

Light-Duty Vehicles Strategic Sourcing Initiative CPPC Forum 2009

**Materials Management
Corporate Services, City of Edmonton**

Who we are

Materials Management Branch

- Supply chain management
 - warehousing & distribution
- Other services
 - Mail
 - Digital print centre
 - Hired equipment
- Procurement services

Strategic Sourcing in Edmonton

- Specialized unit established in 2003
- Follow a prescribed strategic sourcing methodology (IBM full value procurement)
- Use formal project management approach
- 4 dedicated procurement staff
- 9 categories fully implemented using this approach
- Wide acceptance of benefits of strategic sourcing
- Light-duty vehicles our most challenging project to-date

Light-duty Vehicles Background & Context

- Fragmented contracting
 - Standing offers with “Detroit 3” dealers wide open
 - No purchase volume info in tenders
 - Parts tendered separately
 - Growing issues related to parts inventory management
- Lack of coordination between procurement, fleet and end users
- Lack of accountability in decision making
 - Business requirements and end user preferences driving decisions – no focus on standardization
 - Little consideration to cost or sustainability
- Oil rises to \$150/barrel, gas prices at all-time highs
- Financial crisis and low revenues create budget pressures
- Concerns raised by Mayor and Council
 - “Gas guzzler” trucks & SUV’s all over the place
 - “Who says no?”

Initiation

- Initiation phase conducted by Procurement
- Market sounding and stakeholder consultations
 - Met with OEM's/Dealers
 - Met with internal staff (fleet services & dept.)
- Spend analysis to confirm:
 - Vehicle fleet mix & volumes
 - Scope of expenditures (historical purchase pricing & volumes)
- Project charter development
 - Senior sponsor & governance
 - Approved by Senior Management Team

Project Goals

Goals

1. Develop a best-value approach to the procurement and management of light-duty vehicles
2. Minimize the total cost of ownership over the product life cycle and streamline business processes through standardization

