



MRO INVENTORY DISPOSITION STRATEGIES

*Internally generated cash can be redeployed
where it is needed most
- improving production capacity*



The Global Leader in MRO Inventory Decision Support



MRO INVENTORY DISPOSITION STRATEGIES

The elephant in the room for many asset intensive industries is what do I do with my excess and obsolete maintenance, repair and operation (MRO) inventory? This inevitably leads to how do I determine what is excess or obsolete? Following closely is the overwhelming sense that the issue may be too large to manage, particularly in light of current economic times and staff reduction trends. Xtivity, the leader in MRO Inventory Decision Support Services, assists its clients with this exact issue, helping them determine what to remove from their inventory by focussing on items with the highest ROI and ROE ('Return On Effort').

In these few pages, learn how to: separate your aging, excess, or obsolete items from the rest of your MRO materials; see the value they still hold for you; and make as much money from them as possible. It doesn't have to be an overwhelming project. Our xIO service technology can help you identify your non-performing MRO inventory items in days. Using your own data and seven easy steps, Xtivity can tell you what to sell and what to keep.

The problem with ignoring surplus MRO is that it prevents you from buying the materials that keep your operation running, so ridding yourself of excess MRO is vital to your company.



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Most companies become disenchanted with MRO disposition programs. The most common reasons may seem familiar to you:

1. "We don't have the resources to identify what excess MRO is or what we should keep."
2. "We paid \$100,000 and have been offered \$5,000!"
3. "We don't have the in-house capability to even consider selling our surplus MRO Items"

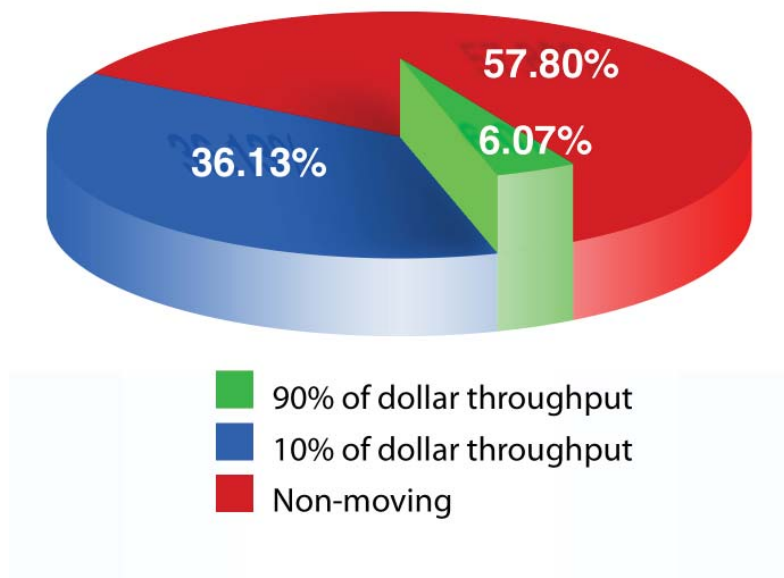
IF "I WON'T TAKE 5%"; THEN WHICH MATERIALS HAVE THE HIGHEST POTENTIAL FOR RETURN VALUE?

Let's visualize this query with real numbers from Xtivity. Our customers have had the most success managing the disposition process for surplus and obsolete MRO items by focusing on stock-keeping units (SKUs) with the highest potential for financial return. These companies use a purchase-price-to-recovery ratio which significantly reduces the number of non-performing MRO items that need to be considered.

WHAT'S IN MY WAREHOUSE?

In an average asset-intensive industry warehouse, 57.80% of SKUs have not moved in the last three years.

AVERAGE MRO % of SKUs

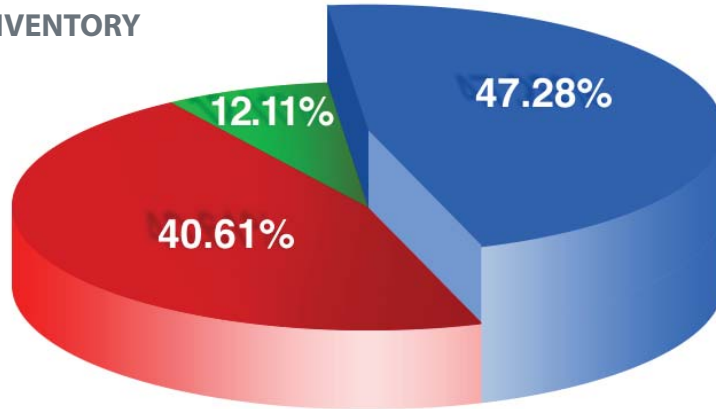


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Of the 6.07% that makes up 90% of the total dollar throughput that has moved in the past year, 47.28% is excess inventory

MOVING MRO INVENTORY

% of SKUs



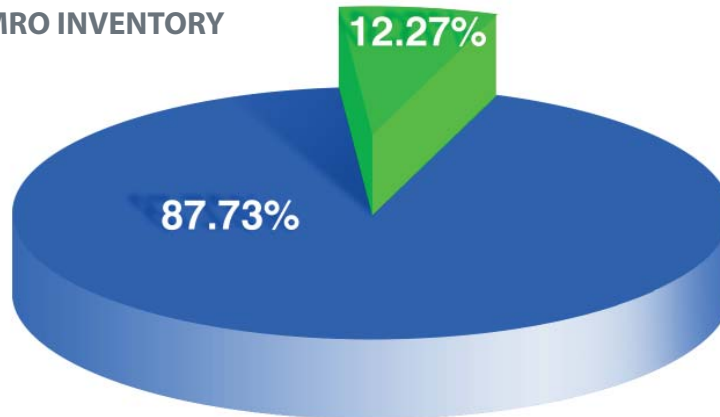
- Excess inventory
- Understocked inventory
- Accurate on-hand inventory

To simplify the math, here's the breakdown of a warehouse with 10,000 SKUs:

- 90% of annual dollar consumption equals 607 SKUs. Of these 607 items, 287 would be considered to be surplus. ($47.28\% \times 607 = 287$)
- 5,780 SKUs would not have moved in the last 3 years
- 709 of those SKUs which haven't moved in the last 3 years make up 80 percent of the non-moving value. That is the same as 7.09% of all your items or 12.27% of your non-moving items.

