

# SpendBrief

Sourcing Insights & Opportunity Assessment

MRO – Industrial Supplies North America



# Sourcing Insights & Opportunity Assessment Introduction

## What is a SpendBrief?

SpendBriefs combine multiple external data sources and category expert insight with your company's information so that you can quickly understand all of the relevant factors and dynamics likely to affect your sourcing strategy and project outcomes.

## Data Sources:

- Information provided by ACME Corporation in the SpendBrief intake form.
- Insights and experiences of your designated SpendPro
- Procurement IQ proprietary market intelligence report
- Public data sources

Position of this SpendBrief in the procurement process:



Sourcing Event	NA Industrial Supplies RFP
Region(s) Covered	North America
Prepared For	ACME Corporation
Date Prepared	April 2, 2022
SpendPro	Joe Bloggs

<b>SpendBrief Contents:</b>
Pg 3   Your spend profile
Pg 4   Supply market dynamics
Pg 5   Cost and price dynamics
Pg 6   Value levers
Pg 7   Value levers
Pg 8   Observations and recommendations

# Your Spend Profile

Annual Spend	\$18,000,000 USD Approx
Service Summary	Maintenance, Repair & Operations (MRO) Industrial Supplies & Support Services
Incumbent Suppliers	<b>Vallen</b> (Incumbent)   \$10,000,000 <b>Wesco</b> (Secondary, No Agreement)   \$3,000,000 <b>Fastenal</b> (No Agreement)   \$2,563,454 <b>Grainger</b> (No Agreement)   \$150,600 <b>McMaster Carr</b> (No Agreement)   \$946,000 <b>U-Line</b> (No Agreement)   \$754,000
Key Stakeholder(s)	ACME Divisions: NA Manufacturing & NA R&D Team Manufacturing Plants (CA, CT, MN, FL, RI, NV, WA, ME, DE, LA) R&D Sites – (WI & FL)

Current Situation	<p>ACME Corporation has passively managed this category using a reactive approach until 2021 with the entrance of new management. This new team pivoted to a strategic business strategy including overhaul of the global procurement team with a new ERP system and is currently renegotiating or launching RFPs across all indirect categories to leverage the spend and improve cost savings. ACME itself is in a period of growth including several acquisitions in it's space, and will see continued category usage growth for the next 3-5 years.</p> <p>The market currently is recovering from the Covid-19 Pandemic and its impact on the global market, several categories are still impacted with inflationary pressures which have increased costs across all categories compounded with other global conflicts or geopolitical pressures.</p> <p>This has encouraged "de-risking" from Chinese &amp; Russian suppliers that may fall under sanction or suffer inconsistency with supply. The importance of diversification of supply chain partners for resiliency in the future to avoid the challenges of 2020-2022 cannot be understated.</p> <p>ACME's supplier base has few, high level contracts that pose an opportunity to consolidate it's supplier base and fully utilize it's economy of scale.</p>
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Procurement IQ Buyer Power Score	-0.8 BUY NOW
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Scale: -5 = Supplier Power. 0 = Neutral. +5 = Buyer Power

3-Year Average Score	+0.4 (Declining)
2023 Forecast Score	-1.1 (Declining)

## Market Opportunities

The Industrial Supplies category is full of largely interchangeable suppliers that support the indirect MRO category. These Industrial distributors & integrators provide similar products and services. This provides ACME an opportunity to leverage it's spend & growth to secure strong contracts, category discounts, rebates & services to support its operations in North America.

## Market Threats

Inflationary pressures are a significant threat to material costs that will contribute to increased prices of commodities (Steel, Copper, Wood, Fuel etc.) and negatively impact savings targets for all organizations. The increased uncertainty of the geo-political conditions in eastern Europe, Middle East & South East Asia with increased conflicts will also negatively impact commodity pricing and availability from these regions.

The global industrial supplies category has also experienced consolidation amongst industrial distribution suppliers most recently with Vallen being sold to Nautic Partners and with Brammer & IPH merging to create Rubix in the European market in 2018.

Ensuring commodities purchased with suppliers are contractually pegged to an index will help mitigate potential impacts of external factors.

2019-2022 Price Trend +3.3% CAGR

2022-2025 Price Forecast -0.8% CAGR

Price Volatility High

Switching Costs Medium



## Price Dynamics

The cost of MRO Industrial Supplies are often tied directly with the prices of commodities such as steel, aluminum, copper, wood, fuel directly impact the cost of the materials and the costs of moving these goods to ACME.

Geopolitical considerations can also negatively impact the pricing and availability of these materials.

## Cost Considerations

ACME can reduce the cost of services & suppliers through a supplier consolidation strategy favoring a primary strategic supplier with a secondary that is positioned to replace should the need arise. We recommend negotiation for “delivered” pricing to help lock in rates on materials where possible.

We recommend negotiated contracts have commodity prices pegged to an index to mitigate any sudden increases and to lock in prices where possible due to the inflationary pressure for the foreseeable future.

Ensuring a parallel effort on the logistics category will provide crucial to mitigating and preventing cost overruns from the logistics side of the category. We recommend a review of this category.



# Value Levers

## Scope Management

MRO Distributors & Integrators offer many different services. Clear definitions of what is expected and clear points of communication with site staff & procurement will allow for scope control and mitigation of unwanted scope creep.

