



REPORT

How COVID-19 has impacted

MRO procurement
in manufacturing



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Introduction



Peter Malpas,
President for EMEA,
RS Components

Manufacturing has borne the brunt of the COVID-19 pandemic, with some factories forced to close while makers of essential goods have had to increase production and cope with disrupted supply chains.

Our fourth annual survey¹ of the state of maintenance, repair and operations (MRO) procurement, conducted in partnership with the Chartered Institute of Procurement & Supply (CIPS), has laid bare the profound impact of the COVID-19 crisis on the profession. A lot has changed in the world of procurement since our last survey in 2019.

But, at the same time, the crisis has increased the importance, and hence the professional standing, of skilled procurement professionals in many organisations. It has proved an opportunity for procurement to show what it can do in the face of a global emergency.

The pandemic has also accelerated the take-up of digital procurement solutions. But the changes are not just about technology – soft skills have never been more in demand. COVID-19 has increased the importance of procurement professionals engaging (often virtually) with stakeholders across the business.

At RS Components we have been working closely with the engineering sector for over 80 years. During that time, we've seen the impact of wars and global crises, but nothing has changed how businesses operate in the way that this pandemic has done.

We've stood alongside our customers throughout the crisis and we've seen at first-hand the pressure they have been under. This deep awareness of how industry thinks and feels is what powers our innovation.

Whether it's dealing with the perennial challenges of driving savings, reducing downtime and managing ageing assets, or facing up to the new challenges of COVID-19, we are proud to be standing with the procurement profession at this exceptional time.

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Brian Andrew, Managing Director for Sub-Saharan Africa, RS Components

Impact of COVID-19

COVID-19 has split manufacturing into two halves. Companies producing essential goods have seen demand surge; with the need to create COVID-safe workplaces and provide personal protection equipment (PPE) for employees, there has been extra pressure on planned maintenance schedules.

But some manufacturing plants were forced to close by lockdown regulations, creating a raft of MRO challenges. Leaving machinery idle for weeks at a time meant restarting production was fraught with maintenance issues.

Even within the same industry, the impact has varied enormously between nations. Food and beverage, although hit by the closure of bars and restaurants in many countries, has seen increased consumer demand.

Nestlé Malaysia – which supplies 50 countries across the Asia-Pacific region – has carried out 25,000 employee COVID-19 tests a month² to keep food production running at plants in areas of the country affected by strict lockdowns.

Meanwhile, in South Africa, a government ban on all sales of alcohol³ during lockdowns halted production lines, disrupted the wider supply chain and caused leading manufacturers to pause investment in new plant.

“The alcohol ban has obviously hit producers hard, but it's not just them but their complete supply chain that's affected,” says Brian Andrew, RS Components' Managing Director for Sub-Saharan Africa. “Bottle manufacturers, for instance, are being severely impacted and SA Breweries, one of the biggest brewers, has withdrawn about R2.5 billion (\$167 million) of investment.”

It's not just the drinks industry that has faced challenges. “Unless a business was classified as essential, they were severely impacted,” adds Andrew. “One of the biggest challenges was meeting the new legislative requirements that were put in place.”

Complying with the new regulations has been hugely challenging for businesses trying to get back up to proper production levels.”

Across Asia, lockdowns also hit manufacturing hard, says Sean Fredericks, RS Components' Asia Pacific President. “We saw big drops in manufacturing, factories just closed and nothing was being made, apart from critical areas like food and beverage,” he says. “But if you think of automotive manufacturing or industrial manufacturing, that all came to a stop.”

More than half (57%) of manufacturing procurement professionals surveyed worldwide for RS Components' 2020 Indirect Procurement report – The evolution of MRO procurement⁴ said their supply chains had been disrupted by COVID-19.

The report, conducted in partnership with CIPS, also found that more than a third (35%) of manufacturing companies had seen suppliers go out of business because of the pandemic.

More than two-fifths (44%) of manufacturers in the survey have reduced their indirect MRO spend as a result of COVID-19. Almost a fifth (19%) have permanently reduced their procurement headcount, while nearly a third (30%) have had procurement employees placed on worker retention schemes.

But not all the impacts have been negative. More than a third (37%) said there has been increased use of digital tools to support purchase-to-pay processes and 35% have increased collaboration with suppliers as a result of the pandemic.



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Brian Andrew, Managing Director for Sub-Saharan Africa, RS Components

Perhaps most encouraging of all was the 39% who agreed with the statement:

“The importance of the procurement function has been elevated within my organisation” since the health crisis began.

“When the first lockdowns were lifted, there was a lot more focus on indirect MRO procurement,” says Brian Andrew. “Organisations are realising just how important it is. We are now seeing more people being employed into specialist procurement roles in indirect procurement – something we haven’t seen in the past – and these are becoming more strategic roles rather than just being a buyer responsible for indirect procurement.”

Managing the category

While it’s great to see the role of indirect procurement recognised as a vital business function, the survey shows how the day-to-day challenges of managing the category have been intensified by the pandemic.

Although globally almost a quarter of manufacturers (24%) have rationalised the number of suppliers they are now using, the number of suppliers each company uses varies widely.

While 14% use fewer than 10 suppliers for direct procurement, almost a quarter (23%) have more than 250. A fifth (19%) have between 50 and 100, while 16% have between 100 and 250. The pattern is similar for general indirect procurement.

But when it comes to indirect MRO procurement, there is a much more pronounced trend towards using fewer suppliers. The largest group (27% of the total) use fewer than 10 suppliers, while only 14% use more than 250.

Although only 13% have pricing agreements in place with all of their suppliers, 40% use them for most. But price is not the most important criterion used by most manufacturers to measure supplier performance.

In terms of key performance indicators (KPIs) used to benchmark suppliers, 77% of manufacturing companies worldwide use on-time delivery, three-quarters (75%) measure quality and 54% value responsiveness. A third (34%) say procurement and engineering KPIs are aligned.

Brian Andrew says that’s vital. “One of the big challenges we’ve seen is competing KPIs across different departments,” he says. “If you’re an engineer, it’s really about quality of products and how quickly you can get them – you’re not worried about price. But if everyone else is just worried about price, you’ve got a problem.”

There’s also the issue of co-ordinating indirect MRO buyers across multiple sites, although the majority (65%) of manufacturers in the survey say they have fewer than five operational sites. Nevertheless, more than a third (36%) said managing stakeholders over multiple sites was a day-to-day challenge.

More than two-fifths (41%) said that managing contract compliance by suppliers was a challenge, while 39% said their biggest challenge was finding people who understood best practice procurement for this category.

On top of all this were cost pressures. More than half (57%) said they were challenged to reduce inventory costs; a similar proportion were facing reduced operational budgets and 44% said continuous improvement initiatives were making the category more of a focus.

Indirect MRO procurement teams were facing the twin challenges of maintaining ageing assets (44%) while at the same time coming under pressure to improve asset performance and machine uptime (46%). Over a third (33%) said indirect MRO spend was increasing. On is making more use of technology and, in particular, digital procurement tools. More than two-fifths (43%) said they were using e-procurement tools to automate indirect MRO transactions.

According to McKinsey⁵, the most forward-looking companies have used the pandemic as an opportunity to leverage procurement technology to reduce costs and improve efficiency. McKinsey says procurement will lead manufacturing out of the COVID-19 crisis.

One of the drivers of automation is the lack of transparency in the category, with multiple stakeholders purchasing across several sites; 42% of those surveyed said that lack of spend visibility was a daily challenge.

To tackle the problem, one-third said they were introducing spend management systems. Almost three-quarters (71%) use SAP/ERP data to manage indirect MRO spend while 36% rely on supplier reporting.

And indirect MRO spend in manufacturing can be significant – 10% in the survey spend £1-2 million annually on indirect MRO supplies and a further 10% spend more than £5 million. At the opposite end of the scale, 21% spend less than £250,000 while 20% spend between £250k to £500k.

But it’s not just about creating an audit trail, valuable though that is. Digital tools allow the procurement team to set individual spending limits, making it possible to delegate spending decisions to operational teams, increasing accountability and efficiency.

Used in conjunction with vendor managed inventory (VMI) solutions like bin stock and Kanban – already used by 51% of those surveyed – digital technology can optimise inventory levels while ensuring supplies are always at hand when needed.

This is especially important in the world of COVID-19. Industrial vending allows essential supplies – especially PPE – to be held as close as possible to where employees are working, supporting social distancing by removing the need to walk to the stores.

“COVID has been a big wake-up call for a lot of business, even those businesses that have been doing well,” says Brian Andrew. “It was a wake-up call to look at all aspects of their business to make them more efficient – and some have had to scramble very quickly to make improvements and start reducing costs.”

The message is clearly getting through in many manufacturing businesses – 43% already use managed stores, 34% have a strategy in place to use VMI for fast moving, low-value MRO parts and 13% are using industrial vending.

Almost three-quarters (71%) say managed inventory brings better visibility of stock and spend, while 53% say it improves productivity and 44% say it leads to better working practices. Almost two-thirds (63%) agree that VMI saves time spent on individual orders.

“We’ve seen much greater interest in digital solutions, even in terms of using our standard website,” says Brian Andrew. “Customers who were adamant that they would not allow their staff to purchase online have shifted to allowing that.”

“Predictive maintenance, proactive servicing is critical”

Sean Fredericks, President for APAC, RS Components

“We’ve had some of these companies coming back to us and saying, ‘We want to talk to you about that, we now understand what you are talking about’. And they also want to talk to us about other e-procurement solutions, as well.”

The other digital technology which is delivering big efficiency gains in manufacturing is condition monitoring – the use of remote sensors to measure the performance of components and sound the alarm when things are at risk of malfunctioning.

