



AE Initiative Summary Business Case – Maintenance, Repair, and Operations (MRO) Supplies

Business Sponsorship & Ownership

Project Name:	Strategic Purchasing – MRO Supplies
Team Members	Paul Broadhead, Hartley Murray, Vint Quamme, Charlie Simonson, Jodi Krause, Bill Miller, Kay Coleman, Ed Molter, Daniel Statter, Steve Heitz, Kris Ackerbauer
Business Unit(s):	Vice Chancellor for Administration – Administrative Excellence
Business Process Owner(s):	UW-Madison Purchasing (central)
Preliminary Cost Estimate:	Preliminary costs will be accounted for in general initiatives across Strategic Purchasing
Preliminary Savings Estimate:	\$980 K over 5 years

Background

The Administrative Excellence (AE) Phase 1 assessment indicated that the University had the opportunity to generate savings by changing practices relating to purchasing Maintenance Repair and Operations “MRO” supplies. In January 2012, the AE Steering Committee, comprised of the Interim Chancellor, the Provost, and the Vice Chancellor for Administration, chartered a team to validate the opportunity and deliver detailed, action-oriented recommendations. The specific charge, as articulated in the team’s charter, described the objective as follows:

“Maximize institution-wide savings [on purchases of MRO supplies] through implementation of strategies to consolidate vendors, leverage university scale, and substitute purchases [with] commoditized options when possible, without sacrificing service levels.”

The team was asked to develop an understanding of the current drivers and processes attendant to the purchases of MRO supplies and to use that knowledge to formulate an actionable plan for implementation. The team conducted its work over 18 weeks, recently presented its recommendations to the AE Advisory and Steering Committees, and received Advisory Committee endorsement and Steering Committee approval.

Approach

In order to understand opportunities for cost savings within MRO supplies, the team: (1) identified the main purchasers of MRO supplies on campus; (2) selected highly-commoditized (target) categories within MRO supplies to focus its analysis; (3) analyzed purchasing patterns in the selected units within the target categories; (4) gathered stakeholder feedback to confirm the feasibility of recommendations; and (5) quantified the savings.

Main Purchasers of MRO Supplies

The team identified the units that purchase MRO supplies: FP&M, University Housing, Wisconsin Union, UHS, and Athletics. These five units were the foci of data collection and analysis.

Target Categories

Within the selected facilities organizations, the team focused its analysis on four target categories with highly-commoditized (low unit cost, high volume) items. These categories were selected using both data collected and analyzed during Administrative Excellence Phase I and input from the facilities organizations. The target categories selected were paper products, trash liners, cleaning chemicals, and lighting; purchases in these categories represent approximately 25% of the estimated total annual expenditure on MRO supplies.

Analysis for Draft Recommendations Development

The team analyzed line-item purchasing detail for the target categories from the selected purchasing units to determine whether opportunities for cost savings existed through: (1) product standardization; (2) sustainability initiatives; and (3) improved communication.

To evaluate standardization opportunities, the team analyzed the number, types, and prices of all purchases within the target categories. The team then selected products in each category that were lower-priced (and often more sustainable) options serving the same functional purpose, without a diminution in product quality.

The team analyzed the current and future-state costs of each recommendation to understand the impact to sustainability of feasible alternatives. For example, the team worked with FP&M to determine estimates for the current and future cost of electricity to support an analysis of the efficacy of high-velocity hand dryer.

The team also gathered information about current training programs in each of the five main facilities units.

Stakeholder Feedback and Recommendations

The team interviewed management and staff within the five selected units and distributed surveys to faculty, staff, and students to gather collect feedback on current behaviors and perspectives on change. The data from discussions with facilities staff were used to evaluate the feasibility of implementing recommendations and the campus survey data was used to ensure recommendations were feasible in the current environment.

Quantifying Savings

The team quantified savings by calculating the difference between the current state and (potential) future state costs for each of the recommendations. The reported savings estimated by the team were based only on

the analyses conducted (comprising approximately 25% of total MRO expenditure); the team did not extrapolate savings estimates to all campus expenditure on MRO supplies.

Observations

The main facilities units on campus do not regularly communicate with each other. The lack of communication leads to uninformed purchasing decisions, duplication of efforts for training and vendor demonstrations, and inconsistent cleaning and maintenance methods.

Although MRO supplies purchases are typically concentrated among a few main facilities units on campus, vendor and product proliferation exists within each category. For example, UW-Madison spent approximately \$330,000 with several vendors on nearly 50 unique SKUs of trash liners, with varying unit prices.

Following surveys and stakeholder discussions, the team found that sustainability was a significant driver of user acceptance and willingness to change.

Core Recommendations

For the 25% of campus expenditure on MRO supplies that the team reviewed, the university has the opportunity to save approximately \$230,000 per year and \$980,000 over five years, with a one-time, up-front cost of approximately \$170,000, through the following mechanisms:

1. Product Standardization – Standardize on paper towels, toilet tissue, trash liners, lamps, and cleaning chemicals, considering cost and sustainability
2. Installation of High-Velocity Hand Dryers – Remove paper towels from select high-volume restrooms and replace paper towel dispensers with high-velocity hand dryers
3. Coordinated Meetings and Trainings – Establish cross-discipline education and training for all facilities staff and create user groups consisting of supervisors within each MRO discipline (janitorial and maintenance) to organize quarterly meetings, demonstrations, and trainings

The team did not extrapolate its savings over the full suite of MRO supplies, but believes that additional savings are likely within other commodities in MRO. Additionally, the team did not quantify, but also anticipated additional savings in pricing negotiations. As the University consolidates purchasing of certain MRO supplies products, it has the opportunity to negotiate better prices for those products.

The team identified two mechanisms to support this change: (1) the simplification of business processes to make purchasing of MRO supplies easier; and (2) the creation of policy to clearly articulate expected behaviors.

Customer Readiness and Change Management

The team suggests that the following be considered during implementation

1. Clear and open communication with campus –rationalization for implementation of sustainability initiatives to campus, communication of ongoing expectations, and a feedback mechanism for campus input;
2. Clear and open communication with purchasers– communication of selected products to purchasers and a feedback mechanism where purchasers can suggest avenues for future product selection;
3. Active management of selected products – regularly review the list of selected items to ensure alignment with evolving needs and changes in the marketplace;
4. Simple and clear policies – policy language is unambiguous and policies are known across campus; and
5. Established metrics to measure performance – create consistent campus-wide metrics to assist with measuring initiative success and participation, and with monitoring policy compliance.