

How to Reduce Your MRO Costs

Acknowledging MRO challenges

As the backbone of a healthy economy, the manufacturing sector is made up of so many moving parts, it's easy to overlook or deprioritize specific areas of the business. And one could make the argument this constantly applies to MRO, spare parts, and indirect materials.

While manufacturers are keenly aware that MRO and indirect materials are a crucial aspect of procurement and operations, ensuring these materials are optimized at all times rarely makes the list of areas business leaders feel they need to improve. But the bottom line is if you keep overlooking this area of opportunity, your profits are going to suffer.

Operations folks understand this all too well. To counteract this issue, they constantly order new parts with little knowledge as to what's already in stock. Procurement folks understand their reasoning, but they're getting pressure from the finance team to efficiently manage spend at all times. And CFOs and finance departments are fuming because write offs mount up year after year on wasted parts and MRO. At heart, most companies truly want to optimize their MRO and indirect material inventory; they just don't know how or where to start.

For many enterprises, past efforts have failed, so countless organizations keep falling into the trap of believing MRO optimization at the item level isn't possible. But who can blame them when considering how this effort has previously been managed? Most companies rely on data cleanses and spreadsheet analysis, which A. take way too much time

to be effective, and B. don't account for new data flows occurring throughout the process.

That's where new technology with advanced analytical capabilities comes in to help. And honestly, solutions that were purposely-built for this area have not been available until very recently. So it's really no surprise organizations have been slow to adopt a sustainable MRO optimization initiative.

With these solutions now available, manufacturers can not only right size their existing MRO inventory, they can also proactively plan and aggregate materials spend across the entire enterprise. This allows them to move away from strategies that only invest on a plant level and shift their focus to a network model that encompasses the entire enterprise. Before we examine the solutions available, let's address the challenges holding manufacturers back.



"When I review MRO processes at industrial facilities, it's not uncommon for me to find savings that total as much as 10%, and sometimes more, of the MRO budget,"

- Darr Greenhalgh, senior manager of customer solutions at MSC Industrial Supply Co.

5 MRO challenges that are commonly overlooked

1. Disparate data creates decision roadblocks

Largely due to M&A activity and infrequent upgrades, plant managers and maintenance teams work out of a complex web of disconnected inventory management systems. As a result, facilities continue ordering parts that already exist within their network or are labeled under a slightly different SKU number.

This disparity prevents the organization from conducting any beneficial research into materials inventory optimization. Not surprisingly the organization misses out on significant opportunities for reducing redundant items and infrequently used spare parts and materials.

What's worse, however, is the added risk of costly downtime and spare part expedites when items are short at one facility but available at another. Creating visibility across similar facilities allows plant managers to implement better decision making around both MRO needs and risk while simultaneously supporting the cost reduction opportunities their counterparts in procurement are managing.

2. No insight into MRO inventory levels

When it comes to spare parts and MRO inventory, managers rarely have any real understanding of how much MRO inventory a plant or facility may have on hand. Storerooms and bin locations are often filled with

materials that have changed names or product codes numerous times. This problem only compounds itself when attempting to manage the entire organization.

Consequently, operations and procurement managers rarely discover the overabundance of certain items or a detrimental shortage of others. Without knowing what items exist when looking to maintain regularly scheduled and emergency maintenance, plant managers struggle to complete crucial operational tasks.

Unfortunately, holding too much MRO inventory can incur extra costs due to unneeded materials wasting available working capital dollars, occupying additional inventory space, and requiring unnecessary put-away time and labor. This is the finance and procurement teams' worst nightmare.

However, if you hold too little inventory, maintenance emergencies remain difficult to address and cause increasingly long downtimes and missed service levels. Operations managers work to avoid this at all costs, even if that means ordering more than they need.

Moreover, if MRO parts are needed immediately, plants may incur additional overnight shipping costs to source the required MRO supplies. The build-up of these expedition charges will only make your balance sheet worse. These scenarios don't need to be part of the status quo with the right solution in place.

3. Lack of standardization for materials data

While vendor reports can provide a gateway into your purchase history to potentially help spot areas of waste, they don't tell the whole story, especially if no



organizational-wide standards exist for data entry.

