

MRO Purchasing Best Practices That Will Benefit Your Company



Whether your company makes widgets, windows, or waterproof wellies, the cost of production extends beyond direct spend for materials and components. The indirect spend associated with the important support materials and supplies that don't appear in finished goods—but do enable them to be created—fall into the category of Maintenance, Repair, and Operations (MRO). These expenses, which can include everything from spare parts, tools, and industrial chemicals to furniture, custodial products, and office supplies, are best handled with the same rigorous attention to supply chain management as direct spending.

The bad news is, while it can account for between 15 and 40 percent of a company's annual procurement budget, MRO procurement often doesn't receive the time and attention needed to optimize its performance and provide effective cost reduction, inventory accuracy, and lasting value. Understanding and implementing best practices for MRO spend can help you recover lost value, avoid costly redundancies, and create truly effective business processes for your procurement department *and* your business as a whole.

Why You Need to Implement MRO Purchasing Best Practices

While production inventory for Material Requirements Planning (MRP) is often managed with laser-like precision to ensure essential raw materials, extra components, and finished goods are in adequate supply when they're needed, MRO supply chains may get something of a short shrift. MRO items may or may not be tied into the central purchasing software system or Enterprise Resource Planning (ERP) package, rendering them invisible as part of your total spend and disconnected from your company's spend analysis and budget—along with its hierarchy of accountability and approvals.

Like a lot of companies, your procurement team likely understands the importance of plugging this lacuna in your procurement strategy, but it can be an uphill climb when you're facing issues such as:

- **Invisible, decentralized spending.** Without a centralized software solution, you may have different locations doubling up on vendors in the same category, losing out on economies of scale and their associated discounts. Redundancies in the supply chain make it tough to accurately evaluate vendors and ensure adequate quality control, lead times, and inventory accuracy, too.
- **Wasted talent and time.** With no way to track or verify inventory, your team may lose time waiting on replacement parts that may already be on hand (somewhere), having paid expedited shipping costs to boot. In addition, instead of applying their talents to their actual jobs, plant managers and other MRO pros will be spending their time on inventory management.
- **An emphasis on cutting costs instead of building value.** Saving 10% on supplies seems like a quick win, but not if it's from an untested vendor who doesn't meet your company's quality control requirements, overcharges, or compromises existing supplier relationships. MRO practices focused on Total Cost of Ownership (TCO) are the key to improving both efficiency and profitability.
- **Lost, misplaced, and redundant inventory.** Like squirrels in a crowded forest, folks in repair and operations may take advantage of absent controls to create their own stashes of essential parts. While this might

seem like a blessing when it reduces equipment downtime or prevents the need for rush delivery of essential materials, it's a dangerous game to play in the long run when compared to the safety and stability of cross-checked, centralized supply management.

Essential Best Practices for MRO Procurement

Change can be challenging, especially if you're working to change corporate culture as well as policy. But the MRO supply chain and its associated spend *can* be tamed, streamlined, and improved if you're willing to adapt and implement a few best practices.

1. Research, Approve, and Integrate a Procurement Software Solution

If you aren't already using a software package to manage your MRO spend and supply chain, now's the time. Modern software makes it easy to track, manage, and control inventory, as well as transaction request, approval, and verification. You won't just gain control of your inventory; you'll have access to valuable data that makes it easy to optimize transaction costs for MRO items, evaluate potential vendors (and track performance for existing preferred suppliers), reduce the number of suppliers in your chain, and slash your procurement budget while still building value.

2. Identify and Track Key Performance Indicators (KPIs).

You can't reliably measure the success of your MRO procurement if you don't have benchmarks and standards. Setting KPIs provides you with essential information that makes the benefits of your initiative clear to upper management and other stakeholders in monthly/quarterly reports.

Some KPIs to consider include:

- Procurement budget
- Vendor performance/supply contributions
- Number of stock-outs
- Maverick spend
- Days/months of available inventory
- Rush orders versus replenishment orders

- Part attrition due to obsolescence

3. Centralize Physical MRO Inventory

Let's say Bob and Tom, two of your plant managers, both use part numbers WidgetX and WidgetY in the course of their MRO duties. If they're each building their own stockpile of Widgets without informing the other, Tom might find himself approving rush shipping for spare parts when Bob has three skids quietly rusting in a dusty closet.

Move all of your MRO items to one centralized place, assigning each a distinct part number, cataloguing stock company-wide, and integrating it with your procurement software package for easy tracking and spend visibility. Consider assigning procurement staff to handle these essential supplies, with an eye toward building strong partnerships with preferred suppliers to keep costs low while still meeting quality and lead time specs.

4. Streamline Procurement with Preventative Maintenance

Once your inventory is catalogued and centrally located, create a schedule—tied to your benchmarks and KPIs—for equipment downtime and, as required by demand and circumstance, order adequate quantities to keep your systems working at optimal efficiency without maintaining unnecessary inventory. You'll find budgeting and forecasting are greatly improved as well, since you'll be able to identify purchasing patterns and plan accordingly.

5. Harness the Power of Vendor-Managed Inventory (VMI)

If you don't want to devote staff resources and time to MRO inventory management, engaging a third-party solution that integrates with your procurement software is a very effective way to achieve optimal efficiency and savings.

With a VMI, you'll push less paper, trim your transactions with on-demand purchases tied to just-in-time procurement planning, and easier invoicing thanks to fewer purchase orders. Depending on the VMI you choose, suppliers may even provide product storage equipment (e.g. shelves, bins, etc.), and manage inventory ordering and physical replacement. Your staff has what they need, when they need it, and your supplier restocks and invoices based on either usage or a specific time period.

Your staff can devote their time and attention to position-specific tasks, and you'll

have a trusted on-site partner in the form of a supplier who can use their knowledge of your system *and* theirs to identify opportunities for greater savings.

6. Educate Staff on the Importance of MRO Inventory Management

Best practices are only effective when they're followed. Connect your procurement team with your MRO staff for interdepartmental educational opportunities, and provide adequate training for procurement software as well as clear explanations of the benefits of value-driven business processes. With everyone on the same page, it's much easier to work toward the same procurement strategy.

Make Smart MRO Management Your Policy

Properly managed, your company's MRO supply chain can be a source of not just cost savings, but tremendous value for your organization. Bring MRO in out of the cold and into a centralized procurement strategy driven by well-defined KPIs and full staff support. Your employees will spend less time on inventory, and more time on what matters: supporting your company's success.

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