

SPARESFINDER: BRINGING NEW EFFICIENCIES TO INVENTORY MANAGEMENT

Equipment-intensive industries often require large quantities of spare parts. A typical turbine power station, for example, must keep about \$6 million (€6.8 million) worth of spare parts on hand. Unfortunately, there can be massive inefficiencies in how such inventories are utilized. Companies can find themselves lacking necessary components at critical stages of production or, at the other extreme, carrying an expensive surplus of parts that are redundant or even obsolete. The blame, almost universally, falls on poor information. Inventory systems within large organizations often cannot “talk” to each other, making companywide inventory management a mixture of judgment and luck. The problem becomes proportionately larger when several companies try to share inventories or manage them jointly.

SparesFinder, based in the United Kingdom, is trying to solve the problem. Founded in 1998, the company links buyers and sellers of engineering spare parts in a series of public and private online marketplaces, enabling companies to share their inventories. The company’s Virtual Pooled Inventory system lets subscribers list and search for products by manufacturer, catalog number, and description. Customers can vary the level of information they share, which allows them, for example, to make all their information on spare parts available to their own sites but only that on select inventories available to other companies. By the end of 2000, the company had more than 90 subscribing corporations and hundreds of user sites in more than 40 countries. Its database is growing rap-

idly and currently consists of approximately 17 million parts, with a value of £1.5 billion (€2.4 billion).

One of the company’s first clients was BP Amoco, which started a pilot program for its North Sea drilling operations in April 2000. The objective was to increase the visibility of spare parts across BP Amoco so that they could be more effectively redeployed internally, thereby reducing the level of inventories that the company had to maintain. The pilot launch went smoothly: all the sites were operational in three to four weeks, and BP Amoco immediately began to reap cost and time savings. The company is now on track to save £2 million (€3.2 million) in the first year following the pilot’s implementation, and it has identified £1 million (€1.6 million) more in potential savings.

BP Amoco plans to begin extending the system to other areas of the organization and to 20 of its suppliers next year. For the company to make the best use of the system, though, it will need to make organizational and process changes. For example, its trade partners will have to agree on the minimum value of transactions that employees can conduct without seeking authorization from top management. A low minimum value of, say, £5,000 (€8,000) would generate an administrative burden that would quickly exceed the system’s potential value to the companies. But if authorization is required only for parts worth more than £100,000 (€160,000), the administrative burden would be small and the exchange of parts would go smoothly.