

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 4b
Date of Meeting October 7, 2014

DATE: September 17, 2014
TO: Ted J. Fick, Chief Executive Officer
FROM: Stuart Mathews, General Manager, Aviation Maintenance Department
SUBJECT: Vendor Managed Inventory in Support of the Aviation Maintenance Department

Amount of This Request: 0 **Source of Funds:** Annual Operating Budget

Maximum Contract Value: \$800,000

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute a contract for two years, with three one-year extension options, for general maintenance supplies for the Aviation Maintenance (AVM) department, through the use of on-site vendor managed inventory at the AVM Distribution Center.

SYNOPSIS

Currently, the Aviation Maintenance Distribution Center procures, stocks, and distributes as needed approximately 8,600 items in support of facility and system maintenance at the Airport. This includes about 500 high-use, low-cost items such as hardware, personal protective equipment, first aid, and janitorial supplies. Under this proposal, a competitively selected vendor would supply, stock, and manage these items in the Aviation Maintenance Distribution Center, reducing Port-owned on-hand inventories and allowing Port staff to focus on other value-added work. Examples of high-use, low-cost items included are nuts, bolts, screws, washers, gloves, masks, coveralls, etc.

This request would install a vendor managed system that would enable faster service and require less Port staff time to manage. If authorized, a contract will be executed for the procurement of vendor owned and managed inventory that will be located on Port property at the AVM Distribution Center. The vendor will be used to stock and make available these general maintenance supplies (low-cost, high-usage items) such as listed above.

The use of vendor managed inventory will streamline the work being done by the AVM Distribution Center staff, allowing employees to focus on other value-added work.

The use of vendor managed inventory will be evaluated after two years to ensure cost effectiveness.

COMMISSION AGENDA

Ted J. Fick, Chief Executive Officer

September 17, 2014

Page 2 of 3

Small business will be encouraged to bid for this contract.

BACKGROUND

The AVM Distribution Center procures stocks and issues approximately 500 high-usage low-cost hardware, first aid, personal protective equipment, and janitorial supplies. The current on-hand, Port-owned, stocked inventory for these items is worth approximately \$250,000.

By allowing a vendor on site to store and provide these items, the Port can realize a savings of the approximately \$250,000 currently invested in the subject inventory and reduce warehouse actions required to manage this inventory. This includes the procurement, receiving, and stowing of these items.

If this action is approved, the current on-hand inventory will be drawn down through usage and not replaced reducing the on hand inventory investment by \$250,000.

The vendor would be provided space in the AVM Distribution Center to stock their own inventory to support AVM requirements. The vendor would procure, receive, and stock these items rather than Port employees. These items would be readily available for AVM use when needed.

While the methods and processes used now are efficient and effective, this action reduces the numbers of those actions (less procurement, receiving and stowage) while saving Port dollars through less inventory investment.

JUSTIFICATION

As mentioned above, this action reduces Port inventory investment by approximately \$250,000.

Additionally, it is anticipated approximately 450 small dollar value procurements, receiving and stowage actions by AVM clerks a month will be eliminated. AVM clerks would then be reassigned to projects relating to the management of current on hand inventories (regular quantity and location verifications, restocking for greater effectiveness, stowing and issuing supplies, etc.) located at the AVM Distribution Center and the various AVM maintenance shops.

FINANCIAL IMPLICATIONS

Due to the open competition involved among potential vendors, it is not anticipated that unit pricing for these items will be any higher than what is paid now through multiple sources. Thus, there is no anticipated impact on the operating budget. Item pricing will be a major factor when bids are evaluated.

The vendor has the advantage of being the source of supply for these products and we anticipate this vendors will have increased sales volume and resultant revenue.

COMMISSION AGENDA

Ted J. Fick, Chief Executive Officer

September 17, 2014

Page 3 of 3

The vendor will be allowed space in the AVM Distribution Center to stock and manage their inventory.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) Allow vendor managed inventory on a test basis for a two year period. Evaluate results and cost savings. Not the preferred option because it does not allow opportunities to evaluate program effectiveness past two years and may restrict vendor competition and lower pricing. This is not the recommended alternative.

Alternative 2) Do not contract. Other internal material management methods will be considered. This method will not allow for potential inventory savings. This is not the recommended alternative.

Alternative 3) Enter into a contract to allow the use of vendor managed inventory as outlined in this proposal. Evaluate effectiveness and reassess program within first two years – exercise options if appropriate. Realize potential cost and investment savings. **This is the recommended alternative.**

ATTACHMENTS TO THE REQUEST

- None.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- None.