



Whitepaper

Indirect Procurement Report 2018

Drivers of change – & how to respond



Foreword



In the 80-plus years that RS Components has been in business, serving manufacturing and industry through the engineering community, we’ve always been at the forefront of innovation.

Innovation is in our DNA and it’s our ambition to continuously help customers to be inspired as the industry and markets change over time.

Over the past couple of years, this has been exemplified through our knowledge partnership with the Chartered Institute of Procurement and Supply (CIPS), which represents procurement

professionals around the world. We have been able to share some of our insight and expertise on the complex area of maintenance, repair and operations (MRO) within indirect procurement for the CIPS community.

As part of our partnership, we wanted to further understand the current state of play for procurement and supply professionals when it comes to MRO. So, earlier in 2018, we carried out our second annual survey of CIPS procurement professionals. The first survey was UK-only but, thanks to the overwhelming response we received, this year we’re able to provide a global report. We were thrilled to see so many CIPS members from around the world getting involved with our research.

The findings presented here reflect the conversations that we’re having with customers. In this complex area of industry, there’s pressure to reduce costs while maintaining standards. There are external factors, such as Brexit, at play too. As a result, change, the subject of our 2017 whitepaper, remains a key concern in indirect procurement.

However, change also represents opportunity. Those who completed our survey recognise the possibilities ahead of them, with 62% of the 851 respondents strongly feeling that they had the opportunity to drive change in their business.

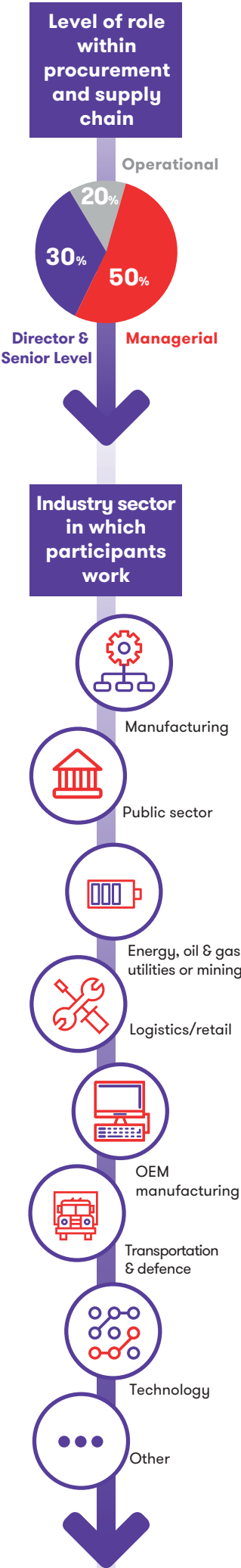
This whitepaper provides a blueprint for that change. Through discussion of our research and the results, we outline the major drivers of change, both within the industry and coming from outside it. We also share ways to respond to change, sharing strategies that procurement and supply professionals can employ to help achieve success.

If you have any queries about the topics covered or would like to discuss the changing world of MRO procurement with someone from RS, please email me at: connectedthinking@rs-components.com

Mike England, President EMEA, RS Components



Sample size: 851 completed surveys from Chartered Institute of Procurement & Supply Chain members, May/June 2018.



What pressures do organisations face on MRO procurement?

Respondents listed the need to reduce operational budgets (55%), reduce inventory costs (52%) and improve asset performance (42%) as the biggest pressures.

The need for continuous improvement (38%), and carrying out sustainable and ethical procurement, also play a role.

The responses mirror those provided by the UK research in 2017. These results highlight the continued financial squeeze on indirect procurement as organisations focus on MRO as a means of cutting costs and driving efficiencies.

Asked about their biggest day-to-day challenges, the top response was ensuring contract compliance with preferred suppliers (47%), closely followed by maintaining ageing assets (46%) along with managing stakeholders over multiple sites and finding people who understand best practice procurement within the MRO category (both 42%).

Other challenges highlighted included the need to deliver annualised cost savings (41%), a lack of spend visibility (40%) and a lack of investment in technology and control purchasing (35%).

