Vendor Managed Inventory (VMI) is one of the most widely accepted strategies for inventory management in the consumer goods industry. Fundamentally, the manufacturer manages inventory levels for retailers or distributors by generating appropriate replenishment purchase orders based on data provided by the trading partner. For many organizations, VMI is a process that has been in place for years, which seemingly runs itself. However, as technology continues to improve and trading partners look for better ways to collaborate, the industry is yearning to switch VMI off of “auto-pilot” and unleash its full value with new insights and technology.

In June of 2014, CGT hosted a webinar on this important topic, entitled “How Procter & Gamble Does Vendor Managed Inventory (VMI) - A New Era of Global Innovation”. With more than 300 registrations, it was one of the best-attended webinars in CGT’s history and included representatives from many of the world’s leading consumer goods companies as well as a good number of retailers. For one hour, Dr. Alistair Hill, director of Global Business Services for The Procter & Gamble Company (P&G), and Carl Hall, president and chief executive officer of Datalliance, captivated the audience with refreshing perspectives around an age-old process. Attendees flooded the lines with enquiries for the speakers, but with the clock ticking down, many of their burning questions went unanswered.

As a result, CGT caught up with Alistair Hill and Carl Hall after the event to get their insights around those questions that were left unanswered during the web cast. This document consolidates the live Q&A session with the interview conducted afterward to present more insights into VMI and how leaders are transforming the process into a key strategy for end-to-end supply chain management.
PARTICIPANTS:

ALISTAIR HILL
Dr. Alistair Hill leads P&G’s customer service and physical distribution global IT systems, strategy and implementation program. Located in Geneva, Switzerland, Hill has a track record of driving innovative breakthrough business transformation and value creation in transportation planning and execution, warehouse management, customer demand integration and automation of order management.

CARL HALL
Carl Hall is the President and CEO of Datalliance where he leads the strategic direction of the world’s leading independent VMI service provider delivered as a cloud-based platform. Backed by extensive customer service, Datalliance manages billions of dollars in orders, millions of SKUs, and thousands of locations worldwide for leading companies in consumer, industrial and healthcare markets.

Among its peers in the consumer goods industry, The Procter & Gamble Company (P&G) is renowned and respected for the sophistication of its supply chain, which has been utilizing VMI as a valued supply chain capability to enable critical customer collaboration for more than 30 years.

P&G’s Director of Global Business Services, Dr. Alistair Hill, kicked off the webinar by presenting some history about VMI, which originated in 1984. P&G recognized the opportunity right away. Its pioneering process was made public by the Harvard Business Review, which detailed how P&G’s biggest customer went from an average diaper retailer of 25,000 cases per week to 75,000 cases per week in just three weeks, increasing until it became the largest diaper retailer in the United States.

In the early 2000s, P&G decided to focus VMI only on larger volume retailers. Over the past few years, Hill noted that the VMI volume trend has been stable in North America and Western Europe, while VMI is now increasing in developing markets and amongst customers who are looking to increase collaboration with P&G.

TO LISTEN TO THIS WEBINAR ON DEMAND, GO TO: www.consumergoods.com/howpgdoesvmi
VMI’s Proven Value

It is generally accepted that VMI provides substantial benefits throughout the supply chain for both retailers and manufacturers. For retailers, on-shelf availability has been shown to increase and is typically 1 percent to 2 percent higher than using EDI alone. In addition, retailers see lower inventories, typically about 33 percent lower at distribution centers for those customers on VMI versus EDI. They have also experienced improved on-time delivery (1 percent to 2 percent higher than EDI), and lower rejections and returns. But, metrics aside, the value of VMI all comes down to customer satisfaction.

“Quite frankly, a lot of our retail customers tell us that when they’re on the VMI process, there’s less to worry about, because P&G is managing that whole replenishment process for them,” said Hill.

The benefits that VMI delivers for P&G are likewise impressive, and present similarities to retailer benefits. P&G conducts VMI throughout Western Europe and North American where it accounts for about 20 percent of sales in those two regions. There are approximately 150,000 location SKU combinations on VMI across fabric care, home care, baby care, beauty, female care and the fragrances business.

