

# ORTHOPEDIC MANUFACTURING

## *Outsourcing the indirect supply chain*

*“Like any decision to outsource, this one was based on the fact that their competency is in manufacturing, not inventory management”*

How one global manufacturer achieved simplified, intelligent and nimble operations through a supply chain solution for their indirect materials.

### **Overview**

Managing a high-volume tool crib operation that encompasses more than 7,500 unique part numbers is a top priority for one SDI client. This global research, development and manufacturing company of medical devices and products operates two tool cribs situated about 20 miles apart – each of which relies on SDI’s MRO/ Indirect supply chain management services to keep them running smoothly and seamlessly. It’s important to note here that tooling for this client doesn’t just mean the hammers and wrenches that their maintenance technicians use to fix their production equipment. Their tooling includes the drill bits and assembly parts needed to make the critical medical devices that healthcare providers and patients depend on – it’s essentially part of their finished goods and vital to the success of their business.

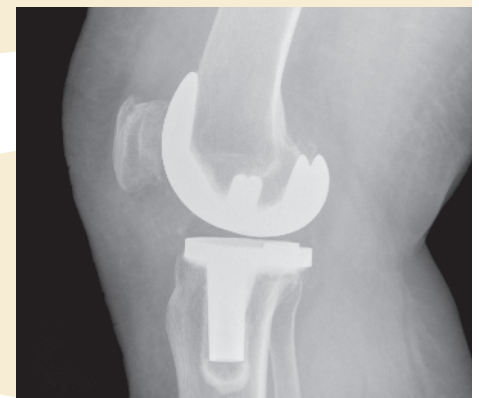
For years, this manufacturer’s employees managed the tool cribs themselves. As the volume of tools and products held in those repositories increased, and as the company continued to grow and expand globally, the need for a reliable third-party service provider became more apparent. At the time, the company had about 5,000 stock keeping units (SKUs) in its tool crib – enough to push the company to seek outside help.

“Like any decision to outsource, this one was based on the fact that their competency is in manufacturing, not inventory management,” says Jeremy Jordan, Vice President of Operations for SDI. “In an effort to increase efficiency and reduce costs, they started shopping around for a provider to manage their tool cribs.” What they eventually ended up with was an As-a-Service supply chain solution from SDI.

Over the next few pages, we’ll look at the process that this company underwent when initially looking for a provider to manage their tool cribs and eventually finding an end-to-end supply chain management solution in SDI. We’ll discuss how the two entities work together and reveal the benefits that the manufacturer has realized since partnering with an experienced and reputable third party not only to manage its tool crib, but to manage the indirect supply chain as a service.

# SDI

**MRO for a more  
connected enterprise**



## **High volume, high reliability.**

As a global manufacturer of products that healthcare providers use, this client's history dates back 150+ years to an early family enterprise. Today, the company has over 10,000 employees worldwide and a presence in more than 100 countries.

In an effort ensure streamlined, efficient management and procurement of its indirect materials, several ago the company brought a distributor integrator (i.e., a third-party distributor that also managed tool cribs) onboard to help with the process. "Ever since then, they've evolved that model," says Jordan, "and, thus, they've changed providers a few times."

The company's evolution had them going from doing it themselves, to working with a distributor integrator, to working with an MRO/Indirect Supply Chain As-a-Service provider. Working with a third-party would allow the company to focus on their core competency while still streamlining and simplifying its tooling supply chain process. This manufacturer also wanted to lessen the burden being placed on its own procurement staff. Prior to working with SDI, for example, the procurement staff managed all tool crib purchasing and related functions. Today, SDI manages the entire process, even to the point of buying material for them – which helped reduce the amount of volume flowing through their own procurement department.



## **Turnkey supply chain management.**

As part of this manufacturer's internal, established process, it maintains 3-year to 5-year contracts with its service providers. Once those contracts expire, the manufacturer "takes the contract back to market to ensure that we're still getting competitive pricing and to see if there are any new entrants that can provide better service or new functionalities," says the client's commodity leader.

And while the company strives to build long-term relationships with strategic business partners, it also likes to keep its options open. It was during one of these explorative phases that the manufacturer discovered that a better option existed. Today, it works with SDI's MRO Supply Chain As-a-Service solution to handle the complete, turnkey operations for both of its tool cribs, including staffing and engineering.

According to the commodity leader, the company contracted with SDI four years ago to manage the tool crib inventory, procure all of the related hardware for it, and identify continuous improvement initiatives

through value-added services. This, in turn, has allowed them to transform their tool crib into a core-enabling business process while freeing up staff to focus on more important functions and tasks.