Analysis

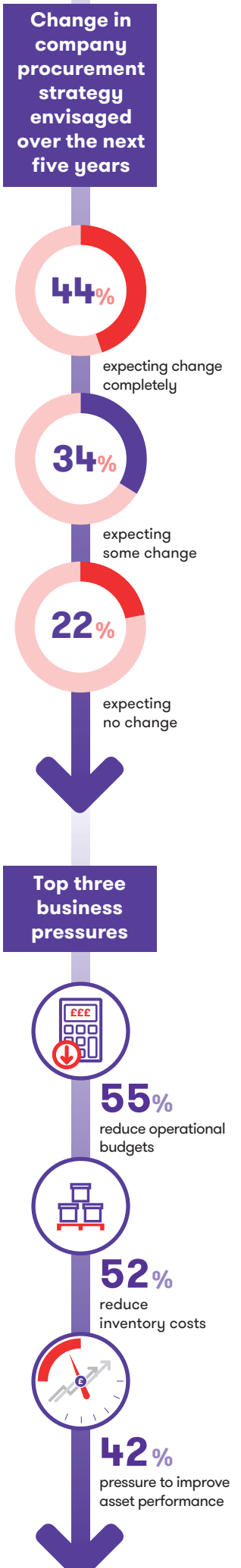
Cost pressures and ensuring contract compliance go hand in hand with delivering an effective MRO strategy, according to Mike England, President EMEA, RS Components. “Procurement teams are being pushed harder than ever to deliver savings and a co-ordinated supplier strategy is essential to achieving this.

“Reducing operational and inventory costs requires careful management,” he says. “Ideally, an organisation should work with a fixed group of trusted suppliers that can provide all of the MRO materials they need

and when their maintenance team needs them. This reduces the possibility of off-contract spend, ensures controlled pricing and means that less stock has to be held onsite, since your supplier can be relied upon to deliver products quickly when needed.

“Too many organisations – particularly large ones working over multiple sites – have hundreds of suppliers but they don’t have a particularly close relationship with them,” adds Mike England. “They should instead be looking to form much closer, collaborative partnerships with a small number of suppliers. This trust and close working relationship are key to managing stakeholders away from existing suppliers and ensuring they work within framework agreements.”

Another important consideration, according to Helen Alder, Head of Knowledge and Product Development, CIPS, is the need to take a strategic view about costs. “You can’t keep cutting costs and squeezing suppliers on price – it isn’t sustainable. So, you need to focus on value,” she explains. “Part of that may be working more closely with suppliers to find new products, identifying unnecessary purchases, or reducing your inventory.”



Mike England agrees. “We’re finding at RS that more and more of our customers are looking to us to help them identify where they can take cost out of their indirect supply chain,” he says. “More businesses are starting to take a category management approach to buying because they realise that the process costs associated with MRO items are a big issue.

“While the average order size in MRO procurement is small, the time required to make the purchase significantly adds to its cost. Part of that is because organisations are dealing with too many suppliers without working to a streamlined process.”

There is pressure to secure sustainable and ethical products. Globally 36% are concerned about this, as are 31% in the UK. Helen Alder believes that working with trusted suppliers is the only way to achieve peace of mind in this area. “First of all you need to risk assess your supply chain, then look closely at your supplier’s credentials and how seriously they take ethical procurement,” she says. “The better you know the supplier and more closely you work with them, the more confident you can be of their values and how likely they are to check the products that they sell.”

Supplier rationalisation will also help give organisations confidence about the source of the products they buy. While reducing suppliers is a stated aim of many procurement professionals, the reality is that achieving this can prove difficult, partly due to changing long-established habits and breaking up long-held relationships with previous suppliers. Mike England believes that it can be achieved when stakeholder needs are properly considered.

“I think one of the challenges in this particular industry is that the procurement team are buying on behalf of engineering and maintenance professionals,” he says. “If you solely look through a purchasing lens, which is simply concerned with product-related cost, I think you ignore some of the other costs and some of the issues faced by engineering and maintenance professionals.

