

Plant Services: Big Spend, Big Potential

By Michael Oldani, Manager of Strategic Sourcing for DSSI LLC

Background

The focus of most industrial procurement improvement efforts address item related purchases. Yet, the procurement of plant related services is an area that can provide significant opportunities to save money and improve service levels.

Several factors allow third party providers to charge excessive costs for services performed on behalf of industrial facilities. Purchasing professionals in charge of buying these services are often at a clear disadvantage due to the following factors that are often characteristic of this buy:

- A lack of clear alternatives
- A lack of price intelligence
- A lack of clarity surrounding the scope of services
- Highly decentralized decision making
- A lack of spend visibility and control
- The variable nature of work being performed

How to approach this significant opportunity

Everyone understands the need to capture, manage and report on services spend. The structure used to establish this capability needs to reflect the entire set of services used within each facility. Here are the steps to employ:

1. Develop a “service commodity” structure that accounts for all services being performed on behalf of your facilities.
2. Detail the specific scope of services that fit within each service commodity category.
3. Prioritize the service commodity opportunities based on level of spend and frequency of use.
4. Establish detailed service agreements for each service commodity that captures critical information including: service scope, relevant job classifications (apprentice, journeyman, etc.) standard hourly rates, overtime rates, specific skill requirements, service quality performance considerations and remedies, and additional purchasing related terms and conditions.
5. Review the service agreements with key stakeholders to ensure all relevant information is captured.
6. Establish a process for reviewing and approving service agreements.
7. Implement system enhancements that allow service related information to be captured within the requisitioning process.
8. Establish a process for documenting spend related to unplanned emergencies like machinery and equipment failures.
9. Track, manage and report service related spend.
10. Continue to investigate alternative service providers toward increasing competition, service value and quality.

Conclusion

Spend on plant services often exceeds that of MRO materials. By improving capture and reporting capabilities, you can easily achieve cost savings that exceed 15% of services spend with no impact on service quality. The procurement of materials used to perform these services presents another significant savings opportunity; more to come on that topic in the near future.

About Michael Oldani



Oldani holds a BS from Central Michigan University and an MBA from Eastern Michigan University. He is a career purchasing professional who has held several positions including buyer, senior subcontracts negotiator, commodity specialist, launch manager and purchasing controller. Currently, Oldani works for DSSI LLC as Manager of Strategic Sourcing.