



Velvac Vendor Managed Inventory Program Benefits Velvac and Key Distributors



Summary

- ▶ Velvac's commitment to customer service led them to look at VMI as a way to add value and develop closer partnerships with key suppliers.
- ▶ Velvac worked closely with Weldon Parts and Kroeger Equipment and Supply to implement VMI.
- ▶ With the help of Datalliance, Velvac, Kroeger and Weldon have increased sales and grown market share.

VENDOR MANAGED INVENTORY
SUCCESS STORY

Velvac is a leading manufacturer and supplier of components to the truck, recreational and specialty vehicle industries. With a product offering that includes component parts in six broad categories, Velvac strives to meet the diverse needs of its customers.

Seizing the Opportunity to Drive Better Service

Velvac sells a wide variety of products - over 4,000 part numbers, including hard-to-find products some of which sell in relatively low volumes. Doug Mischock, National Sales Manager - Aftermarket, explained, "That's a lot of different part numbers that need to be managed, with the low usage products requiring the same inventory management effort as the high runners. Our distributors sell our products to meet the immediate needs of their end-user customers. When someone is looking for replacement parts, it's because a truck is down. Prior to implementing VMI if a distributor didn't have a requested part on the shelf, they would pass this demand on to us in the form of a rush order. We had no insight into our customers' actual needs."

Velvac's commitment to customer service was the driving force to pursue VMI. "Velvac is known for providing excellent customer service," said Mischock. "We were hitting our desired customer service performance metrics, but at a cost of carrying high inventory or scrambling on the manufacturing side to expedite specific items. When demand softened, we'd have too much inventory; when demand peaked, we didn't have enough inventory and had to go into fire drill mode. We saw VMI as an upcoming concept within our industry that would assist us in adding value and developing closer partnerships with our distributors for our mutual benefit."

"The important thing for us is that VMI gives us the capability to customize our relationship with each individual distributor. Their market share and sales grow as they are better able to execute their strategies – increasing our sales and market share in return."

Doug Mischock
National Sales Manager - Aftermarket
Velvac

"VMI gives us the visibility to gauge market conditions and allows for a much more disciplined and orderly process," praised Mischock. "Weekly distributor replenishment orders are now based on actual sales activity, and VMI replenishment algorithms that meet our distributor's goals and demand expectations raise the level of sophistication in the inventory management process. Where before many inventory decisions were based on gut feel or rules of thumb, VMI offers access to the same practices used by leading Fortune 500 companies to manage their inventories. Rush and fill-in orders are now the exception. Our overall efficiency has been improved, and service levels have also increased – including distributor order fill rates and on-time deliveries."



Delivering Mutual Benefits for the Distributor and the Supplier

Velvac believes that a successful VMI program helps them better service and support their distributor customers for mutual benefit. "VMI allows us to tailor inventory stocking plans for each individual distributor based on their customer service and market strategies," commented Mischock. "One distributor might want to maximize customer service by carrying a broad range of items with substantial on-hand inventory of those items. Another distributor might prefer to minimize costs by reducing the number of items and the quantity of on-hand inventory. Both strategies are viable, but the important thing for us is that VMI gives us the capability to customize our relationship with each individual distributor. Their market share and sales grow as they are better able to execute their strategies – increasing our sales and market share in return. As our customers realize the value of VMI, they often reward us with more of their business which helps us increase share within each distributor account. By adding value, we build stronger, mutually beneficial relationships with our key distributors."

Mischock continues, "For the independent parts houses that we are selling to, VMI is a way to level the playing field and compete more effectively with the OEM dealers. With access to VMI for years, the dealers had notable advantages in efficiencies over their independent distributor competitors which allowed dealers to gain market share. Independent parts houses can now compete more effectively and take back some of that market share by leveraging the benefits of VMI."

