

A Price Review Framework for Maintenance, Repair and Operations Procurement Contracts in the Public Sector

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Abstract

Purpose: This paper proposes a price review framework for the procurement of Maintenance, Repair and Operations (MRO) parts in public sector organizations

Methodology: A case study is performed on a public sector organization in Singapore, which maintains a fleet of vehicles but has outsourced the procurement of MRO parts to a contractor. Parts associated with one vehicle type are classified according to whether they are critical to operations and the potential value that can be derived from an improved process. Two pricing methods are studied: Fixed-price with redetermination and cost-plus. Based on the correlation between actual price paid and an appropriate domestic supply price index, procurement performance for individual parts is assessed on a 5-point scale

Findings: The analysis reveals that the weighted performance of MRO procurement for the vehicle type studied was 1.71 and therefore deemed poor. An estimated one-time savings of 12.4% could be reaped if the proposed price review framework is adopted.

Research limitations: The case study is based on data for just one vehicle type utilized by the selected organization. In addition, the proposed methodology is unlikely to be suitable for MRO supplies that are scarce (e.g. approaching end-of-life) or those whose cost of factor inputs is highly volatile.

Practical implications: The findings suggest that there is significant potential for systematic price reviews with suppliers in public sector MRO procurement contracts.

Originality: The proposed methodology allows for a comparison of MRO procurement performance over time and between public sector organizations, where there has generally been a lack of attention on expenditures on such supplies.

Keywords

Procurement; Maintenance, Repair & Operations (MRO); Public Sector; Price Review

Biography

Lian Kiang Tan currently works for a large public sector organization in Singapore. She graduated from SIM University with a Bachelor of Science in Logistics and Supply Chain Management.

Shao Hung Goh is an Associate Faculty in Logistics and Supply Chain Management at SIM University. His research interests include supply chain integration, transportation and the continuous reinvention of the third-party logistics (3PL) business model. He has authored papers, given talks and conducted courses in various areas of supply chain management.