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Shifting Responsibility to Vendors Through VMI

By Patrick Maley, vice president of corporate marketing, RedPrairie

In today's tough economic conditions, retailers of all sizes face an inventory management version of Catch-22. They must have the right inventory on the shelves at the right time in order to maximize their sales; yet they can't afford to tie up cash in inventory that may not move off the shelves for weeks.

As retailers cut spending, a bloated supply chain is usually the top target. And that's where a Vendor Managed Inventory (VMI) approach helps. VMI and consignment inventory capabilities enable retailers to free up funds by deferring the cost of inventory ownership further back into the supply chain until replenishment at the store occurs.

In a VMI model, the supplier, distributor or 3PL provider controls inventory levels at the distribution center (DC) or warehouse, managing what should or should not be shipped to a retailer. These levels are managed by the supplier based on several factors, the most critical of which are expected demand and minimum and maximum inventory levels.

Why are suppliers willing to take on the responsibility and costs of managing inventory on behalf of retailers? Suppliers have much greater insights into the lead times needed to replenish product that is selling off the shelves and can react according to the production schedules. VMI shortens the supply chain cycle, reducing stock-outs while also cutting back on excess inventory throughout the supply chain.

Most importantly, through the use of best-of-breed Warehouse Management Solutions (WMS), suppliers have the visibility into inventory levels at their customer facilities, enabling them to identify vendor-owned versus customer-owned inventory positions. Electronic Data Interchange (EDI) signals identify the consumption of inventory and authorize payment for the products. This EDI information tracks the anticipated receipt dates, inventory attributes and inventory owner.

Critical to the success, retailers must share their inventory positions, forecasts, anticipated promotions, and point of sale data (POS) with suppliers.

Within the distribution center, a best-of-breed WMS application provides visibility into the vendor consignment inventory versus the customer owned inventory, so the allocation of inventory by owner can be managed. As inventory is consumed from the distribution center for shipment to retailers, EDI transactions are sent to the supplier to represent inventory consumption and to authorize payment for the goods. Additionally, EDI transactions are sent from the distributor to the retailers to provide real-time notification of the shipment, so store level planning can occur.

Start small - Do a pilot program with a committed supplier and its top-moving product. By focusing on such a high-volume item, you will get an immediate feel for the return on investment.

Set expectations - It is important that all parties understand how the relationship will benefit them. Retailers trumpet the inventory cost savings. Suppliers require less warehouse space. Distributors are now able to free up cash by deferring the payment of goods until inventory consumption.

Trust and Verify - It is crucial that all of the EDI transactions are tested and validated. All parties have to trust that when the product is sold, it is actually paid for. All parties need to audit the program and understand the shared risks. Best-of-breed WMS applications are designed specifically to reduce these risks by providing proven tools to track these critical details related to VMI inventory.

The ASN Factor - As a product travels, electronic Advance Shipment Notifications (ASNs) can ensure that the true owner associated to the physical product is tracked through the supply chain. ASNs also play a role in planning for both labor and space at the warehouse and the stores. Best-of-breed WMS applications offer integrated solutions with vendors through EDI to effectively communicate this information.

Communicate and Be Flexible - The success of any VMI program depends on communication. If a retailer's demand changes significantly it is best to get that information out to the supplier right away. The quickest way for a VMI program to fail is if all parties

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involved fail to communicate accurately what is happening in the supply chain.

There are numerous benefits to using VMI through a best-of-breed warehouse management system. It lowers inventory levels, overhead and replenishment times while increasing sales and growing customer relationships. It provides a much more strategic approach to customer demand and decreases stock-outs.

But in the end, the real winners are the customers who don't end up being penalized by retail's version of Catch-22. With a VMI approach, customers can walk out of the store with the exact items they came in for.

Patrick Maley is VP of corporate marketing for RedPrairie (www.redprairie.com), providing productivity solutions to help companies around the world with inventory, transportation and workforce management. He can be reached at Patrick.maley@redprairie.com.

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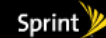
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