

By Jessica Erickson

## The Benefits Of VENDOR MANAGED INVENTORY

**V**endor-Managed Inventory (VMI) is having a significant impact on heavy-duty aftermarket distribution. Positive changes can be measured in double digits for businesses using VMI, according to a study by Enterprise Data Management.

Here are the major findings of the 2004 study:

- 75% of locations (86 unique supplier/distributor locations included) had improved sales.

- There was a 25% average increase in sales.

- 62% of locations increased inventory turns.

- There was a 21% average increase in inventory turns.

- 70% of locations reduced stock outs (improved customer service).

- There was a 33% average reduction in stock outs.

**Businesses properly using VMI are seeing double-digit profit increases.**

### Using VMI To Increase Profits

According to the Enterprise Data Management study, suppliers benefit from smoother demand and



*The core of vendor managed inventory (VMI) is to measure your parts inventory and track when it needs to be changed. VMI does this all automatically.*

consistent orders. For example, Bendix Commercial Vehicle Systems, LLC, has not grown its inventory with VMI, but it has been able to better plan its inventory because of enhanced and faster visibility as to what is being sold in the marketplace.

“We communicate very closely at the operations level of our aftermarket channel partners, and this nurtures the process and relationship,” said Craig A. Stark, director, marketing, Bendix.

“We have seen double-digit growth with every channel partner with whom we have VMI, and we know they are experiencing the same levels of growth as we have.”

Distributors are able to benefit from reduced administration costs, with the elimination of any need to place, manage or follow up on orders.

“VMI has allowed the distributors who have implemented the system to increase both sales and profits as a result of fewer out-of-stock situations and broader inventory coverage, while at the same time improving inventory turns,” said John Lebel, director of research and design, Karmak, Inc.

One example of this is Point Spring & Driveshaft Co. (PSD), located in Pittsburgh. As a medium- and heavy-duty truck parts distributor, PSD’s business challenge was being able to have the right parts available to its customers at the right time.

According to Bill Ryan, CEO, PSD, at one extreme, his company could ensure complete customer satisfaction if he stocked high quantities of every

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possible part—an option that was too costly. At the other extreme, PSD could cut inventory drastically, but at the expense of customer service.

To solve the challenge, PSD started using VMI, and since implementing it, PSD has achieved the right combination of inventory for customers and itself. In addition, its suppliers have benefited by communicating customer demand consistently. This information helps suppliers build level forecasts and manufacturing plans that meet demand in a timely manner.

Most of you probably can relate to PSD's challenge. Could VMI also solve this challenge for you and increase your company's profits? Most likely, yes. It is difficult to achieve both a broader inventory and a smaller inventory. This challenge is the core of VMI—to measure inventory and when it needs to be changed. VMI does this all automatically.

“VMI will lower the amount of inventory you need to carry while allowing you to have the part the customer needs more often, resulting in more inventory turns,” according to Lebel.

This means that a distributor will not be stuck with unwanted inventory, or an unhappy customer—in-stead he will experience increased profits.

In addition, VMI is said to help you reduce costs to others in the industry. A big savings for customers is administrative costs with the elimination of any need to place, manage or follow up on orders. You also may notice reduced data entry errors as a result of computer-to-computer communications.

Increased customer service also will be achieved through faster service work.

“Service profits increase because fewer jobs are delayed while waiting for parts,” Lebel said.

## Not An Endless Incline

VMI is not a magic formula for aftermarket profits. It is allowing a lot of people to make good money right now, but the numbers issued by the Enterprise Data Management study will not continue each year.

“As more distributors and suppliers implement VMI, some of the advantages currently enjoyed by the early adopters may disappear,” Lebel said. “Sales increases of this magnitude may not be common in the future.”

However, Lebel expects increases still to occur in the future—especially in geographic areas where VMI does not have significant penetration yet.

Hall predicts positive increases for the aftermarket from VMI through the end of this year, but won't forecast the numbers beyond that.

“We're talking about working on an updated study, and I'd expect the numbers to be in the same ranges, maybe even with sales higher since 2004 and 2005 have been a better market so far,” Hall added.

However, not all participants in the study increased profits through VMI. Four of the 86 locations in the study actually worsened in both service and parts in stock. These four locations are relatively small and all experienced a decrease in sales.

“When your in-stock inventory level is up and your sales are down, it's going to be very difficult to achieve more inventory turns,” Hall said.

## Entering The Playing Field

According to Hall, VMI is not for everyone but is worth looking at if you have significant trading partners. If after analyzing your situation, you believe VMI will be a good fit in your business model, start by talking with peers who have gone through the startup process.

Then try to work to implement a pilot program

## A Review: What Is VMI?

VMI is part of supply-chain automation. As Carl Hall, president, Enterprise Data Management, explained, the roles of VMI are as follows.

1. The supplier generates orders based on mutually agreed-upon objectives for inventory levels, fill rates and transaction costs as well as demand information sent by its distributor customers. This moves the buying function from the distributor back to the supplier.

2. The distributor sends sales and inventory data to the supplier on a pre-arranged schedule, and the VMI system determines what should be ordered based on the criteria the supplier and distributor have established. The distributor usually can override the system when necessary.

with one supplier. "Once you have the system working smoothly with the pilot supplier, start talking to other suppliers," Lebel said.

The pilot model Lebel suggested will give you a chance to iron out the wrinkles before putting large amounts of money and time into the program. You can tweak on a smaller and more affordable scale.

During this phase, you also will want to ensure key employees are on board with your VMI program. Including inventory managers and purchasing agents in discussions with your suppliers from the beginning will help ensure their dedication to the VMI system.

"Once these employees understand that VMI will allow them to do their jobs more efficiently in less time, they will be committed to the project," Lebel said.

Some people in the industry think choosing to use VMI won't be an option—it will be standard operating procedure. Stark predicts that by 2010 VMI will be the standard for most distributors and their key brands.

"Just as trucking companies understand they are in business to haul freight, not fix trucks, distributors are realizing they are in the business of selling truck parts, not buying truck parts," Stark said.

"Distributors who don't have the vision in their business plans need to get it," he added.

## For More Information

For more information on vendor-managed inventory (VMI), you may contact the following companies directly or use the FREE Reader Service Card in this issue.

### **AutoPower Corp.**

Lake Mary, FL  
407-695-7300

[www.autopower.com](http://www.autopower.com)

*Circle 46 On Reader Service Card*

### **Enterprise Data Management**

Cincinnati, OH  
888-364-3361

[www.datalliance.net](http://www.datalliance.net)

*Circle 47 On Reader Service Card*

### **Karmak, Inc.**

Carlinville, IL  
800-622-6311

[www.karmak.com/PMBarCode.html](http://www.karmak.com/PMBarCode.html)

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### **PLUSS Corp.**

Columbia Falls, MA  
800-835-9609

[www.pluss.net](http://www.pluss.net)

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