



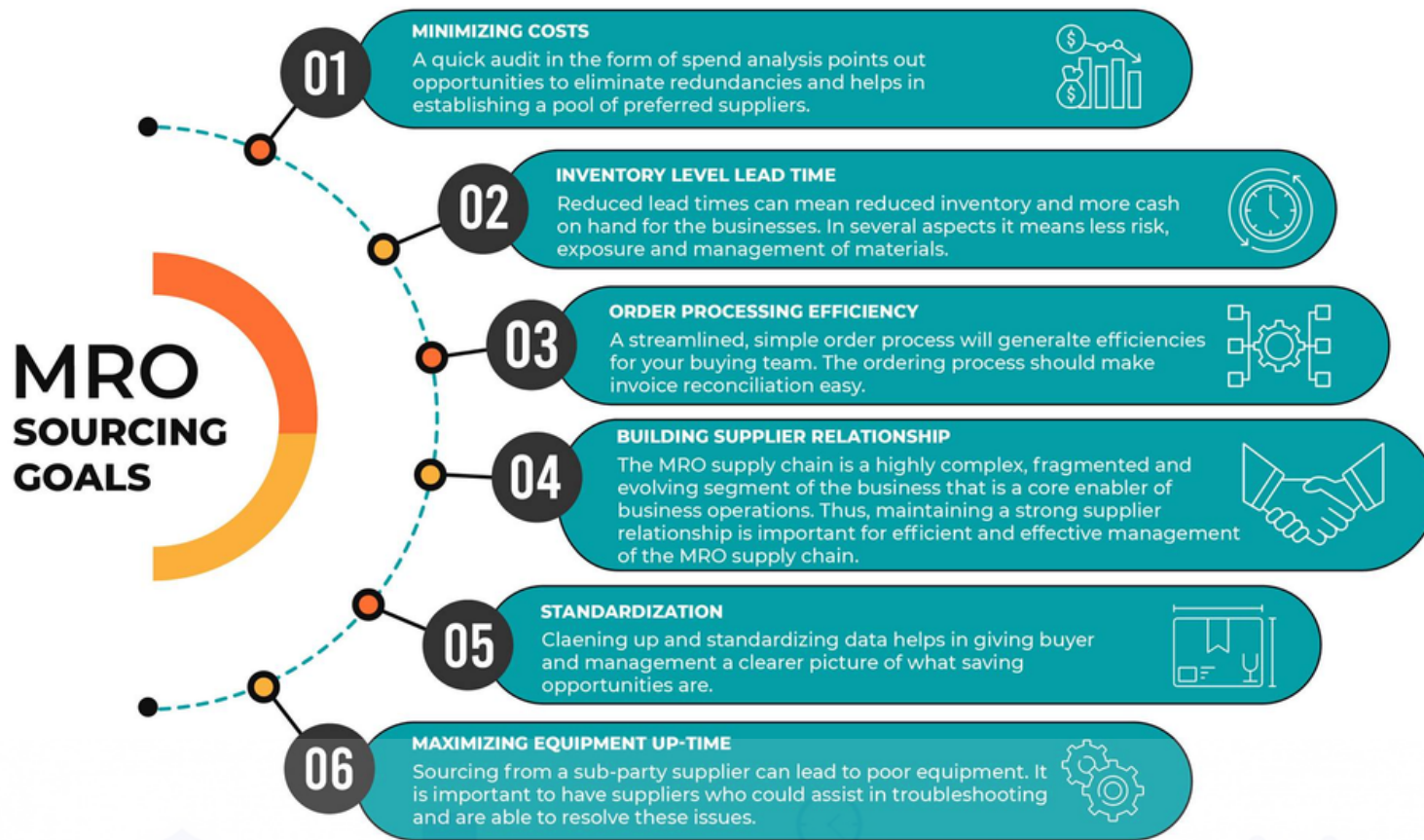
Maintenance, Repair and Operations

PROCUREMENT

What is MRO?

MRO (Maintenance, Repair and Operations) is an umbrella term covering all maintenance parts used for repairs or to support production operations.

