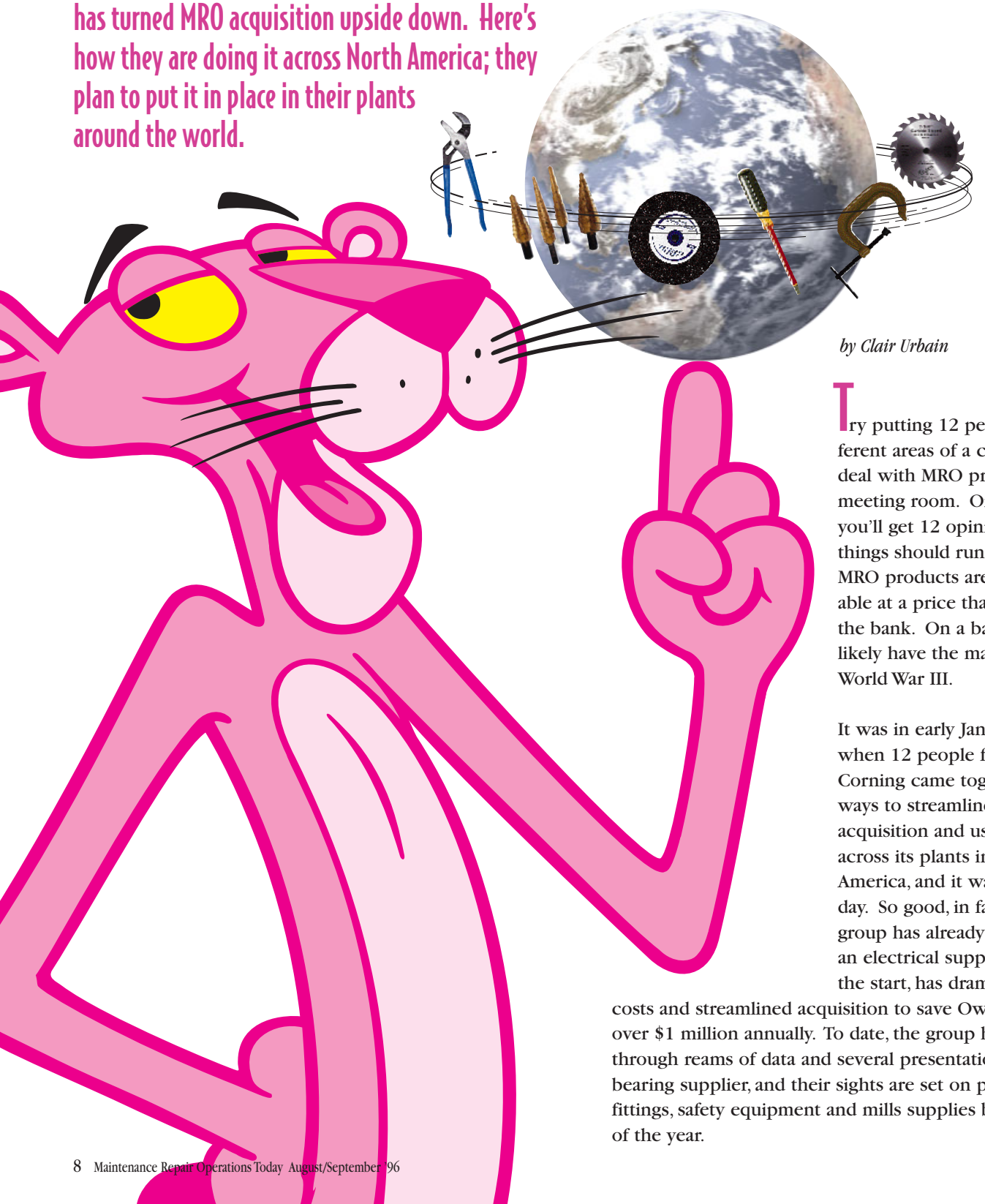
# A plan that puts the pink in the Owens Corning MRO acquisition process

**The Sourcing Effectiveness Team at Owens Corning has turned MRO acquisition upside down. Here's how they are doing it across North America; they plan to put it in place in their plants around the world.**



*by Clair Urbain*

Try putting 12 people from different areas of a company who deal with MRO products in a meeting room. On a good day, you'll get 12 opinions on how things should run to assure MRO products are readily available at a price that won't break the bank. On a bad day, you'll likely have the makings of World War III.

