



Metro

March 3, 2011

TO: BOARD OF DIRECTORS

THROUGH: ARTHUR T. LEAHY *AL*
CHIEF EXECUTIVE OFFICER

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SUBJECT: UPDATE ON INVENTORY REDUCTION EFFORTS

ISSUE

Metro maintains a substantial investment in the inventory used to maintain the non-revenue and revenue-generating assets. These inventories were procured at the lowest costs available and are stored in multiple locations across the organization to provide the highest service levels possible.

DISCUSSION

As part of the agency-wide cost reduction efforts, the Material Management group began a strategic transformation of its Inventory Management program that included a review and updating of people skills, processes, technology application tools and inventory investment guidelines.

During this time, Metro made several decisions that created the results cited below:

- In 2004-2005, a new material management database was implemented that could handle the size and scope of Metro's future needs.
- In 2005, a new strategic unit was created called, "Material Planning" where its staff forecasted the consumption of future procurements and planned for the optimal inventory levels at each location to support those forecasts.
- In 2005, the Purchasing department expanded its use of master agreements and vendor management programs to obtain items at their lowest cost and improve supplier performance while maintaining client expectations.

- In 2006, Material Planning embarked on a successful education campaign to communicate to its clients the root causes of inventory growth and measures that could be undertaken to curtail growth.
- In 2008, Inventory Management purchased and configured Dynamic Inventory Optimization Software (DIOS) as a pilot program at four test facilities. DIOS is a statistical software that applies state-of-the-art methodologies to calculate optimal re-order points and re-order quantities for future purchases. Material Management understood that the calculations provided by this software could be combined with our inventory settings in M3 to reduce overall inventories.

Results

At the end of January, 2011 our inventory investment (Nominal Dollars) had dropped below our inventory investment year end 2003 as represented in the attached table. This was a sustained effort by the Material Management team to overcome significant internal and external challenges to our supply chain as evidenced by the inventory spike in 2007-2009 before coming down to current levels. Some of these challenges included fixing key supplier delivery performance problems and stabilizing inventory charge-out and consumption patterns.

The result of these reduced inventories benefits Metro in other ways as well such as improved cash flow and lowered risk of obsolescence at the end of an assets life cycle.

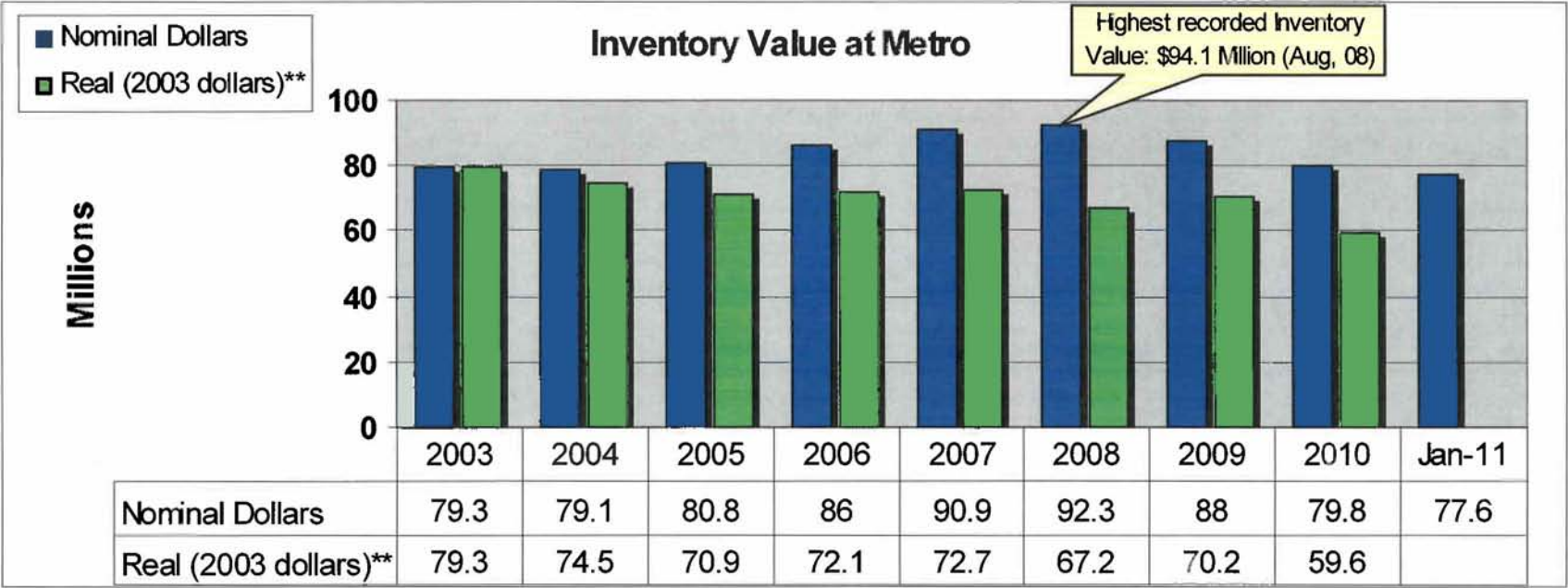
NEXT STEPS

Material Management identified additional opportunities to continue to optimize our inventory and improve supply chain reliability. The first opportunity is to continue the progress made thus far by our Material Management unit and proceed with full implementation of DIOS. Second, update inventory management policy guidelines to reflect systematic changes resulting from improvements to our decision support information and business processes. Third, conduct industry review of inventory management best practices and collaborate with our industry peers to develop industry key performance measures and standards. Finally, continue implementation of acquisition strategies that leverage lower costs through quantity discounts and deployment of supplier management strategies to improve supplier performance to achieve supply chain reliability.

ATTACHMENT

Table – Inventory Value

INVENTORY VALUE AT METRO



** U.S. Bureau of Labor Statistics, PPI Report, year average, all commodities