

# 5 Essential Elements to Unlocking Profitability from your Storeroom

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# Bringing it to the table

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**Most manufacturing organisations are littered with a high volume of low value items in the category of Maintenance, Repair and Operating spares and consumables (MRO).**

Commonly referred to as “indirect materials” this includes items that support internal operations - from spare parts for mission-critical industrial equipment and tooling, to safety gloves and production consumables.

In essence it’s the ‘oil for the engine’ – absolutely critical for productivity but often overlooked as companies focus cost-cutting efforts on capital spending and direct materials rather than MRO. As a consequence the category isn’t top priority from a strategic perspective

**What does bring MRO onto the boardroom agenda is the realisation that MRO can equate to a hefty percent of total spend.**

For those in organisations who are addressing MRO, the primary tactic utilised is targeting unit cost. Using the Pareto principle, focus is centred on the top 20% of purchases that make up the bulk of what they buy.

Whilst often delivering cost benefits, this approach is subject to factors out of their control. Environmental and political volatility such as the 2011 Japanese earthquake and instability in the Middle East impact on commodity based items.

In ‘**5 Essential Elements to Unlocking Profitability from your Storeroom**’, we suggest how you can deliver a significant and sustainable bottom line impact by focusing on what you can control – your consumption.

*“For asset-intensive organizations such as discrete and process manufacturing, MRO inventory can be 15% to 20% of total enterprise spend and 60% to 80% of requisitions. This makes MRO inventory a key cost savings opportunity, since reducing MRO inventory spend by even a couple percentage points can increase cash flow by millions of dollars.”*

*(IHS Intermat Solutions – a US business insight group)*

## Element One

*“Industry odds are against you—with non-moving MRO inventory typically growing at an annual rate of 6.7% and nearly 70% of all SKUs purchased on an annual basis never being used.”*

*(MRO Connect)*

### What *don't* you use?

**This may appear at face value to be a strange question. Surely we are focusing on reducing our usage of MRO, not on what we don't use?**

Unfortunately statistics don't lie. On average, manufacturers see their MRO grow at annual rate approaching 7%. This is compounded by the fact that almost 70% of all items purchased on an annual basis are never used.

**In essence, there are three `commodities' that are being consumed – cash, space and time.**

By identifying what is no longer required (obsolete or overstocked items) a structured disposition strategy can turn this `dead stock' into cash.

Many organisations make the mistake of discarding old machine spares, as they perceive them to be of little or no value. However, there is a buoyant market for these items. From bearings to PLC's, specialist companies will purchase them, refurbish if necessary and sell on.

Freeing up space is a second benefit of cleansing your MRO. Whether inventory is held in a centralised Engineering and Maintenance stores or in satellite locations such as line-side, footprint has an intrinsic value. By rationalising the physical space taken up by your spares and consumables, you can free up space for more productive activities.

The final benefit relates to the time taken to travel, locate and retrieve MRO by your employees. At a macro level, the further away these items are from point of use, the bigger the impact is on staff productivity.

Drilling down further, a well organised storeroom will dramatically reduce time taken to locate and retrieve parts – again impacting positively on productivity.

Now we have an understanding of what we no longer require and have realised benefits in terms of cash, space and time, we can now shift our focus to what we **do** use.

## Element Two

*“Companies can yield an average of 12% savings simply by putting this spend under interrogation”*

*(AMR Research)*

### What *do* you use?

The next step to unlocking the hidden profitability contained in your storerooms is to gain a detailed understanding of what makes up your MRO basket. This has a direct bottom-line effect in industries that often already have very tight profit margins.

This process inevitably begins with the collection and cleansing of data (often highly problematic in itself) and a thorough investigation of what you're consuming.

**Only by undertaking this can you begin to free up cash and time.**

This process will uncover interesting and occasionally alarming information. Often items are described differently, inadequately, or incorrectly – and if you can't find items because of poor descriptions, then downtime occurs, duplicate items are created, and items are bought 'outside of the system'.

This in turn results in a rise in inventory values, inventory turn rates decrease, expedited part orders increase, and equipment downtime increases.

For example, production comes to a stop because a bearing fails. The maintenance technician can't find the bearing in stock because it has an incomplete and inaccurate item description on the inventory management system.

Even though the bearing is sitting in stock, a replacement is ordered as a spot buy outside any negotiated pricing discounts with express shipping.

Meanwhile, the time spent searching is wasted, the production line remains down, and the 'bottom line' of the plant is significantly impacted.

By removing duplicates alone, organizations' see a dramatic impact in terms of cash flow and improved productivity.

Now we have identified what we're using, we need to look closely at **where and when** it's being consumed.

