Background
CASME RoundTable meetings on the maintenance, repairs and operations (MRO) category were held in Melbourne, Singapore, Tokyo, Dusseldorf and New Jersey. The following main topics were discussed:

- Stakeholder engagement
- Company requirements
- Industry analysis
- Financial analysis
- Strategy development
- Strategy execution
- Contracting
- Performance management
- Trends and technology.

This Digest provides the key points, good practices and insight into future trends identified by CASME members around the world. Full notes from each meeting are available on the subscriber-only Resource Centre.

Stakeholder Engagement
- The challenges for Procurement in managing the MRO category include decentralised and fragmented purchasing, and inadequate co-ordination between the strategies and stakeholders for MRO and capital equipment, creating a lack of synergy across the organisation.
- Approaches that are being used by Procurement to influence and gain the support of stakeholders for an improved MRO purchasing strategy include:
  - Engaging with the relevant stakeholders and budget owners for MRO products and services early in the sourcing process
  - Establishing a collaborative, cross-functional team to develop the MRO sourcing strategy and supply programme
  - Being proactive in interacting with the stakeholders, even when there is no procurement activity, to develop relationships and understand the project pipeline
  - Communicating with individual stakeholders regarding supplier changes, procurement strategies, and important decisions before implementation
  - Presenting the results of spend analysis and benchmarking to the stakeholders, and offering suggestions for achieving improvements; requesting suggestions from the stakeholders and senior management regarding potential improvements and alternative solutions
  - Collaborating with the managers of manufacturing facilities to understand equipment life spans and routine maintenance schedules, in order to provide strategic support with demand forecasting, achieving efficiencies and cost savings, and optimising their budgets
  - Applying influencing tactics, especially when the objective is to initiate a change of suppliers. This may include conducting small-scale pilot schemes to introduce changes and encourage stakeholder buy-in, and communicating success stories from similar projects in other markets.

Company Requirements
- To develop an effective MRO category strategy, Procurement identifies and analyses the global spend, the geographical locations of the company's sites and the available support infrastructure, and the requirements for the various MRO sub-categories.
- Approaches that are being applied by Procurement to manage the MRO category include:
  - Segmenting the MRO sub-categories into strategic, preferred and basic groups, with Procurement managing the strategic and preferred sub-categories, and the users managing the basic requirements
  - Applying a global strategy but assessing each sub-category for local and regional supply where the local requirements, market conditions, business practices or support infrastructure do not correspond with the global strategy
  - Challenging the current standards and schedules for equipment maintenance, in order to identify ways to optimise and improve routine maintenance
  - Developing preferred supplier lists (PSLs) that accommodate regional and local differences; while recognising the value of local knowledge and experience of specific suppliers
  - Implementing e-Catalogues to reinforce the use of preferred suppliers, improve consistency and apply a standard procurement process
  - Investigating the amount of spend that is being placed with different suppliers,
benchmarking those that represent the highest levels of spend, checking that they can fulfil the requirements, and ensuring there are effective contracts.

- Rationalising and reducing the number of suppliers and stock-keeping units (SKUs) used; by standardising spare parts, and the associated naming conventions and coding.
- Expanding vendor managed inventory (VMI) and consignment stock programmes.
- Implementing vending machines for supplying frequently-used items at the point of use, which provides timely and accurate data for analysing consumption, spend and trends, as well as improved stock control, and reduced inventory and administration costs.

**Financial Analysis**

- The spend for a significant amount of individual MRO purchases is below the threshold requiring Procurement’s involvement; therefore it is not under Procurement’s control and it can be challenging to obtain visibility of MRO spend data for analysis. Greater visibility can be achieved through the use of spend analysis tools, such as Coupa, and by obtaining data from the suppliers.
- Total cost of ownership (TCO) analysis is being used to support the purchasing and planning decisions for MRO products and services, to assist with identifying and managing long-term operational and maintenance costs. TCO analysis accounts for the overall costs associated with MRO products and services, rather than only the price per unit, including the cost of transportation, delivery and storage for MRO products, as well as the costs represented by factors such as standardisation and the fragmented supply base in some countries.
- The management of tail spend may be incorporated into the contractual requirements for integrators, with the agreement that the integrator will rationalise and consolidate the supply base for items representing tail spend. Other approaches for managing tail spend include:
  - Limiting the number of new suppliers that can be registered in the procurement system; and incurring a charge to the business for adding new suppliers.
  - Establishing the use of catalogues and purchasing cards (P-cards) with approved suppliers.
  - Channelling tail spend through a single source, such as Amazon Business, with control mechanisms to restrict purchasing to specific suppliers.
- Consortium buying may be appropriate for some products and services, which provides the benefits of volume leverage and price control, as well as assistance with obtaining service coverage for specific items and geographic areas.

**Strategy Development**

- Although the objectives of a global MRO strategy may include the consolidation of requirements with a single supplier, even the large MRO supply companies may not be able to provide global coverage, and they may use a network of subcontractors to fulfil the service and product requirements.

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**Industry Analysis**

- Many companies have contracted integrators to manage MRO requirements on their behalf, which includes performing procurement activities, managing inventory and ensuring quality, as well as delivering guaranteed cost savings and accurate data. The benefits of the MRO integrator model include:
  - Reducing the number of internal personnel required to effectively manage the category.
  - Improved management of the MRO supply base, products, services and inventory by a third-party expert.
  - The application of a single, detailed contract.
  - Improved data accuracy, tracking, reporting and compliance.
  - Obtaining market intelligence, product information, support and training from the integrator.
  - Gaining access to the latest technology and reporting tools for the MRO category.
  - Improved inventory management and quicker response times that reduce downtime.
- MRO requirements may be included in integrated facilities management (IFM) contracts; the IFM company may provide the service through self-delivery or by subcontracting the requirements to a third party.
• When developing the MRO strategy, Procurement needs to ensure that it is aligned with the objectives of the stakeholders and the organisation’s global business strategy.