Unfortunately, MRO supplies typically don't have a standard procurement regiment either, as processes vary from plant to plant or BU to BU. So companies end up overstocking similar items, AKA duplicate materials, and the wasted spend continues to add up.

Some companies will try to stay ahead of this issue, but the sheer volume of SKUs renders it impossible to maintain long term. With this realization, leading manufacturers are turning to solutions equipped with natural language processing (NLP) to analyze MRO data and identify where duplicate materials exist in order to avoid future purchases.

Additionally, these solutions use artificial intelligence to track historical usage patterns. This allows the company to consider where duplicate materials can be shipped to other plants within their enterprise or be sold in the aftermarket. This ensures use of existing materials occurs while exercising strategic procurement around future sourcing needs.

Lastly, true optimization incorporates ongoing spend analysis to eliminate any rogue purchases that may occur with MRO materials. While this unmonitored spending is often justified within operations teams to avoid unplanned downtime at all costs, supporting MRO management with Industry 4.0 transformation can make this frequent practice a thing of the past.

Spend analysis will reveal cost reduction and savings opportunities without adding an additional risk the operations leaders seek to avoid. In turn, strategic budgeting and spend aggregation ensure all departments are on the same page regarding MRO inventory and production needs.

4. Difficult to measure supplier performance

Without MRO optimization as a priority, procurement managers struggle to maintain metrics designed to gauge supplier performance and correlating costs they ultimately endure.

Monitoring supplier performance gives both parties deeper insights into sourcing and production requirements. Using standardized metrics, such as average lead time, pricing, OTIF percentages, and more, procurement teams have the ability to determine which suppliers are best suited to meet SLAs regarding MRO inventory goals set by your company.

This ensures the suppliers you're collaborating with aren't hindering your production continuity, while giving

you an idea about who you can rely on the most if you're in the middle of an unplanned outage. Furthermore, standardized measurement will help eliminate tail spend overtime, further driving down overall cost of business.

5. Manual tracking efforts don't work

Despite large investments in ERP, procure-to-pay, and EAM solutions, many enterprises do not have a viable method for tracking their MRO and spare part inventory. In fact, many still use a manual tracking and data entry process.

Companies who don't adopt new technologies to improve their MRO sourcing and inventory management experience a number of hardships including downtime, missed orders, ongoing waste from overstocking, revenue losses due to delayed production, or inability to locate a part in the event of equipment malfunction.

A heavy reliance on spreadsheets for purchase tracking and inventory analysis results in missed savings opportunities, employee burnout, and lost institutional knowledge of MRO experts. Furthermore, traditional data cleanse initiatives, often conducted by third-party firms, are shortsighted and outdated before the process is complete.

Adopting an MRO intelligence platform to quickly process large datasets for decision support while simultaneously capturing human intelligence can improve efficiency, productivity, and reliability of everyday manufacturing operations.

5 solutions purpose-built MRO tools provide

1. AI-powered cloud computing driving MRO improvement

While cloud computing has been a staple of enterprise initiatives for some time now, the impacts of AI have largely been shrouded in doubt until recently. As more and more companies embrace the speed and productivity AI now provides, outdated processes will no longer be a pain point for business. Elevating your MRO inventory management strategy with these capabilities gives your team full visibility and control have largely been of spare parts flowing across your organization and global supply networks.

A purpose-built MRO tool offers a host of advantages over traditional MRO inventory management

This includes providing all insights concerning MRO materials on a single platform to provide deep analytics for aspects such as item usage history, optimized safety stock levels, spend reduction, access to vendor catalogs and performance metrics, and total value of materials on hand.

These advantages enhance the functionality your existing SaaS solutions bring to your company. Rather than having your spare parts data living in numerous systems of record, MRO tools extend sharing capabilities across all facets of your production network to increase visibility and ensure regular communication between all plants and facilities.



"Since 2011, indirect spend has been growing by an estimated 7 percent per year globally."

- McKinsey & Co.

2. Actionable insights of MRO inventory data

AI capabilities provide greater [collaboration](#) between finance, procurement, operations, and maintenance to consolidate data from all sectors. This provides the ability to strategically manage MRO inventory to reduce overall costs, streamline procurement efforts, ensure production continuity, and drive business improvement.