With this VMI footprint, on-shelf availability has increased, which means more products are sold. Case fill rates also increased, again, so P&G can sell more products. The company has better control of shipments and inventory, and makes better decisions around product distribution in short-stock situations.

Vehicle fill rates are another area of substantial progress, where a 4 percent to 6 percent improvement is typical on a VMI lane versus an EDI lane, primarily because the company can mix products of varying weights together for optimal replenishment. Promotion effectiveness also registers higher as do new product introductions in VMI lanes.

Next-Gen VMI

Always focused on continuous improvement, P&G recognized the need to move to a more modern VMI platform and selected Datalliance as its partner, primarily because it offers a flexible and cost-efficient solution.

In addition to the improvements noted previously, Hill points to “massively improved efficiency of our VMI analytics using Datalliance. Because of the tool’s ease of use and advanced algorithms in building orders, P&G has also been able to optimize the actual time that it takes to generate VMI orders while improving vehicle fill capabilities. Analysts touch the solution about 50 percent less than their previous system, reducing the number of information searches and improving efficiency. New capabilities have been introduced, including automatic order consolidation that, when combined with the increased efficiency and reduced touches, resulted in an overall productivity improvement of 20 percent to 25 percent for VMI analysts.

P&G is also more responsive to specific customer requirements because of the system’s flexibility. Those requirements vary from single truck deliveries to minimum shelf presence at stores in Western Europe. The new system has also helped to drive standard global work processes, and P&G has created a portfolio of VMI best practices that can be implemented quickly, thereby improving productivity and VMI results worldwide. Finally, the software-as-a-service delivery model has allowed tighter integration
both internally and externally with customers.

Additional new capabilities include:
- Automated data setup through integration to SAP
- Automated phase-in management for new product codes
- Flagging of critical inventory levels to enable analysts to step in
- Store-level forecasting
- Integration of promotional forecasts at the store level
- Consolidation of VMI and EDI orders from the same customer
- Interface with order builder solution to maximize the cube fill; early test have shown a potential additional 5 percent improvement in vehicle fill rates

In summary, P&G is committed to drive increased value out of the synchronized supply chain, and VMI is a big part of that vision.

Datalliance manages an incredible volume of VMI activity worldwide: $38 billion worth of transactions, more than 100 customers, 21 million SKUs and 20,000 locations. Focusing on the consumer goods industry, that volume includes 16 manufacturers of all sizes and VMI maturity levels, including four of the top 10 as ranked by CGT, and more than 50 retailers across North America and Europe. Datalliance also provides VMI services to other industries, including industrial manufacturers (electrical, plumbing, power distribution and other B2B markets) and healthcare.

According to Hall, 78 percent of Datalliance’s consumer packaged goods customers report an expected increase in VMI activity. That’s a big difference from four or five years ago when VMI was on the decline. Research from Supply Chain Insights reinforced the upward swing of VMI’s value in the supply chain. Order management reliability was the top benefit, followed by the ability to manage customer service levels, reduction in out of stocks, improved business partner collaboration and meeting inventory requirements.

Reinforcing Hill’s earlier points on flexibility as a key factor, Hall explained how a cloud-based VMI platform allows suppliers to deal directly with many retailers and different types of trading partners outside of the manufacturer’s firewall, all in a familiar browser setting.

“VMI is still growing because it provides real value back into the supply chain,” closed Hall.

P&G is committed to drive increased value out of the synchronized supply chain, and VMI is a big part of that vision.

The VMI Enabler
In the second half of the webinar, Datalliance President and CEO Carl Hall shared his perspective on VMI based on impressive track record of experience in the field.
VMI Questions Answered

P&G and Datalliance provide answers to audience questions about best practices for next-generation VMI strategy and execution

Strategy & Scope

Q: What best practices must consumer goods manufacturers follow in order to improve VMI processes?