By tracking levels of vibration and analysing oil for traces of wear, condition monitoring gives a real-time picture of how components actually behave in service, allowing preventative maintenance schedules to be built around what is really happening on the shop floor.

“The most valuable part of an onsite service is predicting failure,” says Sean Fredericks. “So, proactively going to a customer and saying, ‘Hey, you’ve got a hydraulic hose there. And you’ve seen the pressure drop so you’ve got a leak somewhere’. It’s a very big opportunity for us – in particular, in Asia.”

“If you look at mining in Australia, they are using underground diggers. You don’t have maintenance people walking around checking stuff. You have to have condition monitoring with all sorts of sensor nodes. Predictive maintenance, proactive servicing is critical.”

Almost a fifth (18%) of global manufacturing companies in the 2020 survey have a strategy in place for condition monitoring and nearly one-third (30%) have a strategy for calibration of test and measurement equipment.

Sustainability

By improving efficiency, technology also helps reduce a business’ carbon footprint and the manufacturing procurement professionals in our survey pointed out the practical benefits of running a more sustainable operation.

More than two-thirds (64%) said reducing their energy usage was a priority, saving money as well as the planet. Over half (57%) were also reducing their water consumption, 81% had increased waste recycling and two-thirds (63%) were sending less waste to landfill.

Over a third (34%) of companies have a carbon footprint reduction strategy in place and half were committed to sustainable and ethical procurement. More than a quarter (26%) were using technology to monitor the energy consumption of individual assets.

Other practical steps to increase sustainability included reducing plastic packaging (64%) and consolidating orders and shipments to reduce the environmental impacts of transport (56%). Over a quarter (28%) of firms in the survey were already using electric vehicles.

Half of the companies in the survey had a strategy for sustainable and ethical procurement and 45% have a strategy for business continuity planning for critical parts. Sean Fredericks says sustainability is very much a given in the Asia-Pacific region.

“Most of Asia got on to that a few years ago, so it’s not new to this region,” he says. “It is particularly important for larger regional companies and multinationals who expect suppliers to demonstrate sustainability.”

“Long term trends continue with the need to reduce spend and inventory costs and make ageing assets do more for less”

Sean Fredericks, President for APAC, RS Components

But where the impact of COVID-19 has been most severe, some companies have shelved plans to become more sustainable, says Brian Andrew. In our survey, 6% said their environmental strategy had been put on hold due to the pandemic.

“COVID in Africa has put this issue a little bit more on the backburner for smaller companies who are looking at crisis management and survival mode,” says Brian Andrew. “That being said, I think that when our customers are through the crisis management and have stabilised everything, they’ll get back to it at a later stage.”

Conclusion

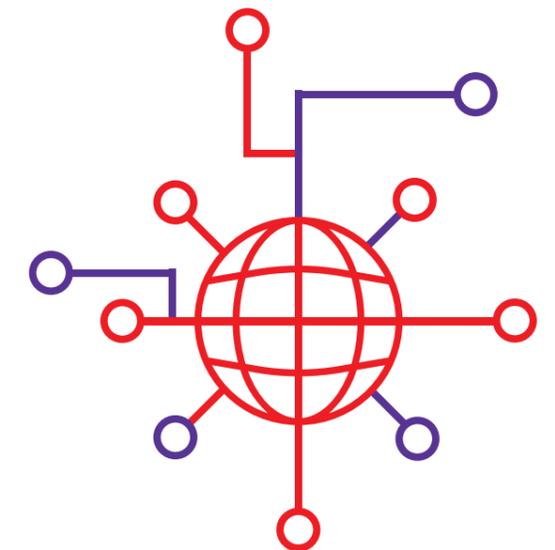
It’s clear from the survey that, while the effects of the pandemic have been traumatic for many businesses, long-term indirect MRO procurement trends persist – namely, the need to reduce spend and inventory costs and the pressure to make ageing assets do more for less.

The need to be sustainable and ethical will only intensify as the world re-doubles its’ efforts to tackle climate change and inequality.

Nobody said being in procurement was going to be easy. But on the upside, the way in which the profession has responded to the crisis has drawn respect from business leaders and a recognition of the vital role it plays. And technology is coming to the rescue in the drive for ever greater efficiency and transparency.

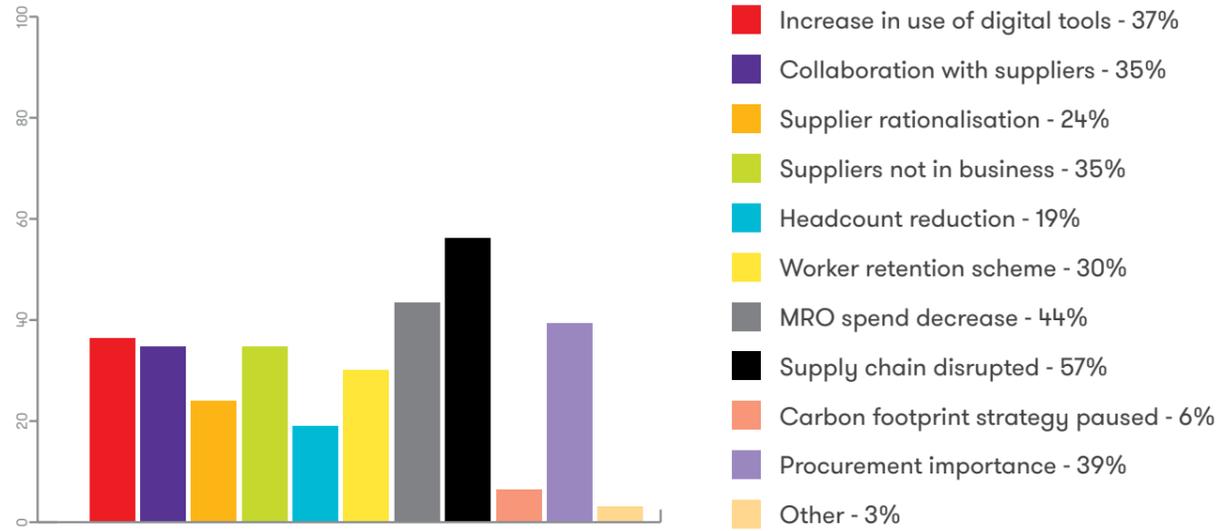
Manufacturing may have been battered by the effects of COVID-19, but procurement has risen to the challenge and, buoyed up by innovation and technology, the profession is poised to lead the industry out of the crisis and into a brighter future.

RS Components have expert advisers on hand to talk through these and related issues and can give you examples of how we’ve helped organisations like yours. If you would like to speak with one of them, please email us at connectedthinking@rs-components.com.