“In reality, a broad number of stakeholders are impacted by purchasing indirect materials such as MRO, so the job of the buyer and the supplier is to work out the real pain points, the areas that genuinely drive business performance and then to take a higher level view. Working with a handful of good suppliers makes it much easier to achieve results, but you need to work hard to show the benefits of removing legacy suppliers to engineering teams.”

Rationalise your supplier network

- Work closely with your maintenance team to identify what they need from your suppliers
- Identify suppliers that meet the needs of your maintenance team and the overarching business requirements
- Suppliers need to be able to provide the parts that your maintenance team need and when they need them, while offering eProcurement solutions, which provide spend visibility
- A cultural fit is also essential, so that you build a long-term collaborative relationship with the supplier and work together to further improve the MRO procurement process

Day-to-day company challenges in controlling purchasing activity

47% ensuring contract compliance with preferred suppliers

46% maintaining ageing assets

42% managing stakeholders over multiple sites

41% delivering annualised cost savings

40% lack of spend visibility

35% lack of investment in technology to control purchasing

Managing inventory and supplier knowledge

Vendor-managed inventory (VMI) was the most common MRO strategy that companies currently have in place for fast-moving, low-value MRO parts (39% of respondents).

Other strategies included product substitution (27%), calibration services (25%), outsourced management of engineering stores (21%) and energy monitoring of specific assets (20%).

The results point to a growing use of (and need for) managed inventory services from suppliers. This was confirmed by respondents when 46% identified managed inventory options as one of the most important conversations they have with suppliers when planning future relationships. Other popular topics of conversation included knowledge services to help procurement (56%), updates on new product innovations (53%), business services to help procurement (46%), and delivery options (45%).

UK respondents feel that managed inventory services benefit their businesses by reducing the time spent raising individual orders (68%), providing better visibility of stock (58%), improving productivity (48%) and increasing product availability (47%).

Analysis

“We know from talking to our own customers – and this is shown in this research – that inventory is near the top of the agenda for category managers,” says Mike England. “Many companies haven’t dedicated enough time to dealing with inventory, so there can be huge inefficiencies in this area.

“Consequently, VMI solves a lot of these issues – it means that a supplier such as RS can take over your inventory, ensure products are constantly restocked to the right levels, while providing a clear breakdown of all the spending and usage so that further efficiencies can be made

in the future. Most of all, it frees up the time of engineers and procurement professionals to concentrate on work that adds value to the business.”

Clearly, outsourcing services to suppliers is a trend that is on the increase (calibration services was the most popular among our UK respondents, with 33% of them saying that they have a strategy for this). For many organisations, the attraction of outsourcing is that it frees up employee time and someone else deals with the complexity of MRO purchases.

Beyond more formal supplier integration into companies, however, there is also a clear indication that organisations are looking for deeper relationships with suppliers to manage the change they see coming down the pipeline. Helen Alder believes that procurement teams are starting to see where suppliers can provide more than simply parts and products.

“Where do you go if you’re trying to add value and to do something differently to improve your organisation?” she asks. “A big part of the answer is to look outside your company and talk to your suppliers, other non-competitive businesses and organisations like CIPS.

Top company strategies in place

Vendor Managed Inventory 39%



45% EMEA (exc. UK)

44% APAC

Product Substitution 27%



28% EMEA (exc. UK)

39% APAC

Calibration Services 25%



33% UK

Benefits of Managed Inventory Services (UK-only)

“Suppliers are particularly useful because they will also have knowledge of what other companies are doing and can share that best practice with you.”

Mike England believes that collaboration is a win-win for organisations and their suppliers. “Having the right partners, who are knowledgeable and can bring expertise and help you accelerate forward, is fundamental to procurement,” he says. “Having worked out internally the approach that you want to take in relation to this category, I think it is about identifying and agreeing a strategy across multiple stakeholders, then finding and identifying a partner that you believe can help you progress it.

“That supplier then needs to be an integrated part of the strategy deployment team that, over time, increasingly becomes a key part of that as you progress further into execution.”