It was in early January, 1996, when 12 people from Owens Corning came together to find ways to streamline its MRO acquisition and use process across its plants in North America, and it was a very good day. So good, in fact, that the group has already aligned with an electrical supplier that, from the start, has dramatically cut costs and streamlined acquisition to save Owens Corning over $1 million annually. To date, the group has plowed through reams of data and several presentations to select a bearing supplier, and their sights are set on pipe valve and fittings, safety equipment and mills supplies before the end of the year.

*Owens Corning's Sourcing Effectiveness Team for MRO products is made up of people from different disciplines and plants. Rarely found in suits, these team members interviewed and selected a single-source supplier on the day this picture was taken. From left to right, front row: Pete Burcin, Dennis Sheets, Rose Drolett, Brian Parulski, Sherri Blackburn, Chua-yi Wu. Back row, left to right: Walt Phillips, Todd Yobo, Mike Cummins, Sam Hill, Carl Rimmel, Dan Lieber, John Gellatly.*

"We look to save $6 million the very first year just in reducing our transaction costs," explains Rose Drolett, global procurement team leader at Owens Corning.

Owens Corning, headquartered in Toledo, Ohio, is perhaps best-known for its pink fiberglass insulation and its trademark mascot, the Pink Panther. It's also a world-wide producer of composites that are used in applications ranging from skis to golf clubs to bridge decking and power transmission towers. Its composites are also used in automobiles, computers, fiber-optic cables and large-diameter pipe used to build the infrastructure of developing nations. The company's sales were $3.6 billion in 1995 and its goal is to reach $5 billion by 1999, aiming to achieve earnings and cash flow at twice the rate of sales.

Those are ambitious goals. Refining production processes and reviewing every cost center is key to the company's goal of increasing earnings and cash flow.

"Before, MRO products were considered nickels and dimes in the whole process," says Drolett. But when you consider the company's 96 manufacturing and research facilities throughout the world, the nickels and dimes add up: "We spend over $42 million annually and process 250,000 transactions per year on MRO products. We conservatively estimate our cost for processing a transaction at $52 (it's likely closer to $108), which adds another $12 million in cost to MRO procurement. That's more than $50 million we spend annually for MRO products."

Drolett estimates that Owens Corning uses over 1,000 distributors for MRO items, many carrying different brands of products. Result: a mishmash of products used throughout all plants, and no hope of leveraging the buying power of the plants for lower pricing.

"We're looking at this process in three steps. First, we want to consolidate our distributor base; and second, we want to negotiate in partnership with our distributors to get lower unit prices from suppliers. The third step is to standardize products across plants and processes."

## Tall order for big savings

Accomplishing the task of streamlining a vendor base across the world is a tall order, so Sourcing Effectiveness Teams (SET) are concentrating their efforts on North American plants and leveraging their findings globally when practical.

The first step was assembling a cross-functional team that represents all types of plants and disciplines. It includes people from maintenance, production, purchasing and corporate offices.

"Our first meeting was a complaint session," Drolett admits. It was like a retreat because we had so much to accomplish, but as we started looking at the complaints, we turned them around and made them into possibilities. It turned out to be a very productive three-day meeting."

The process developed by the Sourcing Effectiveness Team was first implemented with Allen-Bradley, which is now the main supplier of electrical control equipment to Owens Corning.

"We had 78 Allen-Bradley distributors serving 73 plants around the world. We were spending over $5 million annu-

Owens Corning manufactures fiberglass (bottom photo) that's used in a wide variety of products, including building materials (top photo) and automotive parts (middle photo).

annually on Allen-Bradley products, but only 7 percent of our plants could take advantage of the large-user pricing, and we weren't getting any discounts on large capital projects," Drolett says.

Today, it's a different story. Now, only 50 Allen-Bradley distributors support Owens Corning plants around the world. Contract pricing, which leverages the world buying power of the company, has netted an aggregate 23 percent savings for all plants. As volume increases, additional incentives come into play. Finally, training to operate equipment is part of the deal, with no further cost to the company. "We also have ongoing measurements and continuous improvement plans in place to continue chalking up savings," Drolett says.

To achieve these attractive savings in MRO product groupings, the Sourcing Effectiveness Team has utilized the following drill. It's proven to be effective, and more important, manageable.

