



REPORT

Inventory Management

in the shadow of a pandemic



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Alex Davies, Head of Value-Added Services, RS Components

To hold or not to hold. That is the question many in procurement and supply chain roles face when assessing stock availability levels. In an ideal world, there would be an abundance of the stock stored conveniently where it is needed. But in reality, holding large amounts of stock is a luxury few businesses can afford.

Storage space can be at a premium – not to mention the amount of capital that gets waylaid by holding surplus stock on a just-in-case basis.

But as has been demonstrated throughout 2020, not having access to stock can be calamitous. The pandemic caused supply chains to grind to a halt, cutting many businesses off from an essential source of business-critical supplies, both direct and indirect – affecting access to many essential maintenance, repair and operations (MRO) parts.

The wave of disruption began to make its presence known in February. The planned Chinese New Year holidays were extended, leaving many factories in China’s manufacturing heartland (where more than 200 of the 500 Fortune Global firms have premises) closed for several weeks.¹

Despite improvements in supply, McKinsey has warned recently that businesses should now be planning how to handle spikes in demand once supplies start moving again². That could lead to rationing of some items, affecting both the B2C and B2B spheres.

For many supply chain professionals, some of these points may sound familiar, but they have been exaggerated and amplified by the global uncertainty and disruption the year has brought.

It’s an issue that was highlighted in the Indirect Procurement Report 2019 – The Future of MRO³, published by RS Components and based on data from the Chartered Institute of Procurement & Supply (CIPS). More than one-third of UK businesses told us a lack of on-site parts was their biggest cause of downtime.

Biggest drivers of downtime



Source: 2019 CIPS whitepaper (P10)

In this report, RS Components examines the way the coronavirus pandemic has shaken supply chains and upended many established business models. It also looks at how those in a procurement, operational or engineering role can make a lasting impact on the way they respond to current pressures – and prepare for future changes.

1. Time is money

The question of whether or not to hold stock – and if so, how much and where – might not be new, but it is more pressing thanks to pandemic-related disruption. This is a point David Loseby, director of procurement at Rolls-Royce, feels should be viewed carefully.

“I talked to someone recently about how they were planning to reconfigure their supply chain, and when I asked them what contingency they were making to hold additional stock while changes were taking place, and what that meant to capital expenditure, they weren’t sure,” he says.

Where day-to-day MRO items are concerned, there is also a long tail of procurement cost that follows any unstructured purchasing wherever it goes. Finance departments spend excess time reconciling invoices, issuing retrospective purchase orders and so on. Parts may need to be reordered if the original purchase resulted in the arrival of an incorrect item. It may also be the case that parts sourced ad hoc from non-approved suppliers might be substandard quality, meaning they end up requiring early replacement.

An organisation that spends £100,000 purchasing MRO products over the course of a year, could also be spending a further £200,000 processing those purchases.

At the heart of many off-book purchases, you are likely to find someone facing a deadline who is stymied by a lack of available parts. Stories of hassled engineers buying from untrusted sellers just to get the job done are not unfamiliar. Such pressures are easy to sympathise with: one of RS Components’ customers in the utility sector risks being fined £20,000 for each hour it has to suspend operations at its plants. Time really is money.

Not having parts on-site, however, is not the same as not being able to find parts on-site.

Another consequence of ad hoc purchasing is the inherent lack of stock control. Another RS customer recounted how they once *“found equipment that had been purchased by a third party or directly from the manufacturer, which hadn’t been used for more than a year. This equipment needed recalibrating or repairing, which only the manufacturer could do, so ended up costing us twice.”*

Coping with these challenges, particularly in light of the COVID-19 disruption, will call for clear strategies and strong relationships, says Alex Davies, Head of Value-Added Services, RS Components.

“Businesses need to lean on their suppliers or partners, because the whole notion of just-in-case could be a huge step backwards for some. It involves investing in capital stock when there is no guarantee that stock is going to be consumed within a given period of time.”

Relationships with suppliers are taking on a new dimension, too. Particularly where niche manufacturing is concerned – here the implications of changes in demand can have long-running, unintended consequences, as Loseby outlines.

“Let’s imagine a contract that was drawn up prior to the pandemic. It will have had a framework detailing what was going to be ordered and when. And then, the world changed,” he says.

“So, what tended to happen is that a customer would ask the supplier to push things back slightly. At first, that’s OK. Then the pushback gets extended and the amounts on order get reduced. And that’s OK, too. But eventually, if it becomes ‘Can we push this all back by a year’ or ‘Can we cancel part of the order’, it soon becomes more challenging.”

“A supplier partner must be able to demonstrate their business can stand up and be resilient.”

Alex Davies, Head of Value-Added Services, RS Components

“Having tools that enable businesses to quickly find what they need makes a real difference.”

Peter Malpas, President for EMEA, RS Components

In the case of a supplier of specialised parts, the reliance on order-certainty from key customers is significant. Those suppliers may well have made commitments to buying in raw materials and stock items, leaving them potentially exposed.

“What you do next is important,” Loseby continues.

