



Purchasing Power Case Study

Finding solutions for fleet parts programs

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Effective parts procurement and inventory control programs are a key element in the successful management of any fleet maintenance operation. For utility fleets in particular, this task can be especially challenging considering the extensive range of parts required for the variety of vehicles and types of equipment in these types of operations.

Along with considerations about cost, fleet managers must also evaluate different supply chain alternatives— including local, regional and national sources— based on inventory availability and other service related factors. Also important to consider is the role technology can play in enhancing parts ordering and inventory control processes, as well as integration with fleet maintenance management information systems.

For three leading utility fleets, technology has played a key role in streamlining the process of purchasing and managing parts. At the same time, while all three are clearly realizing success in meeting the challenges they have faced in this area of fleet management, they are also finding that carefully chosen but different approaches work most effectively for different types of operations.

Using Alliances to Meet Cost Control and Service Needs at Nicor Gas

“Our parts procurement and management programs are aimed at simultaneously meeting both service and cost needs,” says Jeff Price, Manager, Fleet Operations at Nicor Gas. “Nicor is moving from traditional purchasing to strategic sourcing practices, where all aspects of our business can benefit from alliances with suppliers. Fleet Operations has always done that, so we’re now serving as a business model for other parts of the company.”

In place at Nicor Gas Fleet Operations for the past four years is an integrated supply arrangement with a major, national parts network. Specifically, the fleet’s parts needs are met by a vendor, which has set up shop in the fleet operation’s main hub in Aurora, Illinois. Using two dedicated storerooms and its own staff, the supplier is meeting the fleet’s system wide parts needs.

“They run this operation like one of their own stores,” Price explains. “The difference is that the stock on hand is based on our purchasing history and is specific to our fleet and its specifications. Any items that have not crossed the counter belong to them and we’re charged as we use the parts. In one sense, it’s like a private consignment program.”

At the Aurora hub, day shift technicians access parts over the counter. Parts needed at night are ordered and picked up in the morning. Nicor’s four other hub shops and eight smaller maintenance locations send in orders by FAX, online

and over the phone. Each facility also has an assigned back-up source, including the parts supplier warehouse, where items needed urgently can be filled at the fleet's preferred pricing.

"For our 46 technicians," Price relates, "this system is not unlike a traditional set up where parts are ordered during the day from a local supplier, and either picked up or delivered. Using a VIN list, parts are charged to individual vehicles and usage data is transferred to our maintenance management information system. The difference, in addition to the cost savings we realize by forming an alliance with one supplier, is in the value we receive by centralizing this function."

One of those benefits, according to Price, is Nicor's ability to work with its supplier to make sure that only parts used on the fleet's particular vehicles are in stock. The agreement, for example, limits the number of infrequently used items and caps the number of non private labeled parts kept on hand at about 40 percent of the total inventory. That particular practice, Price notes, limits the amount of parts the fleet would be responsible for if either party decided to end the supply arrangement.

Nicor's parts program also generates what Price refers to as "soft savings" in management and technician time not spent on the phone looking for parts or

driving to pick them up. In addition, there's the cost of operating and depreciating service vehicles and greater shop productivity to consider.

"We found that almost 15 percent of our administrative costs were hidden," he states. "By understanding everything we are spending and running our parts operation like a business, we're able to stay within our budget and generate savings. In fact, our parts costs in the second full year of this alliance were 15 percent lower than in years prior to the start of the program."

Going forward, Nicor Gas Fleet Operations plans to see if it can duplicate its success with other suppliers. "This is about forming effective alliances," Price concludes. "Putting service before cost or cost ahead of meeting service needs is not acceptable. Addressing both goals at the same time is what leads to valuable solutions for the company."

Nicor Gas, headquartered in Naperville, Illinois, is one of the nation's largest gas distribution companies. Owned by Nicor Inc., a holding company, Nicor Gas serves two million customers in a service territory that encompasses most of the northern third of Illinois, excluding the city of Chicago.

Inventory Management is Key at Consolidated Edison

"When it comes to ordering parts and tracking inventory, technology plays a vital part on our decision making," says Juan Acevedo, Auto Parts Administrator at Consolidated Edison Company of New York (Con Edison).

