

The Tenzing Consulting approach to MRO created tangible, measurable value by insisting on verifiable facts and by being willing to go into the field to find the necessary data. With data as the bedrock of the process, working closely with all stakeholders, to develop a common-sense strategy is critical to success short- and long-term. After that, institute common-sense systems and decisions to drive to the same ideal, to maximize value to the business.

VALUE DELIVERED: MRO OPTIMIZATION

INSIGHT	EXECUTION	SUSTAINABILITY
<p>Fact-based, data-driven strategies to achieve aggressive sourcing / supply chain / operations goals</p>	<p>Discipline, teamwork, flexible process orientation, practical know-how for measurable results</p>	<p>Aligning people, processes, and technology to sustain peak performance results</p>
<ul style="list-style-type: none"> + Adapting prior experience with value engineering, material substitutions, specification rationalization, strategic sourcing and logistics. + Mining field facilities for a wealth of quantitative information that formed the basis of strategic decision-making. 	<ul style="list-style-type: none"> + Instituting supplier performance criteria to standardize and rein in what had been a haphazard system fraught with inconsistency. + Ensuring acceptance and adherence to the plan by first building consensus and establishing internal ownership. 	<ul style="list-style-type: none"> + Establishing a repeatable process, based on priorities per category and plant. + Equipping internal managers with tools to control inventory and pricing on an ongoing basis. + Achieving significant annual savings with direct and positive impact on the bottom line.