Who's Minding Your Customer's Store?

Did you know that Costco owns no inventory? Virtually everything on its shelves is owned by a supplier, with the big retailer taking title only for a split second when a customer makes a purchase.

Vendor-managed inventory (VMI) isn't just for retailers. Suppliers of raw materials and subassemblies are using VMI to help their manufacturing customers reduce overhead and increase margins.

For a retailer or manufacturer the benefits are significant: Suppliers maintain inventory levels, bear shrinkage and spoilage costs, and pay for storage. Vendors who can provide inventory-management services gain competitive advantage and, at big retailers, access to broader markets.

VMI shifts risk and responsibility to the vendor. To make the arrangement viable, remember:

1. Don't underestimate the difficulties of remote warehousing. It's one thing to run your own shelves, but distance management is harder and may require changes to your own business. And understand the tax implications, since some states take VMI as evidence of a vendor's nexus there.
2. Analyze quality, not just quantity. Maybe you can guarantee 95 percent full stock, and cover another 3 percent with emergency shipments. But your customer will be unimpressed if the 2 percent shortfall shuts down a production line or blows a sales opportunity.

   Before taking over your customer's inventory, don't just look at what you've sold in the past, but at what's most critical.

3. Be transparent. Your customer may be nervous about turning over inventory management. As a supplier, you must be able to provide full,

clear information on demand. Talk continuously to retail buyers and manufacturing materials managers.

Vendor-managed inventory can rationalize the supply chain and make it more efficient, leading to improved margins all around.

Should you offer VMI services? Should you ask your vendors for them? Our firm can help you decide.