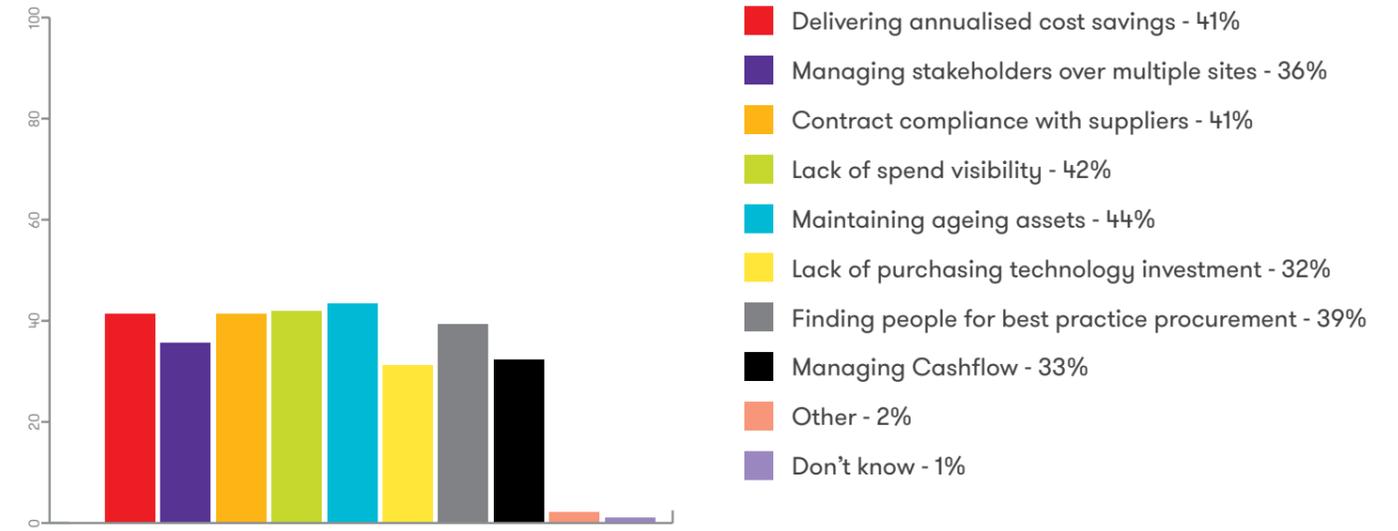


Data

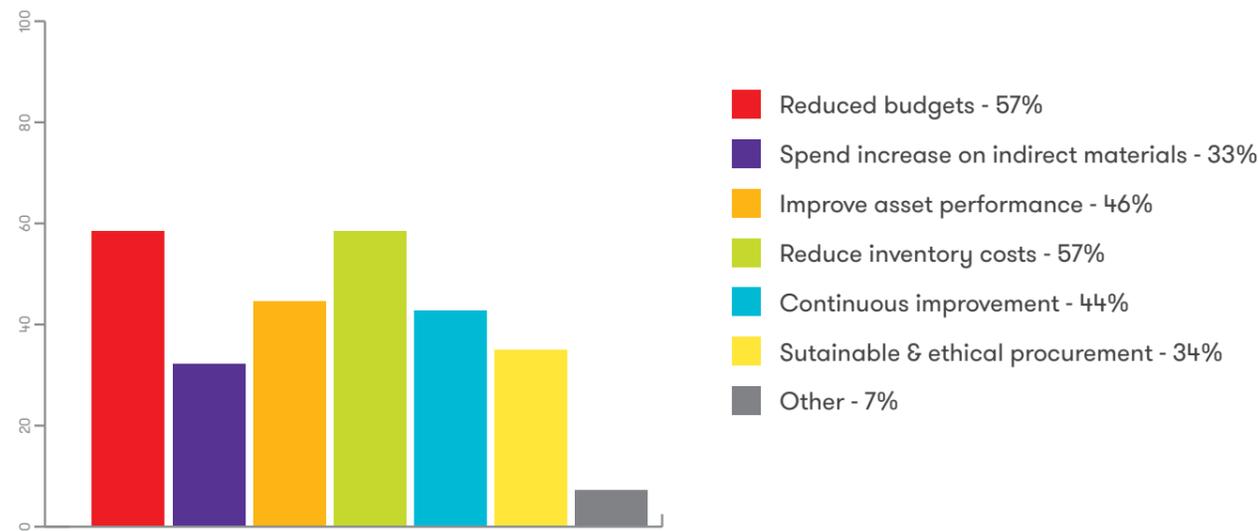
Changes since COVID-19



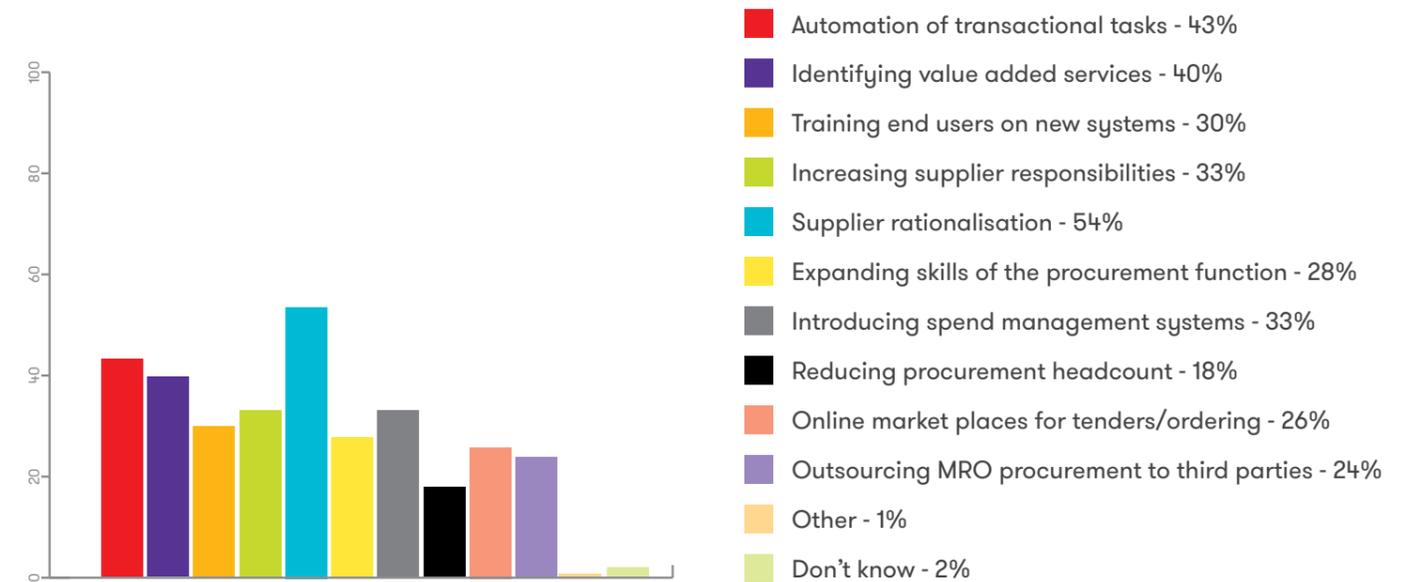
Day to day challenges



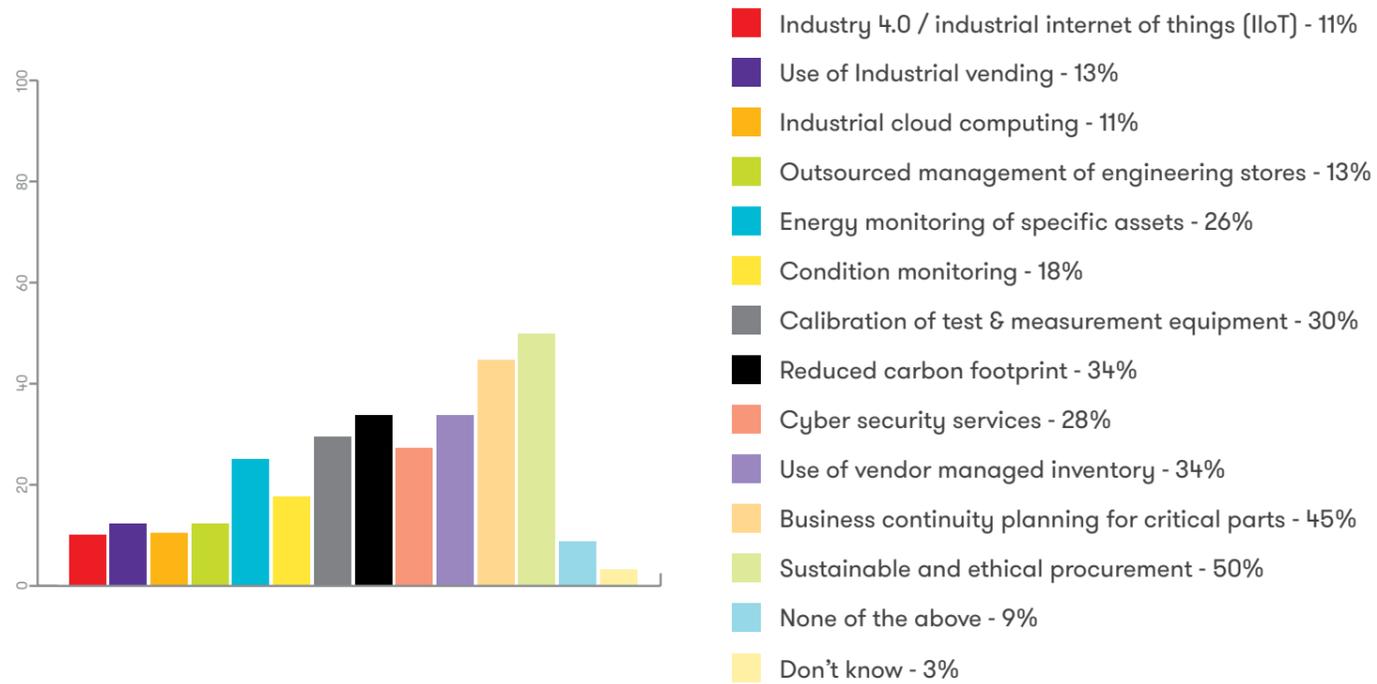
Business pressures



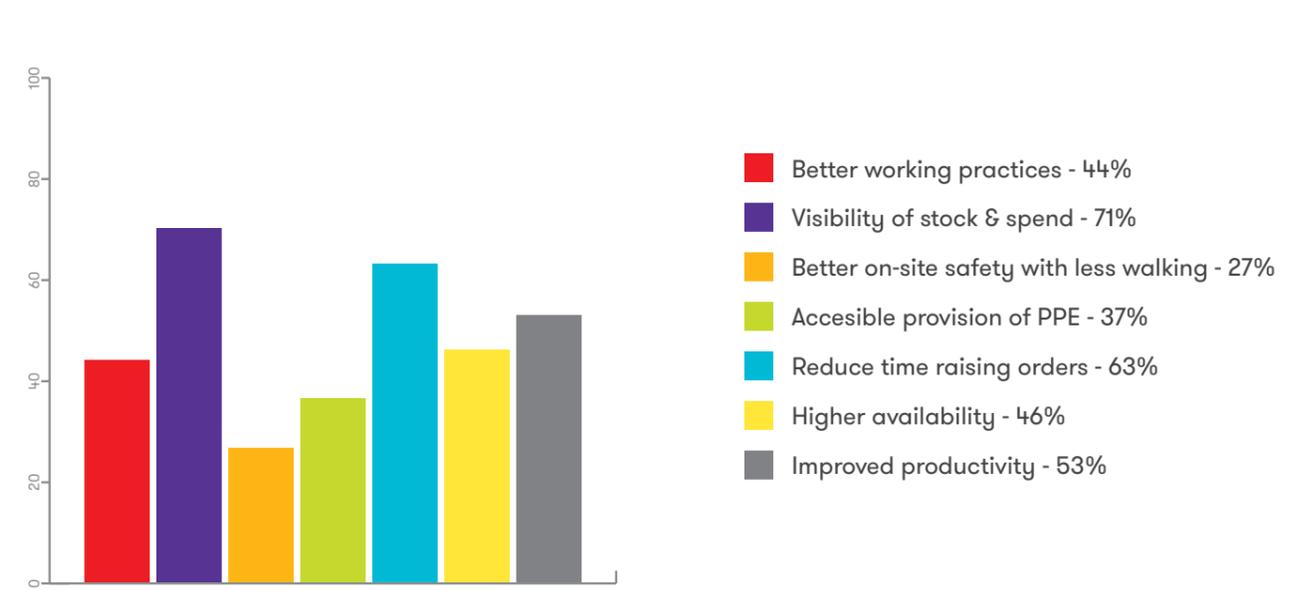
How is your company seeking to increase procurement efficiency around indirect materials such as those in the MRO category?