“Do you take the whole order anyway to support your supplier? That might seem like the right thing to do. But then you will have more than you need of the things they produce. You might not need to place an order at all next year. Do you expect them to still be there if and when you next need to place an order?”

2. Seeing is believing: Stock visibility matters

There are some very real, tangible consequences of holding stock in an unstructured manner. In short, if no one knows where it is, or even what it is, it might as well not exist; it is wasted money.

Bernie Donachie is a global supply chain expert at Protiviti, a consulting firm based in California. “Knowing what you have – being precise about what you have – is really important,”⁵ he told the news service TechTarget.

“You have to understand what’s in each one of those warehouses, how accurate the records are, whether people are updating inventory when they put something in or take something out. Problems arise when a company thinks it has 10 weeks of inventory of a particular item in its warehouses and then realises that it really only has six weeks of inventory.”

This might not be a new consideration. But in times of financial constraint, it becomes more important to deploy capital where it is most needed.

Across the UK right now, MRO stock is scattered around different sites, often not indexed and therefore impossible to search through without physically rifling through boxes. Rather than a push-based approach to stock, that buys it in and deposits it in storage, solutions like vendor-managed inventory (VMI) services offer an alternative.

“VMI services such as open bin management and industrial vending can really help,” Davies continues. “This can lead to better availability, better cashflow and stronger relationships with a smaller number of core supplier partners.”

For any busy organisation, it becomes almost impossible to know what stock holdings it possesses. Under normal circumstances, this lack of stock visibility is a problem that often goes unnoticed. But the unprecedented pressures of the pandemic have thrown it into sharp focus.

But there is an additional, pressing reason to address this particular challenge.

The COVID-19 pandemic has been responsible for unprecedented levels of disruption to trading operations around the world. Quite understandably, a lot of the focus when analysing this disruption has been on international trade routes and supply chain fragility. But closer to home, businesses have had to completely reconfigure their day-to-day working environments.

Millions of office-based people now work remotely, at least part of the time. Those who have to be on-site have to abide by strict social distancing measures that have involved curtailment of access to communal workspaces; the days of being informal about how and where stocks of parts are both stored and accessed have been consigned to the past.

It’s one of the reasons businesses are beginning to pull their supply chains a little closer to home and are turning to modern, technology-powered methods of stock management.

“I am aware of several businesses making changes,” says Peter Malpas, President for EMEA, RS Components. “Some have invested in manufacturing locally to produce some of the things they need – sometimes under licence.”

Blending stock from local and disparate, global sources is one way to spread that risk of future disruption.

But wherever it comes from and wherever it’s stored, it needs to be visible and available.

RS ScanStock® is one such VMI tool. It helped one of our customers slash order processing costs by 70%⁶. It’s no surprise that VMI is one of the main routes chosen by businesses looking to reduce their total costs of indirect procurement. In the case of RS ScanStock®, RS assumes responsibility for controlling and replenishing an agreed list of products, eliminating delays in the ordering process and reducing over-ordering.

RS VendStock® enables customers to cite fast moving industrial supplies close to point of use via a digitally automated vending solution. In addition to controlling and monitoring consumption, organisations can ensure that their people have 24/7 access to items that are essential to keep operations running, such as Personal Protective Equipment (PPE) and small tools, boosting workforce productivity.

Locating these VMI solutions close to point of need, at lineside for example, can reduce wasteful practices by reducing ‘walk and wait’ times to and from stores.

It also eliminates unofficial inventories where restricted opening hours for stores force engineers to stockpile parts, just in case of breakdowns.

This has been particularly helpful during the pandemic as it ensures that a ‘work cell’ have everything that they need to hand. This means that in environments where it is difficult to socially distance, teams can work in shifts and not come into contact with others - thereby reducing cross-contamination risks.

3. Counterfeit items

Counterfeit goods make their way into the supply chain via multiple routes. Although this hasn’t traditionally been a burning issue for many in procurement, that may be about to change.

Extent of counterfeit problem



The majority of UK companies are not concerned about counterfeit goods entering their MRO supply chain

Source: 2019 CIPS whitepaper (P15)

It’s highly unlikely that any counterfeit items within an organisation found their way there intentionally and maliciously. For the most part, they will have been bought with the best of intentions by time-pressed engineers.

But with time and supplies under pressure during the pandemic, is it possible more counterfeit items are being bought? Peter Malpas thinks it’s a likely scenario.

“If businesses have to shop around it can weaken the assurance in their supply chain.”

Peter Malpas, President for EMEA, RS Components

“There are a lot of opportunities for automation. There are lots of low-value, straightforward purchases being made on a frequent basis.”

Dr John Glen, CIPS Economist and Visiting Fellow at the Cranfield School of Management

“There is an issue in the market with counterfeit goods, so it’s really important customers can be certain they’re buying authorised products from authorised distributors,” he says.

“But during times when supply chains become a little challenged, customers find they have to shop around because their normal routes don’t have products or just aren’t open for business. It’s at that point there is an enhanced risk of bringing inferior products into the supply chain. And depending on the product or technology, that can be a pretty significant risk.”

