



Managing Inventory, Not Letting It Manage YOU

Vendor-managed inventory (VMI) systems still are leading the way to improving your dealership's inventory management.

Bring up dealership inventory management and the next word probably will be vendor-managed inventory (VMI). Many dealerships and original equipment manufacturers (OEMs) have found this to be the new way to organize, manage and keep a firm grasp on parts inventory management.

In the last six years, almost all heavy-duty truck OEMs have debuted their own VMI systems, encouraging the move of thousands of dealerships to these technology systems that ease the supply-chain flow.

"We all are familiar with VMI with all OEMs employing this capability," said a Freightliner spokesperson.

If you need a refresher on what VMI is—the number one recommendation for improving dealership inventory manage-

ment—this article will delve deeper into the definition of this technology as well as its benefits in helping manage your dealership's inventory.

However, these systems should not be seen as an end-all to inventory management. This article also will explore the peripherals that need to be in place to make a VMI system work for a dealership.

The main objective is to provide you with ways to improve your dealership's inventory management, which is an important part of most dealerships.

"If you don't manage your parts inventory, soon it will manage you," said Robert Thompson, general manager, parts operations, The Around The Clock (ATC) Freightliner Group, Inc., Oklahoma City.

What Is VMI?

What once was viewed as a passing experiment by a few, VMI has become an accepted and vital piece of the supply chain. But what is this acronym that so many have come to depend upon?

In what is considered the old days—pre-1998—the standard supply-chain model between OEM and the dealership included the dealership needing parts; placing an order for said parts; and then the OEM sending out the parts to the dealer.

Many times these parts were required immediately because of a customer emergency or other unexpected need. This meant downtime and extra freight costs.

Now with a VMI system model, the dealership's sales and stock levels are tracked electronically. This data is transmitted to the OEM, which then tracks and sends out parts in anticipation of need.

While each OEM's VMI system has its own characteristics, in general, a VMI system performs automated parts replenishment based on the past history (sales and stock levels) collected. Through this process, inventory efficiency increases with more turns and higher fill ratios as well as reduced administrative costs.

"It is expensive to maintain millions of dollars in parts on the shelf," Thompson said. "How that money returns profit is vital to the health of the dealership."

In most cases, the OEM is responsible for keeping the dealership's shelves properly

maintained, meaning not too little and not too much inventory. In addition, VMI systems can help stock inventory laterally—meaning different parts than what you would have selected but that are nationally popular (and therefore may be needed by transient customers) or parts that are more seasonal for your demographics.

With more offerings by OEMs in this area and a significantly warmer feeling from dealers, VMI systems are off and running. Most OEMs now offer VMI systems to their dealers, usually at a fairly fast startup time (four to eight weeks) and at a fair rate (sometimes a free trial period). And as of press time, these programs still are voluntary.

For example, Freightliner's Managed Dealer Inventory (MDI) system works through advanced forecasting techniques to predict customer demand and track dealer inventory levels of each part. When the supply of a specific part reaches a level where new stock is needed, the system issues replenishment orders to purchase parts.

MDI then puts the control back into the dealer management's hands by awaiting approval of the purchase order before Freightliner's parts distribution centers ship out the components.

The MDI system, according to Freightliner, ensures that critical parts such as brake components and alternators always are in stock. Fast-moving parts, such as wiper blades and wheels, also will be on hand when customers need them. To achieve this, the system factors in the effects of seasonality by dealership.

"The MDI system has broadened our inventory," Thompson said. "It has expanded the number of different parts we stock based on a nationwide usage matrix. This enhances our ability to satisfy demand from customers who just stop in at one of our four locations.

"By using MDI, our inventories reflect the demands from customers across the nation without loading us up with unnecessary parts volume," he added.

The seeming pioneer of the VMI movement—PACCAR Parts' MDI—debuted in 1998 and now manages the inventory of participating Peterbilt and Kenworth dealers. However, these VMI systems aren't sitting still; their creators continue to make im-

provements to the systems in terms of making them easier to use and more efficient.

"Enhancements to MDI provide dealers with increased reporting and analytic capabilities to optimize inventory performance, profit and customer satisfaction," said Tom Clevinger, general marketing manager, PACCAR Parts.

For example, MDI helps Peterbilt and Kenworth dealers increase the amount of sales of aftermarket promotions with minimal dealer involvement.

"It helps dealers purchase promoted products at better pricing and tie those

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An Inventory Success Story

Managing inventory is important, complex and costly when not done correctly. In the associated article on inventory management, vendor-managed inventory (VMI) is explored. It is highly recommended by OEMs and dealers alike. However, it takes more than one ingredient to make such a complex part of your business—your parts inventory—work smoothly.

To support that fact, here is a success story from Around The Clock (ATC) Freightliner Group, Inc., based in Oklahoma City, which incorporates VMI as well as other techniques to manage its inventory properly.

This business, which also has locations in Dallas, Tulsa, OK, and Fort Worth, TX, first chose technology that works for its inventory management and then focused heavily on developing a training program for every employee who uses that technology. Most importantly, the management team placed its trust in its chosen technology and system.