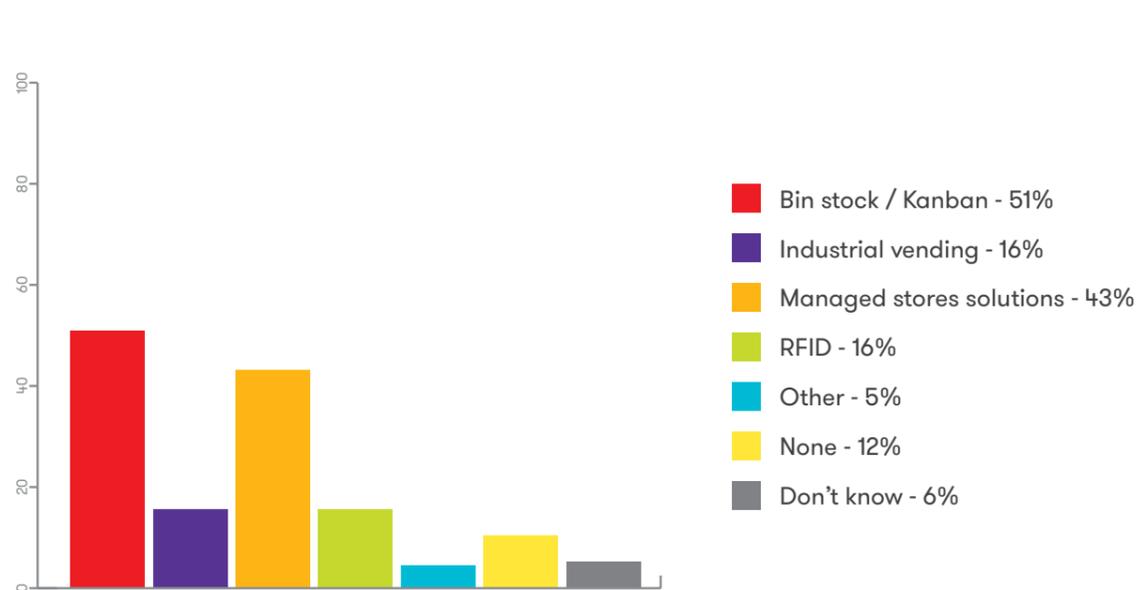
Which area does your company have a strategy in place for?



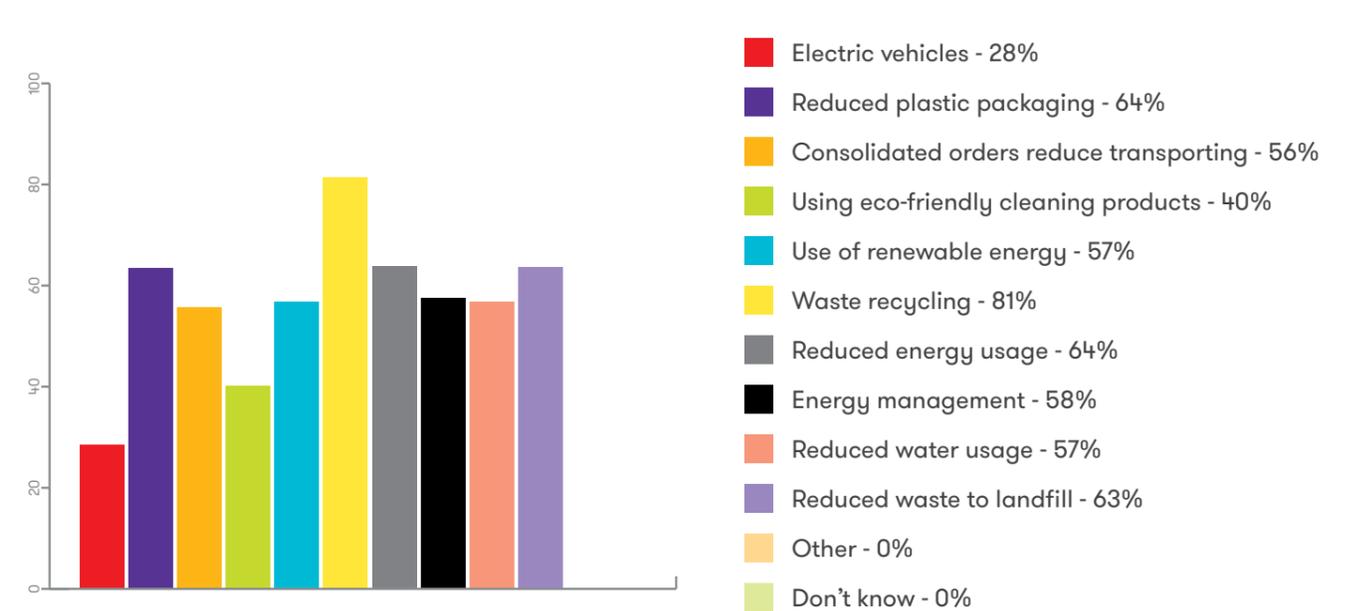
Benefits of managed inventory services



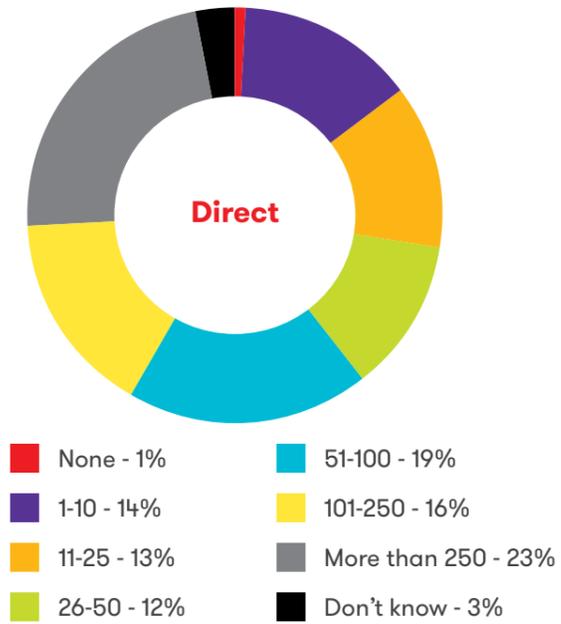
Which managed inventory services does your organisation use?



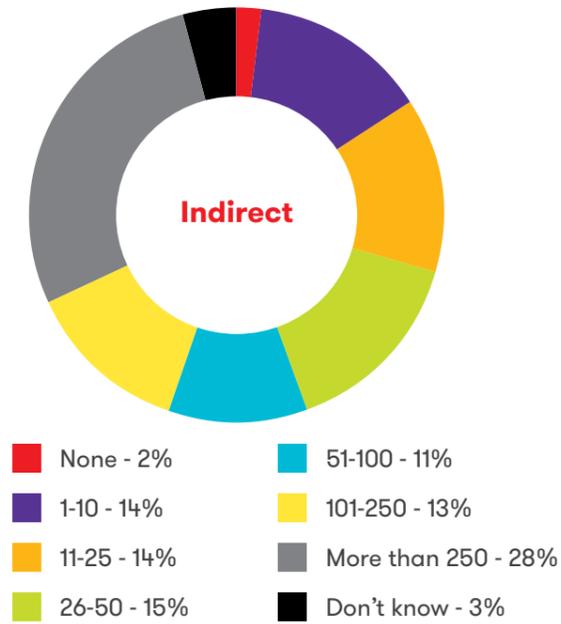
Practices in place to support reduced carbon footprint strategy



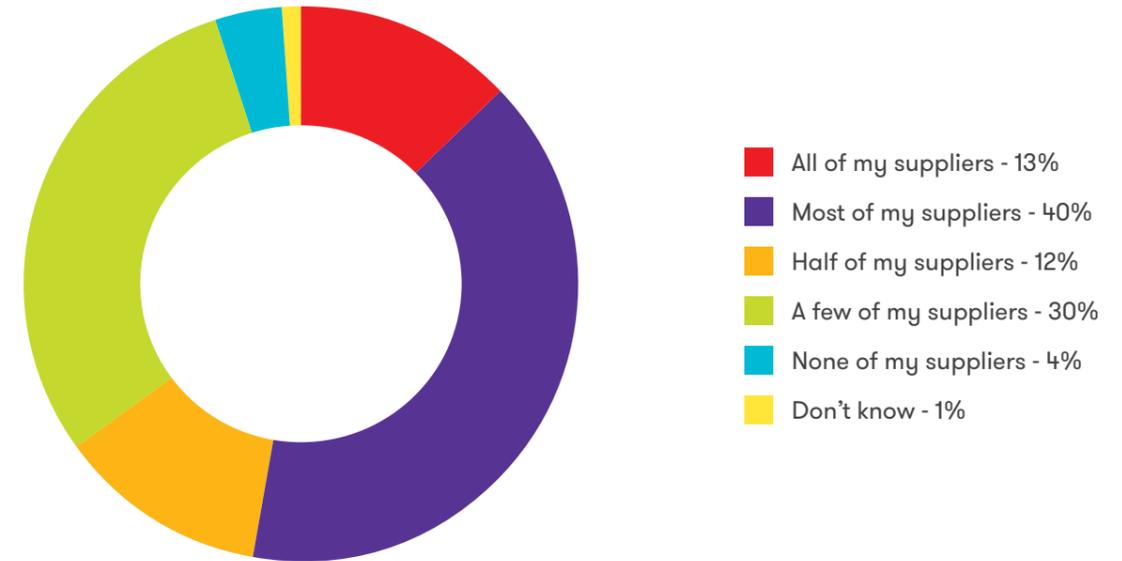
How many suppliers does your company use for direct procurement?