HILL: Before you dive in to any VMI process, you need to step back and really understand your company’s overall order acquisition strategy. At P&G, we really spend time stratifying our customers into order acquisition brackets — collaboration brackets based on order sizes, order patterns, frequency — and do detailed analytics to understand them based on those attributes. You must also clearly understand why VMI is important to both the manufacturer and the retail customer. What is the primary business driver that you are trying to achieve? It could be inventory reduction in the supply chain, improved case fill rates or improved vehicle fill rates. It could simply be a better collaboration and understanding, or hands-off processes. It’s very important that both the manufacturer and the retailer understand what they’re trying to get out of their VMI relations, then understand the work process and organizational impact associated with moving to VMI-type processes. At the end of the day, this has got to be a win-win for both the manufacturer and the retailer.

Q: What are the key attributes of a good VMI supplier?

HALL: The supplier needs to treat VMI as an important process. They need to put good people against it — people who are going to care about the process and the replenishment of those goods at the same level or a higher level than the retailer. That’s really what makes it successful; it’s the people who use the system, not necessarily the system itself, although good tools are imperative.

During our last two user meetings, we heard retailers clearly state that they value the suppliers who value this process and value their business. That’s really what it comes down to more than anything else. We put a very good people against it. We call them “VMI analysts” because they are true analysts working within customer service to increase the end-to-end collaboration with customers.

Q: Which party tends to initiate the VMI conversation, the manufacturer or the retailer?

HILL: It can come from either side. We tend to initiate that discussion after we’ve done the stratification and decide which retailers fit into the VMI scope. For example, in Latin America, we started doing business with customers 20 to 25 years ago. Some of those small customers have grown very rapidly over the last 20 years, so now we may need to go back and suggest that the original order acquisition strategy is no longer applicable to its larger business today. Then, we present a more efficient way of doing it, and why we think it could be a win.
However, many times retailers do approach us. They have either heard about the fact that we do VMI with customers or heard about the benefits that both P&G and the retailer get from it.

**Q:** In a difficult economic environment, many customers choose EDI over VMI because they don’t want an over-abundance of inventory sitting in their DCs. How can the supplier convince retailers to try VMI?

**HILL:** In difficult economic times, VMI makes even more sense. Our experience shows that VMI delivers substantial savings to the customer by reducing inventory investment by an average of 30 percent. We believe the savings come not so much from sophisticated math, but from the collaboration brought about by VMI.

**Q:** Why are retailers in regions outside of North America or Western Europe now asking for VMI? What about distributors?

**HILL:** Outside of Western Europe and North America, we’re seeing a lot of interest in Latin America and the start of interest in Asia. I think it’s driven by scale. The customers in these regions are getting to a size where they need to improve their processes in a way that enhances relationships with customers. The retailers want better customer service. They want better vehicle fill. They want to find ways to work with manufacturers. They now have the scale to start to demand that from their manufacturers. We have not yet implemented VMI in Latin America, but we are in the process of planning for that. We see it as one of our major growth areas.

We also see a lot of interest from distributors as they have grown, particularly in Latin America. They don’t see themselves as sales organizations anymore, but more like retailers, so they want to start working through the same processes. Consequently, in the old three-tiered model, you’re seeing better collaboration now between the distributors and resellers, and the stores as well. It’s a natural progression in an organization’s journey to become more integrated and drive out costs on that three-tier model.

**HALL:** The other thing that comes into play here goes back to my comments about what makes a good supplier. At one point in time, it was all about the math. As retailers invested more money in more sophisticated systems and better math, they thought they didn’t need the suppliers help. But, they are realizing that it’s not all about the math. It is about working together and understanding what’s going on in both sides of the equation. We have many customers that support wholesale distributors in a number of different markets. The benefits for wholesalers are the same as for retailers — higher service levels, increased inventory turns, and a closer working relationship with the VMI supplier that helps both parties grow sales. The bottom line is that if the distributor is in a better position, then the retailer gets what it wants and the manufacturer is better able to fill that order.
Technology & Execution

**Q:** How does integration between the manufacturer and retailer work?  
**HALL:** The integration, although not terribly difficult, is continuing to expand to allow more data to be used, and to allow more knowledge on both sides of the equation. On the retailer side, we still use the same EDI technology that we’ve been using for 20 years. We’re now seeing the expansion of that model to include more data and more data fields. We’re seeing expansion into additional data elements, like promotion forecasts in particular. On the supplier side, we’ve done a lot with web services, and that is directly tied to the back-end processes within the supplier’s ERP systems. This ensures that we’re getting the right data to drive the process as well.

