

## VMI on the rise in plumbing

# Reasons to let a supplier manage your inventory

BY TOM HOAR

Special to THE WHOLESALER

As a wholesaler considering participating in a supplier's Vendor Managed Inventory 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

a standard in the retail industry and is very much on the upswing in wholesale distribution industries such as electrical, plumbing and industrial products. For instance:

- In the consumer packaged goods industry where VMI started, nearly all major suppliers and retail outlets participate in VMI programs.
- In the electrical industry where VMI has become well-established,

the benefits and want to realize them for more of their products and sales channels.

### 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:

- The supplier monitors your sales and inventory levels for their products.

"VMI significantly reduces procurement costs and communication errors while optimizing inventory in support of both customer and branch network service requirements. This allows us to continue the high level of service our customers expect by maintaining high customer order fill rates."

– Greg Skagerberg  
CEO, Goodin Co.

- The supplier manages reordering calculations based on actual demand, lead time and other factors.
- The VMI system recommends replenishment orders. The supplier's VMI planner reviews and places the orders; planner and buyer communicate in exception situations.

### 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 re-ordering 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 whole-

"VMI has helped us add profit to our bottom line. We have seen increased turns and better in-stock percentages for our VMI suppliers. We have been involved with VMI for quite a long time and have confidence that processes like VMI make us more efficient in serving our customers."

– Charlie Slattery  
VP-Purchasing, F.W. Webb

salers 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.

### Why you, as a wholesaler, will like VMI

Back to the original question: As a wholesaler, 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 three 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. 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.

- Less allocated manpower = reduced cost.

#### 3. 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.

### Deciding if/when VMI is right for you

If you have not already done a conscious evaluation of what VMI could

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increase sales by allowing suppliers to maintain your inventory. But more and more wholesalers are doing just that with key suppliers. In fact, many wholesalers are now encouraging suppliers to include them in their VMI programs. Why? Because for you, the wholesaler, 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 1980s when Proctor & Gamble and Wal-Mart started the practice. VMI has become

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 plumbing industry, where VMI is now becoming a common business practice, at least 25 of the top suppliers already have an active VMI program and a growing number of wholesalers 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 wholesalers and suppliers are seeing

## A new generation of VMI

A new generation of technology is making it much more cost-effective for suppliers and distributors to create collaborative VMI relationships.

Dataliance VMI is offered via the Internet as a "Software as a Service" (SaaS) solution that removes virtually all of the technical issues and allows partners to focus on the business issues. "With the growing acceptance of VMI in the plumbing industry, suppliers are looking for a cost-effective and easily scalable program," said Tom Hoar, Dataliance director of sales. "The SaaS model allows suppliers and their wholesaler partners to be up and running in as little as eight

weeks."

Examples of plumbing industry suppliers launching or expanding their VMI programs using Dataliance include:

- Canplas — leading manufacturer of ABS and PVC fittings, specialty plumbing, grease management, sewer and industrial products
- Ward Manufacturing — manufacturer of leading malleable and cast iron fittings and nipples, and WARDFLEX® CSST
- Watts Water Technologies — manufacturer of an extensive line of flow control products for water quality, residential, commercial and OEM markets.

do for you, here are a few easy steps:

- To learn more about Vendor Managed Inventory, visit [www.vendormanagedinventory.com](http://www.vendormanagedinventory.com). You can also find a wide range of articles, success stories and other resources to explain how VMI works, answers to common concerns, and keys to success at [www.datalliance.com](http://www.datalliance.com).

- 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.

- 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?

- 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.

- Expand to additional suppliers at a pace that makes sense to you.

Datalliance is one of the world's largest independent VMI service providers, processing almost \$5 billion in orders, over 11 million SKUs managed, and more than 26,000

**"We've improved turns for our VMI items by 30%. In the past, replenishment orders were less frequent, with larger quantities and included some "cushion" for safety stock. The entire process is leaner now with orders tied directly to sales."**

**— Rod Sanders  
Manager of Information Systems,  
Consolidated Supply**

customer locations. Delivered as a managed service via the Internet using the 'Software as a Service' (SaaS) model, Datalliance VMI makes it easy for suppliers and their customers to establish effective VMI relationships that fully align business objectives, improve collaboration and streamline supply chain operations. Datalliance serves leading Fortune 1000 companies and their distributors, retailers and customers in a number of different industries. For more information, visit [www.datalliance.com](http://www.datalliance.com). ■

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## Cheap (and highly effective) market research for you

Entrepreneurs wonder all the time what the market *really* wants. What products will sell? What services are people ready, willing and able to pay for?

The wrong approach — which is unfortunately used a lot — is for a well-meaning small businessperson to come up with a seemingly great idea and run with it. Many have tried the "Do what you love and success will follow" path, only to find they still don't make solid, bottom-line profit.

