

Why Would I Let A Supplier Manage My Inventory?

An introduction to Vendor Managed
Inventory (VMI) for Distributors



VMI SUCCESS

AT MIDWAY TRUCK PARTS

PROFILE:

Leading distributor of heavy duty truck parts in the Midwest United States

CHALLENGE:

"Our challenge is to better anticipate our customers' needs, stock those parts at quantities to meet demand levels and replenish our stock in a timely manner. Of course, we also need to minimize our inventory investment to guarantee a positive bottom line. That might sound straightforward, but when your purchasing department is dealing with 400 suppliers, thousands of parts and varying demand for those parts, the challenge is significant."

RESULTS WITH VMI:

"First, our purchasing manager is much more efficient managing the key VMI supplier's product line. What used to take him hours a week, now takes him 15-20 minutes.

One of our biggest VMI benefits is improved customer service. Since implementing VMI, our out-of-stocks have decreased 64%! That's a significant improvement that tells us we now have the right products on the shelf.

As a result... demand for (key supplier) products over this time period has increased 32% and sales dollar volume 10%. VMI gives us the information to fine tune our product mix."

Contact TrueCommerce Datalliance for the full story.

As a distributor considering participating in a supplier's Vendor Managed Inventory (VMI) program, you might be asking yourself, "Why would I let a supplier manage my inventory?" It may seem counter-intuitive that you can improve inventory management and increase sales by allowing suppliers to maintain your inventory. But more and more distributors are happily doing just that with key suppliers. In fact, many distributors are now encouraging key suppliers to include them in their VMI programs. Why? Because for you the distributor it results in increased sales, improved inventory turns, and reduced administrative costs.

A PROVEN AND GROWING BUSINESS PRACTICE

VMI is not a new concept – it's been around since the 1980's when Procter & Gamble and Wal-Mart started the practice. VMI has become a standard in many parts of the retail industry and is now on the upswing in wholesale distribution industries such as electrical, plumbing, and industrial products; aftermarket truck, auto, and equipment parts. For instance:

- In the consumer packaged goods industry, nearly all major suppliers and retail outlets participate in VMI programs.
- In the electrical industry, 80% of the top 50 suppliers have an active VMI program and 66% of the top 100 distributors do VMI with one or more suppliers.
- In the heavy duty truck parts industry, at least 20 of the top suppliers have an active VMI program and over half of the top 100 distributors do VMI with one or more suppliers.

Like many innovative business practices, VMI was adopted first by the leading and forward-thinking companies in each industry. The use of VMI is now expanding as both distributors and suppliers are seeing the benefits and want to realize them for more of their products and sales channels.

WHY YOUR KEY SUPPLIERS MAY BE WILLING TO TAKE RESPONSIBILITY AND DO THE WORK

There are several reasons why suppliers are willing to take on this activity:

- The supplier knows that fewer stock-outs mean increased sales. They have learned that, with the right tools, it's easier for them to effectively manage the SKUs you carry from them than it is for your buyers who are responsible for thousands of SKUs across dozens of suppliers. The supplier also has more information – for instance, they know when their lead times change and can make sure they are properly reflected in the reordering calculations to avoid any supply disruptions.
- With VMI, the supplier has greater visibility of actual demand, information which helps them with their own production planning.
- The supplier knows that distributors with whom they do VMI tend to work more closely with them on promotions, new product introductions, and other ways to increase sales, because their business objectives and communication channels are well aligned.

"VMI helps us better manage our fast moving, high volume items which account for approximately 75-80% of total inventory. For our lower demand or slower moving items, VMI has helped reduce our inventory to levels that still support demand, but minimize our inventory investment."