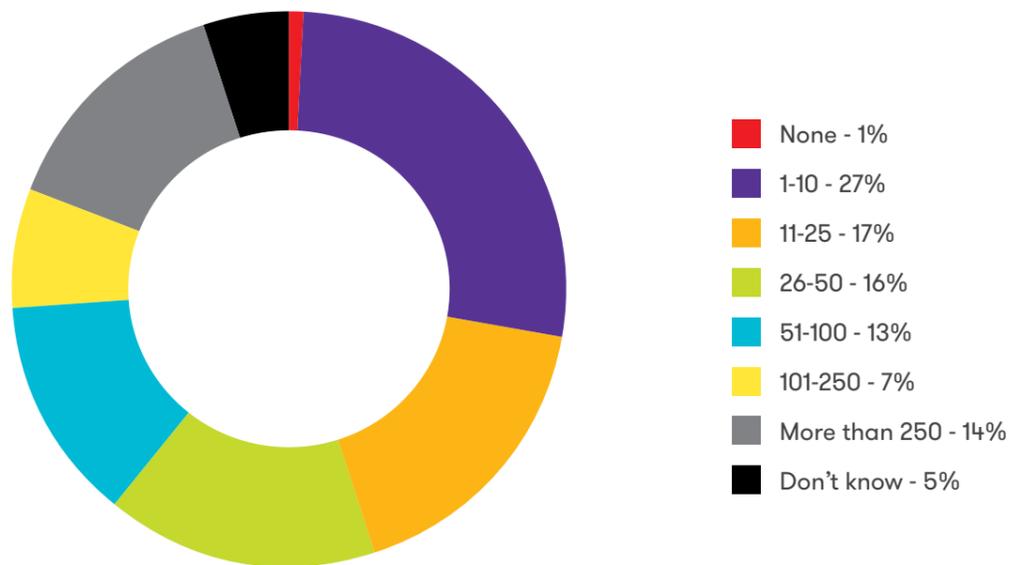
How many suppliers does your company use for indirect procurement?



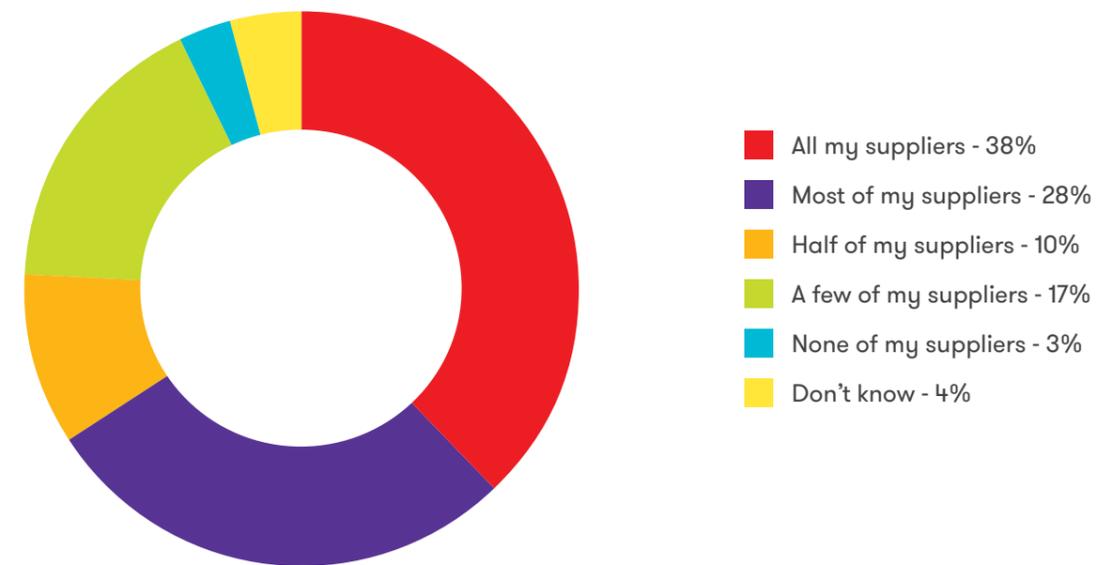
Supplier pricing agreements in place



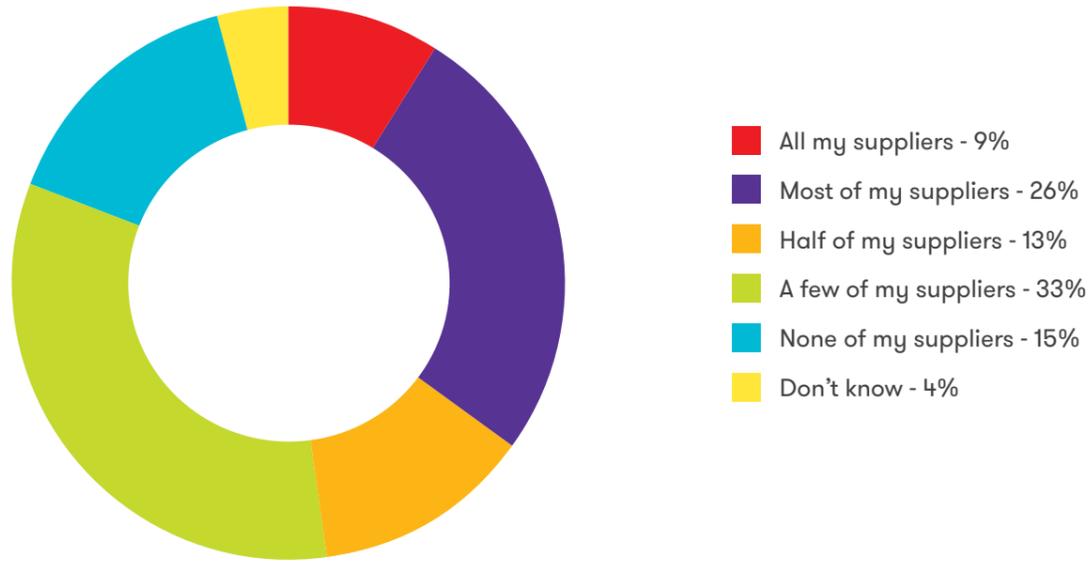
How many indirect MRO suppliers does your company use?



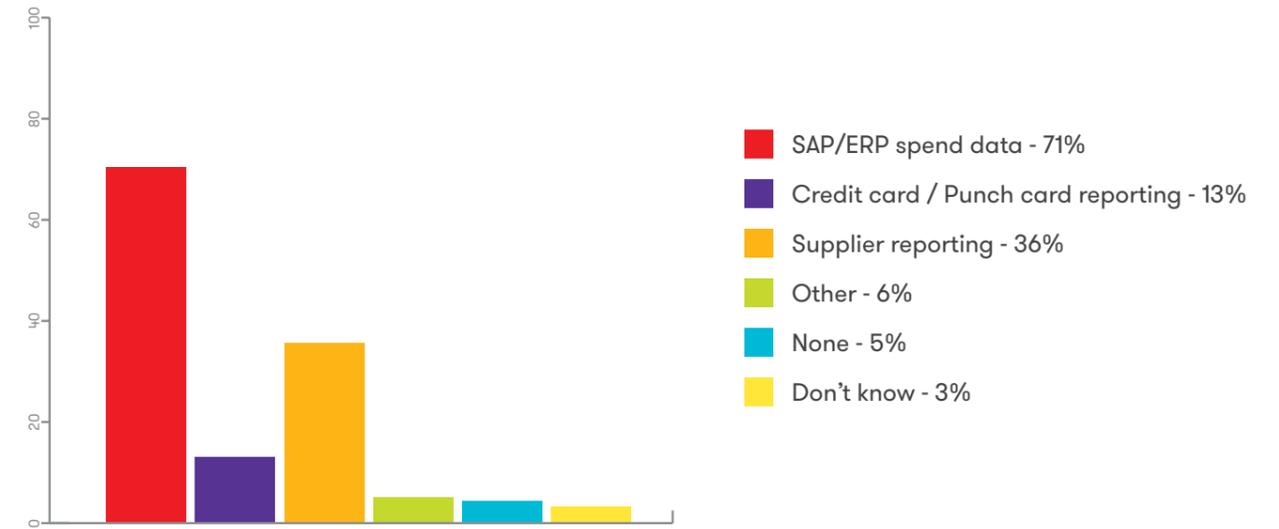
Suppliers have passed an internal approval process