Partnering with Datalliance

Mischock recalled, "We selected Datalliance, because they are the established VMI leader in the truck parts aftermarket. We felt we could implement Datalliance quickly and efficiently. We also liked the Datalliance software-as-a-service model compared to the traditional software alternatives. We don't have the manpower to reinvent the wheel or to undertake a major implementation project that requires a substantial IT commitment. It's also a benefit that Datalliance

is actively engaged in our industry – I see one or more of their representatives at every industry association meeting and event."

Datalliance has played a key role helping Velvac get new distributors up and running on VMI. "Datalliance is our liaison with the customer at the front end of every implementation - actively engaged to get all the customer information and downloads," explained Mischock. "They do the lion's share of the work involved in getting distributors implemented. With limited IT resources, this works great for us. This all adds up to a streamlined implementation approach that gets our customers using VMI much quicker. Datalliance has top-notch people who have both the industry knowledge as well as the VMI knowledge to guide the process."

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About Datalliance

Datalliance is the world's largest independent VMI service provider. Delivered as a managed service via the Internet using the "Software as a Service" (SaaS) model, Datalliance VMI makes it easy for suppliers and their customers to establish effective VMI relationships that fully align business objectives, improve collaboration, and streamline supply chain operations. For more information about Datalliance and VMI, please visit: www.datalliance.com.



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Kroeger Equipment and Supply Company Improves Bottom Line Results Through VMI



VMI Delivers Business Results:

- ▶ Order Time Reduced 80%
- ▶ Sales Increased 19%
- ▶ Inventory Reduced 34%
- ▶ Inventory Turns Increased 73%
- ▶ Profits on Velvac Line Increased 10%

VENDOR MANAGED INVENTORY SUCCESS STORY

Velvac and Kroeger Equipment and Supply Company have been successful trading partners for many years. In business for over 40 years, Kroeger is one of the largest aftermarket parts distributors in central California.

Velvac supplies Kroeger with a large number of brass parts and products. Bill Lawhead, Kroeger Corporate Purchasing Manager described their ordering process prior to implementing VMI. "There are over 300 individual line items that we reviewed weekly to determine what we needed to order. We spent a lot of time evaluating the past week's demand and current inventory to determine what parts to order and in what quantities. If the overall order didn't meet Velvac's minimum order value, we wouldn't even place an order and then go through the entire process the following week. We didn't always have a clear picture of end customer demand, as we were looking at history and not necessarily anticipating future demand. Sometimes, we were ordering too much of some items and not enough of others."

"From a business perspective, our challenge was to maintain a high level of customer service, but manage our replenishment processes and inventories as cost-effectively as possible. Customer service is a given for us, though the efficiency of our process has a major impact on our profitability," stated Lawhead. "While brass parts are not high cost items, it's very important to have these in stock to maintain our reputation for excellent customer service. When our customers need a part, no matter what the part might be, they expect us to have it in stock."

Velvac invited Kroeger to join their VMI program as a way to improve the replenishment process for both companies. Based on their confidence in VMI, Velvac waived the minimum order quantity requirements. This change allows VMI more flexibility in driving order quantities and timing. "VMI analyzes current demand data and generates orders based on our predefined replenishment algorithms and guidelines," commented Lawhead. "Our purchasing staff simply reviews, verifies and releases the order.

VMI has reduced our replenishment process time by 75-80%. We are much more efficient - our buyers can now work on more value added activities. Velvac's VMI program has made it much easier to do business with them."

In addition to process improvements and time efficiencies, Kroeger has also realized bottom line business results. "Our business results are pretty impressive," explained Lawhead. "We increased sales 19%, reduced inventory 34%, and increased turns by 73%. The result was a 10% increase in profits on our Velvac product line, while at the same time achieving a 99% in stock or customer service performance. Every one of these is an important metric for our business. The combination of these positive results also shows that we are better aligned with end customer demand, are moving more products, and are doing so more profitably."