Get the most from suppliers

- Identify, with the help of your suppliers, areas of the MRO procurement process that could be outsourced
- Have a regular dialogue with trusted suppliers and involve them in your strategy
- Put suppliers in front of your maintenance team so that they can understand the needs of the engineers
- Challenge suppliers to provide solutions and thought leadership that will help your organisation



68%
reduction of time spent raising individual orders



58%
better visibility of stock and spend



48%
improved productivity



47%
higher availability



The importance of managing your stakeholders

Achieving stakeholder alignment and managing stakeholders remains an ongoing pressure for procurement professionals: 28% of respondents struggle with stakeholder alignment in the MRO category, while 30% are only partially aligned.

In the UK, the number of respondents citing high alignment increased to 38% (from 26% in 2017) and the overall global figures stands at 42%, suggesting that there is an improvement but that the problem is far from solved.

In a similar vein, while 62% of respondents feel that they have the opportunity to drive change, a significant minority feel their role offers less prospect of driving change.

Analysis

The complexity of MRO procurement – thousands of low-value purchases made by engineers who are often based across multiple sites – makes agreeing and adhering to a single MRO purchasing strategy difficult. However, there are ways for procurement professionals to overcome these challenges.

“There needs to be a mixture of good communication, leading by example and in some cases adopting an old-fashioned carrot-and-stick approach,” says Helen Alder. “If you’re trying to change practices or bring in policies that will help the business but might be unpopular with stakeholders, you need to do a lot of groundwork.

“You need to incentivise people to change, listen to their problems and try to adjust to meet their needs where possible,” she adds. “However, after a certain point you need to introduce penalties if people don’t accept and adopt change.”

A big part of ‘selling change’, according to Mike England, is to use soft skills. “Procurement professionals need to be communicators who can use soft skills to negotiate and persuade individuals to take the best course of action.

“However, the key driver is to maintain a facility and avoid downtime,” he adds. “The costs of downtime can be huge, so procurement need to understand the engineering community’s perspective. Then it’s about introducing best practices to make the most of what can be a fragmented supply base.”

Mike England points out that suppliers also have a role to play. “A good supplier can help to educate by sharing best practice and quantifying hidden benefits,” he explains. “A supplier can help to substantiate the value that other organisations have been able to derive through change, which can really bring home tangible benefits.”

Achieve stakeholder alignment

- Listen to the concerns of stakeholders and be prepared to adapt to achieve your objectives
- Introduce change slowly and carefully
- Soft skills are crucial to winning over individuals to new ways of working
- Make use of suppliers to provide evidence of the benefits of change

Alignment of internal stakeholders and procurement is mixed



42%
are fully aligned



38%
in UK are highly aligned (26% in 2017)



30%
are partially aligned



28%
are not aligned



Innovation

Despite pressures to improve asset performance and maintain ageing assets, only 7% of respondents said that their company had a strategy in place for the Industrial Internet of Things (IIoT).

There are a number of conversations respondents feel are most important for planning future supplier relationships. 56% want to speak with suppliers about knowledge services and 53% about new product innovations, suggesting organisations are looking for greater insight into emerging technology and how these could provide solutions.

Analysis

Why has there been so little take-up of technologies, such as IIoT, that could help with asset performance and maintaining ageing assets? According to John Patsavellas from the Institution of Engineering and Technology Policy Panel: “I’ve yet to see an organisation put all the technology, processes and programming together on a large scale.

“Maintenance engineers are practical: they won’t switch to a new system unless they have stress-tested it thoroughly, so only a handful of early adopters are experimenting with the technology.”

Helen Alder agrees. “I still think we’re at the start of the Internet of Things journey,” she says. “Organisations are aware of the technology and looking at its applications – but not many have any sort of solid strategy in place yet.”

Mike England believes this is reflected in his conversations with customers. “A lot of engineers are seeing the industry 4.0 trend, but haven’t worked out how to embrace it on the shop floor,” he says. “Companies like RS can bridge that gap by providing examples of the latest technology and insight into how it can be used to improve MRO strategy.”