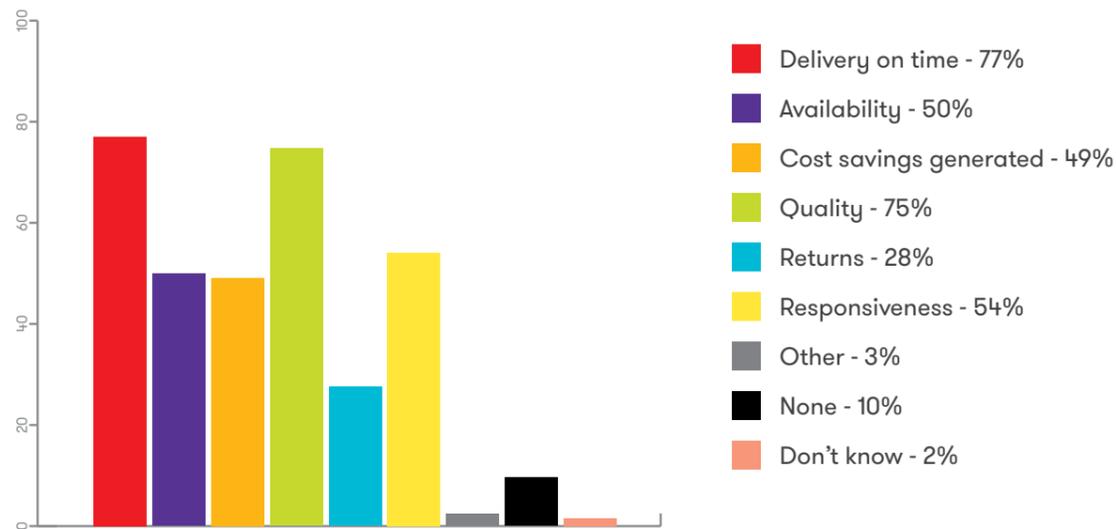
No supplier pricing agreement in place



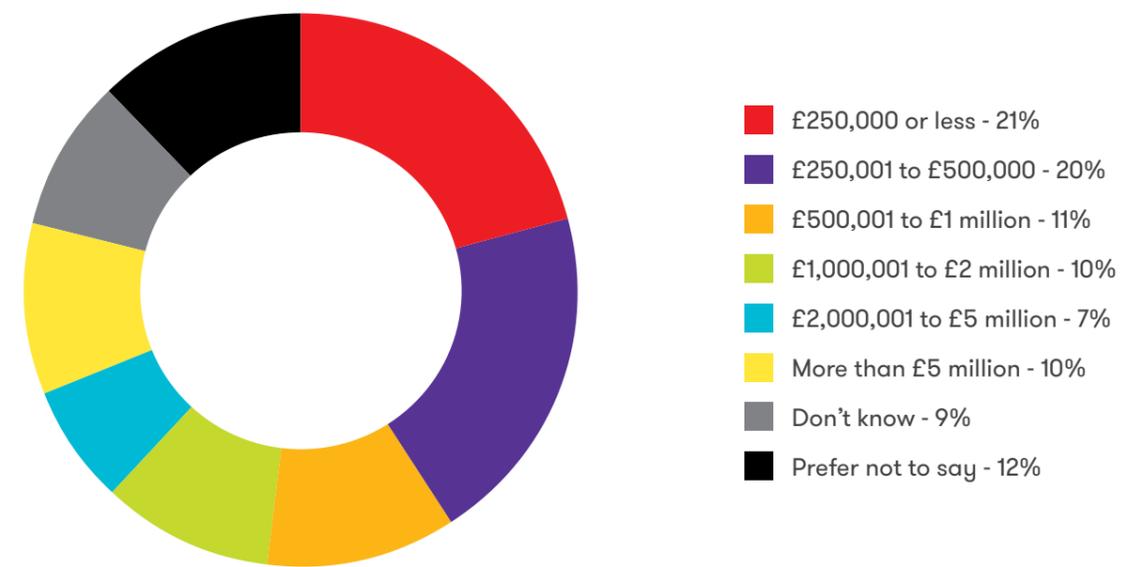
Data sources to manage indirect MRO spend



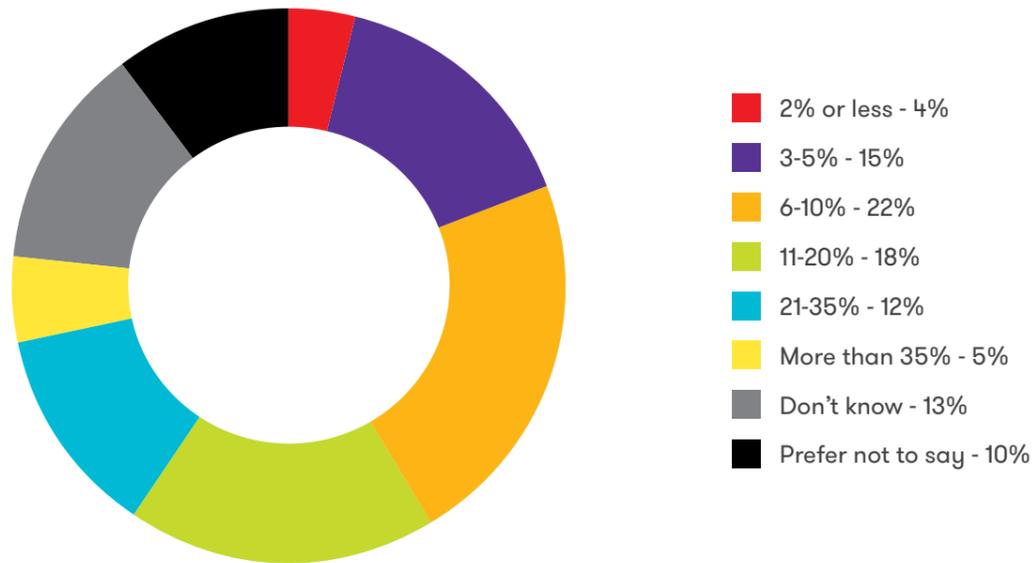
What key performance indicators, if any, do you use to monitor the performance of your indirect MRO suppliers?



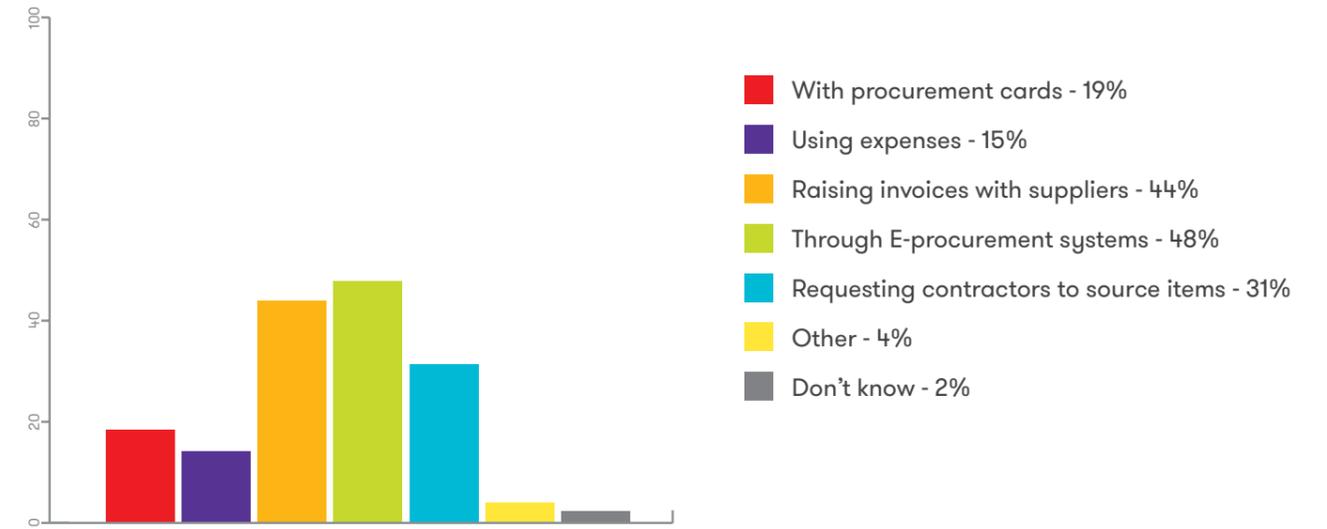
Approximately, how much did your company spend on indirect MRO supplies in the last 12 months?



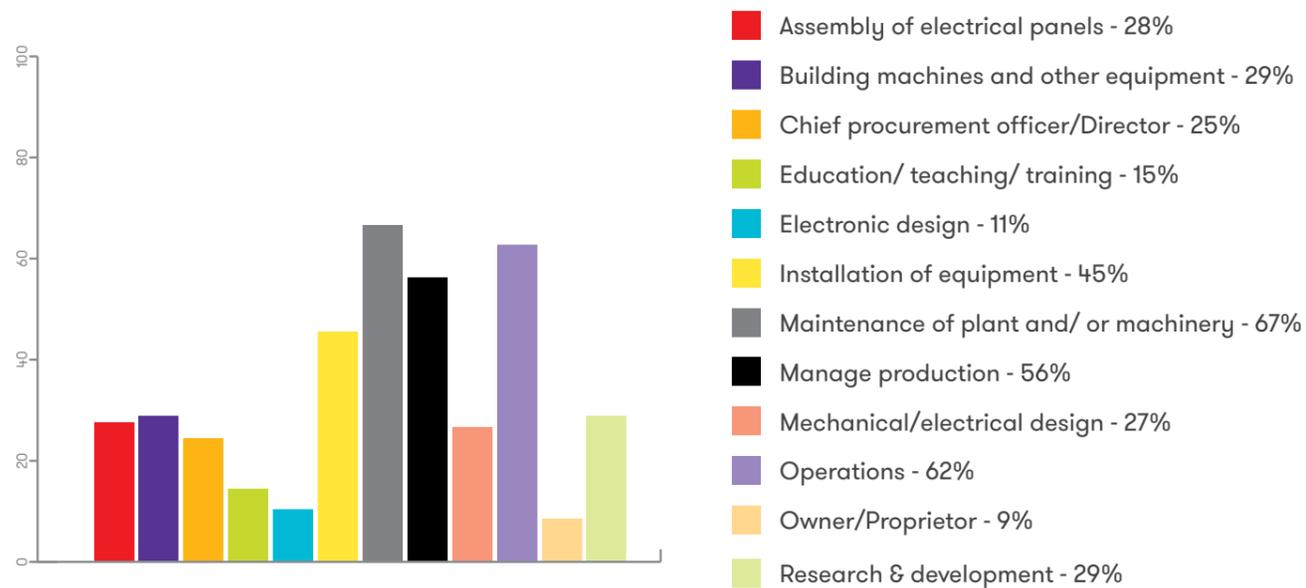
Approximately what percentage of your overall indirect costs is spent on indirect MRO supplies?



