

CASE STUDY

Implementing Lean Processes: How Vendor-Managed Inventory Drives Efficiency



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In the commercial market, local product availability is vital to a business's success.

In order to fulfill product needs, businesses enhance productivity, eliminate waste, and reduce lead times by enforcing lean practices. Vendor-managed inventory (VMI) is a lean supply chain solution that enables companies to be more efficient by increasing visibility through electronic communication.

Transcending the Traditional

As a manufacturer and supplier of electrical equipment protection products, Hoffman supports a strong distribution network of thousands of local offices across the United States. Hoffman found that anticipating distributors' product needs through

supply orders caused unreliable guesswork on both ends. There was a lack of communication between the two parties, leading to the supplier trying to predict distributor needs and distributors attempting to estimate lead times. Essentially, both the supplier and the distributor have different sets of information, spending time and money trying to predict what the other will do.

For customers, keeping a project within budget and on schedule is key. It is unacceptable for a contractor to keep installers in the field waiting because they do not have their commercial products ready from the distributor. It's also common for contractors to have emergencies and last-minute product needs, which is why consistently having products locally available gains business.

When the traditional replenishment process is not able to keep up with the commercial market need, companies must develop new methods or techniques in order to succeed.

“We recognized that this process was no longer effective and failed to keep up to our standard,” said Kevin DeRung, VMI manager at Pentair Technical Products. “Our company is always on the lookout for ways to implement lean enterprise practices, so we sought out the ways in which we could best improve our methods—ultimately leading us to VMI.”

VMI in the Commercial Market

VMI is an automated process that uses historical data at the distributor level to generate ideal inventory levels. Hoffman partnered with a VMI service provider to assist with inventory planning and replenishment. The distributor inputs its sales activity to reflect inventory at the end of the day. The system then uses that information and the distributor’s historical activity to calculate forecasted demand, generating a suggested order for the supplier.

Along with this new process, Hoffman established two internal VMI analysts to review the daily suggestions, manage orders, and provide the distributor with an order acknowledgment. The system has innumerable settings, such as minimum and maximum order quantities, order frequency, and freight/dollar thresholds, which can be adjusted by both the distributor and supplier, enhancing collaboration and increasing the visibility for product demand.

“Before, our process was guesswork,” said Mr. DeRung. “Incomplete information leads to mistakes, which can be expensive for both organizations. VMI allows us to communicate better with our distributors and satisfy our customers.”

Replenishments to the distributor are based on the buying patterns of the end customers. VMI reflects customer demand, eliminating guesswork and giving end customers access to more of the right products when they need them. Because VMI creates a smoother, more predictable demand pattern, suppliers see a reduction in the total amount of order transactions and product returns, along with a decrease in freight cost. The higher efficiency increases brand loyalty by providing a quality product with quality service.

While the suppliers benefit by providing products in line with the demand for them, distributors also profit from using VMI. When the distributor relays product

demand information, in return it receives reduced transaction cost, a more accurate product mix, and stock suggestions for recently launched products that are a good fit for its market position. The reduced lead times and focus on product availability improve the relationship between the distributor and supplier, as well as with the end customer.

VMI Spells Success

For Hoffman, using VMI has changed the focus of the supply process, turning the supply chain into a revenue driver. Affecting the company in other areas outside of supply, using VMI has enabled better customer service and freed the salesforce’s time for selling. Since 2008, Hoffman has significantly increased its number of participating distribution locations to more than 350, with VMI responsible for 40 percent of all standard through-stock sales.

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With an increased product mix at distributors and a better understanding of product demand, Hoffman has seen a 40 percent decrease in out-of-stock inventory and an increase in sales.

Border States Electric (BSE), a VMI partner with Hoffman, has been closely involved with the VMI

process since joining the program. Collaboration and communication were instrumental in the development of their VMI agreement. The partnership has resulted in greater efficiencies, annual cost savings, and improved processes.

The growth and success of the commercial product business relies heavily on products being on the shelves when the customer needs them.

“The Hoffman VMI team provides excellent service daily and acts as a single point of contact with nearly all procurement related activities,” said Jim Long, Vendor Performance Analyst at BSE. “The core values of this team are a great fit with our culture at BSE, and as a result of this work and relationship, Hoffman has achieved one of the highest scores in our Vendor

Performance Management program. They consistently achieve goals set forth and are maintaining a Platinum Vendor Performance status.”

Together, the companies have found success in using VMI by accommodating the system to their needs and the needs of the end customers.

Looking Forward

VMI has helped Hoffman and its key distributors run more efficiently and save money by eliminating wasteful practices. This lean process will continue to have a future with the company—Hoffman is looking to continue the success and expand its VMI participation with distributors and stock orders and its third-party stocking locations. VMI improves local product availability and delivery, supplying distributors with the correct inventory and giving customers the products they need.

The growth and success of the commercial product business relies heavily on products being on the shelves when the customer needs them, which is why VMI is clearly one of the main reasons for Hoffman’s success. ☺

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