

## SWITCHING ROLES WITH VENDOR MANAGED INVENTORY

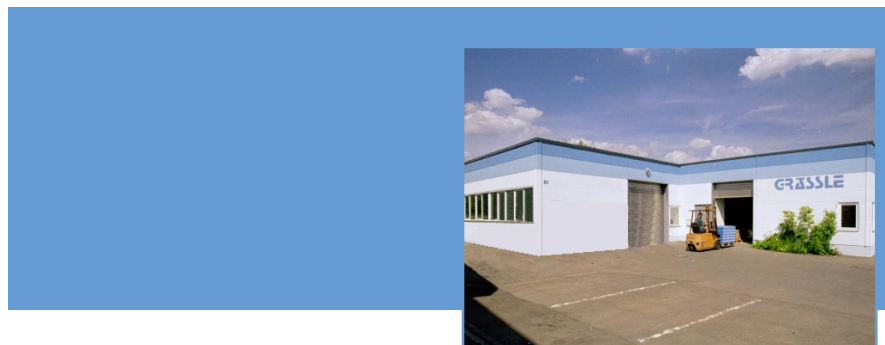
Vendor Managed Inventory (VMI) alters the relationship between a supplier and its customer. Instead of responding to a delivery schedule, the supplier assumes responsibility for managing the customer's inventory. This form of cooperation offers advantages for both parties. The customer benefits from lower stock levels, reduced logistics costs and transparent purchase processes, while the supplier enjoys more efficient and flexible planning. Grässle GmbH has adopted this principle and is successfully using SupplyOn's Inventory Collaboration solution to supply its customer ZF, a leading global partner for the automotive industry.

As a leading international automotive supplier, the ZF Group relies on highly complex processes and high-volume purchasing. ZF therefore needs to ensure that quality and efficiency of its processes are continuously optimised. Purchase processes play a key role. Following a comprehensive pilot phase, ZF has been using VMI and SupplyOn's Inventory Collaboration solution to manage some of its procurement processes since mid-2005. Friedrichshafen-based company Grässle GmbH was one of the first suppliers to implement the new process in cooperation with ZF.

### Reducing warehousing and transport costs

With SupplyOn Inventory Collaboration, new planning methods such as VMI or Kanban can be implemented allowing a supplier to manage its customer's inventory. Stock level data and requirements are displayed and maximum and minimum stock levels agreed for each item. The supplier uses this information to manage replenishment of its customer's stock.

Implementing VMI has significantly improved Grässle's supply process. "One key benefit is that we can now supply



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larger numbers of items. This significantly reduces the frequency of deliveries and thus transport costs", explained Ursula Grässle, the company's deputy General Manager. "Increased transparency means we now have a pre-production time of four to six weeks and vastly improved planning certainty." ZF's

Roland Dudichum, who is responsible for management of VMI transactions with suppliers, confirmed the benefits: "Using SupplyOn's VMI solution has helped us optimise purchasing for these parts; instead of ten processes, we now often only have one process with our VMI suppliers." Consequently, much of the processing volume in terms of inventory management, transport and accounting has simply disappeared.

#### **Efficient control of consignment stock**

Another benefit is the ability to optimise inventory logistics by combining the VMI method with the consignment stock concept. The latter involves the customer making warehouse space available to the supplier even though goods initially remain the property of the supplier. Transfer of ownership and invoicing take place when the customer removes the goods. Combining both concepts benefits the supplier in several ways: reduced transport costs, greater planning certainty and a longer planning horizon, full process transparency, reduction in own warehousing space and manufacturing in optimum batch sizes. "The series we produce are largely independent of individual order volumes. Before, that meant we had to keep parts in stock in our warehouse", explained Grässle. "Now we can save on warehousing costs. Communication and transport costs are also reduced."

#### **Optimum process management**

Using the Inventory Collaboration solution to manage VMI processes enables significant optimisation of inventory management. "We can quickly ascertain stock levels, needs and ranges and tailor delivery quantities and delivery times precisely", explained Grässle. "We spend noticeably less time monitoring deadlines, partly because using the inventory monitor is so easy and user friendly." As well as displaying the demand situation in colour graphics, the inventory monitor also offers a number of user-defined settings, overviews and alarm functions. Grässle also uses the solution's delivery simulation function, allowing the volume and timing of deliveries to be planned to optimum effect.

#### **Communication and trust - crucial assets**

Both Ursula Grässle and Roland Dudichum believe a stable relationship of trust and ongoing communications are crucial to the success of a VMI project. "We have more responsibility than before because we ourselves are largely responsible for ensuring optimum stock levels. This means we need very good knowledge of our customer's production and logistics processes and in the pilot phase in particular, we need to maintain intensive communication", concludes Ursula Grässle.

#### **Grässle GmbH**

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The next step is automatic incorporation of the VMI data into Grässle's inventory management program. "This will significantly reduce administrative work."

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