# CENTRALIZED PROCUREMENT STRATEGIES: WHY FRAGMENTATION IS COSTING DISTRIBUTION CENTERS MORE THAN THEY REALIZE

The case for a macro-approach to centralized MHE Procurement in Post & Parcel and eCommerce operations

Honeywell Intelligrated

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# EXECUTIVE SUMMARY

The heartbeat of any distribution center is the conveyors, sorters, picking systems, and other material handling equipment that keep packages consistently moving throughout the building.

Procurement leaders in distribution centers (DCs) are tasked with clear mandates: cost reduction and spend control. For most organizations, that translates into unit-price savings on parts; a KPI that is measurable, reportable, and familiar.

However, in DCs, where uptime is measured in minutes and throughput in millions of packages, the lowest unit price is rarely the lowest total cost. A $200 cheaper part can trigger $200,000 in downtime when a critical piece of equipment halts the line, employees stand idle, and stock isn't leaving the building.

When procurement spending gets fragmented across dozens of suppliers, efficiency is traded for a hidden tax because every new supplier adds 7-10% in procurement overhead (Prokopets et al.)[1]. Additionally, generic parts don't just cut price, they cut lifespan by slowing performance, accelerating wear on equipment, and multiplying the risk of costly breakdowns.

The transformative opportunity is not abandoning unit-price savings; instead, it's combining them with a macro-procurement strategy by consolidating vendors, centralizing inventory, and leveraging parts spending across the enterprise. This is where procurement shifts from tactical cost-cutting to transformative value creation.



# THE REALITY OF DISTRIBUTION CENTERS

DCs operate under some of the most complex procurement conditions in the supply chain. Being the backbone of throughput, downtime costs for conveyors, sorters, and picking systems can stack quickly, as average downtime costs in DCs range between $10,000 and $25,000 per hour (Industry Week)[2].

Procurement teams operate under pressure to:

- Deliver reportable cost reductions, often at the line-item level.
- Optimize budgets across dozens or hundreds of facilities.
- Reduce supplier count while keeping operations running.

While part-level savings are genuine, they don't capture the entire picture. Saving $50 on a part can vanish under $50,000 in downtime, lost leverage, and administrative burden, leaving procurement reactive rather than strategic.



# THE HIDDEN COSTS OF FRAGMENTED PROCUREMENT

**1. Downtime Impact**

- Cutting site-level inventory looks lean on paper; however, it creates risk exposure. One missing part can stop an entire distribution line.
- Up to 90% of downtime in MHE environments is caused by waiting for parts (SDI)[3].

**2. Diluted Volume Leverage**

- Splitting parts spend across many suppliers weakens discount tiers.
- Every parts order placed outside of a consolidated contract chips away at leverage.
- According to Deloitte's CPO Survey, 2023, leaders who consolidate suppliers achieve up to 12% higher savings through scale leverage[4].

**3. Administrative Complexity**

- More suppliers mean more RFPs, more invoices, and more contracts.
- Economic research indicates defects, returns, and managing payment issues will be reduced when you are dealing with fewer suppliers (Ochonogor et al.)[5].

**4. Operational Inconsistency**

- Generic or mixed supplier strategies create variability in quality and lead times.
- Fragmented supplier bases erode efficiency: cutting overall operational performance by 10-20% through misalignments and variability (Ochonogor et al.)[5].

## CRITERIA FOR A FUTURE-READY PROCUREMENT STRATEGY

**To move beyond incremental savings, a procurement strategy or mission-critical material handling equipment (MHE) must:**

- **Deliver measurable line-item savings and total cost of ownership improvements.**
- **Consolidate suppliers to maximize discounts and reduce complexity.**
- **Safeguard uptime through reliable, OEM-quality parts, and inventory visibility.**
- **Plan for OEM obsolescence to ensure continuity and availability of critical parts.**
- **Scale across the network with consistent processes.**
- **Extend beyond MHE into adjacent industrial categories for broader leverage.**



# THE HONEYWELL CENTRALIZED MODEL

**1. Single-Source Supplier: Turning Lowest Price into Lowest Cost**

Procurement leaders who turn to generic parts may see a lower price at first glance. Yet research shows these choices can risk quality, lifespan, and downtime. These superficial savings end up cascading real risk to other areas of the business. Procurement leaders who fragment parts spend across multiple suppliers also take on multiplied contracts and diluted leverage, leaving unrealized discounts and suppressed efficiency gains.

By contrast, leaders who adopt a single-source OEM strategy gain consistent quality and stronger negotiation power, which ensures the parts meet OEM standards further reducing the risk of equipment failure and downtime. Pairing parts quality with stronger negotiation power allows for better pricing and terms, ultimately transforming the best value into the lowest total cost of ownership.

**Procurement Impact:**

- Consolidated spending unlocks top-tier discounts.
- Standardized parts improve uptime and throughput.
- Fewer suppliers reduce administrative costs and RFP cycles.

**2. Hub-and-Spoke Inventory: Centralize Success, Localize Speed**

Procurement leaders who attempt to stock every recommended spare at every individual site often find themselves tying up millions in idle capital. Yet those who cut inventories too deeply expose their operations to the risk of costly downtime when the right part is not on hand.

