How Severn Trent streamlined their supply chain strategy

Utilities company Severn Trent has improved its MRO procurement process after RS helped it to implement product standardisation

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End inefficient, costly procurement processes

Procurement teams and maintainers face a number of challenges when it comes to the maintenance, repair and operation (MRO) of their organisation's assets and facilities. The supply chain for indirect parts, materials and tools is complex due to the number of stakeholders involved, a fragmented supply base and the sheer number of products split across multiple categories. In addition, there is constant pressure from senior management to reduce costs.

As one of the largest suppliers of MRO products, RS is in a unique position to understand the complex needs of its customers and to help these businesses improve their processes and make cost efficiencies.

The crucial statistic for organisations to understand is that with indirect procurement, process costs can be twice as much as the amount spent on the products themselves. So if your organisation spends £100,000 on purchasing products over the course of a year, you will spend a further £200,000 on processing or 'soft costs'.

As such, there is far more value in focusing on soft costs as well as on the true price of individual items.

2:1

Indirect (MRO) process costs   **Indirect (MRO) product costs**

The challenge

Supplying more than 4.3 million homes, Severn Trent is one of the UK's largest water companies. A key part of the firm's business plan is to deliver better value for its customers and achieve greater efficiency for its shareholders. A significant element of this is an improved supply chain strategy, which was agreed by the executive board in 2015.

Severn Trent was looking to its suppliers to make it easier for end users in the MRO function of its business to get hold of the parts and tools they needed. One of the wasteful practices they fell victim to was the high number of unique products they were purchasing across multiple suppliers.
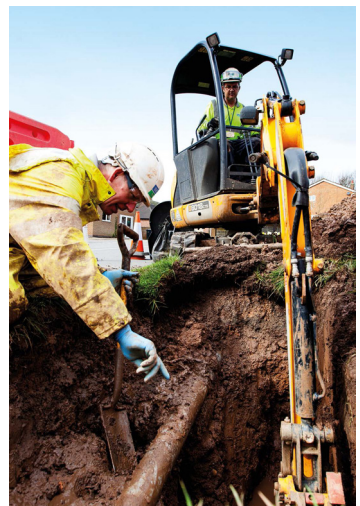
Maintainers would spend up to an hour a day ordering products, which was not a valuable use of their time. Additionally Severn Trent suffered from inefficient inventory management with poor visibility of the part they held at any one time and often causing maintenance and repairs to be delayed.
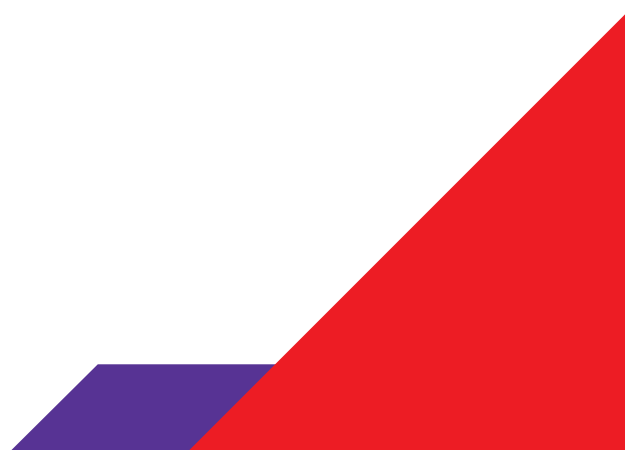
The solution

Severn Trent moved to a framework agreement with RS and worked closely with our team for more than a year to identify standardisation opportunities. A key part of this has been the rich data that RS has been able to provide, which the customer has been able to use as an insight to inform decision making.

One of the standardisation opportunities available to Severn Trent was to reduce the number of unique products they purchased. "We had been ordering in the region of 20,000 unique products across multiple categories per year and these items were being held in various stores around our business without a huge amount of visibility of what we had," explains Rachel Passey, Supply Chain Transformational Lead at Severn Trent. "In January 2016 we started going through the data RS supplied, meeting manufacturers that RS introduced us to and making decisions around a smaller, consolidated range of products we wanted to purchase for MRO."

In addition, Severn Trent worked with RS to add them to their eProcurement platform via PunchOut – a tool that offers a single platform for all users to source products from RS as a preferred supplier. This helps control purchasing costs, reduces maverick spend and improves process efficiency.

The transition has been carefully managed by both Severn Trent and RS to make change as easy as possible for employees. Severn Trent is working hard to reduce 'off framework spend' on local merchants and wholesalers and have set up a working group made up of commercial and engineering stakeholders to view and approve new products.

The outcome

Having a standardised catalogue of products means that maintainers no longer need to search through multiple catalogues to compare prices, quality and delivery time, and then make a decision. Instead, the maintainer knows that there is a core line of products that meet their quality standards, that they have an approved cost and that RS will deliver the product quickly.

In 2017, Severn Trent was able to reduce the number of unique products purchased from their MRO product category from 755 to just 231 – a 69% reduction. In addition, 121 of these products are now RS Pro, which will save the company around £8,000 compared to purchasing branded products. Thus far the organisation believes it has achieved a 4.7% saving on MRO products and there are opportunities to increase these savings further.

Severn Trent's efforts have also paid off through external recognition via the Supply Chain Excellence Awards. The company picked up the Overall Winner award in November 2017 with the judges commenting: "They have transformed a fragmented supply chain and have created a structure that delivers competitive advantage through enhanced visibility, transparency, and performance."

The ongoing challenge for Severn Trent is to embed the current standardised range through a restrict and control work process, as well as reducing their long tail of spend. "We can clearly see the products that we buy most frequently versus the one-off purchases," explains Phil Donnelly, Supply Chain Information Analyst at Severn Trent. "We've been able to move, in a number of cases, to RS Pro products, particularly in tools. Our community of maintainers have been really impressed with the quality of RS Pro products compared to own brands we had used in the past and they provide great value for money

£8,000

potential savings by using RS Pro items in future

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