Now hold off on the nasty e-mails. I'm a firm believer in doing what you feel is important. Just remember that in the world of business, *you* are not the one providing the income — your customer is. You have to come up with the products and services *they* are ready, willing and able to pay for. If you like it, hey, that's great! However, that is not the sole measure of what you should do.

Like so many decisions in life, it is a combination of what the market is ready, willing and able to pay for now, as well as where you have a passion. In business, the emphasis is on the customer — at least if you want bottom line success.

So, how do you test for what they *really* want? How can you conduct market research quickly, inexpensively (key term in today's market) and effectively (you want accurate results)? One of the classes in my MBA program was Market Research. We studied lots of quantitative approaches as well as really cool ways to find out what people said they would buy. The problem was that most of that market research was really expensive. Lots of number crunching and focus groups would cost serious money. All that is well and good. Many of these same techniques are used today.

However, for you and me there is a much less expensive — and even more effective — means of testing new ideas for products and services. Today we have the benefits of new technologies that have changed the rules and slanted the advantage to the small business.

I've always believed that small businesses have a real advantage over large corporations. I often joke that if I need to make a decision, I have a meeting of the Board of Director (emphasizing the one director!) and do it. If I want a raise, I don't have to ask anyone for it — I just go out and earn it.

So, here's a way you can make decisions and test them effectively in

your business. Check the idea with a Blog. You can start a Blog for no cost at Blogger.com or at Wordpress.com. Both of these tools are excellent and they are free. You can write about what is on your mind to test the market. Be sure to include some good keywords that will grab the attention of the search engines. You want people looking for information on your topic to be able to find it very quickly.

*No charge to you.*

An even better way to test is to put a video with your article. Do it on YouTube and then include the HTML, the coding for the video, into your article with a simple Copy and Paste command.

*No charge to you.*

You can also ask for feedback. Find out what your target audience thinks of your idea. Before you spend all the money on a new product or expend a lot of energy, test it online with a Blog and video to see the market reaction. Get feedback from real potential buyers and slowly test the waters.

*No charge to you.*

Do you see how lucky we are to be alive today? Even in the midst of challenging economic times, we can test ideas quickly. If they don't fly, look at it as really good information. This is along the lines of the famous Thomas Edison quote about not failing 1,000 times to create the light bulb, but finding 1,000 ways it doesn't work. It cost Edison a lot of money to test his ideas. Failures were disheartening and costly. However, today you can test your ideas at...



**BY TERRY BROCK**  
*Technology/marketing specialist*

*No charge to you.*

Kinda' nice, huh? Of course, the next step is if you see a lot of reaction (based on solid, real numbers of visitors and real reactions) you can produce a test product as a PDF or MP3 audio. You can do this for little cost with open source software like Audacity for audio. Check out PDF995 or PrimoPDF along with a host of others that will create a PDF for free.

You can create dazzling products that solve real-world problems and post them on your Blog. Get an account (at low cost) with PayPal and you can receive money.

There you have it. A great way to test your ideas *and* make money — *at no charge to you*. With this approach, you can do what you love and the money will follow because the marketplace also loves what you do! ■

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## Historic Hotel Andaluz chooses Caroma for renovation

HILLSBORO, ORE. — Caroma was chosen by Goodman Realty Group to furnish high efficiency toilets for the historic Hotel Andaluz in Albuquerque, N.M. The hotel, with 107 guest rooms, re-opened on October 1, 2009, after a \$30-million renovation. One goal for the Andaluz is LEED Gold certification, potentially the first for a hotel listed on the National Register of Historic Places.

Caroma was chosen by Goodman Realty Group to help maximize water savings and because of toilet design. The hotel has been retrofitted with Sydney Smart 270 and Caravelle 270 toilets. The Sydney Smart is a dual flush toilet using 1.28 gpf for solid waste and 0.8 gpf for liquid and paper waste, averaging only 0.90 gallons based on a 1:4 full/half flush ratio. The Caravelle HETs have a 1.6-gallon full flush and a 0.8-gallon half flush, averaging just 0.96 gpf. Goodman Realty Group expects to conserve, at the least, 100,000 gallons of water a year at 50% occupancy.

According to Darin Sand, LEED AP for Goodman Realty Group, "One of the main reasons Caroma toilets were chosen was because of the adjustable rough-in. This hotel was originally opened in 1939, and during that time, rough-ins were usually 10 inches. However, when we were remodeling the bathrooms, we discovered that the rough-ins were 10, 11, 12 inches, or somewhere in-between. With the offset connector supplied with the Caroma toilets we chose, we could easily handle any of these variations."