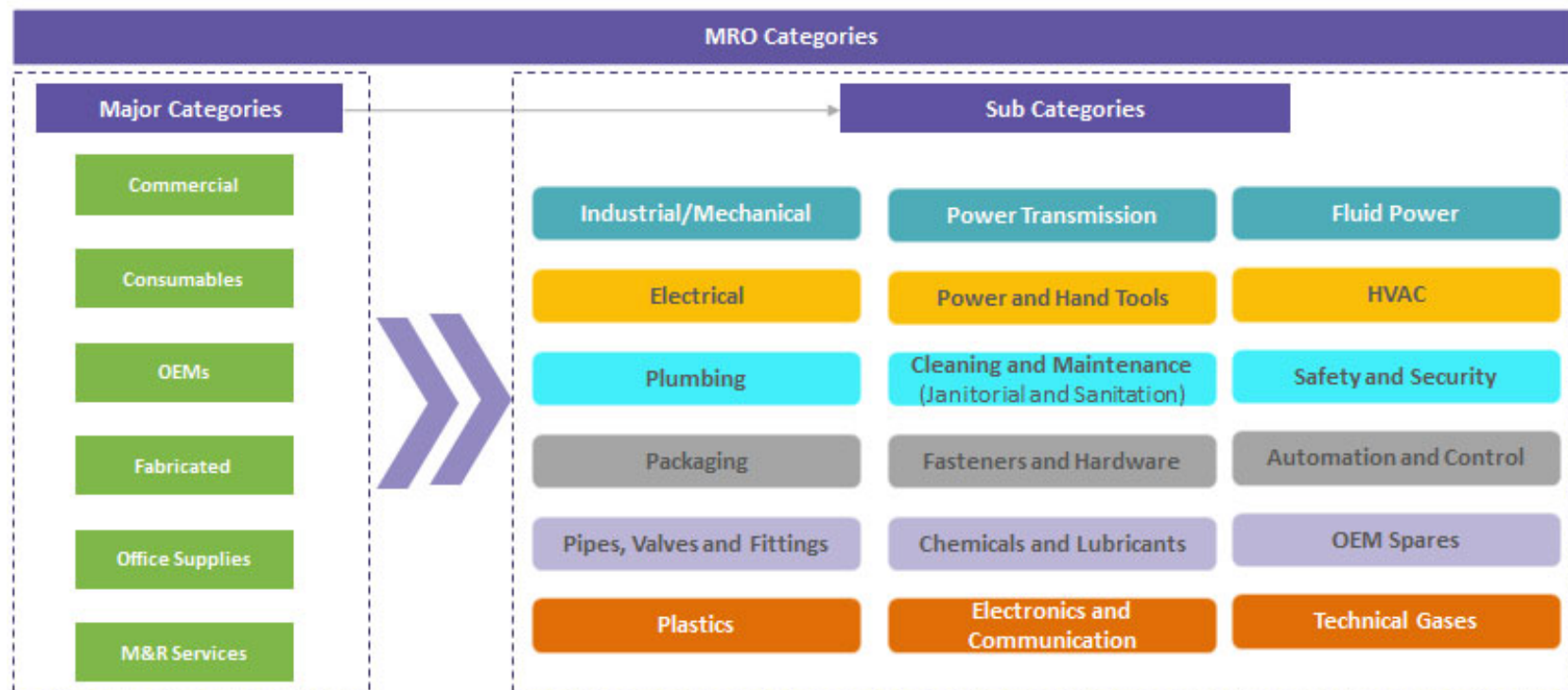
Whilst they are classed as indirect purchases, this procurement category plays an essential role in day-to-day operations.



- Certain studies show that it accounts for between 15 and 40 percent of a company's annual procurement budget therefore, MRO spends category has a high opportunity for cost savings.

