

Why an ASP Makes Sense for VMI

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VMI – Providing a Competitive Advantage

In the early 1990s, Chicago Rawhide researched the concept of Vendor Managed Inventory (VMI). We were immediately convinced that both our company and our customers (distributors) could benefit substantially from this approach to inventory management. But at that time, we did not have the resources or the detailed knowledge to seriously pursue VMI.

A few years later, we noticed that industry associations were increasingly praising the competitive advantages of VMI. This exposure re-ignited our interest. Our objectives for VMI were simple, yet strategic – VMI would be a means to increase product sales and improve efficiencies for both our distributors and Chicago Rawhide.

Armed with this knowledge, we approached several distributors that we believed would welcome the opportunity to reduce their inventory as a result of VMI's daily review and replenishment process. These forward-thinking distributors embraced the concept of VMI and its benefits to them. It would also be good business for us---the cost savings from reduced inventory would allow our distributors to re-invest some of these savings to carry a broader range of our products. An increase in the number of products carried by our distributors increases their sales, and in return, increases sales for Chicago Rawhide.

We sought a solution to fit the functional requirements of our industry and customers. Prior to selecting a VMI solution, we thoroughly reviewed three viable alternatives:

- Develop a custom system internally,
- Install and implement a traditional VMI software system,
- Implement an Internet-based, VMI solution.

Traditional VMI Challenges

As we considered developing the system ourselves, we found several issues we would have to address. Our primary concern was the expertise required to make sure the system would be perceived as adding value to our distributors. While we understood inventory management from a manufacturer's perspective, managing inventory for our distributors would be different. The system needed to handle lower demand, smaller lot sizes and different transaction costs. Not only would these issues be different within any single distributor, but they would also vary distributor to distributor. Moreover, since most distributors already have good inventory management systems, our system would need to be at least as good, if not better, than the systems they were using.

Chicago Rawhide also investigated traditional VMI software packages. We realized that this traditional software implementation approach would require hardware investment, IT staff, and most importantly – time. Installation, testing and customization of such a package would take months.

On the positive side, a traditional VMI software package vendor would provide expert knowledge of distributor inventory management. Nevertheless, issues for individual trading partners remained. We would still have to worry about data definitions for each of the data elements exchanged. Our customers use different software packages to run their businesses; each of these packages has its own definitions for the base data. For example, some of the packages track damaged, committed and on-hand inventory separately, while others would produce only a total available inventory number. In addition, each system generates purchase orders in different ways. All of these data elements would somehow have to be mapped into the software for each of our distributors.

We would also have to deal with different versions and content within the EDI document. The 852 EDI document used in VMI is lengthy, and changes with each version of the EDI standards. Each trading partner has to be mapped to the appropriate version. This continuous change not only increases setup costs, but also leads to increased system maintenance cost. We would have to re-map documents as our trading partners moved to new standards at different times.

Finally, we would have to deal with different mechanisms for moving the data. The costs of traditional value-added networks for VMI can be very high, due to the frequency and quantity of data being moved. This situation leads distributors to look for less expensive methods of transporting data, such as the Internet or different VANs.

Given all of these issues, we estimated one month of information technology support for each new distributor during start-up, and an additional IT person for every ten customers on an on-going basis. Even if we could find and hire these resources, the costs would make the payback on VMI very slow, diminishing the potential competitive advantage.

ASP Model Provides Best Solution

We decided to look for an Application Service Provider (ASP) that could combine best-of-breed software with the necessary IT support services. The software would have to be built for VMI and allow us to treat each distributor uniquely. The software service provider would have to mask the data content variations and EDI version considerations from the user of the system. This would free up the distributor's resources to focus on our on-going business relationship, rather than dealing with software installation and maintenance.

We found that Datalliance from EDM was the best system match for our industry, and it has fulfilled all of our requirements. The Application Service Provider model that Datalliance employs turns out to be just as important as the system functionality. The software was built based on input from several customers who sold through various commercial distribution channels. The software allowed for configuration of inventory

management variables at each location independently. Because many other companies were already achieving results with Datalliance, we were confident the software would work well for a wide variety of distributor outlets with relatively little time expenditure on our part.

Licensing Datalliance through the ASP model allows us to ignore the typical hardware and software issues companies face when maintaining their own installations. EDM manages all of those variables for both us and our distributors. We never have to worry about scalability. As we bring more distributors and parts online, EDM ensures that the software and hardware are capable of handling our ever-increasing volume of customers and transactions. With these issues in the hands of the experts at EDM, we can focus on our own business, where we are the experts.

Timing was another deciding factor in our decision. Once we sold the benefits of VMI to our key distributors, we were committed to realizing the vision we had promoted. Once again, the ASP approach proved to be an advantage, as we were able to implement the system quickly. Minimizing our upfront time, resources, and costs allowed us to realize a much quicker ROI. That continues to be the case today, as we are able to bring on additional distributors quickly and easily, with no additional people or hardware resources.

The support services provided by EDM exceeded our requirements. The people at EDM took responsibility for working with our customers to determine the data they were able to send and the formats they would use. Often the challenges raised by each new distributor had already been encountered and overcome with an existing Datalliance system user. Because EDM didn't have to reinvent the solution each time, new distributors could come on line rapidly and efficiently. EDM also took responsibility for monitoring the data receipt and timeliness on a daily basis, freeing our people to focus on dealing with direct business issues.

Bottom Line --- Business Results

The partnership with EDM has resulted in impressive results in our VMI program. Inventory is down at every location where our distributors are using VMI. At the same time, in-stock percentages are higher and distributor sales are up. Sales of Chicago Rawhide product by our distributors on VMI are up by double-digit percentages despite softness in the markets. Our VMI offering has led at least one distributor to take on additional product lines, increasing our sales and market share substantially. All of this has occurred with no additional Chicago Rawhide resources, and at a cost that is predictable and based on our transaction volume.

We plan to continue our rollout of the Datalliance VMI solution to more distributor outlets over time. With that increasing rollout, we expect to continue to differentiate the Chicago Rawhide offering from our competitors by increasing our distributors' profitability. We also expect to increase the predictability of our demand and thereby increase the efficiency of Chicago Rawhide's internal resources as we reach a critical mass of our distributor customer base.

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For more Information on Vendor Managed inventory please visit www.datalliance.net.
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