

# What the Heck is an MRO

By Preston Ingalls

Most companies are aggressively searching for ways to reduce their costs to compete in this tight market. Three letters, MRO, can spell considerable savings to those willing to explore.

MRO stands for **Maintenance, Repair, and Operations** and is sometimes called Maintenance, Repair, and Overhaul. Either name works, and means the inventory for maintenance. MRO inventory are those supplies, parts, and materials consumed in the production process but which do not either become part of the end product or are not central to the finished product. MRO items include: consumables (such as cleaning supplies, gloves, PPE items, or office supplies), equipment parts and components (such as motors, pumps, seals, bearings, lubricants, valves), and facility upkeep items (such as computers, fixtures, furniture, etc.) These are germane to the organization producing products or services, but are not key components in the finished product.

## GET A HANDLE ON PARTS

We often refer to the area that stores and secures these items as the storeroom or parts room.

Why the big opportunity? Well, consider that MRO spending in the U.S. is about \$775 billion a year, according to Grainger Consulting Services, a division of the supplier WW Grainger. A study of 500 organizations by Grainger finds that more than half of U.S. businesses are not effectively managing MRO supplies. That represents an enormous market and a large cost improvement opportunity.

Bear in mind that the average carry costs, known as the cost to “have and to hold,” of MRO inventory is between 20 to 30 percent but can be as high as 40 percent. These costs include the cost of the stores facility real estate, utilities, taxes



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on the property, taxes on the inventory, the salaries of stores personnel, pilferage and obsolescence, insurance on the building and contents, cost of money, etc. This means if your inventory is valued at \$750,000, the cost to the organization could be \$150,000 to \$225,000 each year to maintain that inventory. But more than the cost of tying up \$750,000 in inventory, along with \$150K to \$225K to maintain it, the cost of not having the right inventory at the right time can be extremely high.

It's typical to find that required *active inventory* (items we need) ranges from 25 to 30 percent of the inventory. *Excess active inventory* (too many of the items we need) ranges from 10 to 20 percent. *Inactive inventory* (obsolete or slow moving) ranges from 50 to 60 percent of inventory. Of the inactive inventory, critical spares (parts we absolutely must have because of impact and lead times) represent approximately 20 percent of the total inventory, slow-moving inventory represent 20 to 25 percent, and obsolete items represent 15 percent of the inventory.

Some of the opportunity for cost savings comes through the removal of duplicate items and the examination of excess active and slow-moving inventory. Some of the means for removal of obsolete or slow movers can include using them without replacing, selling back to the vendor for credit, selling through eBay or Craigslist, or a third party for cash.

Should you have a storeroom attendant? If you have at least 2,000 line items (individual part numbers or SKUs), you can justify one. In fact, not having a parts clerk or storeroom attendant can be extremely costly as no one is managing your parts. Who will handle receipts, storing items, cleaning and organizing, disbursements, security, and record keeping? If you do have an attendant, make sure they receive MRO training as it is a science and not an art and an untrained attendant may not

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be able to bring the right controls to the storeroom that leads to cost savings.

### ABC CLASSIFICATION SYSTEM

A good method is to set up an ABC Classification system for your parts. "A" items make up 20 percent of total inventory and 80 percent of the inventory value; "B" items make up 30 percent of total inventory and 15 percent of the inventory value; "C" items make up 50 percent of total inventory and 5 percent of the inventory value. Here is the difference in control:

**A ITEMS:** Should be tightly controlled with constant counts and restricted access; weekly control reports; review expected need more frequently; limit order quantities

**B ITEMS:** Should be controlled with periodic counts; monthly control reports; access could be limited somewhat; review expected needs less often; limit order quantities

**C ITEMS:** Looser control methods; quarterly control reports; access not limited—like free-issue fasteners, fittings; review when stock gets low; order in larger quantities for price efficiency

An efficient inventory counting or reconciliation method is to have the inventory control program (you should have one) randomly generate items for the storeroom attendant to count daily. Most inventory control modules should have the means to conduct Cycle Counting. If not, you can develop a spreadsheet to accomplish it. An inventory cycle counting process identifies inconsistencies in inventory levels and corrects inventory quantities before those items are requisitioned for an upcoming repair. The target for a storeroom should be to have an overall inventory accuracy of 95 percent of total cycle counts.

### PROPER PLACEMENT AND SECURITY

One opportunity to improve costs is placing consumable items at the point of use. Stocking consumable items near the point of use increases mechanic or technician productivity by reducing travel time to the storeroom. These may include gloves, safety glasses, or batteries, just to name a few items that could be on the list. There are several companies that offer vending machines

to handle and control these issuances. Also, free-issue items like fasteners should be left near the point of use and restocked using consignment stocking (you only pay for it when it is used).

Another important aspect is security. The storeroom should be secured and locked 24/7. After-hours access should be limited to a few trusted folks. The

storeroom should not be open for mechanics or technicians to wander around and help themselves to parts. These "taken" parts may not be recorded, creating a discrepancy in the count.

Ultimately, you want the right parts at the right time in the right condition. Let MRO be "part" of the solution instead of "part" of the problem. ■

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