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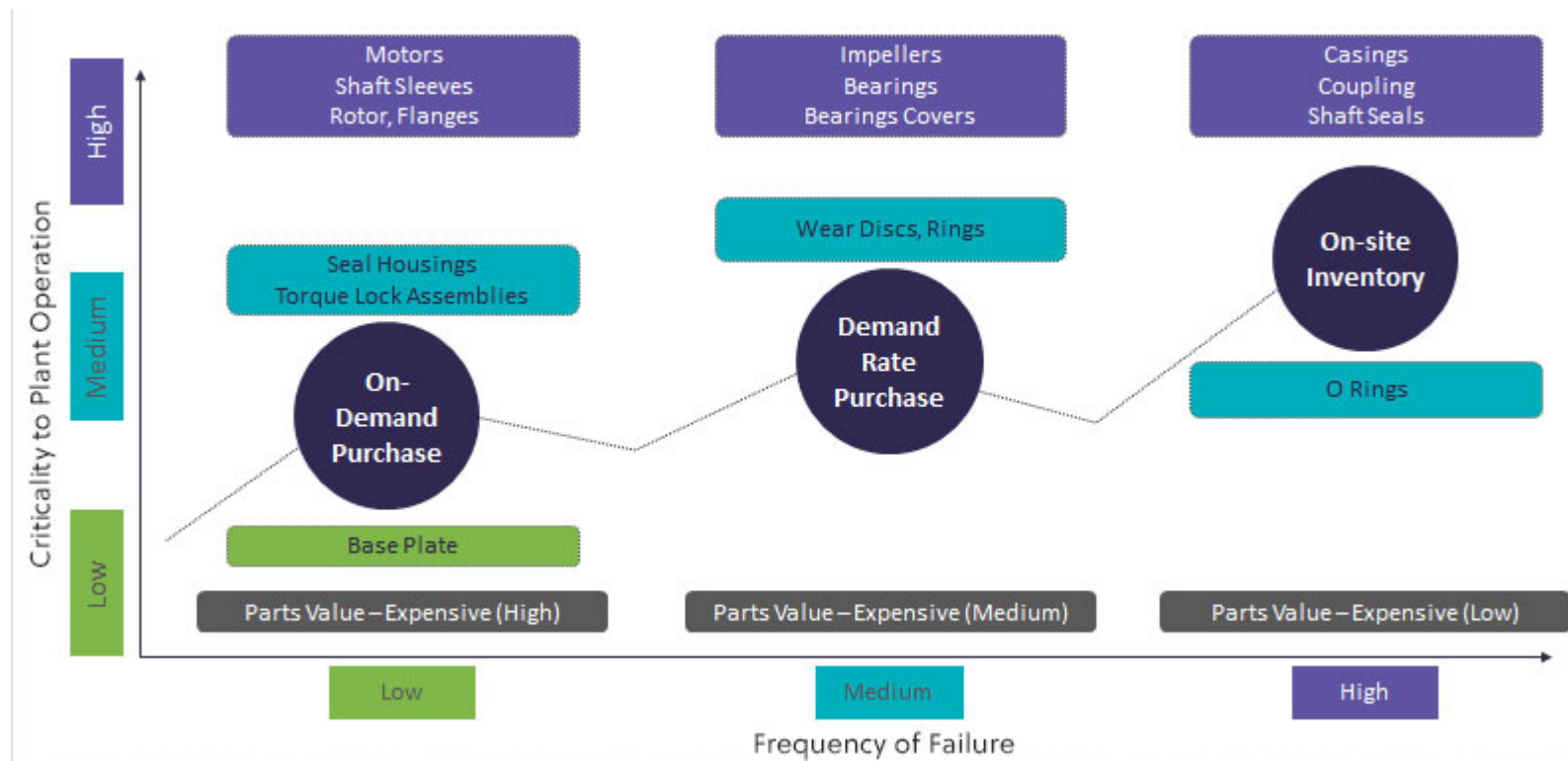
- Understanding and executing best practices for MRO spend can help in achieving the following goals to enhance the competence of the business as a whole.



MRO Categorization Overview:

Though the subcategory trees of MRO differ in the product perspective, the pricing and contract models are very similar.