## Element Three

*“MRO supplies are crucial to business continuity and account for 54% of all indirect enterprise purchasing transactions (as measured by number of requisitions), yet many manufacturers still do not have systems in place to automate the purchase-to-pay process for the goods and services that fall under this category. Worse still, 59% of manufacturers interviewed in a recent study by the Aberdeen Group cited that they do not have adequate visibility of their MRO spend.”*

*(Manufacturing & Logistics IT, 2007)*

## Where and When is it used?

**A fundamental question we need answering is this: are the items we buy making a positive contribution to the efficient running of the Company?**

In order to understand this, we need to look at where our MRO is being used and when.

If we can accurately see where the product is being consumed, we can define and measure what contribution it makes to the cost of keeping an asset running - which in turn inputs to productivity and ultimately profitability.

Too often these costs are ‘amortised’ over a number of lines or cells – which only serves to mask underlying issues that may exist. In order to clearly see what it costs to run our equipment, we need to know exactly what we spend in terms of spares and consumables relating to the asset in question.

Building a picture of where our MRO is used feeds into when we consume. By understanding this, we can make more informed purchasing and stockholding decisions.

Looking at annual usage provides a clear picture of peak demand and can help in significantly streamlining predictive purchasing to ensure we have the right stock available in the right quantities.

Likewise, identifying patterns on a shorter timescale can provide insight on underlying issues.

For example, a high volume of machine spares on nightshift may be an indicator of high maintenance activity. This in turn may highlight issues of asset reliability used in the production process.

**As with Element One and Two, we are seeking to positively impact on cash and time.**

The picture is building. We know what we buy and where it’s used. Now for an often-overlooked element: **Why** your MRO is consumed.

## Element Four

*“By forcing our employees to justify why they use stores items, we have seen a reduction in spend equating to £390k in a twelve month period. If focuses the mind and makes them accountable”*

*(UK Automotive manufacturer)*

### Why?

**Asking why is incredibly powerful. It challenges individuals to think about what they are using and for what purpose.**

Too often storerooms are a ‘free for all’ where users take inventory on auto-pilot. But asking the question is the key to understanding your consumption profile and discovering underlying reasons for spend. This has two primary benefits:

Firstly it raises the profile of MRO and places a ‘value’ on spares and consumables in the eye of the user.

Secondly staff become accountable for what they are consuming – and the fact that they are being ‘monitored’ has a significant impact on behavior.

For example, a technician visits a storeroom and takes six pairs of gloves and two bearings. On asking why, it transpires that they always take more gloves to keep in their locker, as it’s more convenient than travelling to the central stores.

As for the bearings, they take two ‘incase’ the first one doesn’t get the machine they are maintaining up and running.

This simple questioning uncovers the following. Firstly the physical location of the gloves is inconvenient. Users spend too much time travelling to stores and affecting their personal productivity. An outcome of this may be to re-locate fast moving consumables closer to point of use.

Secondly the habit of taking a second bearing ‘just in case’ will trigger a re-order for an item that isn’t required at that point. Invariably these items are either not returned to stores or if they are, they’re seldom booked back in to stock.

When you extrapolate this scenario across the organisation, it has a major impact on productivity, cash flow and profitability.

Simply by challenging behavior and making individuals accountable, we can see dramatic improvements.

Now we come to the fifth element that takes the preceding four and delivers the ultimate solution.

## Element Five

*"It's important for employers to recognize that theft is likely to increase, and while much of their attention is probably focused externally on threats to growth in their market, they better also be cognizant that business threats can originate from the inside as well."*

*(i4cp)*

### Put a lock on the cupboard door

**All the work we have undertaken to cleanse our data, rationalise our storerooms, plan our procurement and challenge consumption can come to naught if we fail to secure our inventory.**

Our employees are creatures of habit and where possible take the path of least resistance. If our MRO is not under lock and key staff will, for example take more than they need for a particular job, and squirrel stock away in lockers and drawers.

This impacts on cash flow and result is bloated inventory - which in turn leads to higher stock value and the increased potential for obsolescence.

The other reason for securing MRO relates to theft.

As economic pressures mount, it's an unfortunate consequence that illegal and unethical activities such as workplace theft increase.

Often seen as a victimless crime, employees perceive the removal of company property as a 'perk' of the job.

The extent to this can become apparent when you analyse your annual usage at a commodity level.

For example you may see certain items being consumed in higher volume at certain times of the year.

Are you using more gloves around bank holidays? Are you spending more on batteries at Christmas? Is your use of paint pens peaking in school holidays?

This trend analysis may be down to cyclical demand within your business but it may also be as a result of theft.

In sum, securing stores areas, restricting access, monitoring withdrawals and making users accountable impacts significantly on spend.

# About Propeller



**Propeller works with large, progressive manufacturers throughout the UK who are looking to improve productivity and implement these 5 essential elements.**

Focusing on cutting cost through control we have a proven track record of delivering millions of pounds to the bottom line of our customers.

To find out more about how we could assist your organisation to improve your MRO and ultimately your profitability, please visit our website.

**[www.propellergb.co.uk](http://www.propellergb.co.uk)**

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