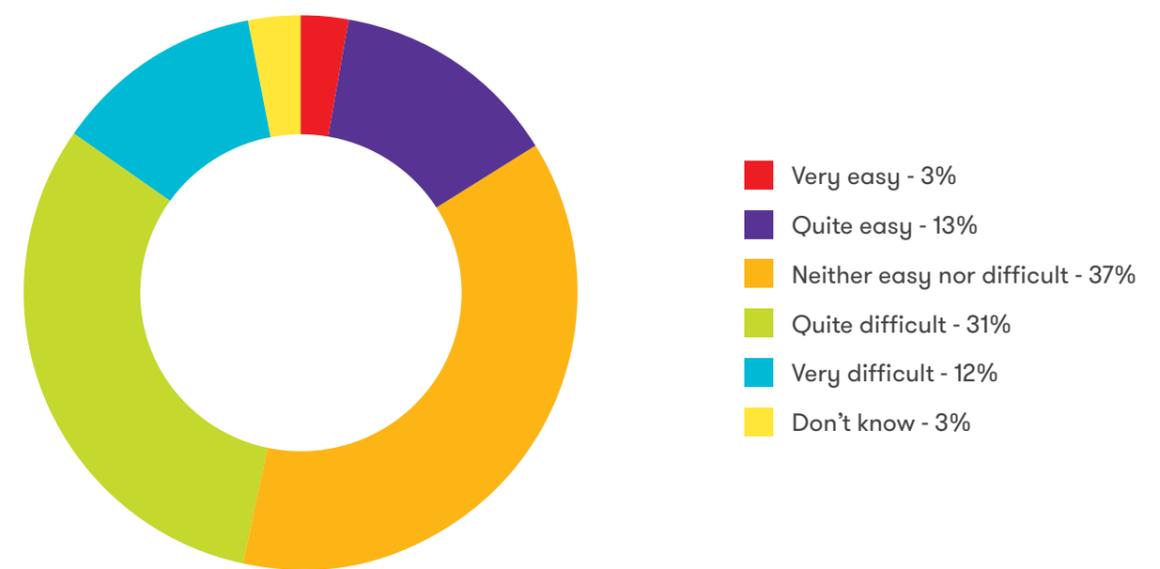
How do your end-users buy from indirect MRO suppliers?



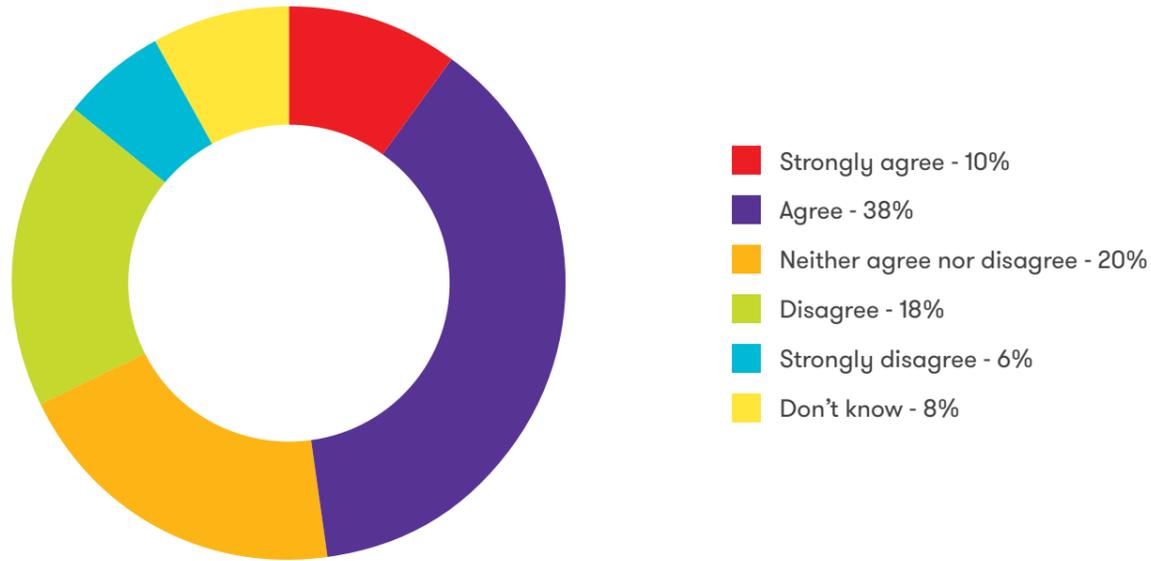
When you are dealing with indirect MRO, what are your internal stakeholders responsible for?



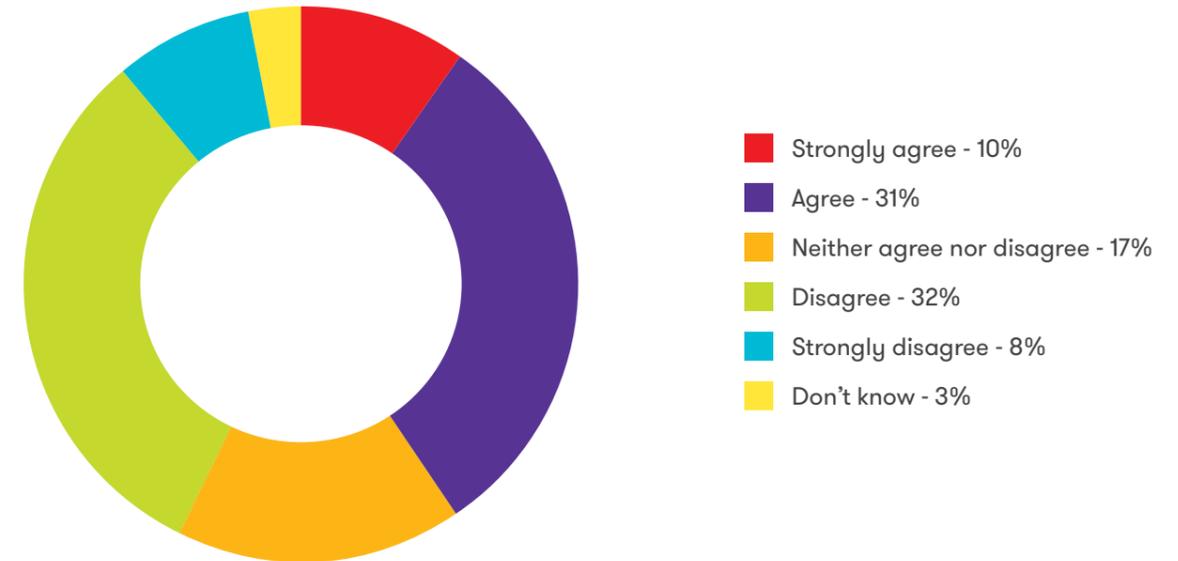
How easy is it to get stakeholders on board with any changes you need to implement?



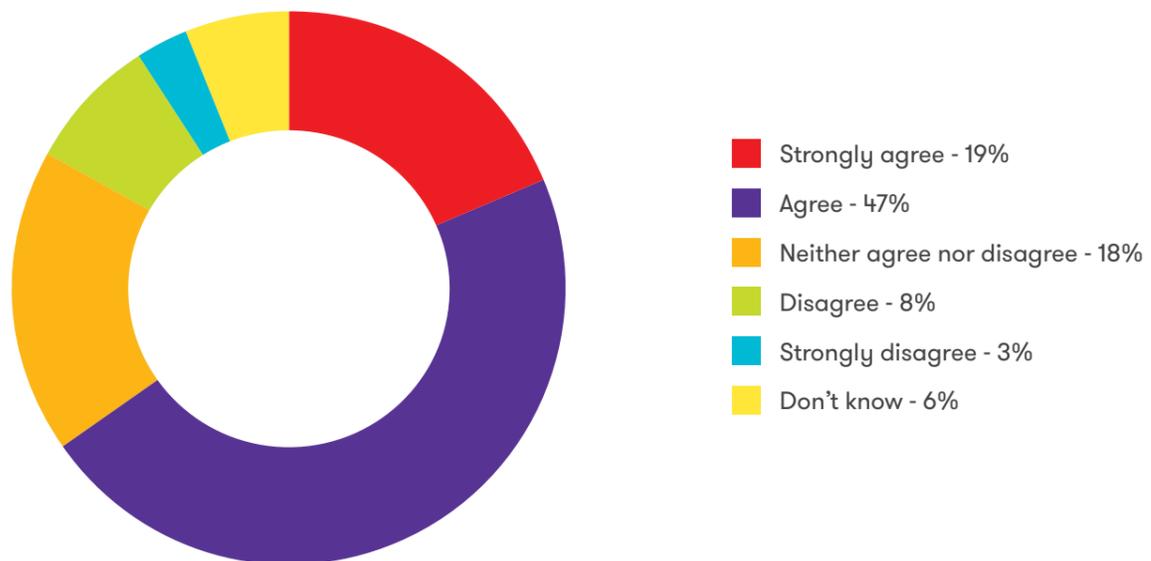
Stakeholder relationships: How much do you agree or disagree that procurement savings are re-invested by budget holders?



