TORONTO

STAFF REPORT
INFORMATION ONLY

Supplemental Report on Contract Award – RFP 6101-11-3241 for the Provision of On Site Fleet Parts and Inventory Management Program

Date:	May 9, 2012
To:	Government Management Committee
From:	Director, Fleet Services Acting Director, Purchasing and Materials Management
Wards:	All
Reference Number:	P:\2012\Internal Services\Fleet\Gm12004Fleet - (AFS15369)

SUMMARY

This report summarizes the evaluation of various options with respect to acquiring and managing fleet parts, and presents the results of consultations held with the City's front line Fleet Services staff. Based on feedback received through the staff consultation process and industry best practices, staff, as set out in GM11.10, are recommending that the City award and enter into an agreement with UAP Inc. for the provision of on site fleet parts and an inventory management program.

Financial Impact

There are no financial implications from this report.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its meeting held on February 23, 2012, Government Management Committee deferred consideration of GM11.10, "Contract Award – Request for Proposal (RFP) 6101-11-3241 for the Provision of On Site Fleet Parts and Inventory Management Program", until its meeting on May 24, 2012. The Committee further requested the Director of Fleet Services and the Acting Director of Purchasing and Materials Management to report to the May 24, 2012 meeting of the Government Management Committee, after consultation with front line staff, on options to acquire and manage Fleet parts. The link to the staff report and GMC's decisions are available at:

http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.GM11.10

ISSUE BACKGROUND

A staff report outlining Fleet Services' investigation of different purchasing models for the acquisition of parts from both the private and public sectors, and recommending that the City pursue a consolidated parts and consignment model, was presented to, and supported by, the Administration Committee on April 29, 2004 and adopted by City Council at its meeting held on May 18 - 20, 2004 (re: Clause 16 of Administration Committee Report 3 titled "Consolidated Parts and Consignment - Request for Proposal (RFP)"). Following are the links to the staff report and the Council decision document:
http://www.toronto.ca/legdocs/2004/agendas/committees/adm/adm040429/it021.pdf
http://www.toronto.ca/legdocs/2004/agendas/council/cc040518/adm3rpt/cl016.pdf

COMMENTS

The City of Toronto operates an extremely diverse array of vehicles and equipment to meet operational demands. While new vehicle and equipment standards have been established, the fleet will continue to consist of a wide range of vehicle and equipment types based on previous purchases.

Effectively managing the supply of parts for the City's fleet vehicles is a critical component in ensuring efficient operations and the provision of responsive and timely services to the City Divisions. In 2003 and 2004, Fleet Services investigated different purchasing models (described below) for the acquisition of parts from both the private and public sectors. One of the findings indicates that there are cost savings to be realized by entering into an agreement with a large parts supplier/re-manufacturer. A large parts supplier is capable of providing all the repair parts that large fleets may require on a regular basis. A large parts supplier also helps leverage the City of Toronto’s buying power to maximize discounts. Through their network and bulk buying power, any special orders can be delivered usually within 24 hours at reduced cost. The benefits of automating parts inventory and accounting also ensures that the client receives current information, expedited work orders and more accurate billing records. As set out in the Decision History, City Council approved the use of this consignment model, while maintaining Fleet Services warehouse staff in 2004 by directing staff to issue an RFP based on Fleet's findings.

Parts Delivery Models

Following is a summary of the different purchasing models evaluated in 2003/2004, and assessed again in 2011 through the service efficiency review conducted by Western Management Consultants.

1. **Fleet purchases parts locally, direct by Mechanics**
   This model is used by small garages or remote satellite garages managing fleets up to 200 vehicles and/or having up to five mechanics. Mechanics purchase parts from local Dealers for Original Equipment Manufacturers' (OEM) parts and non-OEM requirements from local jobbers (parts wholesalers).

   Given the size and diversity of its fleet (approximately 4800 vehicles and equipment), this model is not appropriate for the City of Toronto.

Issues	**Advantages**
No standards for parts (Quality, Warranty)	Mechanic deals directly with supplier
Minimum discount	Minimum stock on hand
Mechanics perform administrative work such as processing purchase orders (PO's)	
Open to conflict of interest (mechanics may have work on the side and purchase parts for themselves as a result)	

2. **Fleet owning the inventory where parts are acquired from multiple vendors or a single vendor by contracts**
   This model is used by a majority of both public and private fleets. The City used this model prior to 2006. At that time Fleet Services had over 150 suppliers under contracts with a parts inventory of $750,000.

Issues	**Advantages**
Warehouse staff required to administer stock	Standards for parts (Quality, Warranty) can be made
Carrying cost of inventory	Volume discount
Mechanics have to deal through the Warehouse staff who obtain parts from supplier	Reduces openness to conflict of interest (mechanics may have work on the side and purchase parts for themselves as a result)
Annual write-off of obsolete parts	
Annual write-off of inventory shrinkage	
High administration cost given the number of contracts to manage i.e. incorrect releases against the wrong contract requiring journal entry corrections	

   The 2003/2004 review recommended moving away from this model so that the City could reduce its administration costs associated with overseeing multiple contracts, increase savings related to purchasing parts given that the City could exercise greater buying power by purchasing in bulk and reduce costs associated with carrying inventory. At the same time this allowed the City to increase the

parts stock on hand to $1.3 million with an increase in "fill rate" or percentage of time a part is available to go from approximately 40% to 80%.