**Q:** What is the primary data capability that the customer must have to facilitate VMI?  
**HALL:** It’s pretty simple. The retailer or distributor just needs to send EDI ‘Product Activity’ records (852, INVRPT or equivalent) and receive EDI ‘PO Acknowledgement’ records (855, ORDRSP or equivalent).

**Q:** What process did P&G follow to identify Datalliance as its VMI provider?  
**HILL:** As you might expect, we looked at a number of different options before selecting Datalliance. We went so far as to pilot a couple of those options. Believe me, we looked closely at the alternatives.

**Q:** Regarding integration, is the order builder a part of Datalliance or a part of P&G’s SAP backbone?  
**HALL:** Datalliance has sophisticated order-building capabilities built in. This has been further expanded through integration with the ORTEC Routing, Pallet and Load Building Optimization Software that P&G has embedded within its SAP system. We can utilize this integration with other systems as well.

**Q:** Is the software able to load build a lighter product on top of a different SKU that is heavier?  
**HALL:** Yes, Datalliance can assemble a full truckload that includes the stacking of different products. We don’t directly provide a loading diagram; however, when a diagram is needed, we can provide that through integration with ORTEC.

**Q:** What if we don’t run our business on SAP?  
**HALL:** Datalliance can work with just about any supplier and retailer system. We have more than 100 suppliers and support several hundred retailers and distributors. Across that community, we’re integrated with every major ERP and retail management system there is. The integration points are really pretty simple on both ends.
Q: Has P&G evolved from a suggested order replenishment model to an automated order replenishment model?
HILL: Our current business model calls for VMI analysts to review suggested orders before launch. If there are no exceptions or alerts, they are quickly released. We are evaluating how to fully automate some of our customer replenishment processes.

HALL: Datalliance does have an “auto-launch” capability driven by user-defined rules. Suppliers in other categories more often use that approach where the dollar/euro volume is not as high.

Q: Do retailers review and approve orders proposed by VMI before they are placed?
HILL: No, there is not a customer approval step in our process. With VMI, replenishment is our responsibility.

HALL: The Datalliance system is capable of allowing for customer review. In other industries, we have a few suppliers that do that with some of their customers.

Q: Is “integrated availability check” a built-in functionality in Datalliance?
HALL: Yes, it is. Each day, we ask the supplier to send us a file of items that are in short supply. That’s pretty easy for the supplier. This lets us only use the short supply product where there is a real need, conserving the product and making sure it gets to the places where it can do the most good.

Q: Is integration with SAP’s Sales & Distribution module provided in the standard Datalliance solution?
HALL: Yes, we use a web services approach to look at current non-VMI open orders in SAP Sales & Distribution, so we can combine VMI orders when appropriate. That is a real-time process.

Q: What challenges did P&G face during the VMI implementation and how did it overcome them?
HILL: Just the usual things you would expect with any collaborative information-sharing effort; things like verifying data accuracy, aligning resources to discuss issues and addressing customer-specific requirements. Those things just take time to work through.

Q: How long did it take P&G to switch from its old solution to Datalliance – from setup, testing, training to reaching a “total comfort” level with VMI analysts?
HILL: It took just about two years to switch over our VMI customers in Western Europe and North America. For a program of our size, we initially projected it would take three years. We were thrilled to have it completed a year ahead of schedule.
Q: Does P&G measure forecast accuracy, and if so, what is the estimated improvement using the advanced VMI capability?

HILL: We are more focused on our ability to respond dynamically to swings in demand than on measuring forecast accuracy. With Datalliance, the forecast is updated each week and demand spikes or dips are identified as alerts each day. For example, if sales are running ahead of the forecast, the responsible VMI analyst is alerted. They then choose the projected forecast or the normal weekly forecast based on a number of factors. The key metrics that we measure are:

- Case Fill Rate - How well did we complete the order in full?
- Vehicle Fill Rate - How well did we utilize our assets?
- Customer Inventory Level
- VMI Order Touches - Efficiency of the process

Q: Where does the feed of store-level data/forecast come from?