IIoT could be used to help organisations develop a predictive maintenance

strategy, by monitoring machines for required maintenance. This would solve the problem of maintaining ageing assets, which was listed by respondents as their second biggest day-to-day challenge.

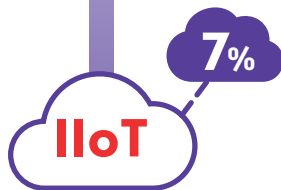
“Connected devices, condition monitoring and the big data they create provide significant opportunities to improve MRO and refine the whole maintenance process,” says Mike England. “Engineers and procurement teams won’t attempt a large-scale overhaul of equipment and processes in one go. A phased approach of test and learn is the most sensible way to explore the benefits of new technology.

“It is important, though, that companies get moving with this test. The pace of change will speed up over the next five years – and anyone burying their head in the sand will be left behind.”

Drive improvement through innovation

- Use suppliers and industry bodies to showcase innovation
- Discuss how new technology can be used to improve the MRO process
- Test technology with the most potential to drive efficiency and productivity
- Where results are positive, roll out the technology across more areas of your organisation

There is huge potential growth for smart asset management



Only 7% said their company had a strategy in place for the Industrial Internet of Things

External factors

An external factor causing concern in the MRO space is counterfeit products entering their organisation’s supply chain. Another influential external factor is Brexit.

Counterfeit items were rated by 32% of respondents as a significant problem, while 24% rated it as a moderate concern. The figures for those rating counterfeit as a significant problem were even higher for small and medium-sized business (39% and 37% respectively).

In terms of Brexit, compared to the UK research conducted in 2017, when 38% of respondents were concerned about how Brexit would impact their role, this figure is now 53% among UK respondents, while globally it is 41%.

When asked what they expected would be the biggest impact of Brexit, the responses were: 67% said it would affect overall purchasing prices, 64% were concerned about legislation changes around the customs union, 52% that there will be delays in decisions due to uncertainty, 42% that they would need to find more suppliers to maintain a supply of MRO materials, and 24% said it may be more difficult to hire the right people.

Analysis

When it comes to counterfeit items, CIPS has led a campaign in recent years to raise awareness of the problem, but Helen Alder still feels organisations need to be on their guard. “Counterfeiters are becoming more and more sophisticated, which means that there is always a risk as soon as an organisation makes a purchase outside its trusted supplier network,” she explains. “The chance of this is even higher in the MRO category, as maverick spend is a well-known problem.

“As soon as people go online and select the cheapest option that isn’t from a trusted supplier, they open themselves to a risk that can’t be underestimated,” she

adds. “A faulty part could cause extensive damage and downtime; in the worst case it might even injure an employee. It just isn’t worth that risk for the sake of saving a few pounds.”

Mike England believes that an organisation’s choice of supplier is critical in combating counterfeit products. “Having a supply partner that you can trust to source reliable products is important, particularly for procurement individuals who are managing risk on behalf of a business,” he says. “Looking closely at a supplier’s credibility and the checks and assurances it can provide about the products it buys should be an important part of the rationalisation process.”

Regarding Brexit, respondents’ concerns are valid, according to Allie Renison, Head of Europe and Trade Policy at the Institute of Directors. Although the exact effects of leaving the EU will depend on the negotiating outcomes: “If there is no withdrawal agreement, then things start to get hairy very quickly,” she states. “With a transition period, even the impact of a no-deal exit could be minimised; but the reality is that even this means much more paperwork and planning for business.

Counterfeit goods are a concern



32%

see this as a significant problem

41%

of EMEA (ex. UK) see this as a significant problem



39%

of small business view this as a significant problem



37%

of medium businesses view this as a significant problem



46%

OEM manufacturers rate it as a significant problem

Impact of Brexit



41%

believe Brexit will impact their role in 12-24 months



53%

in the UK believe Brexit will impact their role in 12-24 months

“In both the short and long term,” Allie Renison continues, “companies will have to become much more adept at dealing with their trade management systems where they have clients or customers (and indeed suppliers) in the EU.”

