Vendor Managed Inventory (VMI)
At SEPTA

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VMI at SEPTA

- Conception
- Goals of the Program
- Implementation
  - Cross Functional Team
  - Pilot Program
  - Phase 1: Bus Maintenance
- Benefits To-Date
- Lessons Learned >>>> Program Improvements
- Next Steps
  - Phase 2 Implementation
  - Expected Benefits
Program Conception

- Materials Management Initiative – 2003
- Hired Consultant and formed Internal Steering Committee to identify Material Availability and Inventory Reduction opportunities
- Vendor Managed Inventory (VMI) was one of the recommendations of this Initiative’s Final Report in May, 2005
Program Goals

- Reduce inventory
- Reduce material handling
- Reduce system transactions
- Increase local storeroom focus on availability and accuracy of high dollar Vehicle Maintenance items remaining in Inventory
Inventory Management Now &......
...Inventory Management via VMI....
Program Implementation

- Create Cross Functional Team
  - Value = Program Buy-in & Sponsorship, Team Diversity

- Select Location and Commodities for Pilot – Southern Depot, 7 commodities
  - Industrial, Belts, Electrical, Safety, Janitorial, Paint/Body, Welding
  - Focus on low dollar, high turn items

- Conduct EOI with Vendors – January, 2005

- Create usage estimates - Issue History & Customer Input

- Bid each of the 7 Commodities Separately

- Allow for Substitution Requests and system updates for those products approved

- Award 7 Pilot Commodity Contracts – April, 2006
Program Implementation (cont’d.)

Pilot Program (6/07 to 12/08)

- **June, 2006; Southern Depot (Bus Maintenance)**
- **7 Commodities, 516 items**
- **Why conduct a Pilot?**
  - Define/Refine Vendor & Customer process roles
  - Test Stocking Level & Delivery Frequency success
  - Assess Expectations for Emergency and No-Stock situations
  - Assess initial requirements defined for Vendor/Customer Communications and refine
  - Test integration needs between VMI process and existing Inventory and Work Management systems
  - Determine cost benefits of pursuing at all depots
Phase 1: Bus Operations (10/06 to Present)

- **Analysis, Operational Preparations (10/06 – 6/07)**
  - Establish Cross Functional RFP team - June, 2006
  - Identify Commodity Groups (13) – October, 2006
  - Analyze Historical issues, Define Min/Max Stocking levels via joint review with Operations personnel at each of the 10 locations – November, 2006 to February, 2007
  - Tag items in the Inventory System as potential VMI candidates for analysis purposes – March, 2007
  - Create Bin Layout Plans for all locations – June, 2007
Program Implementation (cont’d.)

Phase 1: Bus Operations (10/06 to Present)

- **RFP Work (6/07 to 4/08)**
  - Define Project Background, Scope of Work, Billing Guidelines, Performance Indicators, and Liquidated Damages
  - Develop RFP Evaluation Criteria
  - Develop Plan for Existing Inventory and include impact or transitional language in the RFP
  - Create schedule for Vendor Submittals
    - Requests for Substitutions
    - Response to RFP for Technical Evaluations
    - Review of Pricing after Technical Evaluations
    - BAFO’s
Program Implementation (cont’d.)

Phase 1: Bus Operations (1/09 to Present)

- **Analysis and Start Up (4/08 to 4/09)**
  - Complete Business Case for 13 Commodities
  - 10 Commodities Selected – 1,051 items (Electrical, Janitorial, Electronic, Safety, Welding, Plumbing, Paint/Body, Industrial, Belts, Automotive) – Hoses, Filters, Bus OEM did not make cut
  - Develop Site by Site Start-Up Schedule
  - Create Staff Summary and Obtain GM Team and Board Approval – July, 2008
    - 3 Year Contract
    - 2 One Year Options for Years 4 and 5
  - Implement at Sites – January to April, 2009
Program Benefits To-Date (Bus Only)

- 75% Reduction in VMI Item Requisitions/Pos
  - (1,194 to 293 = 901 less)

- 67.4% Reduction in Parent Line Item Receipts In & Line Item Transfers Out for VMI Items
  - (2,569,517 to 836,818 = 1,732,699 less)

- 100% Reduction in Bus Location Line Item Receipts, Put Aways, and Counts for VMI Items
  - (313,648 to 0)

- 42.8% Reduction in Bus Location Total Line Item Issues
  - (577,301 to 330,474 = 246,827 less)

- 7.5% Reduction in Bus Location Total Line Item Receipts
  - (18,871 to 17,460 = 1,411 less)

- $796,138 Inventory Reduction
  - ($201,138 Bus Locations + $595,000 Distribution Centers)
Lessons Learned >> Program Improvements

- Use Historical Issues Only; Do not allow arbitrary increases in usage estimates
- Ensure proper storage plans for specific Janitorial Items
- Review planned VMI items by location and identify “like” type items for program inclusion
- Create spend flexibility in the program to cover not only Obsolescence, but proper Program growth
- Allow for introduction of existing Inventory at the start of the program

- Vendor Sales & Expected volume will be more accurate
- Compliant Storage of all items
- Eliminate Operational Confusion — VMI vs. Storeroom to Obtain like parts
- No Program Constraints to allow for Continuous Improvement
- Zero Stagnant Inventory
Next Steps

Phase 2 Implementation

- Light and Regional/Commuter Rail
- 11 additional locations (3/11 – 6/11)
- Ensure mobile Ops personnel have access to the Program – Facilities, Stations Maintenance, etc.

Expected Benefits (System Wide Implementation)

- $5M in Inventory Reduction
- 8% Reduction in Total Requisitions/Pos
- 24% Reduction in Distribution Center Receipts
- 42% Reduction in Distribution Center Transfers
Bin & Shelving Configuration

This is a picture of actual bins/shelves for Electrical, Electronic, Safety, and Industrial items at Southern Bus Garage.
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