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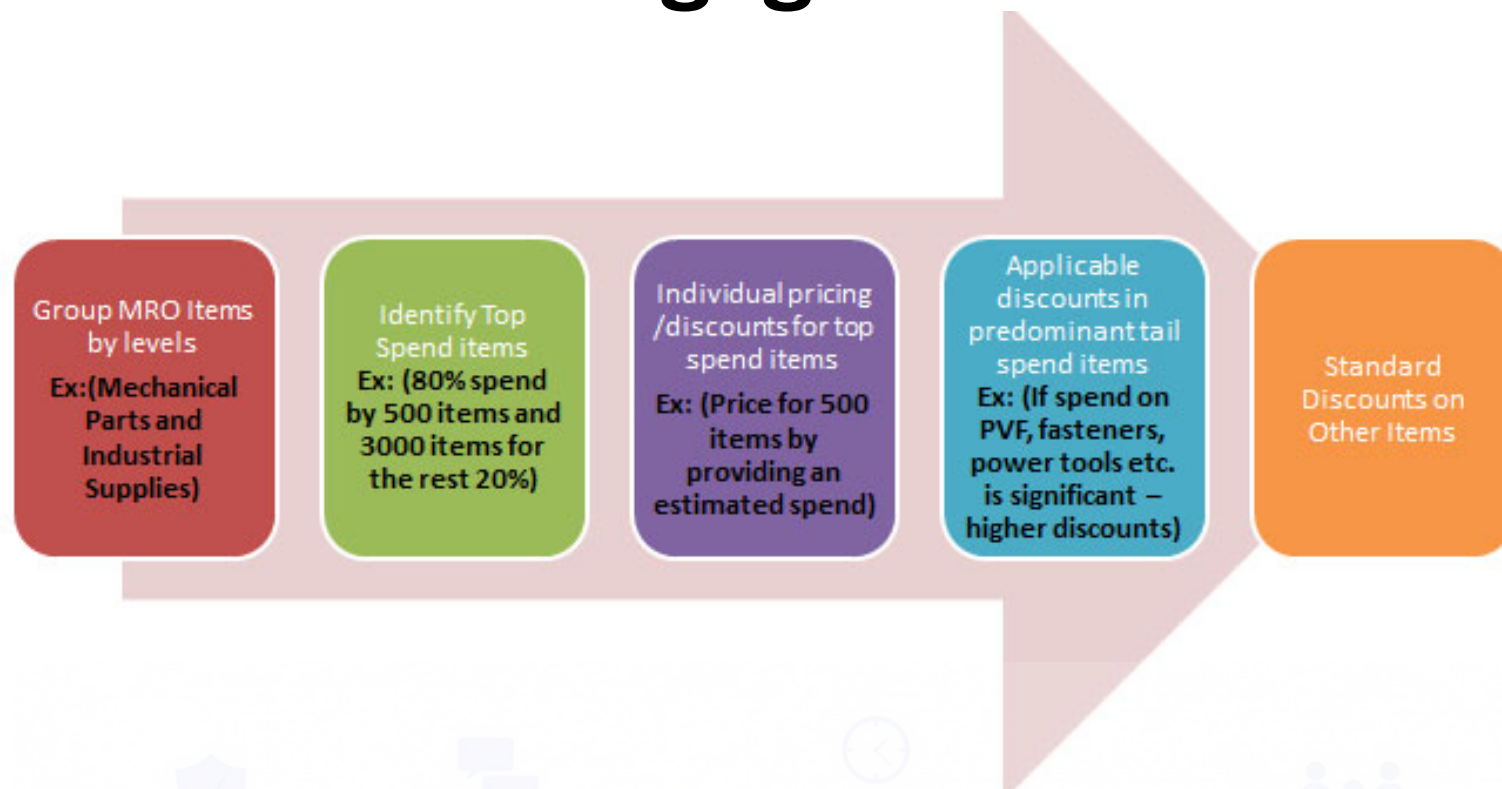


The Negotiation Prerequisites in the MRO category:

Gaining visibility into the MRO spend is one of the critical areas for overall MRO management, and it is very useful for negotiation.

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Market Basket Process to Optimize Sourcing Engagement



- It is prudent to complete the round of RFX and bid to the existing suppliers after the first round of proposals; additionally, getting an additional leverage will further reduce the overall cost of ownership.
- This would introduce transparency and clarity concerning the total category cost among the collaborating suppliers, before the sourcing engagement

