

SPARE PARTS

Tony Wild, MIOM, Midas Consultancy

The control of spare parts is one of the most difficult inventory problems. The challenge can be illustrated by the extreme situation in the off shore oil industry. The consequences of stopping production are measured in thousands of £'s per minute. Do we have to keep all the spares on each rig to ensure this? Yes? - Even when the parts cost £50,000 each and you are likely to need them once every 10 years?

Manufacturers have traditionally considered spares as a nuisance. Their role appears to be:

- Create demand for minuscule quantities
- Always want components faster than they can be made
- Demand items which we haven't produced for years
- Disrupt production flow
- Use parts for low value sales instead of high turnover units.

In industries where the customer buys parts from the equipment manufacturer, then this traditional approach still exists. In other business sectors, commercial companies have developed who realize that manufacturing is:

- Bad for cash flow
- Capital intensive
- Technical
- Needing design and development resources
- A one-off exercise (or once ever few years)
- Requiring new customers and markets all the time.

Spare parts, on the other hand are:

- Highly profitable
- A continuing revenue stream

That is why there are many service companies set up to provide ongoing supply of small quantities of parts, without the hassle of large scale product manufacture. As long as the customer will take the 'best service' rather than 'original parts' then these companies have the right approach. These companies therefore have to establish credibility in quality of parts and service before they are acceptable in the market but then the potential is great. The after sales market is an opportunity for smart companies to make money. Those that manufacture spares in the same manner as equipment are likely to remain unprofitable. Those who set out to provide service have a great opportunity.

Spares are needed immediately to solve a breakdown. We therefore have to provide the service, react fast or hold the stock. There are still some manufacturers who expect customers to wait six weeks or more for a part! Getting one's act together can be the opening to providing a service to end users and a new business.

The keys to success are:

- Understanding the equipment population being supported
- Knowing the (historical) failure characteristics of the parts
- Using this data to forecast expected demand and minimal levels of safety stock
- Control over the logistic supply chain for the parts

- Focus on achieving the inventory and service targets
- Skilled, trained inventory controllers with authority
- Management understanding and support for the inventory process.

Spares control is always going to have some short term priority demand - if there isn't the stock levels are too high. The systems have to be set up to deal with this so that the priorities are not panics. This means having supply channels open for a wide variety of occasional demands and inventory policies for regular usage items.

It also means having service oriented customer support and sales personnel - but that's another story.

About the author

Tony Wild, MIOM, is a specialist in materials management and logistics. He has been involved with the development of integrated logistics in Europe, with an emphasis on rapid customer service for items such as IT spare parts. Tony was a practitioner and now heads Midas Consultants who advise and train major companies in inventory and supply chain management. Author of the book 'Best Practice in Inventory Management', which is now in stock and available from the Institute.

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