- Define scope by the supplier agreement, control addition of services with procurement oversight & SOP

## Cost Management

MRO Distributors can be useful to reduce costs and control maverick spend such as the following:

- Punchout Catalogs – streamlines ordering and curates authorized product with negotiated discounts, rebates, etc.
- PPE & Tool Vending Machines – Controls costs through usage, tracking & waste management
- Vendor Managed Inventory – Saves labor time with availability of high use items tracked by supplier

## Risk Management

ACME has several avenues of risk management that can be applied to MRO Industrial Supplies.

- Contractual Terms – Disaster Clause & Minimum Inventory clauses can ensure reserved levels of inventory specifically for ACME under financial penalty if not upheld
- Strategic & Secondary Suppliers – having additional local suppliers as a backup is helpful
- Vendor Managed Inventory – On site storerooms with 90 days supply can help keep operations running smoothly until corrective action can be taken

## Innovation Enablement

MRO Distributors & Integrators offer a number of services to streamline ordering & enable quick fulfillment at sites such as the following:

- Vendor Managed Inventory / Consignment / Storerooms
- PPE & Tool Vending Machines (Control usage & cost)
- Punchout Catalogs (Streamlines ordering & ease of use by sites)

# Value Levers

## Sustainability

MRO Distributors & Integrators have a number of sustainability related programs and can offer everything from LED lightbulb & energy efficiency engineering of sites to solar panels & battery backup systems.

- LED Light Bulb replacement can save 30% on electrical usage with sites
- Consider using a sustainability service to integrate with your systems, EcoVadis is a leader in sustainability solutions
- Process engineering through review site waste disposal can reduce costs and improve sustainability impact on the local environment

## Value Measurement

We suggest a Total Cost of Ownership model (TCO) when evaluating decisions as well as referencing previous years of spend in contrast to the reduced spend & increased volume for comparative analysis.

Also measuring reduced labor time, utilities & other factors can play a part and be incorporated into a TCO savings methodology model.

## Diversity

Some Distributors & Integrators in this space are Minority Owned businesses or work closely with diversity vendors to support operations & provide opportunities to improve workplace & supplier diversity.

- Request diversity services that the supplier can provide
- Request diverse & minority owned suppliers & subcontractors to service sites

## Other Value Levers

Not Applicable

# Observations & Recommendations

## Observations

ACME has major fragmentation in its Industrial Supplies Spend and the larger MRO Category. We have observed the use of suppliers that are well known in the industry to not participate in RFPs nor offer discounts or any rebate/savings programs (McMaster Carr & U-Line). These suppliers in particular represent rogue spend and may be indicative of an unmanaged category and should be addressed as soon as possible as well as a review of all "tail spend" (Cards, etc.)

ACME lacking a standardized contract template is a major issue as it is the foundation of a well-managed category and steps should be taken to rectify this across ACME's businesses.

## Recommendations

Recommended actions:

- Thorough evaluation of category leads us to recommend a full category RFP for the North American Region beginning with Industrial Supplies.
  - Industrial Supplies
    - Consolidation of fragmented Industrial Supplies category
    - Consider tail-spend review & policy revision
  - Electrical Supplies
  - Fasteners & O-Rings
  - Office Supplies

Improved standardized MRO Contract:

- Strong Language for expected materials & services
- Strong Language for ACME commercial terms (Net 90)
- Rebate Structure (Avg. 5% of spend) & Year-over-Year discounts (3%,3%,3% or 5%,5%,5%)



# Summary of Next Steps

## ACME Corporation MRO – Industrial Supplies NA

### **Summary:**

ACME Corporation wishes to take its MRO – Industrial Supplies category out to RFP based on the current state of the category, supplier strategy and current inadequate performance of its incumbent supplier. We agree with this course of action and provide the following insights.

### **Benchmark Review:**

The category is experiencing inflationary pressures on both logistics & materials, compounded with a consolidation of major industry competitors in this vertical. However, ACME currently has a single agreement that is due to expire, the current terms of this agreement are not in the best interests of ACME. Standard agreements have 90 Day Payment terms, 5% Rebate & 30-40% category discounts for a similarly sized spend category for this region. On average, a standard competitively negotiated agreement will provide 15-30% savings.

### **Recommendation:**

ACME Corporation is in an ideal position to not only de-risk itself from its dependence on International Suppliers, but take an opportunity due the lack of significant contracts and leverage its considerable category spend to establish a resilient supplier strategy with best-in-class agreements while generating significant savings throughout the process.

As covered in our Benchmark Review, our data & experience suggest that ACME can save approximately 15-30% (\$3,000,000) with a vendor consolidation RFP with the placement of a primary strategic, secondary & localized/tertiary suppliers with agreements in place. Additional savings can be achieved through the use of accompanying punch-out catalogs to curate approved materials & curtail maverick spend via p-card. We also suggest the application of SOP to ensure compliance with the actions of ACME's Procurement team for additional cost avoidance and savings year over year. Additionally, the lack of commodity index agreements in the existing contract also exposes ACME to great risk based on market fluctuation, especially commodities that are critical to ACME's business such as Aluminum, Copper & Steel. Ensuring these are a part of the future negotiated agreements will protect ACME's from sudden market fluctuations.

**We recommend taking the category out to RFP & implementing current best practices in regards to contracts, negotiation, policy & software to ensure the most impactful results.**

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## Get End-to-End Expert Help

SpendPro Strategic Sourcing Support: Have a SpendPro Expert manage this project end-to-end, providing hands on strategic sourcing support to ensure optimal results.

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