Vendor managed inventory.

Vendor managed inventory process can be defined as a mechanism where the suppliers creates the purchase orders based on the demand information exchanged by the retailer / customer.

VMI

- WITH this method the supplier and not the retailer is responsible for managing and replenishing inventory using an integral part of VMI I.E EDI .
- It involves a continuous replenishment program that uses the exchange of information between the retailer and supplier to allow the supplier to manage and replenish merchandise stock at the store or ware house level.

VMI

- The retailer supplies the vendor with the information necessary to maintain just enough merchandise stock to meet the customer demand. This enable the supplier to better project and anticipate the amount of product it needs to produce or supply.
- The manufacturers has access to the suppliers inventory data and is responsible for generating purchase orders.

VMI

- VMI is a backward replenishment model where the supplier does the demand creation and demand fulfilment.
- In VMI the vendor tracks the number of products shipped to distributors and retail outlets.
- Tracking tells whether or not the distributor needs more supplies. Products are automatically replenished when supplies run low and goods are not sent unless they are needed. Consequently lowering inventory at the distribution center or the retail store.

VMI

- Suppliers and buyers use written contracts to determine the payment terms , frequency of replenishment and other terms of agreement.

- The most prevelant technology in VMI is EDI an ordering system traditionally conducted over private value added networks.
- The manufacturer takes a daily review of inventory data to put together an anticipated order for the distributor. After getting an electronic acknowledgement the manufacturer ships the order. When the products has been received payments is made with electronic funds transfer from the distributors bank.

Supplier benefits.

- Reduced inventory. Using VMI process the supplier is able to control the lead time component of order point better than a customer with thousands of suppliers they have to deal with.
- The need for safety stock is minimised.
- Reduced stock outs. The supplier keeps track of inventory movement and takes over responsibility of product availability resulting in reduction of stockouts , there by increasing end customer satisfaction.

Supplier benefits.

- Reduced forecasting and purchasing activities.
- Since the supplier does the forecasting and creating orders based on demand information sent by retailer the retailer can reduce the cost on forecasting and purchasing activities.
- Increase sales.
- Due to less stockout situations customers will the right product at right time. Customers will come to the store again and again there by reflecting an increase in sales.
- The overall service level is improved by having the right product at the right time.
- The manufacturer is more focused than ever in providing greater service.

Manufacturer benefits.

- Improved visibility results in better forecasting.
- Without the VMI process suppliers do not exactly know how their customers are going to place orders. To satisfy the demand suppliers usually have to maintain large amount of safety stock.
- Suppliers forecasts and creates the orders , which could otherwise lead to a return will come down.
- Improvement in service level agreement.
- Vendor can see the potential need for the item before it is actually ordered and right product is supplied to the retailer at right time improving service level agreements between retailer and supplier.