*Step 1. Identify commodities and appropriate members for the Sourcing Effectiveness Team*

"We talked with plant managers and production people to make sure we have the right people on the team. On our first team, we made a few replacements, but overall, the breadth and depth of people has been key to our fast progress," Drolett says. She suggests no more than 15 members on any team; 12 has been optimal for Owens Corning.

*Step 2. Organize the team*

After identifying who, develop the what, where, when and most importantly, why. "For many of these team members, this is above and beyond their normal duties. You've got to be organized so they can use their time most efficiently. They also must build a network of people to bounce our ideas and concepts off of between our monthly meetings."

*Step 3. Establish specific goals*

Identify what the team will accomplish. This is the beginning of the wish-list of activities. "It was a bit intimidating at first to be on the team with people from several different areas," says Brian Parulski, part of the maintenance team at Owens Corning's roofing plant in Portland, Oregon.

"But once the team started meeting, I was surprised how everyone grasped the needs of manufacturing when we were assembling the wish list of what key distributors would offer. They were all aware of the need that no matter how good it looked on paper, it had to work on the production line.

*Step 4. Profile item use history and supplier use/perform-*

*ance*

You don't know where you are going if you don't know where you've been. "Gather the data to set your benchmarks and begin to build your Christmas wish list," she says. This is the time to benchmark your activities against other companies.

*(See accompanying story on page 13.)*

### *Step 5. Determine "fitness for use"*

This is the actual development of your "Christmas" wish list, Drolett says. It's key to get maintenance and operations involvement in this process, because it drives the distributor selection process.

### *Step 6. Investigate distributors who may be able to handle the scope and geography of a North American (or global) supply agreement*

"This is where you start looking for your 'Santa Claus.' The team evaluates potential distributors on their financial solvency, how they settle accounts, ability to offer standard pricing across all locations, the breadth of their product line, ability to customize processes to fit Owens Corning's processes and the distributor's level of technical support," Drolett explains.

### *Step 7. Determine specific distributor capabilities*

Here, the team selects the top three to five distributors and sends them a request for a proposal. This inch-thick comb-bound document covers every aspect of the wish list. Candidates must outline how they can address these needs in their proposal.

### *Step 8. Assess fitness for use against distributor capabilities*

Those distributors invited to make team presentations do best when they follow the drill of the request for proposal. "It's not a dog and pony show. Show us how you'll meet our needs, not how great and sophisticated you are," Drolett says.

*"Before, MRO products were considered nickels and dimes in the whole process," says Rose Drolett, Owens Corning global procurement team leader. In reality, the company spends over $50 million annually for MRO products and procurement.*

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### *Step 9. Develop a sourcing strategy*

Once the team has read all the proposals and listened to distributor presentations, they measure up the distributor to the wish list. "In some cases, we may not use the same distributor across the company. We do whatever makes the most sense so we can leverage our buying power and get good technical support. Through this process, no plant will pay more for a product than they have in the past, nor will they see a drop in service."

### *Step 10. Implement the sourcing strategy*

Getting the rubber to meet the road with the least amount of slip takes getting team members to help plan the transition to the new distributor. Their insight on processes is key to a smooth transition.

### *Step 11. Manage the relationship with your distributor – build two-way communication to improve processes and reduce costs*

Owens Corning is developing its own computer network to take advantage of electronic ordering and processing technology. "Many consortiums and large distributors offer this 'black box' technology. We chose to develop our own across all of our plants using the new computer technology that will be one common system throughout the company."

### *Step 12. Regularly review the sourcing strategy to make sure it's working and set goals for improvement*

This is the part of the process that helps to bring additional cost savings to the party long after agreements are made. Some likely targets: Using the Owens Corning trucking fleet for MRO product shipments; establishing relationships with complimentary manufacturers to attain even greater volume discounts from suppliers; and further streamlining the flow of information from the plant floor to the distributor and the supplier.

*The Sourcing Effectiveness Team (SET©) process was created by Integrated Strategies Incorporated, a strategic sourcing leader. SET© is a cross-functional, lowest total cost commodity sourcing strategy development approach. SET©1990.*

Success is the only option!

Supply Chain

Strategic Sourcing

Logistics

Materials Management

Order Fulfillment

Six-Sigma

Initiative Management

# Qualifications

- Consultants average more than 20 years experience
- Web-Based strategic sourcing tools
- “Concept to Reality” approach
- Hands-on implementation
- Worked with more than 200 firms across multiple industries
- Developed more than 250 supply chain and logistics strategies
- Integrate core supply chain with core business strategy

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