

Vendor Managed Inventory

September 16, 2020



CTA'S SUPPLY CHAIN

- **The CTA has one Central Warehouse Distribution facility, located at 901 West Division, which is 330,000 sq. feet**
- **3 Satellite Warehouses**
- **2 Storerooms (Bus and Rail Heavy Maintenance)**
- **7 Bus Garage Stockrooms**
- **8 Rail Terminal Stockrooms**
- **Total Number of Supply Chain Employees: 135**
- **In 2012, an assessment of the CTA's warehousing system was performed and it was determined that the CTA held an excessive amount of inventory in stock**

VENDOR MANAGED INVENTORY AGREEMENT

- **A determination was made to enter into a Third Party Vendor Managed Inventory (VMI) agreement in order to modernize supply chain operations in the following ways:**
 - Right size CTA's inventory
 - Improve the availability of materials for bus, rail and facility maintenance.
 - Upgrade warehousing technology with scan guns and electronic bar-coding
 - Reduce obsolete inventory and prevent the build-up of obsolete inventory going forward
 - Facilitate the resale of unused material
 - Increase DBE participation
- **Original contract with NAPA entered into in November 2012 as piggyback off of City contract**



ACHIEVEMENTS OF THE CONTRACT: MODERNIZATION OF CTA SUPPLY CHAIN

- **Reduction of CTA owned inventory: from over \$100MM in 2012 to \$44.6MM in 2020**
- **Digitize warehouse operations – bar coding and scan gun technology (replaced carbon paper with scan guns)**
- **Higher core credit recoveries**
 - \$450K in 2016
 - \$610K in 2017
 - \$761K in 2018
 - \$1.3MM in 2019
 - \$445K through June 2020
- **Access to NAPA’s re-sale network for “obsolete inventory”**
 - \$894K recovered to date
- **Keep/Fill Process for Bulk Tank Monitoring**



ACHIEVEMENTS OF THE CONTRACT: MODERNIZATION OF CTA SUPPLY CHAIN

- **Better pricing of items**

- “Real-time” pricing to achieve lowest price at any given time
- Access to more suppliers
- Less reliance on OEM’s, use alternate parts

- **Better material management (reduce rolling stock “held for materials”)**

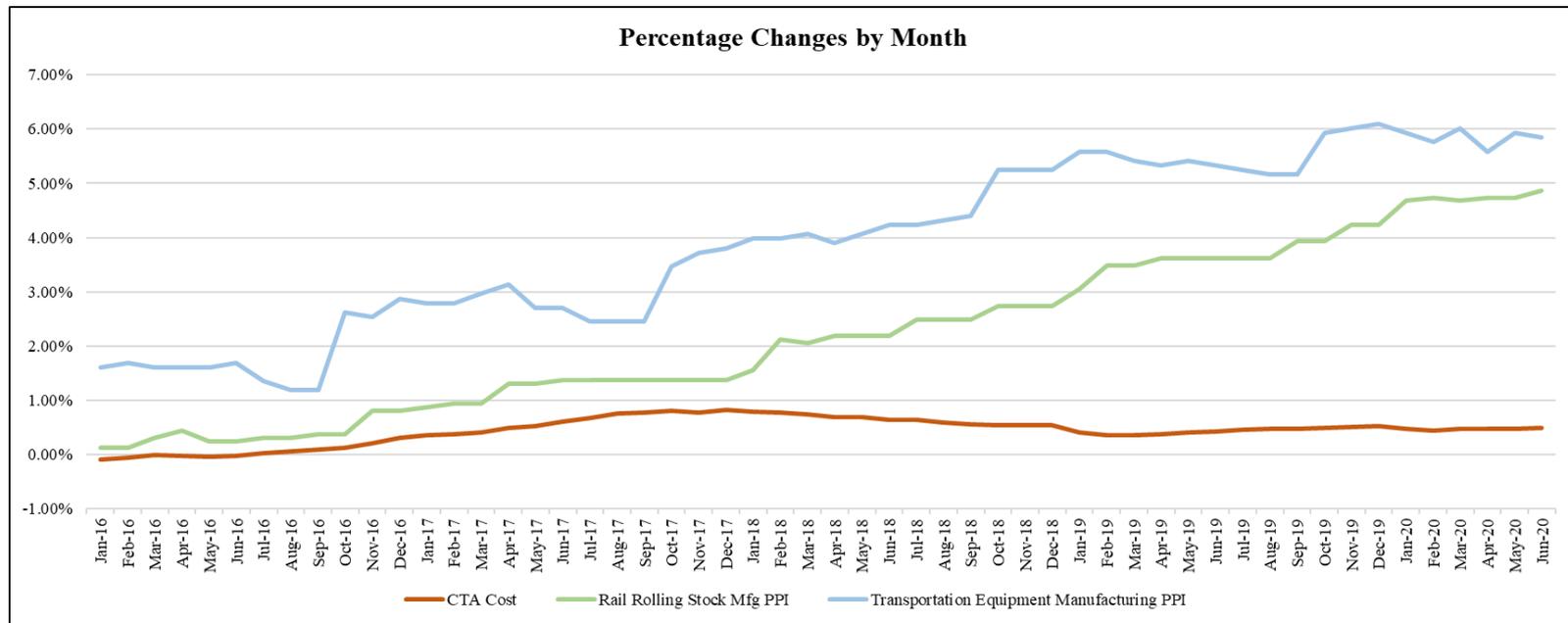
- 2013 daily average rolling stock held for materials: 24 buses and 9 railcars
- 2020 1st quarter daily average rolling stock held for materials: 6.6 buses and 7.5 railcars