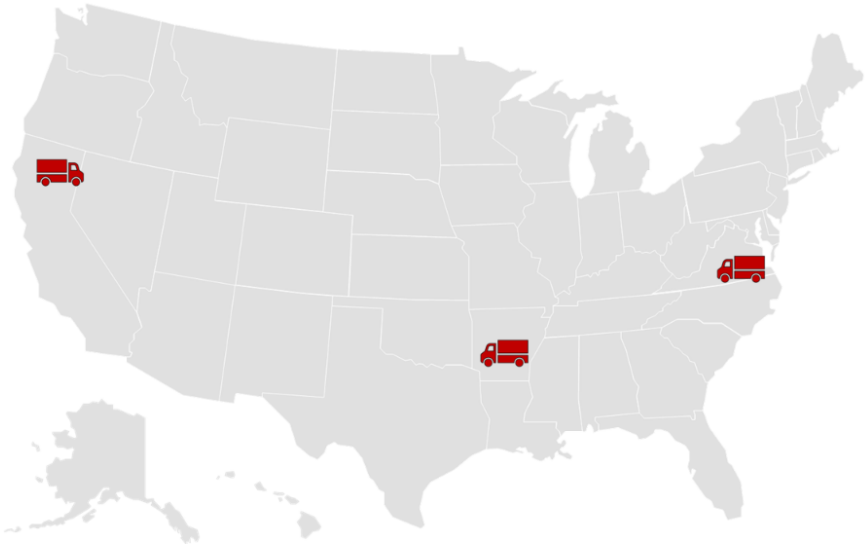
A hub-and-spoke inventory model offers balance by consolidating critical spares at regional hubs while enabling rapid replenishment to "spoke" sites. This approach trims redundant investment, secures part availability, and sustains throughput by leveraging the strength of your logistical network. Leaders adopting this strategy gain efficiency at the enterprise level while protecting operational resilience at the local level.

**Procurement Impact:**

- Lower carrying costs.
- Bulk discounts through consolidated orders.
- Faster recovery without bloated site-level inventory.

**Honeywell Customer Example:**

A Fortune 500 retailer reduced redundant inventory and saved $500,000 annually by implementing a hub-and-spoke inventory model with Honeywell in 2025.



# THE HONEYWELL CENTRALIZED MODEL (CONT.)

**3. Vendor-Managed Inventory (VMI): Assurance Without Excess Cost**

Overstocking inflates working capital, while understocking can cripple uptime. A Vendor-Managed Inventory (VMI) strategy balances assurance and efficiency by aligning stock with usage data. Research found VMI adoption cuts stockouts up to 30% while reducing inventory levels 20-25% (Dong et al.)[6].

Honeywell's tiered VMI model is designed to scale with your strategy, providing the right balance of oversight, automation, and cost efficiency at each stage. Leaders can select from scalable options ranging from periodic audits for low-cost oversight to fully automated replenishment integrated directly with ERP systems. This model replaces guesswork with data-driven visibility, ensuring that inventory levels adjust dynamically to actual usage.

he result is assurance without excess: a steady supply of critical parts where and when they are needed, without tying up millions in unnecessary stock. This approach enhances resilience, improves labor utilization, and sustains operational momentum across the network.

**Procurement Impact:**

- Real-time usage visibility through integration (e.g., Honeywell IRIS).
- Automated replenishment reduces emergency orders
- Optimized working capital: inventory matches demand, not guesswork.



# BEYOND THE DC: ENTERPRISE-WIDE PROCUREMENT CONSOLIDATION

Procurement's influence does not end inside the four walls of a site. The same principles of consolidation and leverage can be extended both downstream into store fulfillment, and upstream across broader industrial categories. While DCs are designed for high-volume throughput, store-level operations often face inefficiencies from labor-intensive unloading, fragmented last mile delivery, and limited retail space. Expanding SKU counts and rising consumer expectations further compound these pressures, making procurement strategy a critical lever for expanded resilience.

Near-term, organizations are exploring micro-fulfillment centers (MFCs) and automated unloaders to alleviate bottlenecks at the store level. Organizations deploying automation and micro-fulfillment solutions often achieve dramatic labor efficiency gains. For example, "Walmart's automated DCs deliver twice the throughput with half the staff—an outstanding fourfold efficiency gain" (Reuter)7.

Longer term, enterprise-wide consolidation unlocks even greater value not just for the organization, but for procurement leaders themselves. With Honeywell's breadth of categories – from motors, VFDs, sensors, circuit breakers, cabling, and more – leaders can collapse silos, standardize sourcing, and command economies of scale across the entire industrial backbone.

It elevates procurement from transactional purchasing to strategic leadership, where your role in reducing costs can also strengthen resilience and broaden influence across your enterprise.



# CONCLUSION

## Partner with lifecycle experts for ongoing support

Procurement leaders are measured by their ability to deliver cost reductions and spend control, yet in distribution networks a narrow focus on the lowest unit price can overlook the true drivers of total ownership cost. The real costs often appear elsewhere such as excessive downtime, weakened leverage, administrative burden, and inconsistent quality. These hidden drains quietly undermine procurement leaders' line-item savings efforts.

The future of procurement leadership lies in pairing price discipline with centralized strategies that expand value creation:

- **SingleSource OEM partnerships** that convert price into reliability, leverage, and longterm cost efficiency.
- **HubandSpoke inventory models** that release working capital while preserving operational resilience.
- **Tiered VMI programs** that stabilize uptime and align stock with true usage patterns.

Together, these approaches reposition procurement as a strategic engine by reducing visible costs while simultaneously unlocking resilience, efficiency, and influence across the enterprise. The real question for procurement leaders is no longer about saving a few dollars on a part, but about recognizing and capturing the larger value that comes from seeing, and acting on, the bigger picture.


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