Project Objectives

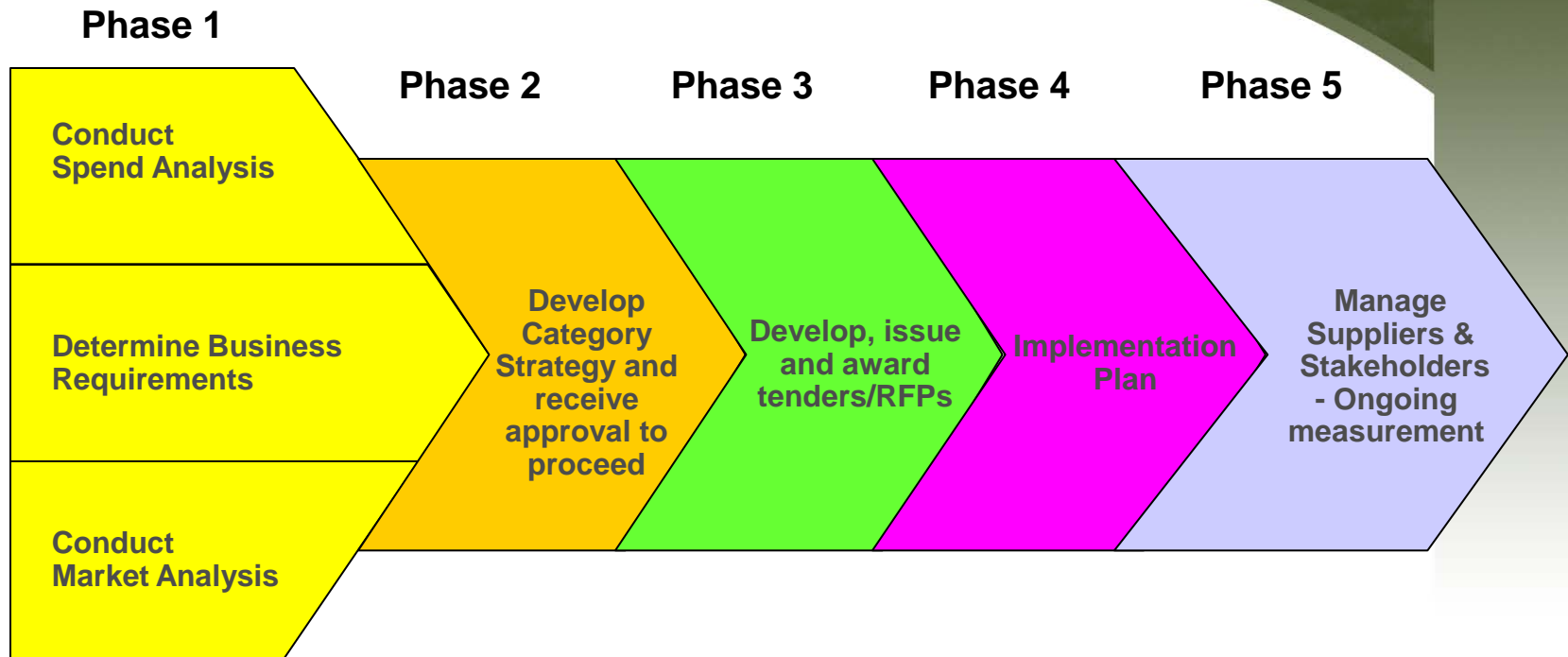
Objectives

1. Standardize majority of City light-duty vehicle requirements
2. Establish purchasing agreement(s) based on the following potential innovations:
 - Long-term contractual agreement
 - Bundling of vehicles, parts, special tools, training, etc.
 - Disposal of surplus vehicles
 - Authorize Fleet Services to complete basic warranty repairs
 - Vehicle pickup and delivery services for vehicles requiring dealer repairs
 - Automation throughout the procure-to-pay cycle (e.g. on-line ordering of parts, etc.)
 - Enhanced vendor data capture and reporting on purchase and repair history and parts usage
 - Flexibility to purchase outside of agreement(s) as required
3. Achieve estimated annual cost savings of \$300,000 or greater

Project Scope

- All City Departments
- Vehicle categories in-scope:
 - Passenger car
 - SUV
 - Minivan
 - Cutaway van
 - Cargo Van
 - Light truck ($\frac{1}{4}$, $\frac{1}{2}$, $\frac{3}{4}$, 1 ton)
 - Cab & Chassis (1, 1 $\frac{1}{2}$, 2 ton)
 - Police Cruiser

The Strategic Sourcing Process



Project Schedule

Milestones	Completion Date
Project Charter approved by Senior Management Team	November 15, 2007
Project team identified and assembled (project kick-off)	January 31, 2008
Current state business processes analysis and identification of departmental business requirements	April 30, 2008
Spend analysis, market analysis (RFI), alternatives identified and analyzed	May 30, 2008
Develop business model and complete Strategic Sourcing Category Strategy	June 2008
Category Strategy approved by Steering Committee	June 30, 2008
Issue Request for Proposal	August 15, 2008
Evaluate and award contract pursuant to RFP	November 30, 2008
Develop & execute Implementation Plan to deliver new business model	January 1, 2009

Project Outcomes - Policy

Administrative Policy

- Needs analysis checklist (to validate need and guide “right-sizing” of vehicles)
- Light-duty vehicle standard category listing
 - Specific approved vehicles in each category
 - Specific vehicles to use by job function
 - Lowest TCO while meeting defined requirements
 - Reviewed annually and subject to change (to take advantage of technology or cost improvements)
- Purchase approval form
 - Signed by Department General Manager
 - City Manager approval required for any exception to standard

Project Outcomes - Purchasing

- 3 long term dealer agreements (up to 15 years)
 - Ford (17 vehicles)
 - GM (6 vehicles)
 - Toyota (5 vehicles)
- First non “big 3” contract (Toyota)
- Bundling of vehicles, parts, training, diagnostics)
- Partnership approach to vendor relations
- Vendor performance metrics, measurement and management
- Strong vendor support models due to size of contracts providing greater value to City

Project Outcomes - Standardization

- Greater fleet standardization
 - Reduced vehicle models from 52 to 17
 - Multi to single model in each vehicle category
 - Simplified vehicle selection
 - Parts inventory reduction
- Eliminated oversize vehicle categories such as
 - 6 & 8 cylinder passenger cars
 - 8 cylinder SUV
 - 15 passenger van (safety reasons)

Benefits

- Purchase cost savings achieved (~10%)
- Introduced hybrid vehicles (Toyota Prius, Ford Escape)
- Achieved GhG reductions of 55,000kg CO₂ annually compared to models purchased last year
- Streamlined procurement process, web tools
- Reduced order cycle times
- Employee discount program from all vendors
- Improvements recognized by City Council
- Materials Management profile enhanced within City

Challenges

- Data mining & analysis (spend and usage data)
- Managing scope creep
 - Rentals
 - Fit-ups
 - Budget process
- Managing a large project team (18 members)
- Managing expectations
 - Stakeholders with self interest that results would meet business needs
 - Senior Managers who expected results
- Change management & communications

Why we were successful

- Hard work and diligence of project manager
- Buy-in and dedication from the project team
 - Open & honest communications
 - We had no hidden agenda
 - We gained their trust
 - Team was empowered to guide the process
- Strong governance from project sponsor and steering committee
- Support from City Manager & Senior Management team
- Objectives aligned with Corporate goals
- Market acceptance with model and process
- A total cost of ownership focus in the RFP financial evals
 - We would not have been able to select hybrids otherwise



Merci – Thank You

Questions?

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Corporate Services, City of Edmonton**

Strategic Sourcing - What is it?

- A strategic planning process
- Considers the entire enterprise
- Achieve savings through lowest Total Cost of Ownership (TCO)
- Standardization of business requirements
- Leverage buying power
- Internal process review / changes
- Long-term partnership between business areas, supplier, and purchasing group
- Requires leadership and continued senior management support to achieve results

Total Cost of Ownership

Strategic Sourcing focuses on the total cost of ownership of a good or service: both the perceived and actual opportunity.