NON-MOVING MRO INVENTORY

% of SKUs



- 20% of the value
- 80% of the value



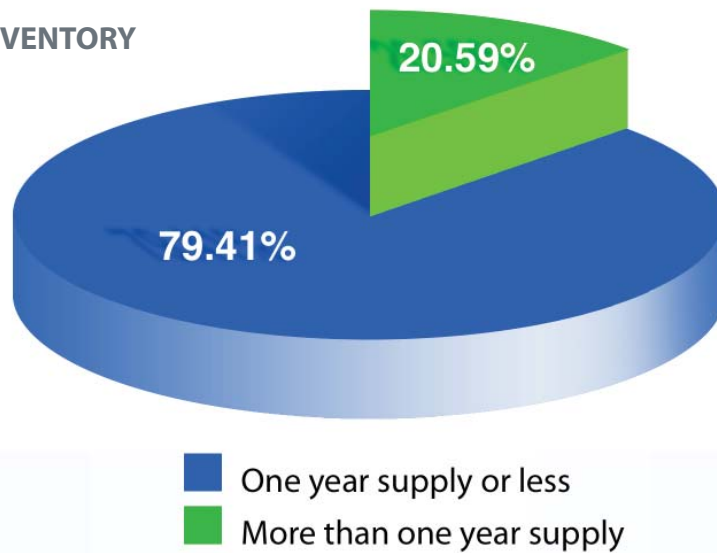
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WHERE SHOULD I FOCUS?

On average, about 10% of a company's total MRO items can recover above average value in the surplus market. So, how do you get the biggest bang for your surplus MRO dollar? Here are the seven easy steps:

- 1. Cancel materials you won't need...**Cancel all P.O.'s where the quantity of parts ordered exceeds the amount you need to satisfy demand during the amount of time it takes to replenish stock. *You'll also save on restocking costs!*
- 2. Transfer surplus materials within or across your enterprise.** (where they are under stocked.) *Remember that materials consumed within a company retain 100% of their original value!*
- 3. Return all items purchased in the last 12 months where the quantity on hand is greater than the maximum,** and you already have more than, say, 12 months of supply (most Xtivity clients look at a year, or less). *Items returned to the vendor where they were purchased have the highest return value!*

EXCESS MRO INVENTORY
% of SKUs



- 4. Excess material (the 20.59% of which you have more than a one year supply) should be put in the hands of a disposition company to sell for you.** *You may be surprised how much of your excess moving MRO materials can be purchased by other companies.*



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WHEN BUYERS BECOME SELLERS...

If your company is in the business of buying and consuming MRO materials, odds are it's never had to sell these items. After all, you're a buyer! Plus, the cost of selling obsolete MRO is often onerous, making the effort seem pointless. That's where disposition companies come in and handle the commercial transactions for you.

Material disposition companies, such as EquipNet (www.equipnet.com), seek out the highest possible return for your high value excess MRO items. They broker the sale and take care of details such as taxes and cash remittals. If your surplus inventory was expensed, revel in found money. If your obsolete stock is sitting on a shelf as an asset, work with your finance team to determine the best timing for write-offs. Your company has a corporate responsibility to identify these items and take action. The value to your company is zero when the SKU can no longer be used. Getting the most bang for your unused capital makes sense.

5. Analyze the non-moving MRO items which make up 80% of the non-moving value. In our experience this will be approximately 12% of the non-moving items. Keep only those items which are still required as critical/insurance spares and add this information to the respective "bill of materials" (BOM). Any items *not* associated with a BOM, sell!

6. Repeat step 5 as additional resources become available. Once the items making up 80% of the value which haven't moved in the last three years (approximately 12% of the non-moving SKUs) have been dealt with, the incremental gain versus effort diminishes rapidly. *Your success in step five will reveal the value of continuing this process.*

7. Production capacity and throughput are vital to your success. *If ever you find you're short on MRO materials, look at disposition companies for materials that can be purchased below current market prices from other companies suffering the same MRO overstock challenges you are. Buying excess MRO materials from other companies saves you considerable money!*



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DON'T WASTE A GOOD CRISIS

Transform the problem of excess MRO material into a long-term, cost saving solution. With Xtivity's help, you will find that divestiture becomes a simple and important core capability of your business. A call to Xtivity today will result in the immediate identification of surplus inventory, coupled to a common sense action plan, focused to deliver results within one week. No supply chain initiative is quite so effective.

ABOUT Xtivity

Xtivity, Inc. is the world leader in MRO Decision Support. Its web-based xIO MRO Decision Support Service improves productivity, reduces maintenance inventory value, and provides accurate lead time information through its proven xIO Optimization Service. Xtivity's unique service identifies, quantifies, reports, optimizes, and audits inventory operational activity, offering immediate payback with little disruption to your organization.

For more information, please call Ross Jenner at 519-642-1881 X 31 or e-mail us at optimize@xtivity.com.



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