“We never try to arbitrarily control our inventory outside of our in-house business system,” said Robert Thompson, general manager, parts operations, ATC Freightliner. “We let the software recommend what to stock based on sales history, add in our local expertise via operations managers and then stock it.”

Next, the business continued updating and improving its inventory management as times changed. For example, in the last two years, Thompson and his staff have:

- ⑤ Switched the parts management from a single manager to a team concept. “We have one parts manager whose sole focus is to monitor the internal operations of the parts department, more specifically inventory control,” Thompson said.

- ⑤ “The other parts manager is in charge of our sales force. With the volume of business that we do, it just makes more sense to have an expert in each field controlling that respective area,” he said.

- ⑤ Entered the dealer community. ATC Freightliner has joined with 20 other dealerships to meet regularly and share and discuss ideas and problems.

- ⑤ “These meetings bring a lot of forgotten issues back to our attention and it keeps us all aware of them,” Thompson added.

- ⑤ Become a pilot dealership for a VMI system. At its Oklahoma City location, ATC Freightliner volunteered to pilot Freightliner’s Managed Dealer Inventory system to broaden the location’s inventory coverage.

- ⑤ “This gives us a second management system to facilitate our stocking of parts and helps broaden our inventory coverage,” Thompson said. “We will be implementing the system into our other stores soon.”

Thompson and his staff’s experiences illustrate how technology, including VMI systems, can improve inventory management greatly. It also shows how important human interaction and proper training is to proper inventory management.



VMI is highly recommended by OEMs and dealers alike, but it takes more than just one ingredient to make inventory—a complex part of your dealership—run smoothly.

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parts to retail promotion events directed to the customer,” Clevinger said. “This enhances a dealer’s ability to buy smart, convert inventory into cash and maintain a high level of customer satisfaction.”

However, no matter how efficient the VMI systems are, they do not free the dealership from the responsibility of keeping up on its own inventory—in fact that is where problems with VMI can arise.

Although all of the VMI programs we discussed with dealers and manufacturers came away with glowing reviews, most of those we interviewed also cautioned that these programs are not meant to be the be-all and end-all of inventory management, and that they need attention and tweaking to be beneficial to the dealership.

“You should not rely completely on VMI functionality and a computer to manage your inventory 100%,” said Craig Stark, director, marketing, Bendix Commercial Vehicle Systems LLC.

“Every business has specific inventory goals and objectives and to ensure success with VMI, you want to have a human involved to nurture the process,” he said.

“If you choose to have the software and computer do all your work, there is a high probability you will find yourself disappointed with VMI.”

Part of making VMI systems work for your dealership is properly training and supporting your staff about the systems and their features. This level of diligent training and re-training is not limited to VMI systems, however, it also is relevant to any new technology brought into the dealership to help with inventory management.

Please refer to the associated side bar on this page for other suggestions on improving inventory management at your dealership via the success story of a southern-based dealership.

Technology & Training

Training in VMI cannot be undervalued. Many OEMs offer dedicated training staff and/or training programs such as Freightliner’s dealer network in-classroom training, which is devoted to



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improving revenue and profit. It includes techniques for dealing with inventory metrics and best practices.

“Technology is as effective as the information in the system,” a Freightliner spokesperson said. “For example, if a dealer does not enforce the input of lost sales, then inappropriate ordering patterns will continue to be established.”

Refresher training always is a good idea, but anytime new technology is instituted at your dealership, training becomes an absolute necessity.

“A firm handle on any parts inventory is possible only with a computerized inventory control system and properly trained people to manage it,” said ATC Freightliner’s Thompson.

“Software is a necessary tool, but without quality, trained people to manage it, you are in the dark. The owner of our

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dealership, Charles Bowen, recognizes the importance of parts inventory and always has provided us with the proper training.”

For VMI systems training opportunities in your area, make sure to contact your OEM or trade associations.

Consequences Of Poorly-Managed Inventory

Now that experts have explained the benefits of improving inventory management through technology and training,

Simply put,
dealers without
good inventory
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it's time to take a look at the consequences of poorly-managed inventory. Inappropriate management of inventory can cost your dealership directly and indirectly.

For example, if a dealership has too little inventory, truck downtime is extended, perhaps costing the customer his load and income and costing you customer satisfaction. This can earn the dealership a reputation for not having parts on hand, and therefore, cause it to lose business permanently.

“The consequences to a business can be severe if parts inventory is inappropriately managed,” Freightliner said. “It can lead to duplicate inventory or too much inventory, resulting in capital sitting rather than turning, costing the dealership money.”

Mismanaging inventory can be dire. Most experts agreed with this statement by PACCAR Parts' Clevinger: “Simply put, dealers without good inventory management tools may not stay in business.”

“If a dealer fails to manage his inventory properly, his customer fill rate will decline, obsolescence and emergency orders will increase, causing customer dissatisfaction and extremely high freight costs,” said James Weldon, project manager, parts, International Truck And Engine Corp.

“It also will decrease the efficiency of the dealer's own service department since the dealership virtually is dependent on parts and service as a source of profit. The impact can be fatal to the business.”

For more information on specific OEM VMI systems and training programs, please contact your OEM for details.