Lawhead commented, "Velvac really 'gets it' when it comes to working with their distributors. I don't even talk to other suppliers for the types of products we get from Velvac. Occasionally, another supplier would try to entice us by offering slightly cheaper brass pricing, but it's not worth considering. It is more beneficial for us to have an efficient process that ensures accurate inventory levels. Velvac's VMI program makes them easy to work with and provides us with business benefits that help our bottom line."

Kroeger has tried VMI with other suppliers, but not with the success that they have had with Velvac and Datalliance VMI. "Our attempts at VMI with other suppliers required a lot more effort on our end, were not as easy to implement, and in the end just not as successful. Datalliance got our data loaded, and we were up and running in minimal time. We now have a much stronger relationship with Velvac with more trust and collaboration on both sides. We plan to move more of our product replenishment over to VMI and would like to see more suppliers offer VMI." Lawhead concluded, "Both sides need to buy in and commit to the relationship, but if they do, you can service your customers better and increase sales."



Weldon Parts, Inc. Uses VMI to Improve Efficiency and Increase Sales



VMI Delivers Business Results:

- Order Time Reduced 80%
- Sales of Velvac Products Increased 24%
- Customer Service at 99%

VENDOR MANAGED INVENTORY SUCCESS STORY

Located in Oklahoma City, Oklahoma, Weldon Parts, Inc. is a leading distributor of heavy duty truck parts. The company has locations across Oklahoma, Texas, Florida, Arkansas, and Missouri.

A long-time distributor of Velvac truck parts, Weldon manually monitored demand and placed replenishment orders for their 13 locations. Daryle Settles, Vice President, explained "Our locations are spread out geographically. Since each retail location is unique based on how long they have been open, sales volumes, and the breadth of the product line they carry, we don't have consistent demand trends. Our central ordering function was responsible for several hundred Velvac SKU's, a situation which made for a rather complicated and time consuming process when you multiply this effort by 13 somewhat unique locations."

As a result of the complex process to identify demand for Velvac parts across multiple locations, they also struggled with accurate order quantities. "Our order process wasn't sophisticated," stated Settles. "Order quantities tended to be more emotional decisions, not completely based on statistics, history and trends -- there was a 'gut feel' component. When we estimated correctly, things were fine but if we estimated high we had too much inventory and costs increased and if we estimated low, customer service was impacted."

Velvac introduced Weldon to their VMI program as a means to strengthen their relationship and help Weldon improve the efficiency and accuracy of their order process for Velvac parts. "The Velvac VMI system is a much more sophisticated process for us yet it is also easy to use, implement and understand," described Settles. "Our weekly process to identify demand for all our locations has been greatly simplified; our time has been reduced by as much as 80%. We rely on VMI to analyze actual sales data and then recommend appropriate replenishment orders to meet the objectives of each location. We'll look at exception items or special situations, but we leave the order details up to VMI."

"VMI also helps us better utilize the inventory that we have on-hand at the individual locations through a 'Suggested Transfer Report'. This report identifies surplus inventory that could be used at another location to satisfy anticipated demand. We not only get better inventory utilization but also lower our inventory investment in total while maintaining high customer service."

"Today our VMI calculations and algorithms are customized based on how our customers actually buy a specific part and their historical buying trends," explained Settles. "Resulting orders are based on actual sales and trends with quantities representing the most economical order quantity. This ensures that we balance customer demand, cost to carry, and meet our stated customer service goals. VMI also eliminates any errors and issues with package quantities, as Velvac maintains the data and it is constantly updated and accurate."

VMI has not only helped Weldon improve the overall efficiency of their order process, but they have also increased sales of Velvac products. Settles explained, "Over a one year period on VMI, sales of Velvac products increased 24% and our customer service remained very high at 99%. We have the products our customers need so they trust us and reward us with more business. When considering new suppliers, VMI is very high on our list. Suppliers that have VMI programs are easier to do business with, more cost effective, more accurate, and we are more likely to grow our business with them over time as we are better able to serve our customers."

