

Taking a New Approach to VMI

Retailers and Suppliers That Level Out Their Responsibilities for Merchandise Management and Replenishment Will Reap the Rewards

By Malcolm Buxton Cooperation is critical for today's retailers and suppliers. Sharing key insights into consumer preferences and buying behaviors can drive sales, improve margins and increase customer satisfaction. It can also help streamline the supply chain, improving stock availability and reducing operational costs. Reacting to ever-changing consumer demand is imperative and rewarding if done well; however, it can be taxing to manage for any organization. As such, retailers and their suppliers should work together to ensure the rapid and accurate exchange of information, share the planning burden and make satisfying today's consumers their common goal.

The Drawback of VMI

Vendor Managed Inventory (VMI) is one approach to ensuring efficient supply chain management. Through VMI, retailers provide their supplier partners with information – whether it's point-of-sale (POS) or customer loyalty data – to help them determine how best to manage and replenish merchandise at the store or warehouse level. Forecasting and ordering activities are handled by the vendor – not by the retailer, as it is in a more conventional process.

Although VMI programs support efforts to become more consumer centric while improving production planning and reducing inventory costs and stock levels, there may be drawbacks. Most notably, suppliers are solely responsible for managing inventory and deciding how much to replenish and when. In some models, the product must go through the POS system before the retailer incurs any costs. Another challenge resides in the act of sharing information. Research shows that retailers often hedge on giving their suppliers access to store-level consumer data¹, which can negatively impact a supplier's ability to accurately plan.



But letting suppliers completely control the ordering process can backfire on retailers. If products on their shelves aren't selling, retailers may pay the price with unnecessary markdowns and promotions. Or, they may give up valuable shelf space that could have been allocated to better-selling brands. Conversely, if out-of-stock problems arise, retailers run the risk of lost sales and customer dissatisfaction within the overall category.

Moving to a VAIM Model

To address the challenges associated with traditional VMI, companies should consider adopting a new approach to managing and replenishing merchandise. Some leading-edge retailers are taking back control over the ordering process. In this new hybrid model, termed Vendor Assisted Inventory Management (VAIM), the supplier continues to leverage data from the retailer to determine and shape demand for products at the store level. However, retailers play an active role in determining what the product ranges and mixes should be on their store shelves instead of leaving those decisions solely to their suppliers.

A leading discount apparel retailer adopted a VAIM approach with all of its suppliers – except for one that was in a VMI agreement with the retailer. After evaluating the results over several seasons, the retailer realized that its sales and stock turns were significantly higher for the VAIM products compared to those ordered through the VMI program.

Companies that adopt a VAIM approach benefit from a checks-and-balances approach to collaboration. Although the supplier still has visibility into data that can help streamline supply chain efficiencies, retailers can be assured that valuable shelf space is filled with products that will meet consumer expectations.

Doing so will lead to higher sales and diminishing markdowns, creating a win-win scenario for both the retailer and supplier.

JustEnough Software, a leader in demand management solutions for retailers, distributors and brand owners worldwide, can help your company make the transition from a VMI to VAIM process. To learn more, please visit www.justenough.com.

1. Retailer/Supplier Shared Data Study 2010, Consumer Goods Technology and RIS News, November 2010

About the Author



Malcolm Buxton is president and chief executive officer of JustEnough Software. With more than 30 years of experience, Buxton has helped JustEnough bring to market a new generation of technology that solves the analytical, planning and execution challenges of today's retailers, brand owners and consumer packaged goods companies.



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About JustEnough

Founded in 1994, JustEnough is a global leader in Demand Management solutions. JustEnough services more than 500 of the world's leading brands including Allocation and Replenishment of inventory at **Kenneth Cole**, Merchandise and Assortment Planning at **Levi Strauss**, Sales Forecasting at **Kraft Foods**, Inventory Planning for **IDS Group (Li & Fung)** and **Nissan**, and Mobile Sales Force Automation at **SAB Miller**, **Cadbury** and **Heineken**.

OnCloud, **OnSite** and **OnMobile**, JustEnough's Demand Management solutions help retailers, distributors and brand owners to forecast their customer demand, plan their assortments, allocations and inventory, shape their demand and then execute on those plans. JustEnough is headquartered in the United States with offices worldwide. Learn more at www.justenough.com.