Cost Analysis and Traditional Savings Parameters

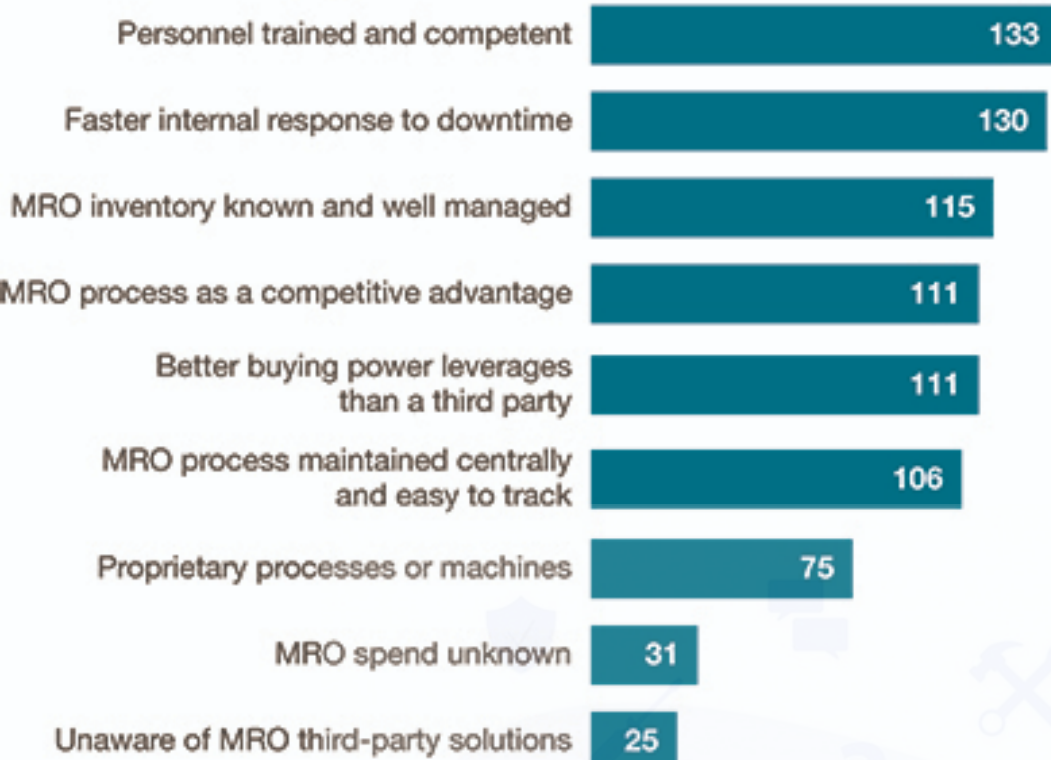
Major Cost Components	Description	Future Trend	Impact on the Buyer
Raw Material	Costs associated with the various materials used for manufacturing the parts	Medium-High	High
Labor	Prevalent market wage rates for labor	Medium-High	High
Administrative & Overheads	The other costs that are not involved in the direct development or production of goods or services.	Medium	Medium
Logistics Cost	All the costs associated with the movement of goods across a country or across the globe	Medium	Medium
Profit Margin	Suppliers add an extra cost to the total cost of the product	Low - Medium	Medium

Cost Analysis and Traditional Savings Parameters

Parameter	Description	Impact Level	Savings Potential
Specification Optimization	Personnel must see whether the specification that has been supplied is the required one or even a lower specification will serve the purpose.	Medium	Medium
Contract and Volume Negotiations	Attaining volume based discounts from the suppliers.	Medium	Medium-High
Long-term Sourcing Strategy for MRO	Proceeding with long-term contracts that would benefit the MRO product categories in order to obtain discounts and rebates from the suppliers	Medium-High	Medium-High
Supplier Consolidation and Optimization	The buyers should reduce the number of suppliers to attain cost savings	Medium-High	Medium-High
Low Cost Suppliers	For less critical items, it is beneficial to engage with the local suppliers rather than a category specialist and review the benefits provided by a preferred supplier as opposed to paying the market costs	Medium	Medium
Customized Ordering	Compare volume usage over time and future requirements to gain insight, and bundle orders to gain maximum profits. Use channels like online ordering to reduce time and cost. Target the cost savings and then engage with distributors.	Medium	Medium

Reasons for managing MRO in-house vs. outsource

Reasons for managing MRO in-house



Reasons for outsourcing MRO management



- A managed service provider will be able to quickly provide this additional capacity and remove it when it is no longer required.
- An insourced solution will always need to have capacity available to meet the peak periods of the year, which results in waste and unutilized capacity.

CONCLUSION

- Overall, for sourcing a complex category with a high product mix, it is suggested to receive initial pricing from suppliers before enquiring about the costing of each product. This would facilitate the comparison of competitive rates with less effort.
- The RFX process should be the starting point for contract negotiations. From evaluating pricing structures for critical items, analyzing COGS/ margins, negotiation on rebates based on annual spend achieved, to assigning order bonuses, all information should be gathered during the RFX process.
- Efficient negotiations through price modeling, cost structures, and basket methodology can help improve all the above strategic parameters
- Additionally, there are traditional criteria, such as supplier lead times, VMI implementation, E-procurement platforms, and services offered, which have been proven to provide holistic opportunities for cost savings in this category.

DID I HELP?

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