

MRO Direct Achieves 12% Immediate Savings In MRO Procurement For

# VALSPAR CORPORATION

## Project Summary

Valspar Corporation is the third largest paint and coatings company in the U.S. and the sixth largest in the world. With more than 7,000 employees in over 80 global locations, Valspar supplies customers with coating solutions in diverse applications, such as decorative and protective coatings for wood, metal and plastic in the industrial markets, interior and exterior decorative paints and aerosols for architectural use, coatings and inks for rigid packaging containers, automotive and fleet refinish products, floor coatings, and specialty polymers, composites and colorants.

As the #1 global supplier of packaging coatings and inks, Valspar's Packaging Coatings Group has the broadest product line in the industry, providing internal and external systems for nearly every rigid packaging end use. The global presence of the coatings group assures that customers have access to Valspar's renowned technology around the world.



**MRODIRECT**



The Packaging Coatings Group realized an immediate 12% savings in its MRO purchases, while also having a continuous improvement process that will produce a projected 8% additional hard cost savings for the division over the next three years.

As part of its customer commitment, the Packaging Coatings Group must ensure that all of its internal processes—including the procurement process across its varied locations—are as streamlined as possible. Realizing that more efficiency could be gained in the procurement of its maintenance, repair and operational (MRO) supplies, the company contacted MRO Direct, Inc. to develop hard cost reductions in its ordering, receiving, and billing process, while positioning the group for future MRO procurement savings.

“Managing procurement is challenging in a large organization,” said John Klein, group director of supply chain management for Valspar. “We felt that our buyers were doing the right thing, but needed a broader perspective of how procurement was being handled across the enterprise. We wanted to determine ways to minimize resources in negotiating supply agreements, while also producing hard cost and process savings in the procurement of MRO products.”

Valspar turned to MRO Direct, Inc. of Pittsburgh to help streamline its MRO procurement process throughout its multiple U.S.-based manufacturing facilities.

As a result of its unique business model and procurement expertise, MRO Direct sourced the Packaging Coating Group’s MRO purchases at a **12% immediate savings**, while deploying a continuous improvement process that will generate **additional 8% “hard cost” savings** for the

Packaging Coatings Group over the next three years. Finally, MRO Direct implemented a “paperless” administrative procurement strategy for receiving and billing, which ultimately reduced the total procurement cost of the division’s indirect spend.

## Business Challenge

Upon accepting the project, MRO Direct worked to immediately identify the core business challenges the Packaging Coatings Group was facing:

- Lack of a descriptive database for MRO products
- Inconsistent purchasing process across multiple buyers
- Conflicting spending patterns that prevented hard cost savings in MRO procurement

*“We now have the confidence in knowing that our MRO procurement is being handled as economically and efficiently as possible.”*

“With 25 buyers responsible for purchasing thousands of MRO products throughout Valspar’s Packaging and Coatings Group, each had their own process for procurement—and without a clear definition of the ‘ideal’ supply chain and procurement process,” said Don Belt, president and CEO of MRO Direct.

According to Belt, buyers were evaluating agreements from different perspectives, and were depending on the use of procurement credit cards to speed the procurement process, focusing on rapid availability at the sacrifice of price. “Our goal was to help them achieve better control over these types of conflicting and inconsistent purchasing practices by developing a national sourcing plan with an acceptable degree of compliance across the board,” he explained.

MRO Direct also realized that the MRO buyers had very little information on demand, either on specific SKUs or in categories, and did not historically collect spend data. Furthermore, the data in the accounts payable section was distributor-based with limited descriptions, lacking manufacturer part numbers and descriptions. And, because the buyers had their own process for purchasing MRO products, its vendor count had grown exponentially, making the supply chain even that much more difficult to manage.

## MRO Direct Solution

To address each of Valspar's core business challenges, MRO Direct developed a custom solution that facilitated the strategic and streamlined ordering of MRO products. This process began with communication—and *listening*.

"We established an open dialogue with the plant buyers because their input was critical to the success of the new procurement process," said Belt. "We conducted a series of three, on-location training sessions, whereby we discussed the features and benefits of our model; worked with the buyers to develop the favorite items list; provided training on our e-commerce platform and e-catalog; and, answered questions and addressed individual MRO item needs or concerns."