As survey respondents anticipate, this has major implications for the procurement industry. As Renison explains: “For a lot of companies, keeping trade flowing across the borders is paramount to their just-in-time supply chains.

“If there are changes and an increase in the paperwork and time for getting products to and from the EU,” she reiterates, “firms will need to ensure they have mapped out not only their own supply chains but also their suppliers’ and customers’ supply chains to understand how to deal with new processes such as rules of origin and anticipate any indirect effects down the chain.”

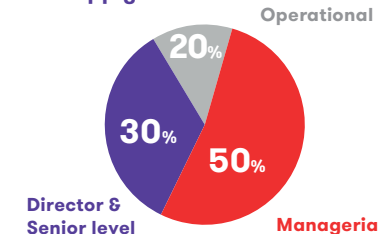
Plan ahead to overcome external threats

- Choose suppliers that you can trust based on their credibility and the checks and assurances they provide
- When securing contracts, factor in clauses that allow for price renegotiation in light of currency fluctuations and tariff changes
- Examine supply chains, to anticipate the direct and indirect effects of new processes
- Review the skills within your procurement team, then act to secure additional support

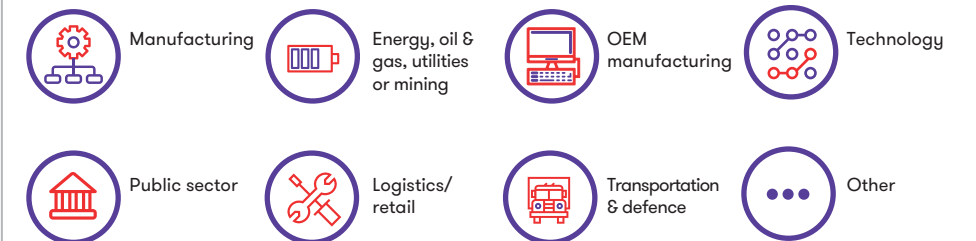
Summary

Drivers of change & how to respond at a glance

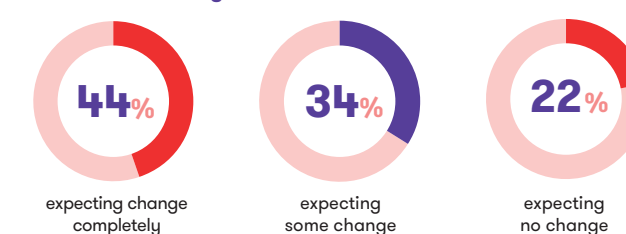
Level of role within procurement and supply chain



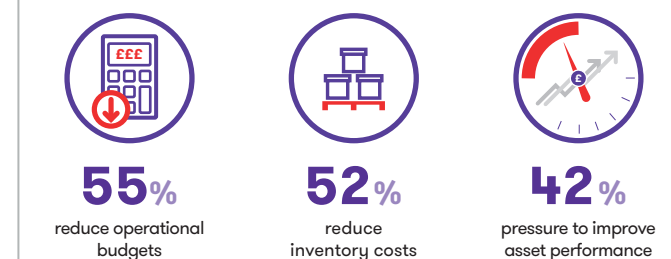
Industry sector in which participants work



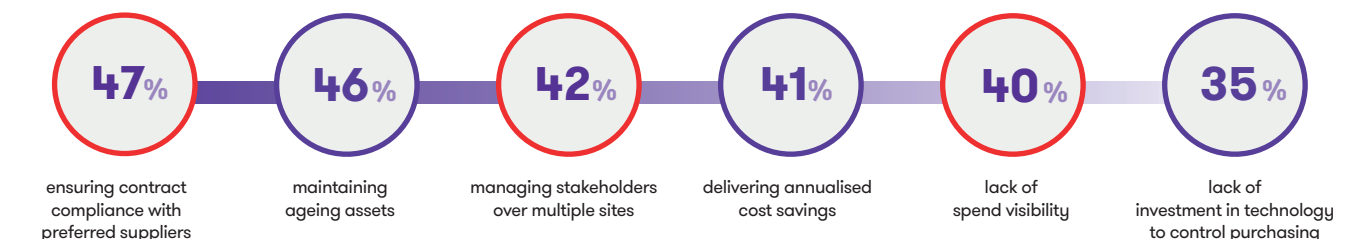
Change in company procurement strategy envisaged over the next five years