3. **Consignment Inventory**
   In this model, the vendor, or multiple vendors, supplies parts and owns the inventory until the mechanics need it for a repair. This model is currently used by Fleet Services. See Appendix A for detailed comments from front line Fleet Services staff on this model.

Issues	**Advantages**
Warehouse staff required to administer stock	Standards for parts (Quality, Warranty)
Mechanics have to obtain parts through the Warehouse staff who obtain parts from supplier	No annual write-off of obsolete parts
Annual write-off of inventory shrinkage	No carrying cost for inventory
	Increased Volume discounts
	Immediate core and warranty credits
	Reduced administration (Number of Purchase Orders and invoices)

During the efficiency review conducted in 2011, Western Management Consultants conducted a costing benchmark on the existing parts contract with UAP Inc. Western Management Consultants concluded:

"A high level parts costing benchmark comparative sample of 80 materials [parts] from Fleet Services' NAPA pricing report were cross referenced against the cost data of another Canadian municipality. The City's prices were found to be lower by an average of 51% and yield a 33% lower overall spend based on the consumption rates of the various sample materials".

4. **Consignment Inventory managed by Vendor**
   This model, at this time, is considered "Best Practice" in the Fleet industry. This model is utilized in the Public sector by major Cities such as Chicago, New York, Los Angeles and in Canada, Ottawa. As well, it is being utilized in the private sector by leading fleets.

Issues	**Advantages**
Contract Administration – Must ensure strong oversight over the contractor	Standards for parts (Quality, Warranty)
	No annual write-off of obsolete parts
	No carrying cost for inventory
	Highest volume discount
	Immediate core and warranty credits

Issues	Advantages
	Reduced administration (Number of Purchase Orders and invoices)
	No annual write-off of inventory shrinkage
	Mechanics deal directly with supplier

As described in GM11.10, the City currently has a contract with UAP Inc. for consignment parts inventory, where Fleet Services warehouse staff manages the inventory of parts (the third purchasing model). At the present time, UAP Inc. carries over $1.3 million in parts inventory at the City's storerooms. In practice, City front line mechanics request parts through the City warehouse parts staff who manages the parts and locates the parts in the warehouse or requests the parts from UAP Inc.

An effective strategy to reduce downtime is to increase the number of parts on hand to ensure mechanics can respond immediately to failures without waiting for parts. In order to achieve this goal without tying up additional working capital, the RFP that was issued is designed to accommodate the immediate and diverse needs of the City of Toronto fleet and moves the responsibility of managing the inventory from City staff to the Vendor (therefore moving the City to the fourth purchasing model). The terms of the RFP requires the Vendor to provide parts to maintain a service level of 85% of requirements on hand with an additional 10% available within 24 hours which should reduce the wait time for parts.

Western Management Consultants, through the 2011 service efficiency review of Fleet Services, recommend that the City move to this model in order to improve the effectiveness of fleet operations while realizing efficiencies.

Consultation with Front Line Staff

As requested by Government Management Committee, front line staff (both mechanics and warehouse parts employees) were consulted on options to acquire and manage fleet parts. A detailed summary of those consultations is provided in Appendix A of this report.

The main recommendations received from staff through the consultation process, as well as steps being taken by Fleet Services to address staff's recommendations, are summarized in the table below. The first two recommendations put forward by front line staff are not related to a specific parts delivery model.

	Recommendation from staff	Action Taken
1	Provide more detailed information on specialized vehicles and equipment in Fleet Services warehousing system known as M5	Fleet Services is working on capturing additional data and recording that data in M5.

	Recommendation from staff	Action Taken
2	Provide better access to detailed repair manuals	Fleet Services will continue to obtain additional electronic manuals to provide better information and greater access for mechanics.
3	Allow mechanic(s) to communicate directly with the end supplier on complicated specialized parts requirement	A consignment inventory managed by the vendor model being recommended by GM11.10 facilitates direct communications with the end supplier. Additionally, UAP Inc. has been notified to work with mechanics to communicate directly with end suppliers to assist in dealing with specialized parts.
4	Reduce the delay in waiting for specialty parts	The recommended consignment inventory managed by the vendor model addresses this concern. The RFP recommended in GM11.10 provides for additional parts to be held in inventory: 85% of parts will be inventoried and on-hand, with an additional 10% available within 24 hours**.**
5	Hold more stock in inventory and provide additional space for warehousing the inventory	As indicated above, the consignment inventory managed by the vendor and the requirements set out in the RFP should address this concern. Fleet Services has also requested more storeroom space at Finch and Ellesmere garages through Facilities.