Unfortunately, the majority of MRO inventory management still relies upon using complex spreadsheets and slow methods of communication. These reports may store relevant data, but they lack the capacity to analyze or make predictions from it.

Integrating artificial intelligence offers actionable insights into MRO inventory data that allows the user to quickly

process recommendations. It delivers ongoing status checks into your data, provides immediate results, and ensures the optimal level of inventory remains stocked, while avoiding obsolete stock, overstocking, or understocking.

3. MRO intelligence to keep pace with change

MRO optimization is often hindered by a wide range of adverse side-effects that often stem from M&A activity, lack of governance, and supplier changes that result in new models, SKU replacements, or suitable substitutes being listed under new part names or numbers despite no change items themselves.

With manual data entry, inconsistencies are often generated as no disciplined method for setting up new parts or items exists. This issue is compounded by the inability to capture MRO expertise from managers who understand the nuances of items being entered into the system.

AI solutions equipped with natural language processing (NLP) capabilities can easily identify and compare existing part names or SKUs to highlight where duplicates or extra materials exist. These tools work far faster than any spreadsheet and augment your team's productivity to make strategic decisions regarding material overages.

Furthermore, companies using multiple, disconnected



ERPS make it difficult to pull together a “complete” picture of all existing materials. The disparity of systems is attributed to mergers & acquisitions, facility age, lack of investment, and more. AI sequencing of MRO inventory can help plants locate and eliminate duplicates by providing increasingly accurate material visibility across the entire enterprise.

Additionally, AI integration helps bridge the gap between past company processes and present initiatives. Doing so ensures MRO inventory data stays consistent during team member or company transition.

4. Data doesn't need to be perfect

Aligning MRO inventory optimization to coincide with broader business goals can enable better monitoring, planning, and management of procurement spend and inventory utilization.

A solution to centralize information regarding MRO provides detailed analysis of materials, use, value, location, and a plethora of other MRO insights using the data as it currently exists.

Using AI for evaluating MRO Inventory items can help improve supply flows and materials plans to predict future needs for sourcing. A preemptive step can then be implemented to prevent stockouts or overstocking, allowing you to reduce wasted spend without introducing new risk.

Shifts from outdated strategies to counteract an upcoming maintenance event or disruption is the outcome of implementing purpose-built technology. With the daily responsibilities of team members enhanced by AI, ongoing process improvements are regularly identified and implemented for strategic advantages.

The increased visibility of insights hiding in disparate datasets makes AI a critical component of supply chain improvement initiatives. With more control and greater dissemination of information, imperfect or incomplete data can be stepping stones to process improvements generating lasting, positive results.

5. MRO intelligence learns from user input

Continuous machine learning developments not only enhance decision-making, but also allow these tools to learn from users operating in the platform. This ensures human control remains at the forefront while the solution engages in continuous learning for ongoing improvement opportunities.

Over time, the intelligent inventory recommendations adapt to current operational conditions, supplier trends, and user needs. Integration of [deep learning](#) capabilities takes this one step further to predict needs of MRO materials so that production downtime is minimized.

Realizing true inventory accuracy via MRO intelligence support eliminates the constant scrambling of facility maintenance and repair by preventing costly inventory pitfalls like overstocking, and furthering data-backed insights to optimize manufacturing processes.

Leave MRO challenges in the rearview mirror

MRO optimization is a prime opportunity of not just cost reduction, but continuous improvement. As more companies realize an MRO intelligence platform creates a strategic advantage, the leading organizations adopting these tools will no longer need to worry about navigating the challenges of balancing risk and wasted spend on a daily basis.

Operations and procurement teams can embrace new initiatives as they spend less time on tracking inventory and more time on ensuring company success, all due to the implementation of MRO intelligence.

With these tools at the forefront of Industry 4.0, manufacturers are ripe to experience the improved productivity and profitability right sizing inventory their inventory provides. Gain knowledge of best practices and data insights to give your organization a greater ability to make strategic improvements to your manufacturing operations.

[Learn More](#)

about how to gain actionable insights that help streamline your business.