With input from buyers, MRO Direct focused on standardizing the thousands of MRO products in order for the Packaging Coatings Group to achieve lower costs across the enterprise. This standardization enabled buyers to take a more neutral position to the MRO sources—giving them information to make sourcing decisions based on the best interest of Valspar.

MRO Direct also developed a Web-based, e-Catalog to reflect unique MRO product needs and pricing. Favorite items lists were prepared for each associate to ensure easy conversion to utilizing the e-commerce Website, and a custom MRO supply chain was established for special needs in several categories, including new products or plant locations.

MRO Direct then deployed several sourcing strategies to produce hard cost savings:

- ▶ Disintermediation of many local distributors
- ▶ Aggregating demand in high-volume categories
- ▶ Substituting lower-cost products, while analyzing quality differences

To gain process efficiencies, MRO Direct organized Valspar's disparate databases in the MRO category and "scrubbed" the databases to achieve an organized bidding process. MRO Direct also maintains a data warehouse to collect information to facilitate the aggregation of demand. MRO

Direct's sourcing strategy and costs are always available to Valspar, enabling better procurement decisions.

MRO Direct also recommended weekly, consolidated invoices that were sent to the accounts payable department, along with a purchase reconciliation report that was sent to each buyer to verify receipt of goods. A monthly savings report was developed to verify savings to management, and maintain morale in the face of changing purchasing behavior. Next, monthly coordination meetings were initiated to resolve implementation issues and ensure compliance.

The implementation of MRO Direct's end-to-end procurement strategy took just a few months to deploy, and according to John Klein, MRO Direct truly led the effort by facilitating cultural change within the Packaging Coatings Group. "MRO Direct took on the daunting task of facilitating change within a very large organization like ours, and we're very pleased to say that the changes they made to our MRO procurement process have netted immediate savings and a greatly streamlined administrative process."

*"With our success using MRO Direct's model, it's clear we have a better procurement process—customized to the way Valspar does business."*

**MRO Direct implemented a "paperless" administrative procurement strategy for receiving and billing, which ultimately reduced the total procurement cost of the division's indirect spend.**



## Business Benefits

The Packaging Coating Group realized an **immediate 12% savings** in its MRO purchases, while also having a continuous improvement process that will produce a projected **8% additional hard cost savings** for the division over the next three years. MRO Direct also implemented a “paperless” administrative procurement strategy for receiving and billing, which ultimately reduced the total procurement cost of the division’s indirect spend.

Backed by product standardization across all its locations, Valspar Corporation now has knowledge of the composition of MRO spend by location and for the Group as a whole, along with an understanding of demand aggregation for MRO spend and the resulting benefits. Additionally, most pricing of SKUs is now uniform, offering a secondary benefit to less effective procurement locations, and a new procurement decision-making process has been successfully established, considering the trade-offs in availability and local service versus lower cost.

Coupled with the hard cost savings, Valspar is implementing a series of “best practices” processes throughout its enterprise. This includes the implementation of an electronic ordering, receiving and billing process for its MRO spend, utilizing a professional sourcing and procurement service to reduce costs.

“We have confidence in knowing that our MRO procurement is being handled as economically and efficiently as possible,” said Klein. “Our buying staff’s time is now spent on more strategic business issues—like servicing our customers and developing strategic agreements on direct spend commodities—rather than dealing with administrative bottlenecks.”

Based on the success of the new procurement process, Valspar is in the process of implementing it across all of its locations. “We have 40 manufacturing facilities throughout the U.S. alone,” explained Klein, “with the new procurement strategy currently deployed in five of these plants. Our goal is to work with MRO Direct to bring 23 additional facilities online by year-end 2004.”



*John Klein (left), group director of supply chain management for Valspar and Don Belt, president and CEO of MRO Direct, Inc.*

For John Klein, the end result simply means a more effective—and *profitable*—business.

“With the success we’ve achieved using MRO Direct’s model,” Klein said, “it’s clear that we have a better procurement process—customized to the way Valspar does business—to generate substantial impact across key segments of our business.”

## For More Information

For more information on how MRO Direct achieved hard cost and process savings for Valspar Corporation, or to learn how *your* organization can achieve similar savings, contact MRO Direct at **412.481.7330** or visit **[www.mrodirectnet.com](http://www.mrodirectnet.com)**.



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