

The \$12 Billion Question: How Is Your Facility Managing Inventory?

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This year U.S. businesses will spend \$110 billion on maintenance, repair, and operating (MRO) materials – items ranging from light bulbs to cleaning supplies to nuts and bolts – and of that \$110 billion, approximately \$12 billion will sit on shelves and never get used.* A study conducted by Grainger’s Consulting Services estimates more than half of U.S. businesses are not effectively managing their MRO supplies, leaving them with dead, obsolete, and, most importantly, budget-draining inventory.

This is not a pretty picture, but a rich opportunity for facilities and maintenance professionals to take costs out of their business through a more aggressive approach to inventory management. Our finding is that improving inventory management processes can help businesses reduce spending by as much as 25 percent.

How do you know where your inventory management stands and where it can go? To help, we took learnings from more than 500 organizations and identified three primary approaches to MRO inventory management – stocked, managed, and leveraged.

Evolving Your Approach to Inventory Management

Stocked is the most basic approach to MRO inventory management. It is mainly reactive and items are added to inventory for convenience or to avoid stock-outs. All MRO materials are thought of as an unrecoverable cost and management pays little attention to them, buying, storing, and issuing supplies to employees in an ad-hoc fashion.

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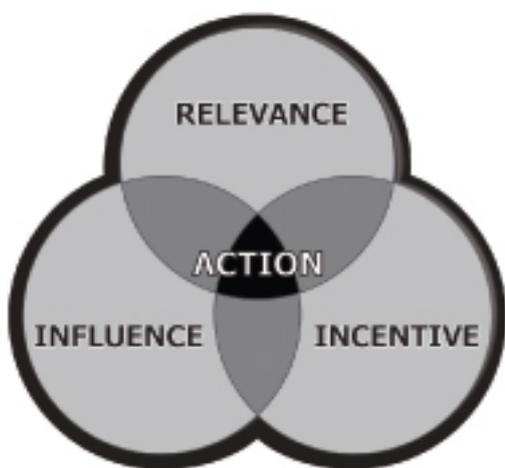
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What does this approach look like in action? Say you are in charge of facilities maintenance at a manufacturing plant. One day the conveyor belt on a key piece of equipment malfunctions. Work in that area is halted and you spend most of the day scouring the stockroom for a missing replacement part and calling vendors trying to find what you need. Once you finally locate the part, you buy a few extra to keep in your stockroom to avoid the same problem next time. Sounds like a smart decision, but if that part isn't needed for several more years or gets misplaced in an overflowing storeroom, chances are the extra inventory (an investment) will just sit on the shelf unused.

After repeating this cycle multiple times, you begin to realize your process isn't working. Without controls in place or data to understand how often an item is used, you can't predict demand and inventory continues to grow. This encourages a move toward the next evolution – a managed approach.

A managed approach helps control costs by using process and inventory data to help with decision-making. In this approach, MRO materials are considered an operational expense that can be actively managed and controlled.

The first step in moving to a managed approach is investing in building the right data. Data is what makes MRO inventory manageable; it helps you understand your demand and usage patterns so you can optimize inventory levels.



To test the quality of your data, pick an item and see if you can provide answers to basic questions, such as: What is it and where can you find it? When is it used and how much of it is needed? Why is it in stock and who supplies it? The more of these questions you can answer, the more effective your inventory management.

You'll also need to further define the processes you use to manage MRO materials, including how you stock, consume, analyze, and recover inventory. Standardizing these processes and ensuring they are consistently performed will provide you quality inventory data and increase efficiency.

Let's go back to our example at a manufacturing plant. After too many rush orders

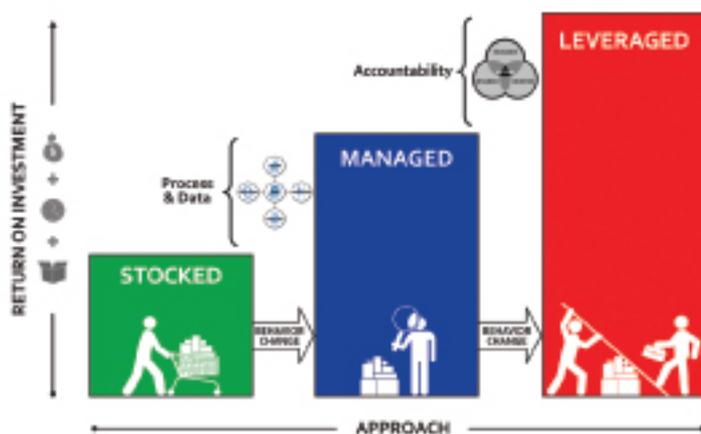
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and missing supplies, you assign a facilities manager to organize and label the stockroom and help oversee MRO inventory. Employees are required to record what supplies they take, and all requests for new items must be approved. By tracking usage data, the manager is able to identify which gloves employees use most often and keep an appropriate stock on-hand. The data also shows that safety glasses are overstocked, so orders are reduced and the growth of unnecessary inventory is slowed.

While the managed approach is effective, some employees may feel the controls slow them down, so they create their own “private” inventory. Over time, tension can build as the process breaks down and data is deemed unreliable. This encourages the shift toward a leveraged approach.

Leveraged – the optimal approach – considers MRO inventory as a strategic component of the business and an investment with recoverable value. This approach requires materials be organized and issued in a disciplined manner, but most importantly, this approach requires creating accountability and providing a reason to take action.



Accountability is created when relevance, influence, and incentive all converge, but an organization cannot expect to bring these three elements together for every role involved with MRO materials. For example, improved inventory management may be relevant for a storeroom manager, but a lack of influence prevents the manager from implementing change. A maintenance manager may have a high degree of influence, but no incentive to reduce for the value of materials held in stock. To overcome this fragmented accountability, many organizations create a cross-functional team responsible for all elements of inventory management, or establish a role tied solely to inventory management.

Back to the plant floor example. To create accountability, you pull together a team from across the plant responsible for inventory management. The team works against a scorecard of performance metrics such as stock-out frequency, fulfillment rate, and percent of inactive inventory. During a routine inventory audit, a team member comes across extra painting supplies left over from a recent facilities upgrade and contacts the supplier to return the materials in exchange for a credit. As this type of activity becomes part of your inventory management routine, you

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begin to see progress in your inventory performance metrics and an improvement to your company's bottom line.

Take Your Inventory Management to the Next Level

Whether you currently have a handle on your MRO inventory or you are overwhelmed, it is important to look at your MRO spend as a strategic decision and not as a drain on your resources. Understanding your current approach to inventory management and embracing small, gradual changes will take time, but your upfront investment will be well worth the future savings to your organization. Having the right data and processes in place will help you make the decisions needed to positively impact the bottom line.

So how much of the \$12 billion will you be putting back into YOUR business?

**\$12 billion figure based off the current estimate that \$110 billion will be spent on MRO this year. Of that figure, 50 percent is attributed to planned purchases. Leading research estimates that 20-30 percent of planned purchases then go unused.*

For information on Grainger's inventory management solutions, visit www.grainger.com/inventory [1].

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