HALL: We have a number of customers that are doing direct store-level replenishment in the club, drug, apparel and other categories. The data can come to us in different ways from different customers. Generally, it is sent in the form of EDI ‘Product Activity’ or ‘Forecast’ records. For example, some retailers include a roll-up of that day’s store demand on each DC’s Product Activity record, some send a Product Activity record for each store, and some send a Forecast record for each store. In some cases, the customer has created the data in their own systems and, in other cases; they are using a third-party solution to do that. Datalliance handles all of those situations.

Q: For P&G customers on VMI, do you use a feed from the VMI system as more of a dependent demand (rather than forecast shipments in demand planning)?

HILL: Demand planning remains a critical supply chain process for all customers. Demand planning drives our short-term manufacturing planning and mid-term material supply planning. VMI generates the orders, which fulfill from the stock that is generated from demand planning. The two processes work in harmony.

Q: Where does co-managed inventory (CMI) come into play for P&G?

HILL: We do a CMI replenishment process with some customers. In that case, the customer sends us proposed orders with associated priorities. The Datalliance system optimizes orders with “must go” items and then fills them out with “look-ahead” items. This is integrated into our daily VMI processes.

Q: Is promotion planning within the VMI system manual or automated?

HALL: In addition to manual entry by the VMI analyst, the Datalliance platform supports the use of the promotion quantity on the customer’s Product Activity record in addition to importing a separate file, for instance, from the supplier’s customer team.
**HILL:** One of the beauties of the VMI model is that you can start to integrate promotional events with demand elements from the retailer, which provides visibility of these events coming forward. This is what is going to happen. I can use that information as a primer in my planning systems, making sure that supply is ready when I receive the order to start pumping that inventory through the supply chain. This way, I’m not carrying lots and lots of safety stock in my supply chain for events that only happen infrequently.

**Q:** Is there a Datalliance user group that convenes to discuss and vote on enhancements?

**HALL:** We have an annual user meeting for both suppliers and their retailer/distributor partners. We review our tentative roadmap for the coming year and interactively identify priorities. Beyond the annual meeting, we conduct surveys and have a high level of personal interaction with our customer community throughout the year. Important customer care conversations with customers are funneled to our Vice President of Consumer Goods Solutions. He also visits and holds web meetings with customers to collect first-hand perspectives.

**Q:** Can you share parting words for suppliers that want to replicate P&G’s VMI success?

**HILL:** We’ve been doing VMI for 30 years. Quite frankly, we didn’t really move beyond where we were 28 years ago until very recently. For P&G, success lies in understanding or using VMI tools and capabilities to get much better visibility into the total end-to-end supply chain.

Some people are looking for very fancy solutions for that, but VMI is already there, offering a lot of information that you can use to optimize the end-to-end supply chain for the benefit of the manufacturer, the retailer and the consumer.

We’re really looking forward to further optimizing processes, particularly the integration of the VMI processes with our backend order management, source determination and vehicle fill process to drive more cost out of the end-to-end supply chain. That’s how we see P&G moving forward with VMI in the next couple of years in addition to bringing on new customers in North America and Western Europe, and expanding into Latin America and Asia.

**HALL:** Look at what you can get out of this technology and figure out the right place to apply it within your customer base. It’s not for everybody, but in a lot of cases it provides tremendous value. Some people think VMI is “old news”. We’re trying to turn that around and help companies be more aware of the things that they can do better now because of VMI.

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**About Datalliance**

Datalliance is the world’s largest independent Vendor Managed Inventory (VMI) service provider. Delivered as a cloud-based platform backed by extensive customer service, Datalliance VMI makes it easy for suppliers and their customers to establish sales and inventory management relationships that fully align business objectives, improve collaboration, and streamline supply chain operations. Datalliance manages billions of dollars in orders, millions of SKUs, and thousands of locations worldwide for leading companies in consumer, industrial and healthcare markets. For more information about Datalliance, visit [www.datalliance.com](http://www.datalliance.com)