

Reduce your MRO spend with smart procurement

01 March 2016, Johannesburg, South Africa, Many businesses have a cost source that they have not yet considered controlling effectively – and that is where smart procurement can really repay their efforts, said Brian Andrew, South African GM of RS Components and a speaker at the Smart Procurement World Conference in Cape Town, which runs from 1 to 3 March 2016.

“Most businesses have at some time experienced a financial squeeze and struggle with finding costs to cut without impacting business operations,” he says. “But there's an overlooked item hidden in our financials – the process costs of procuring maintenance, repair and operations goods. Companies usually focus on the value of goods procured and don't take into account the total cost of their procurement processes.”

These MRO process costs are driven by two key, interlinked factors, says Andrew. Highly skilled staff are needed to ensure compliance with procurement protocol but their valuable time is spent in an extended and fragmented procurement process.

US MRO procurement expert Joel Roth has pointed out that procurement consumes man-hours in many different ways: purchasing, receiving, store-keeping and intra-company materials movement; purchase orders issued; invoices processed; accounts payable checks; cost and material accounting; data entry; database maintenance; bidding, sourcing and negotiating; inventory obsolescence and overstock; expediting and tracing of open orders; missed or late deliveries; errors and quality deviations (Roth, 2008, The 20% solution). Research by the University of Manchester Business School in conjunction with RS Components indicates that for every R1 spent on product costs to keep your machines, equipment and offices running effectively, a company will spend around R2 in processing costs making the total cost of purchase almost three times the original value of the item.

“A price-led procurement strategy overlooks other key drivers of costs in the procurement process,” says Andrew. There are four main areas where cost saving can occur, namely purchasing, inventory, sourcing and product. When companies implement multi-stakeholder strategies across departments such as product substitution and standardisation, supplier consolidation, inventory reduction and simplifying processes there is likely to be a greater more sustainable impact on MRO procurement costs. ’

RS Components has been involved in MRO procurement for more

almost 80 years. "We help companies limit their MRO costs by reducing the number of suppliers they need to work with by giving them access to over 500 000 products from 2500 global suppliers. Our online offering helps to lower processing costs by reducing the time spent on sourcing, comparing, ordering, tracking and paying suppliers. RS is also able to offer data and insight into the purchasing behaviour of unplanned purchases. Once you have this, you can start working with your external suppliers and internal departments to implement a holistic solution, which will enable a reduction on the total cost of MRO procurement - it's a real win-win, now that's smart procurement."

Read more about the research findings of the Manchester Business School research and how to reduce your MRO procurement spend @ <http://uk.rsonline.com/web/generalDisplay.html?id=working-together>.