



VMI:

TOP 10 REASONS NOT TO TRY VMI AND WHY YOU SHOULD RECONSIDER!

By: Janice Burk

Janice Burk leads the Vendor Managed Inventory (VMI) team for Rockwell Automation. Over the past five years, Rockwell has been using Enterprise Data Management's VMI solution – Datalliance .

Based on their VMI success with key customers (distributors) over this time period, Rockwell has recently embarked on an effort to increase the percentage of their domestic business handled by VMI from 20% to 70%. Realizing this substantial increase in VMI throughput will require the support and cooperation from Rockwell's customers. In anticipation of their questions, Janice wrote this response to proactively address customer concerns and illustrate the benefits of VMI.

REASON #10:

OUR GMROI AND TURNS ARE ACCEPTABLE WITH OUR PRESENT PROCUREMENT PROCEDURE. WHY CHANGE A KNOWN, WORKING SYSTEM TO AN UNKNOWN?

Even if you are doing well with your present procurement procedures, you will realize improvements and generate direct, bottom-line results using VMI. As with all process changes, proceed carefully. Make sure the process you are adopting is solid and accounts for many of the details your current system supports. Document results before and after. To increase your comfort level, pilot the new program for a period of time with a segment of your product line or locations.

REASON #9:

OUR PREVIOUS VMI TRIAL WASN'T SUCCESSFUL. WHY TRY AGAIN?

Don't let a single bad experience with VMI color your perspective forever. A bad carpenter can build a poor house, even if he is using good tools. A bad experience should teach you to be careful, but it should not stop you from trying again. VMI has helped many leading companies reduce inventory, improve customer service and increase sales.

REASON #8:

WE DON'T NEED EVERY SKU ROUNDED TO PACKAGE QUANTITY. SAYAN ITEM IS PACKED IN FIVES. WE NEED TO ORDER JUST ONE, SINCE FIVE WOULD BE A TEN YEAR SUPPLY. THE ROUNDING POLICY COULD SWELL OUR INVENTORY UNNECESSARILY.

Unnecessary package rounding can adversely effect turns. However, a reasonable rounding approach will significantly lower the transaction cost for both parties. It wouldn't be efficient to pull, count, pack, ship, receive, count, and put away 99 pieces of a \$1 item that came in packages of 100. Package rounding can speed the entire process and save everyone time and money. Datalliance is a robust VMI package with very flexible package rounding methodology with configurable limits. Work with your supplier to ensure that the package rounding process you implement makes sense for your business.

REASON #7: OUR INVENTORY MANAGEMENT SYSTEM IS A STATE-OF-THE-ART SYSTEM AND SUPERIOR TO WHAT OUR SUPPLIERS ARE USING. SO WHY SHOULD WE DOWNGRADE? WHY PAY GOOD MONEY FOR OUR INVENTORY SYSTEM AND NOT USE IT?

A great advantage of an integrated supplier-distributor replenishment program is the ability to leverage systems for more streamlined supply chain execution. From business intelligence standpoint, you may have information about future demand that will influence the way the product is ordered. There are several ways for you to determine how product is managed and at what replenishment level. With the supplier involved in the process, you have more accurate data on lead times, product groupings, package quantities, etc. This data improvement produces better results. Additionally, when the supplier manages the day-to-day orders, your staff can focus on more complex aspects of your business.

From a functionality standpoint, Datalliance stores and uses daily data to differentiate items that sell one a day from those that sell 20 at a time once each month. Datalliance has 11 different planning groups to handle a wide variety of movement patterns. Datalliance is exception driven, a feature that minimizes human intervention and provides outstanding recommendations. The application was written within the last five years and takes advantage of today's processing and storage power. And, the system is routinely enhanced to include the best inventory management practices based on the experiences of suppliers, representing hundreds of locations worldwide.

REASON #6:

VMI CANNOT TELL THE DIFFERENCE BETWEEN A SALES ORDER AND AN INVENTORY PROBLEM KNOWN AS NEGATIVE INVENTORY. WILL WE GET ITEMS SHIPPED THAT WE DON'T WANT?

Data integrity is always important, and no system can completely identify bad data. However, Datalliance has several levels of data filtering to highlight suspect data and does a good job of eliminating bad data. Inaccurate data in any system carries hidden costs in increased inventory, bad fill rates, and additional workload. With or without VMI, good data is good business.

REASON #5:

WE DEAL IN SPECIAL ITEMS WITH OUR SUPPLIER. MANY ITEMS DO NOT HAVE UPC CODES. HOW WILL THESE PROBLEMS BE HANDLED EFFICIENTLY?

Datalliance allows items to be matched through catalog ID's or even a simple cross-reference. This early matching process not only enables VMI, it also saves money down stream because it eliminates inaccuracies in orders, invoices and payments.

