

Vendor Managed Inventory: Everything You Need To Know

Vendor Managed Inventory

Everything you want to know.



The flow of content:

- What is the Vendor Managed Inventory?
- Advantages of vendor managed inventory
- Challenges while practicing vendor managed inventory system
- Final Takeaways

Vendor Managed Inventory is one of the most popular business models for managing inventory and there's no wonder that the world's largest corporations like Walmart and Amazon use this method.

So what is Vendor Managed Inventory? And why is it so popular?

Let's look at it in detail.

Vendor Managed Inventory Definition:

Wikipedia defines it as,

“Vendor-managed inventory (VMI) is an inventory management practice in which a supplier of goods, usually the manufacturer, is responsible for optimizing the inventory held by a distributor.”

In short, the buyer simply provides the information and the vendor supplies and takes complete responsibility of providing and maintaining the inventory at the buyer’s desired location.

However, a much more matured and business definition leads us to Daugherty & Myers 1999 edition that defines it as,

“Vendor-managed inventory (VMI) is a business model in which the buyer of a product provides certain information to a vendor or the supplier of that product and the supplier takes full responsibility for maintaining an agreed inventory levels of the material, usually at the buyer's preferred location or store”.

For this reason, this method is also called supplier managed inventory, collaborative replenishment, or continuous replenishment.

Now coming to our second part of the question why is Vendor Managed Inventory popular. This is mainly because it offers a lot of benefits for both the supplier and the buyer.

Let’s look at some of the advantages of Vendor Managed Inventory system,

Advantages of Vendor Managed Inventory System



- **Avoids overstocking**

One of the biggest benefits of the Vendor Managed Inventory system is that you don't need to hoard stock of the products. Usually, retailers end up stocking products more than required due to the fear of going out-of-stock.

However, the inventory and their quantities are maintained by the supplier in the Vendor Managed Inventory system therefore, the products are available as and when required and there is no need to overstock them.

- **Cost-effectiveness**

Vendor Managed Inventory model is appropriate for big businesses like Walmart, Tesco because first of all, it eliminates the need to overstock the products. Secondly, since a lot of bulk buying is done by big businesses, it becomes cost-effective. And perhaps that is why we get the best deals on products at huge malls and department stores!

Also, VMI helps in overcoming the shortages of stocks. The vendor is always aware of the inventory held by the seller so he replenishes the stock as soon as it hits a low level of inventory. Hence, eliminating the extra cost incurred for expedited shipping.

- **Seamless flow of inventory**

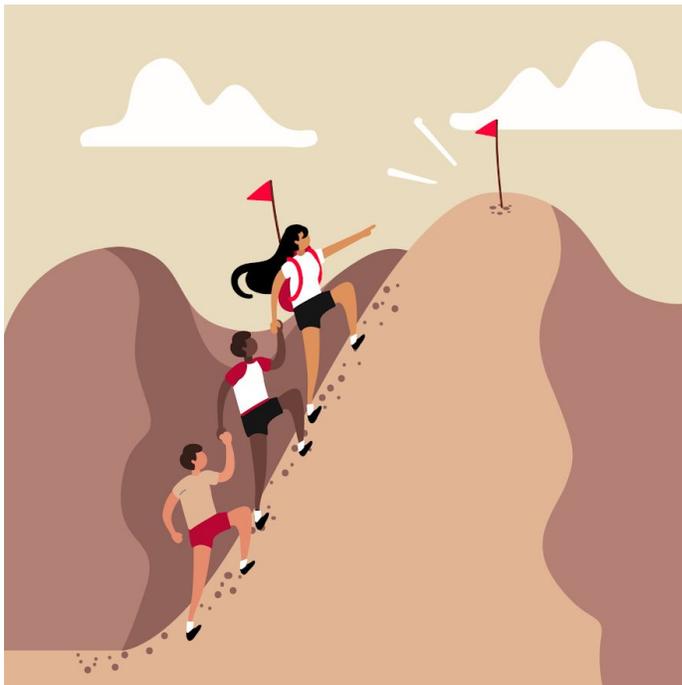
Vendor Managed Inventory relies heavily upon processes and updated data on software. a smooth flow of inventory becomes possible since the information of stock count on each product is updated automatically in the system.

This system supports real-time inventory management and hence, more accurate inventory control also becomes possible. The vendor as well as the buyer knows the exact amount of inventory available and therefore can re-order as soon as the inventory levels go down. VMI also helps in demand forecasting and thereby, again supports in maintaining the specific stock for each item as per their future demand.

- **Improves customer satisfaction and loyalty**

This is by far the biggest benefit of vendor managed inventory. Since you are never out-of-stock for any products, the customers keep coming to you each and every time. As mentioned earlier, this system helps in real-time inventory management and since you are buying the products in bulk from the vendor, you can provide heavy discounts and thereby keep your customers happy.

Challenges while practicing vendor managed inventory system



Vendor Managed
Inventory
Challenges

- **Frequent and bulk replenishment**

One of the challenges in the Vendor Managed Inventory system is that the buyer must order the commodities in bulk and too frequently. This means that the business must be really big and the demand for the products must be really high in the market.

Hence, this kind of system is simply not meant for small businesses with limited orders and space for storage.

However, for large businesses, this method can be cost-effective.

- **Establishing trust**

As we all know building trust is a time-consuming process. Vendor managed inventory system is heavily dependent on trust since the supplier has to trust the buyer and keep the inventory at his place and yet be responsible for it.

Trust is certainly a factor that can build life-long business relationships if fulfilled properly by both parties. However, it is a long process, and therefore, the Vendor Managed Inventory system is meant for someone with grit to last longer in the market.

- **Duly fulfilling the responsibility of supplying the products**

More Responsibility on the vendor part can be cumbersome if the vendor is not well prepared for it. Since the vendor has to take care of delivering the products and decide when the customer would need more goods. The vendor has to be prepared at all times with the ready products to be supplied as soon as he gets the information.

If the vendor is not able to responsibly supply the products in a given frequency then it risks gaining the trust between the buyer and him.

- **Be sound technologically**

Smaller businesses are prone to have barriers to technology and inefficient at deploying them due to their limited budget. In such a scenario, the Vendor Managed Inventory

system cannot flourish. Vendor Managed inventory is reliant on technology and proper implementation of processes to be successful.

Thus, having proper technology and process in place can be a challenge at times for both vendors and buyers.

Final Takeaways

As clearly seen in the above details, vendor managed inventory system is a successful model for inventory management by giants mainly due to frequent inventory reviews, automated stock count, quicker and timely deliveries, good demand forecasting, and no stockouts or overstocking.

This system enables the companies to exploit the opportunities of using technology for better coordination and communication within the supply chain network. Hence, eliminating one of the biggest challenges of supply chain management.

Apart from the companies following these practices, end-customers also benefit from this system immensely though unknowingly. Hence, this is the most fruitful of all the inventory management practices across the globe, especially for big enterprises.

Essential resources

- **Walmart's Inventory Management**

<http://panmore.com/walmart-inventory-management>

- **Vendor-Managed Inventory Benefits & Advantages [Infographic]**

<https://www.nchannel.com/wp-content/uploads/2015/07/vendor-managed-inventory-infographic.png>

- **Exploring the benefits of vendor managed inventory**

https://www.researchgate.net/profile/Kazim_Sari/publication/228342062_Exploring_the_Benefits_of_Vendor_Managed_Inventory/links/00b4952aee98f57ee8000000.pdf

- **Tesco adopts more VMI**

<https://www.thegrocer.co.uk/companies/tesco-adopts-more-vmi/97653.article>