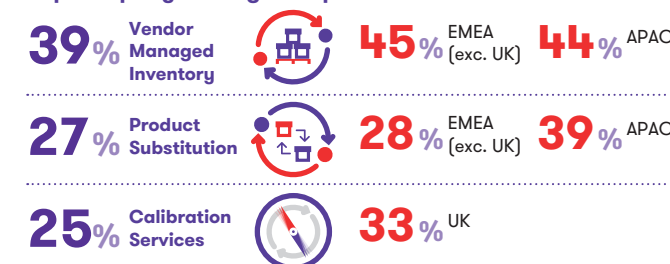
Top three business pressures



Day-to-day company challenges in controlling purchasing activity



Top company strategies in place



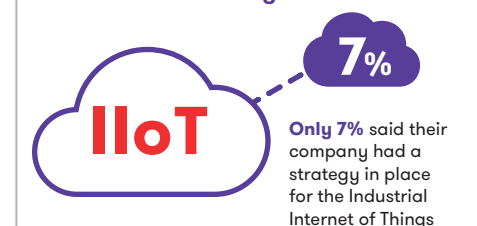
Benefits of Managed Inventory Services (UK-only)



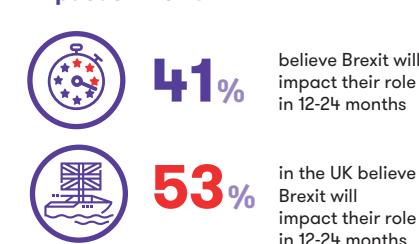
Alignment of internal stakeholders and procurement is mixed



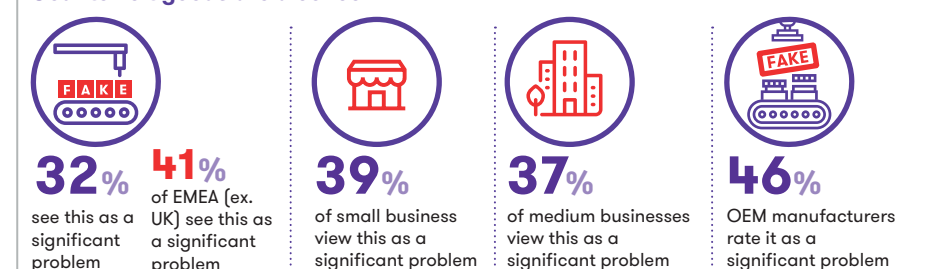
There is huge potential growth for smart asset management



Impact of Brexit



Counterfeit goods are a concern



Conclusion

The responses from our survey of procurement and supply professionals and expert analysis from RS and CIPS reveal that handling change remains a key concern for those working in the MRO procurement space. However, there are strategies for skilfully navigating what lies ahead.

Procurement professionals face day-to-day challenges, such as guaranteeing contract compliance and maintaining ageing assets. There are also ongoing business pressures to reduce costs, increase improvement and ensure that procurement is both ethical and sustainable. Plus, stakeholder alignment continues to be an issue and there are external challenges from counterfeit goods and Brexit to consider.

Nonetheless, there is positivity. A significant number of respondents believe that they have the ability to drive change within their company. This is apparent in the level of interest expressed in knowledge services and product innovations linked to new and emerging technologies such as managed inventory and IIoT. Take-up of the latter is likely to explode in the next five years.

How to navigate changes

- Rationalise your supplier network
- Ensure you're getting the most from those suppliers
- Try a range of approaches to achieve stakeholder alignment
- Use innovation, especially new technologies, to drive improvement
- Plan ahead to deal with external threats

For more information and expert insight on the subject of indirect procurement and MRO supplies, please visit: rs-connectedthinking.com

RS Components Ltd, Birchington Road,
Corby, Northants NN17 9RS, UK