"We spend \$6 million on parts annually," Acevedo adds. "Without a good parts management system it would be very difficult, if not impossible, to monitor expenses, reduce costs, and effectively manage the fleet."

Combined utility fleets under the Consolidated Edison umbrella include 7,194 pieces of equipment that are maintained at 18 garage locations by 120 technicians.

"We choose to stock frequently used items at appropriate garage locations," Auto Parts Specialist Peter Moore relates. "When delivery time is not critical we can reduce costs by purchasing those parts from the least expensive supplier. We also have in-house purchasing agents, which helps us negotiate best terms and conditions.

"This practice also reduces downtime because the parts are readily available for use," Moore continues. "We also have contracts with multiple vendors for most commodities which gives us the flexibility to choose the best price for the same part from different sources."

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For critical items-- needed when a Con Edison vehicle is out of service-- delivery time becomes a determining factor in parts purchasing decisions. "For these items especially we use an Internet-based pricing system that combines data on over 1,400 product lines covering 600 automotive manufacturers," Moore says. "This allows our vendors to give us the most competitive bids while not being concerned about being locked in to a fixed price for the duration of a contract."

In addition to pricing information in the parts management system employed by Con Edison for its in-house parts inventory and sourcing needs, Con Edison own software is used to keep track of parts costs and identify prices from the least expensive supplier. Also in place is a vendor-supported parts application system that integrates with the maintenance management solution.

"That system helps ensure we're using the correct part, while at the same time our own automotive engineering group evaluates the quality of new products for our fleet," Acevedo states. "In all cases, we continually monitor and validate our decision making based on feedback from automated and manual monthly reports on parts usage, costs, fleet availability, and warranty information, among others.

"In our fleet, which supports an operation that has been supplying energy to New York for more than 185 years," Acevedo concludes, "technology is the key to

making the right choices and effectively managing our in-house parts inventory.”

Consolidated Edison Company of New York (Con Edison) provides electric, gas and steam service to more than three million customers in New York City and Westchester County, New York. The subsidiary of Consolidated Edison, Inc. operates an electric distribution system that consists of approximately 94,000 miles of underground cable and nearly 34,000 miles of overhead wires and 206,000 utility poles.

Addressing Industry Challenges at Florida Power & Light Company

“An alarming number of repairs,” says George Survant, Director, Fleet Services at Florida Power & Light Company (FPL), “don’t happen crisply because parts aren’t available. In many cases, either the needed part isn’t on the shelf or the wrong part is ordered and delivered to the shop. For each parts transaction there is at least a ten percent chance of error.

“There are three main inventory management issues that have created this industry wide problem,” Survant continues. “One of the root causes is that vehicles are more complex today. For example, a standard SUV can have as many 23,000 part numbers associated with it. At the same time, in an ongoing effort to keep parts from failing prematurely, manufacturers routinely redesign and reissue parts. The new part, despite having a new number, can be indistinguishable from the old part.”

While creates a challenge in ensuring that a mechanic receives the most current item available, the third issue Survant points out is one of simple human error.

“Alphanumeric part numbers that have to be written down two or three times between the shop floor, the parts room and the ordering system,” he says, “decrease our ability to assure high accuracy in the order process.”

“Several years ago,” relates Glenn Martin, Fleet Maintenance Manager at FPL, “we realized the while many of our management processes had evolved with the

application of new technology, our parts program had not. Nothing had changed. There was dead inventory, a parts counterman, numerous outdated catalogs and a phone-based ordering system.”

For FPL, the time was right for an overhaul of its parts management programs. The fleet had also grown to 3,500 vehicles and pieces of equipment, ranging from passenger cars to large cranes, and was being maintained and serviced by 100 technicians at 15 major garage locations.

“In an effort to improve parts management programs, FPL embarked on leveraging its long term relationships with several of its OEM suppliers,” Martin explains. “The result is an innovative new program, designed from the ground up. In essence, we identified several large OEM vehicle and equipment suppliers that had sufficient infrastructure to support our garage network and the necessary information management technology, and who were willing to partner with us on the program’s development.”