Based on the consultation process, while front line staff expressed issues related to the current contract, some staff appear to be satisfied with the option to acquire fleet parts through a consignment model. Moving to a consignment model with inventory managed by the Vendor through the awarding of RFP 6101-11-3241, will help address front line staffs' desire to hold more parts in inventory, to communicate directly with the end supplier on specialized parts, and to be able to work directly with the Vendor in order to improve parts availability resulting in reduced downtime. Fleet Services understands that contract management will play a significant role to also address the other concerns raised by front line staff.

Moving forward with the Consignment Inventory managed by Vendor model:

Based on a review of options for acquiring and managing fleet parts, including feedback received from front line employees, staff as set out in GM11.10 are recommending that the City award and enter into an agreement with UAP Inc. for a five (5) year period for the provision of on-site Fleet parts and an inventory management program. The resulting contract will not only help address recommendations received from front line staff but will result in a significant savings for Fleet Services. As indicated in GM11.10, UAP Inc. will provide a reduction of approximately $2.411 million or 10% of the total parts management and vehicle parts costs over a 5-year contract period compared to our present cost as detailed below:

Estimated Savings over 5 Years

Fleet Services Division	**Estimated Savings**
Parts management administration costs	$1,928,000
Parts Costs	$ 483,000
Total	**$2,411,000**

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SIGNATURE

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ATTACHMENTS

Appendix A – Detailed Comments from Front Line Fleet Services staff

Appendix A
Detailed Comments from Front Line Fleet Services Staff

The Acting Director, Purchasing and Materials Management, Director of Fleet Services and the Manager of Goods and Services, visited the City's garages at:

- 843 Eastern Avenue and 1026 Finch Avenue on March 19, 2012;
- 1050 Ellesmere Road and 25 Old Eglinton Avenue on April 5, 2012; and
- 1050 Ellesemere Road on May 2, 2012

The purpose of the visits was to consult with front line staff (both mechanics and warehouse parts employees), on options to acquire and manage fleet parts. The front line staff were asked questions by the Acting Director, Purchasing and Materials Management and the Manager of Goods and Services. The following summarizes questions asked and responses provided by front line staff at the garage visits.

(1) What is the turnaround time for parts? Once requested, are they readily available?

- For regular stock parts there are no delays. Turnaround time is usually the same day or the next day.
- Turnaround time is same day or the next for standard parts.
- Parts are delivered same day or next day. Quick turnaround time.
- Parts are delivered same day or next. We only have delays related to specialty parts.
- For regular stock parts there are no delays. Turnaround time is usually the same day.
- Standard stock parts are taking longer to get because they are not being properly replenished in inventory
- Difficulty with the speciality parts as they come in from the US; we try to maintain a spare in stock.

(2) For non-stock parts, what is the turnaround time?

- For specialty parts, e.g. sweeper parts, these may take 2-3 days or sometimes closer to a month.
- For specialty items, it is quite frustrating obtaining parts. There is no direct access to the manufacturer because we need to go through a middle person.
- For specialty parts, e.g. sweeper parts, these may take 2-3 days or sometimes closer to a month.

(3) How frequently does this occur?

- Maybe once a month, if that.
- Not often, but when it does, it could be weeks before we get parts for specialty items, e.g. Sweepers.
- It occurs when we are working on sweepers or the new packers, approximately once a month.

- It could be weeks before we get parts once they are ordered.

(4) What do you think contributes to the delay of the "specialty parts"?

- Having to deal with the parts person (middle person), and information gets lost in translation. We need a trained person who understands parts and understands the dealer source. After a certain amount of time waiting for the part, the mechanic ends up speaking to the NAPA order desk to only find out that the incorrect part was requested. We lose too much time.
- No direct contact with the manufacturer, and no access to manuals.
- Having to deal with the parts person (middle person).
- We prefer to speak to NAPA directly, so you are speaking to someone who understands or we go back and forth with incorrect parts.
- No direct contact with the manufacturer.
- NAPA orders the wrong parts – not knowledgeable about specialty parts.
- NAPA doesn't call enough vendors to source parts.

(5) Overall, how do you find the service being provided by UAP Inc. (NAPA Auto Parts)?

- We experienced some delays at first, but as the issues get resolved I have no issues with the services being provided by NAPA.
- Good. No complaints.
- Only issues relate to invoicing. Invoicing submitted late.
- Hours to short not conducive to the City working hours
- If we need parts and NAPA is not open, we order from the main location, but that would require someone to pick it up. That's how we lose time.
- Delay in getting specialty parts from NAPA is a problem which results in increased downtime – NAPA doesn't call enough vendors to source parts
- NAPA doesn't understand specialty parts

(6) How do you find the quality of the parts being provided?

- No complaints. Standard parts are okay. We can decide on the quality of the parts based on the performance. For example, the brakes we purchase are very good and exceed manufacturers' brakes. Majority of the time nothing to complain about.
- No problem with quality, the mechanic can choose 1st line quality if necessary.
- No complaints.
- Preference would be to purchase OEM, but the "after market" product is just as good.
- We do have a choice to purchase OEM if the "after market" does not work.
- Issues with quality of specialty parts – For example Sweeper parts

Additional Staff Comments made:

- Prefer to hold more stock inventory, but no room.
- We have stock out situations due to the lack of space.