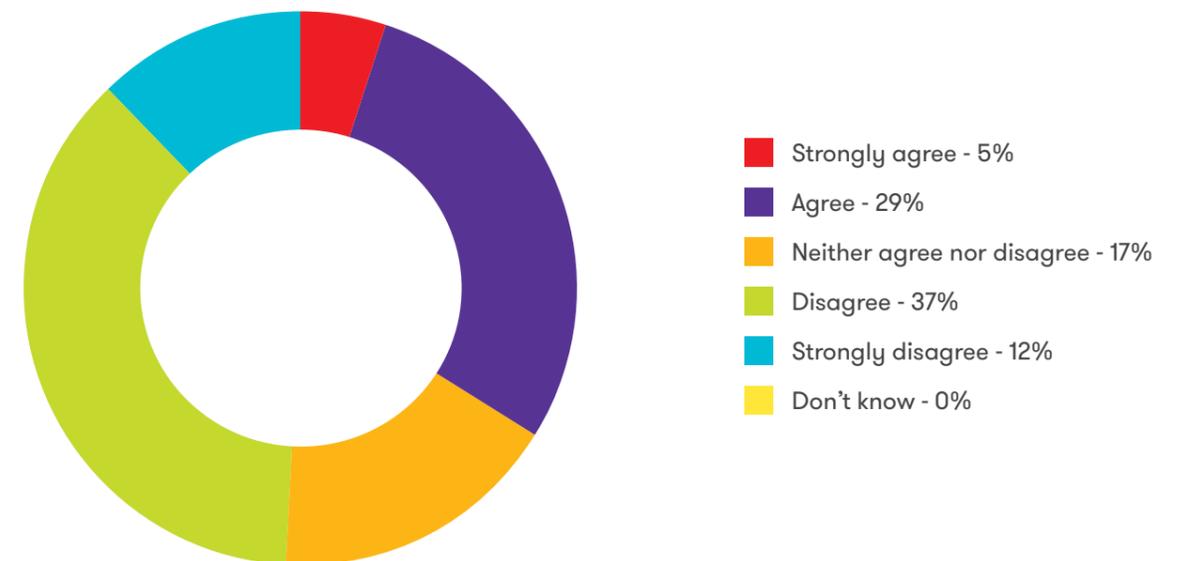
Stakeholder relationships: How much do you agree or disagree that procurement and engineering are working towards different goals?



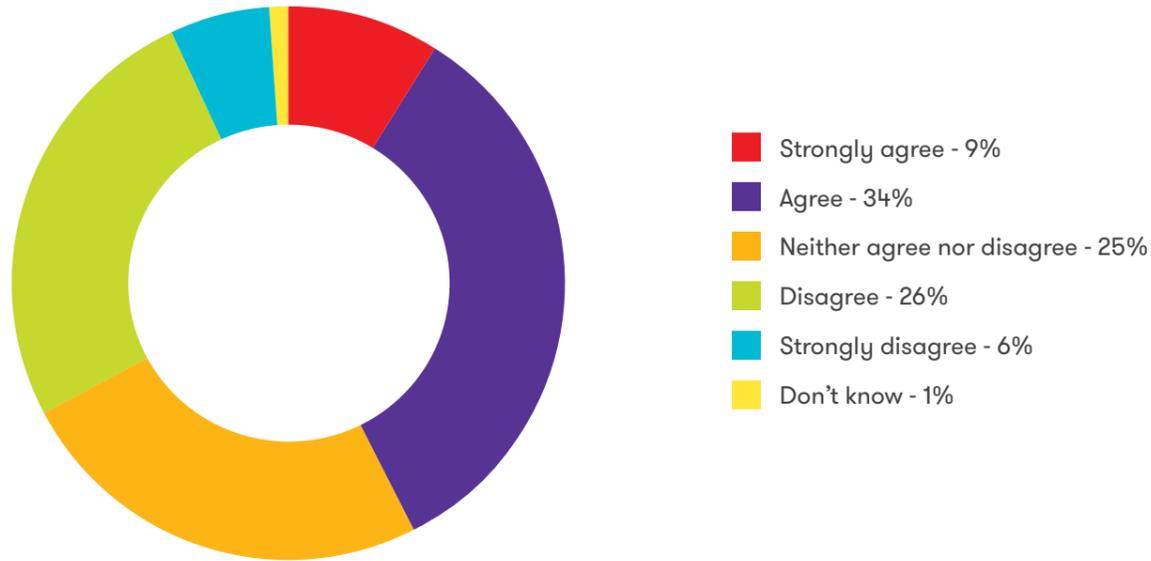
Stakeholder relationships: How much do you agree or disagree that procurement savings are added to the bottom line?



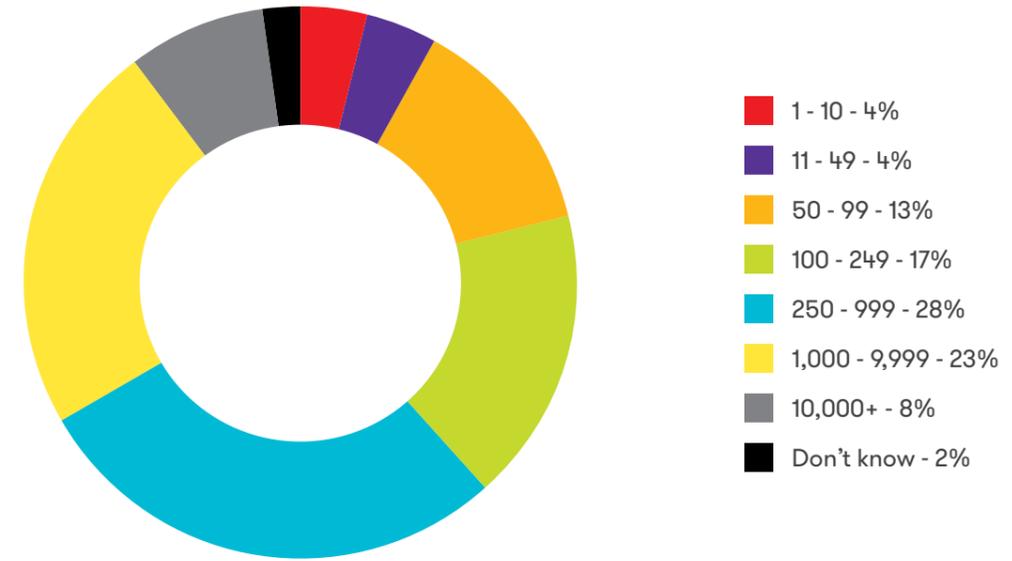
Stakeholder relationships: How much do you agree or disagree that procurement savings are difficult to track?



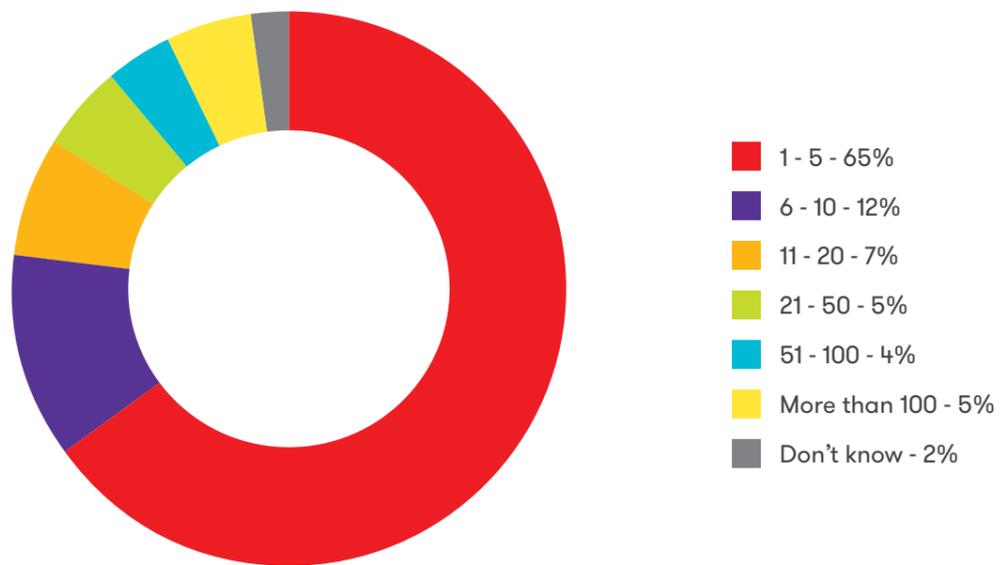
Stakeholder relationships: How much do you agree or disagree that procurement and engineering KPIs are aligned?



Approximately how many employees are there across all the locations in your company, in the country you are in?



Approximately, how many operational sites does the company have in the country you are in?



Source:

- 1 **2020 Indirect Procurement Report, RS Components**
<https://www.rs-connectedthinking.com/en/procurement-strategy/insight/2020-indirect-procurement-report>
- 2 **Nestle Malaysia CEO exclusive Part I: Product affordability key priority amid country's second COVID-19 lockdown, foodnavigator-asia.com**
<https://www.foodnavigator-asia.com/Article/2021/01/20/Nestle-Malaysia-CEO-exclusive-Part-I-Product-affordability-key-priority-amid-country-s-second-COVID-19-lockdown>
- 3 **South Africa's alcohol industry faces 'economic abyss' as alcohol ban continues, beveragedaily.com**
<https://www.beveragedaily.com/Article/2021/01/25/South-Africa-s-alcohol-industry-faces-economic-abyss-as-alcohol-ban-continues>
- 4 **2020 Indirect Procurement Report, RS Components**
<https://www.rs-connectedthinking.com/en/procurement-strategy/insight/2020-indirect-procurement-report>
- 5 **Reimagining procurement for the next normal, McKinsey & Company**
<https://www.mckinsey.com/business-functions/operations/our-insights/reimagining-procurement-for-the-next-normal>

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