• The strategies for achieving cost savings need to be determined according to their overall contribution to the organisation’s business objectives, without compromising other strategic outcomes.

• Strategic sourcing initiatives that are providing the greatest benefits include:
  o Achieving alignment between the objectives of Procurement and the business units for both the MRO and capital equipment categories; combining MRO forecasting with capital expenditure (CapEx) strategies
  o Implementing standardised classification and codification for MRO products and services
  o Establishing shared targets for cost savings and cost avoidance between Procurement and the stakeholders
  o Using the integrator model
  o Standardising MRO contracts and payment terms
  o Applying regional and local strategies for labour-intensive sites that require quick-response services
  o Developing effective inventory management policies and processes, with economic order quantities (EOQs), and VMI and/or consignment stock programmes.

Strategy Execution

• The sourcing strategies and negotiation tactics for MRO spend depend on the sub-category and whether a tactical or strategic sourcing approach is appropriate. A cross-functional team may be established to negotiate with MRO suppliers and integrators, comprised of representatives from Procurement to address commercial aspects, Engineering for the technical details, and Legal for the legal contractual requirements.

• Procurement is improving collaboration and the achievement of successful results in the execution of the MRO strategy by:
  o Conducting efficient price negotiations by presenting consolidated volume to the suppliers
  o Identifying the capabilities of integrators that add value to the procurement process, and conducting request for proposals (RFPs) to determine market rates for integrator mark-up margins
  o Developing multi-level relationships, and inviting the relevant business managers to global meetings with suppliers
  o Reducing supplier and company inventories through operational innovation
  o Requesting demand forecasts from the business, for suppliers to develop production plans.

Contracting

• The most efficient and effective contracts are the result of collaboration between Procurement and the stakeholders. A category-specific template may be developed to ensure that the essential terms and conditions (T&Cs) are included in MRO contracts. The duration of MRO contracts is typically between three and five years. Payment terms range from 60 to 120 days.

• MRO contracts should include the service level agreement (SLA), a defined escalation procedure for significant non-compliance by the supplier with the SLA, and equipment uptime metrics. If the equipment downtime is above the agreed level, all or a portion of the service fee is deducted.

• The cost models for MRO products and services include:
  o Fixed pricing for specific products and services for a defined period
  o Cost plus
  o ‘Not to exceed’ pricing
  o Discounts off the list prices
  o Hourly rates plus parts: with a breakdown of all the cost components.

• Contracts that include VMI, consignment stock and vending machines should address the storage and ownership and disposal of stock during and at the end of the contract, to ensure that both the client and the supplier understand who is responsible for the inventory and the associated costs.

Performance Management

• MRO suppliers are typically evaluated using clearly-defined SLAs and key performance indicators (KPIs), with metrics regarding equipment uptime and resolution of downtimes, quality, cost, on-time delivery, safety and environmental standards, and continuous improvement. The strategic objectives of SLAs and KPIs include transferring as much risk and the associated management as possible to the suppliers.

• The delivery of innovation by suppliers is an important factor in the evaluation of supplier performance and added value. Suppliers may
be incentivised to provide innovation by offering them a gain-share model for the cost savings that result from the implementation of their innovative ideas.

- Procurement obtains information to support the measurement of supplier performance from supplier reporting, user satisfaction surveys, audits, benchmarking and research. Penalties may be applied for instances of performance failure, and a reward scheme, such as a gain-share model, may be in place relating to the achievement of cost savings targets.

- The plan-do-check-act (PDCA) model may be applied by Procurement and the suppliers, for resolving issues and ensuring continuous improvement.

- Procurement needs to check the impact on the business with the stakeholders before any decision to terminate a contract is made.

### Trends and Technology

- Strategic trends in the management of the MRO category include:
  - Continued focus on the standardisation and categorisation of MRO products
  - Companies requiring technological support to assist with standardisation, to reduce inconsistencies between sites
  - Procurement becoming more involved in the MRO category as the spend increases, as well as the greater focus being placed on the category by the stakeholders and Finance
  - Increased outsourcing of MRO requirements to integrators
  - Potential increase in the use of consortium buying for specific MRO products and services
  - Increased application of the VMI, consignment stock and consortium buying strategies
  - The application of the Kanban inventory system, based on maintaining a minimal amount of inventory and only replenishing the stock when necessary.

- The technological solutions that are being considered or applied to assist Procurement and the stakeholders with managing MRO requirements include:
  - Digital and automated applications, such as radio frequency identification (RFID) and telematics being applied for allocating and tracking part numbers, to centralise the collection and monitoring of data, and reduce the amount of time and resources needed for inventory management
  - Artificial intelligence (AI) being used to assist with predictive analysis for reducing equipment downtime
  - Spend management tools to ensure visibility of the category spend
  - Mobile apps integrated with enterprise resource planning (ERP) systems, for placing orders and real-time data monitoring
  - Online sources such as Amazon Business, that provide and store pricing information within the system
  - E-Catalogues for online ordering; and vending machines for low-value, frequently-used items at the point of use.

- 3D printing is being used to create prototypes of spare parts, and is expected to become more sophisticated in the future to enable the printing of smaller components, to create just-in-time supplies and address parts obsolescence.

### Resource Centre Links

The following are links to the full meeting notes for each region:

- Asia Singapore
- Asia Tokyo
- Australasia Melbourne
- Europe Dusseldorf
- North America New Jersey
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Important

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