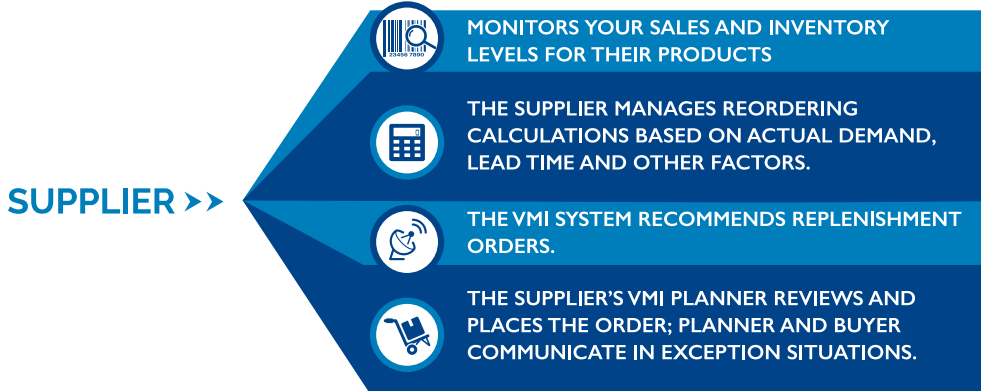
Joe Hart

Director of eCommerce,
Kirby Risk

A STRAIGHTFORWARD PROCESS

With VMI, a supplier takes responsibility for managing your inventory of their products. Both parties agree up front on the goals and metrics – usually focused on in-stock performance, inventory turns, and transaction costs. Other agreements may be made regarding returns of excess inventory, etc.

The Basic VMI Process is relatively simple:



WHY YOU, AS A DISTRIBUTOR, WILL LIKE VMI

But back to the original question... As a distributor, why would you want a supplier involved in managing your inventory? Why would you want to allow a supplier to maintain something as important to your business as having the right inventory on hand? Here are two good reasons:

1

Improved Inventory Management

Because of the reasons stated above, VMI suppliers can probably do an even better job of managing their products for you than you can yourself – and they have a big incentive to do it well.

Fewer stock-outs
= increased sales



Better replenishment
= faster turns



2

Reduced Administrative Costs

Because your supplier is doing most of the work, your buyers spend much less time managing those products.

Less allocated
manpower=
reduced cost



Experience has shown that buyers can manage at least twice as many SKUs on VMI as they can manage using the traditional approach. That means you can re-allocate resources to troublesome products or to other more value-added activities.

VMI SUCCESS

AT NORTH COAST ELECTRIC

PROFILE:

Largest distributor of electrical materials in the Pacific Northwest and Alaska

CHALLENGE:

"Not only were our inventory managers responsible for having the right product in stock when our customers needed it, but it is also extremely important to look for ways to minimize our on-hand inventories and therefore the associated costs. It's easy to address one of these objectives while ignoring the other, but quite a challenge to achieve both."

RESULTS WITH VMI:

"Because we are communicating our replenishment demands to (key supplier) daily... (VMI) has allowed us to reduce our safety stock, which directly impacts our inventory carrying costs, while at the same time, improve our fill rate from 95% to 98%."

"VMI manages a high percentage of our items with little or no ongoing involvement from our inventory managers. As a result, inventory managers have the time required to spend on "exception" items. This frees them to cover more items across multiple locations more effectively. The company now manages more inventory across more locations with fewer inventory managers."

Contact TrueCommerce Datalliance for the full story.



Stronger Supplier Relationships

Because you and your supplier focus on the same metrics (e.g. fill rates and inventory turns) to measure the program's success, you know your goals are always in sync, and performance is always visible. You and your supplier become stronger partners and are both better able to capitalize on opportunities and manage market swings.

Better collaboration =
reliable supply



HOW TO DECIDE IF/WHEN VMI IS RIGHT FOR YOU

If you have not already done a conscious evaluation of what VMI could do for you, here are a few easy steps:

1. To learn more about Vendor Managed Inventory, visit www.datalliance.com. You can find a wide range of articles, success stories, and other resources to explain how VMI works, answers to common concerns, and keys to success.
2. Identify the suppliers that are most important to your business and for whom you are an important channel. Target your top 10%; start with your top 6-8.
3. Talk with those suppliers. Do they have a VMI program? If so, are they interested in doing VMI with you? How does their program work? What would be required of you? How would they ensure high service levels? How would they handle overstock situations? How would you maintain visibility and effective communication?
4. Select an initial supplier with whom you have mutual trust. Confirm that your interests and theirs are well aligned. Start with a pilot – possibly at just one location – to prove the process. Once that location is working well, you can fully implement with that supplier with confidence.
5. Expand to additional suppliers at a pace that makes sense to you.

ABOUT TRUECOMMERCE

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TrueCommerce.
Do business in every direction.

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