Five major national suppliers are included in the new FPL parts program. Specifically, there are OEMs and dealer networks for trucks, light vehicles and equipment, as well as and truck and equipment and light vehicle parts suppliers. Participating suppliers are required to have an automated ordering system, the ability to offer a vendor managed inventory program and just in time delivery for

FPL's entire service territory. They must also comply with the fleet's service level agreement and offer national pricing.

"The core program," relates David Ware, Fleet Program Manager-Parts at FPL, "is based on having virtual, unrestricted access to a supplier's inventory.

Regardless of location, FPL technicians have the ability to order parts online through a suppliers ordering process, or to order hard to find parts through a Fleet Parts Expeditor via an e-mail ordering system. Orders are placed with suppliers every evening and deliveries are made by the next morning to each garage.

"This technology has also given us the ability to make data driven decisions based on usage history and trends," Ware continues. "For example, the system is set to automatically order high volume parts via email from respective vendors based on preset EOQ (Economic Order Quantity) and re-order points."

With the electronic parts solution, FPL technicians can access the most up to date on-line vehicle specific service and parts information on wireless laptops for a particular vehicle using the company's vehicle number or its serial number. The technician is then presented with the most current parts for each vehicle or piece of mounted equipment in the fleet.

“This process increases productivity in the shop because technicians are spending more time working on vehicles,” Glenn Martin notes. “They are empowered to make real time repair decisions, especially for parts we don’t keep in stock because the supplier’s inventory and availability is visible to them.

“The system also streamlines administrative tasks involved in the ordering process for us and our suppliers,” Martin adds. “In addition, by transferring parts data electronically rather than manually entering numbers, it has improved order accuracy.”

Also improved are costs associated with parts purchases and management, relates Greg Jacobs, Sourcing Leader for Fleet in the Integrated Supply Chain program at FPL. “National pricing has allowed us to negotiate more effectively and reduce costs,” he states. “Now, when parts comes out of a supplier’s inventory they are billed to our national account, regardless of location, so we know that we’re not only getting the right part but we’re getting it at the right price. Higher volumes help keep prices down and lower maintenance costs locally, at our power generation sites across the country, and whenever we’re involved in supporting storm restoration efforts for other utilities.”

FPL has also realized management cost savings. “Before we had this program,” Jacobs says, “we had a minimum of 11 and as many as 14 people involved solely in managing parts inventories. By leveraging vendor systems to automate

our processes, and by handling parts once instead of two or three times, we now only need to have a staff of just four parts expeditors.”

FPL has also seen the cost of its inventory dropped considerably. Five years ago, the fleet stocked over \$1 million worth of parts. When its new program began in early 2008, its 15 major garages had \$426,000 worth of inventory on hand. By the end of last year, that figure was down 53%, to about \$200,000. Currently, after 18 months, it stands at just \$168,000.

“Using technology to our advantage has meant having the ability to reduce our parts inventory, to supply parts in a just in time manner with fewer resources, and to simultaneously provide a higher level of service to our garages,” George Survant says. “This solution addresses the challenges we faced by giving us the right information and enabling us to source the correct and most recent part at the time of repair.

“For our end user customers whose job is to keep the electricity flowing,” Survant concludes, “this program means vehicle availability is higher and overall costs are lower. The team leading the effort has developed a remarkably creative solution to an industry wide problem, and despite some growing pains it has succeeded beyond our expectations.”

Florida Power & Light Company, a principal subsidiary of FPL Group based in Juno Beach, Florida is an investor-owned electric utility that serves 4.2 million customers. Its service territory includes 27,000 square miles extending from the Florida- Georgia border to the Florida Keys on the east coast and on the state's west coast to just south of Tampa.

EFFECTIVE SOLUTIONS

Meeting the challenge of providing the right parts for the lowest possible cost is about many things. In part, it is about carefully choosing suppliers. Increasingly today, it is also about effectively applying management technology to parts ordering, inventory control and maintenance information system processes.

Different in type and scope, the parts procurement and management programs described by three of the nation's leading utility fleets are all proving to be key elements in their successful fleet maintenance operations.