The contract has had such impact on operations that this healthcare manufacturer recently expanded its relationship with SDI, renewing the contract for an additional three-year term, to include a full-time engineer who examines the manufacturer's tooling processes and identifies tools and applications to help enhance efficiencies on the plant floor. This closes the loop on the supply chain services, impacting the demand side of the equation with Engineering

***"The engineer is also responsible for identifying and guaranteeing a certain level of process and tooling savings each year"***

Services as well as the supply side with inventory management and procurement. "The engineer is also responsible for identifying and guaranteeing a certain level of process and tooling savings each year," the commodity leader adds. The reliability engineering program generated a savings pipeline of over \$2 million in year one of the renewal alone. With the renewal of their contract with SDI, this company enjoyed a 13% savings, as promised and guaranteed. The company expects that number to increase within a year.

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## **Leveraging end-to-end business processes to deliver quantifiable business outcomes.**

In assessing the benefits that this manufacturer has realized since outsourcing its indirect/MRO supply chain, SDI was told that being able to offload inventory management and related processes to a company that specializes in such functions has been a big plus. Their total material spend was reduced by \$500K in year one of the contract renewal, while production increased by 20-25%. In addition, the strategic sourcing component of this solution delivered 5% savings that year, while stock-outs have been reduced nearly to zero.

This company also gains by being a part of something bigger than itself—in this case, a supply chain management relationship that has more expansive buying power than the manufacturer would have on its own.

“They’re able to develop relationships and leverage the volume spend that they have with specific tool and MRO manufacturers,” says the commodity leader. “That equals a larger purchase volume than we have by ourselves.”

And that frequently results in more competitive pricing for the medical manufacturer, whose own procurement department is no longer burdened by the lengthy negotiation, research, ordering and receiving processes

associated with this business process. “SDI manages the whole purchasing process for us,” says the commodity leader, “from the initial requisition to the final payment.”

The benefits of working with a third party are also evident in the tool crib itself, where more efficient and accurate inventory controls mean fewer tooling stock-outs and production interruptions on the plant floor.

“For companies like SDI, MRO is a core business function. They have their own proprietary solutions, smart technology, and algorithms (e.g., min and max notifications) that watch the inventory levels and trigger automatic orders and other actions,” says the commodity leader. “As their business partner, we’re able to leverage all of the processes they’ve developed.”

## **Overcoming implementation obstacles.**

Outsourcing an important function like a tool crib – and everything that goes along with it – isn’t an easy task for companies that are used to handling all of their operations in-house. And while this client knew that the right relationship would free it up to focus on more important business activities, the manufacturer has run into some challenges along the way.

“There are always implementation pains to deal with,” admits the client’s commodity leader. Having worked with more than one provider, he says anytime someone new comes on the scene there’s always a learning curve that has to be overcome to get to a streamlined, efficient partnership. “Even in the best of times, stock-outs are going to happen, although we really don’t have much of a problem with that anymore.”

Space constraints within the physical tool crib itself also come into play. “We don’t really want to expand it, so SDI came up with some creative ideas on how to set up cabinets and take other steps to maximize the space,” says the commodity leader, who sees tool crib security as another challenging point for companies that want to outsource the MRO purchasing and management function.

***“SDI manages the whole purchasing process for us”***

“If you’re not going to staff the tool crib 24/7, you could wind up with employees who get into it and use tools without proper documentation,” says the client. “That can impact the relationship you have with your provider.” To avoid these issues, he says that both parties need to work together to come up with standard operating, access, and recordkeeping procedures. “If you’re not on the same page with your provider, it can definitely cause problems, particularly during a new implementation.”

According to Jeremy Jordan, this client did a great job of providing the framework for the implementation, laying out its wants and needs, and working in tandem with his team to ensure a smooth transition.

“They gave us a seat at the table, let us present our ideas, and invited us to participate in candid conversations,” says Jordan. “We really felt like we were part of the team. They understood the business proposition and the business case, and provided the environment in which to execute.”

# SDI

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## **More innovation ahead.**

This year, the company is working with SDI to develop and implement a system that will allow the manufacturer to drive more efficiencies through a pick-pack-delivery model enabled by the provider's technology. This new approach will help SDI get further in front of this client's needs by allowing employees to call ahead and have their tools and MRO supplies ready and waiting for pickup.

^Because SDI has established relationships with point-of-use vending manufacturers, this manufacturer also plans to take advantage of some of the high-tech machines that are making their way onto the nation's plant floors.

"We've seen companies place these machines throughout manufacturing areas, instead of having their employees going to the tool crib to get what they need," the commodity leader says. "With the swipe of a badge, they can get the tool from the dispenser and then have the activity reported automatically by the vending machine."

Looking out a bit further, the client envisions a time when they go beyond basic tool crib functionality and explore how SDI can support end mill

tool-cutting MRO in a crib environment—or even expand into machine maintenance and facility maintenance MRO.

"If you have a partner with capabilities in multiple indirect MRO areas—outside of manufacturing—there are always more opportunities to expand that relationship," he says. "Once it has proven itself in one area, it makes sense to negotiate and expand the agreement to include other functions."

