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)