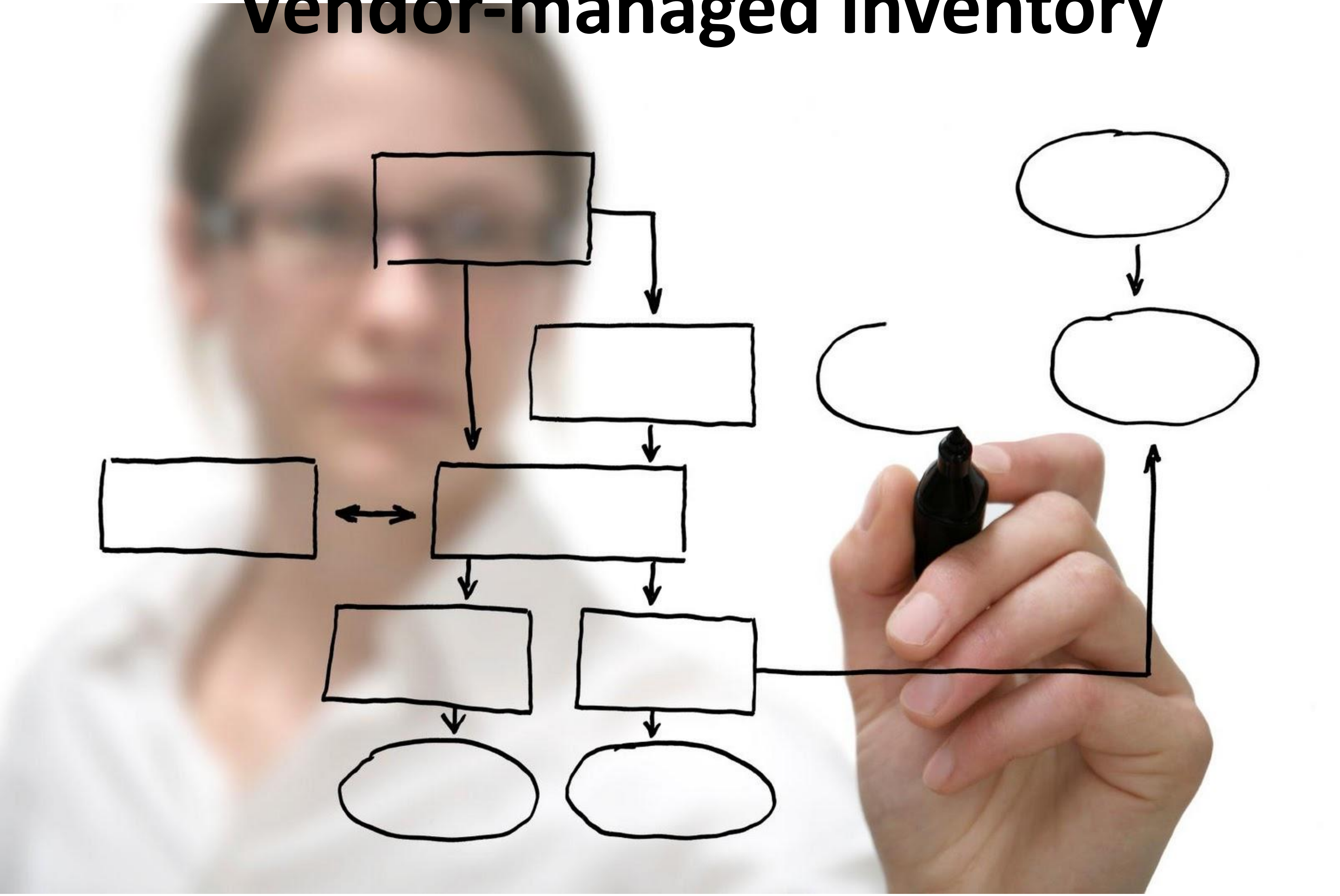
Vendor-managed inventory



- **Vendor-managed inventory (VMI)** is a family of business models in which the buyer of a product (business) provides certain information to a vendor (supply chain) supplier of that product and the supplier takes full responsibility for maintaining an agreed inventory of the material, usually at the buyer's consumption location (usually a store). A third-party logistics provider can also be involved to make sure that the buyer has the required level of inventory by adjusting the demand and supply gaps.

VMI involves a collaborative and continuous inventory supply owned, managed and replenished by the Manufacturer right up to the last stocking point or point of sale to end customer. With a Vendor VMI program, vendors receive stock information from their customers, then calculate what product they should ship to maintain adequate inventory levels at the customer's facility.

Steps for VMI

- 1. **Set clear goals.** Make sure you and your hub provider have a clear understanding of your goals in developing a VMI program.
- 2. **Consider processes and pricing.** Select a provider who has good processes and pricing that is designed around a set of criteria you establish, and that is customized to your product-specific requirements.
- 3. **Integrate technology with physical services.** Work with a partner who places a heavy emphasis on integrating the information technology portion of the process with day-to-day physical services. You want to achieve a balance between cost competitiveness and robust services.
- 4. **Understand the market demand for your products.** Utilizing information about market demand, your VMI partner should direct the flow and change legal title to your product to the point it is pulled into your owned inventory.
- 5. **Forge three-way partnerships.** Cooperation between your company, your supplier, and your third-party logistics provider is critical. Your suppliers should be your partners in fostering your manufacturing success. They should only sell as you consume.
- 6. **Plan.** It is crucial that you have visibility to in-transit products and parts for supplying the hub with a full view of all material available. This provides the intellectual ownership of the product in the pipeline that is critical for success in your planning process.
- 7. **Collaborate.** The most successful Vendor Managed Inventory programs are based on collaboration among all partners in the supply chain. You need to strive toward a common goal—the mission of shrinking both the length and volume of the supply pipeline so everyone benefits from the VMI program.
- 8. **Make sure suppliers are web-savvy.** Ensure your suppliers utilize web-based tools to monitor product consumption on a real-time basis.
- 9. **React.** You should have value-add, real-time custom reports that highlight exceptions, such as your stock levels.
- 10. **Build in measurement and improvement abilities.** Make sure the VMI program is measurable—it should foster continuous improvement processes and cost reduction opportunities.

When to apply ?

- When a distributor needs product, they place an order against a manufacturer. The distributor is in total control of the timing and size of the order being placed. The distributor maintains the inventory plan.

- Oil companies often use technology to manage the gasoline inventories at the service stations that they supply. Home Depot uses the technique with larger suppliers of manufactured goods. VMI helps foster a closer understanding between the supplier and manufacturer by using electronic data Interchange formats, EDI software and statistical methodologies to forecast and maintain correct inventory in the supply chain.
- Vendors benefit from more control of displays and more customer contact for their employees.

KSF’s

Advantages and disadvantages of VMI

- Reduced overall supply chain costs
-Less Probable large, unexpected orders
-There is no need to have overstock in case of supplier
-Comfortable for customer(no need to worry about the stocks)
-No need to forecasting demand of customers by suppliers

-Costs for consumers of installing the system
-Need to write an agreement in case of overstock in customer's place
-Errors of functioning of the system (especially at the beggining of its working)
-More administrative costs for suppliers
- Retailers risk loss of flexibility