- **Higher DBE utilization**

- 12% in 2012 and 29.50% in 2020
- NAPA and CTA Diversity Team:
 - Total DBE spend on Contract through July 2020: \$114MM
 - Represents 28.74% of overall contract value
 - Worked with Diversity Team to hold 5 outreach events and participated in many others
 - Reengaged underutilized DBE Vendors (See Exhibit 1)



CTA'S PARTS COST CHANGES HAVE BEEN WELL BELOW INDUSTRY BENCHMARKS



CTA Cost changes under NAPA contract vs. inflation indices

- Rail Rolling Stock Mfg Producer Price Index (PPI) – Street, subway, trolley, and rapid transit cars, and railway maintenance equipment and parts
- Transportation Equipment Mfg PPI – includes equipment for moving people and goods

NEW VMI RFP/CONTRACT

- **Before issuing a new RFP, KPMG assessed CTA's current Vendor Managed Inventory (VMI) program – rating it as highly developed compared to CTA's peers**
- **CTA issued an RFP for a new Third Party VMI contract, resulting in Genuine Parts Co. dba NAPA being recommended for award of the new contract**
- **VMI contract term will be for a period of five (5) years with one unfunded five-year extension option**
- **Base contract amount \$400MM**
 - Operating Expenses: Reduced from approx. \$10.4MM on previous contract to approx. \$9.1MM over life of the new contract
 - Markup: remains the same as previous contract: 7% on stocked parts and 5% on fluids and non-stocked parts– very competitive to industry average of 10%.
- **NAPA is increasing their staffing while reducing their operating expenses by over \$1MM during the life of the contract.**
- **The DBE goal is 30% for the life of the contract**



EXHIBIT 1: EXAMPLES OF DBE VENDORS

- **TSS Bonatrans**

- Supplies CTA's rail car wheels
- Recently became DBE certified while working with NAPA/CTA and now seeking to expand nationally

- **Inter-City Supply**

- Supplies soap and chemical products
- Stocking materials locally as backup for COVID-19
- Provide warehouse space to CTA by stocking supplies used by CTA

- **Lin Industries**

- Supplies rail parts through reverse engineering existing CTA parts

- **Valdes LLC**

- Provided significant cost savings and improved delivery to CTA with the Diesel Exhaust Fluid program

- **Quimex**

- Developed keep-fill program for bulk fluids – greatly reducing garages running out of oil (a major issue previously)