When there is a requirement for a highly configurable product that is not assigned a UPC code, distributors may choose to process orders through their current processes.

REASON #4:

IF WE LET A COMPUTER PROGRAM DETERMINE OUR INVENTORY, I ESTIMATE THAT OUR INVENTORY DOLLARS WILL INCREASE A MINIMUM OF \$200,000.00. WE CAN'T AFFORD TO TIE UP OUR MONEY LIKE THAT. WHAT ABOUT THE EXTRA WAREHOUSE SPACE? WHAT ABOUT THE EXTRA ITEMS LYING AROUND WITH PRICE TAGS ANYWHERE FROM \$2,000.00 TO \$8,000.00 EACH? THE BIG QUESTION IS: DO WE NEED TO KEEP FIVE OF THIS ITEM ON THE SHELF, OR WOULD ONE OR NONE BE ENOUGH? WILL VMI ORDER FIVE OF THIS ITEM?

Based on quantifiable data from hundreds of locations up and running on the Datalliance application, the average increase in inventory turns is 20%, which suggests that overall inventory carrying costs have decreased.

However, to alleviate concerns about stocking quantities, Rockwell Automation goes through a comprehensive order point review process to ensure appropriate stocking levels. We then allow our distributors to review those values for all items to be stocked. Finally, we go through a process of providing "Suggested Orders" to our customers to give them a sense of what Datalliance generated orders will include, to ensure inventory managers are comfortable that order levels are consistent with their customer service/operational goals.

REASON #3:

WILL A VENDOR PUT A CUSTOMER'S AGENDA BEFORE HIS? IF THE VENDOR HAS AN OVERRUN ON AN ITEM, DO YOU THINK THAT WE WON'T BE SENT EXTRA MATERIAL TO HELP THEM OUT? IF THEIR SALES ARE DOWN FOR THE QUARTER, DO YOU THINK THAT THEY WON'T SEND US EXTRA MATERIAL IN ORDER TO KEEP THEIR FACTORIES BUSY? WHY DO YOU THINK THAT THEY WANT TO CONTROL OUR PURCHASES?

Suppliers who do a good job with VMI do it for a variety of reasons. First, increasing the customer's profitability on their product line makes the supplier's product less expensive to carry when compared to the supplier's competitors. Moving to a preferred provider level is the number one reason a supplier does VMI.

Second, increasing the customer's profitability helps ensure the long-term survival of the customer. Good customers are hard to find. It is good business to ensure the ones that you have survive.

Finally, more thorough understanding gained through VMI helps the supplier make better, fact-based decisions across a wide range of topics such as production planning, package quantities, promotion plans and new product introduction.

Also note, with VMI, the customer doesn't give up all responsibility for inventory management. Before beginning a VMI relationship, the customer must make it very clear what their expectations are for inventory turns and fill rates. As the relationship progresses, the customer must check to make sure the objectives are achieved. If the supplier is taking advantage of the relationship, then the customer is not receiving the benefits of VMI and should discontinue VMI with that supplier.

REASON #2:

WE MANUALLY EDIT EVERY LINE ITEM ON EVERY PURCHASE ORDER. WE CHECK FOR THINGS LIKE SURPLUS MATERIAL IN A BRANCH. WILL VMI PERFORM THIS STEP? WILL VMI BE ABLE TO DETECT WHEN A SALES ORDER IS BOOKED INCORRECTLY? THIS HAPPENS EVERY DAY WHERE OUR SALESMEN MIGHT ACCIDENTALLY CREATE A LIVE ORDER WHEN THEY DID NOT MEAN TO DO SO. DON'T GET ME WRONG! OUR SALES PEOPLE ARE EXCELLENT, BUT THEY ARE NOT PERFECT. HOW WILL MISTAKES GET HANDLED?

To decrease the amount of time spent and to lower the number of human errors introduced into the process, Datalliance reduces the need to edit each and every line item of every order. It also includes logic to look for surplus material on slow selling items. This, combined with a series of 30+ checks performed on every item on every order, directs the user to the items that need attention. The combination of this process and the associated edits results in consistently clean orders.

However, mistakes still happen, because like all replenishment applications, Datalliance is trying to forecast the future, and nothing can do that perfectly. When beginning a VMI relationship, the supplier and distributor must discuss how mistakes are going to be handled. What is the return policy? What about expedited shipment and shipping charges? Nothing is perfect, so both parties should be clear on the policies to correct mistakes.

*AND THE NUMBER 1 REASON NOT TO CONSIDER VMI...
IF IT AIN'T BROKE, DON'T FIX IT! PLEASE.*

If we had stuck with this as our theme for the last 100 years where would we be today? Change is a constant. If a customer wants to remain competitive into the next century you must anticipate -- look for ways to 'fix it' before it breaks. VMI provides excellent bottom line results in a variety of industries.