There are no hard-and-fast rules about the optimum number of suppliers a business should have, or where those suppliers are based. But there are clear steps a business should take to limit the extent to which it is exposed to new risks.

In the Indirect Procurement Report 2019, Malpas advised: “Rationalising the number of suppliers you use offers each the potential of a greater share of your overall spend.”

Rather than the number of suppliers you deal with, what really matters is the extent to which you can ensure they are aligned with your business needs – especially during turbulent times.

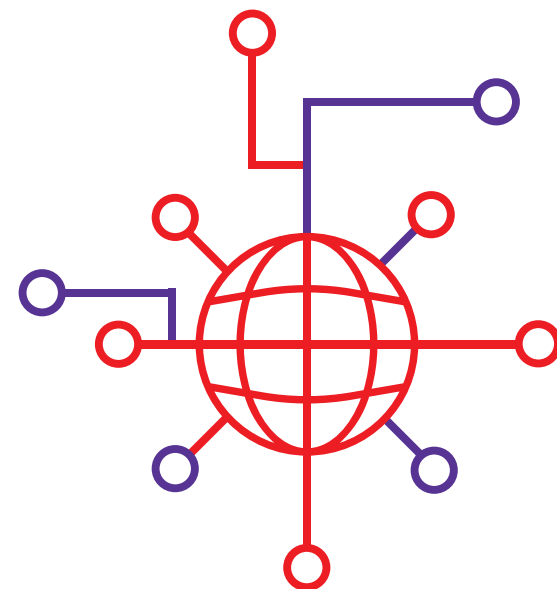
“Consolidating suppliers and looking for those with verifiable quality assurance helps avoid the nightmare scenario of someone unwittingly buying counterfeit parts. But it can present more benefits than that,” he continued.

The real cost of counterfeit items, of course, won’t always be just a financial consideration. In the same report Helen Alder, Head of Knowledge at The Chartered Institute of Procurement & Supply, talked about a very commonplace item – bearings.

“Bearings can be taken for granted,” she said. “But they are a commonly counterfeited item.”

“A reused bearing that’s not coated properly can disintegrate in seconds when put under pressure or at high temperatures. The consequences of having a counterfeit bearing in the wheel assembly on an aeroplane, for example, could be catastrophic.”

This is another area where solutions like VMI can offer a range of benefits. They restrict purchases to a jointly agreed and approved list of items and, where relevant, brands. They can also be used to define suitable alternatives in the event a preferred part is not available, ensuring that any ‘plan b’ purchases still lead to products of the highest standards.



Conclusion: Striking a balance

Balance is crucial when it comes to managing stock. Too little could leave you exposed. Too much could leave much-needed capital tied-up. But potentially worse than either of those eventualities is the all-too-familiar problem of keeping stock in an unstructured, scattered manner.

There are digital tools available that can strip away the uncertainty and ensure stock is where it should be, in the right quantities – such as VMI. While it is one of the biggest trends in the MRO space, VMI and other tools have sometimes encountered barriers to acceptance and adoption.

John Glen, the chief economic advisor to CIPS, thinks the shadow of COVID-19 might bring about a change. “There are a lot of opportunities for automation. There are lots of low-value, straightforward purchases being made on a frequent basis.”

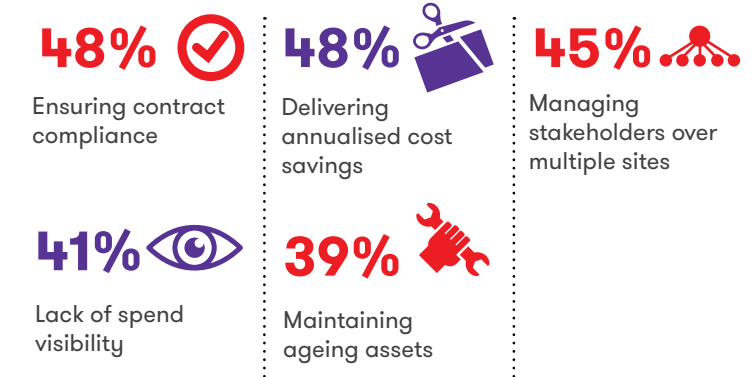
“All of which can be automated – monitoring stock, replenishing orders, invoicing, even managing import and export. But there is a resistance, a reluctance.”

Perhaps that reluctance isn’t surprising. Any change brings with it a potential for risks and in supply chains, that’s something that has historically been avoided. But the potential technology offers for managing, controlling and ultimately mitigating against risk is more necessary than ever. “If you can build, maintain and manage the risk in your supply chain, so that it creates a better offering than your competitors, you’ll have an advantage,” Glen adds.

If you work in an operational, engineering or procurement role, it is likely you will have been affected by the issues discussed here.

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.

Biggest day-to-day challenges for UK companies



Source: 2019 CIPS whitepaper [P9]

Source:

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- 3 **2019 Indirect Procurement Report - The Future of MRO, RS Components**
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- 4 **Taking stock of MRO purchases, RS Components**
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- 5 **Lessons from COVID-19: 4 inventory management strategies, SearchERP**
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