Creative Solutions

Why More Inventory Ownership Is Being Shifted to Suppliers

Is shifting inventory ownership/responsibility to the supplier a legitimate inventory reduction practice?

According to practitioners, it's definitely a means to reduce inventory levels and investment and increase inventory velocity and turns. Even if the supplier or distributor attaches a fee for this "service," it is still less than the 25% to 40% inventory carrying cost that holding the inventory would cost. In some cases, shifting inventory is a reaction to the many suppliers who express reluctance to engage a vendor management inventory (VMI) initiative.

By shifting inventory ownership/responsibility back to the supplier, the inventory managers may be signaling more forceful VMI and supply chain initiatives for the future. A number of practitioners also are insisting on some "value-added" activities. For example, these are inventory managers' views on the subject:

Leveraging the Volume of MRO Buys

"We've shifted inventory ownership and management responsibility to several of our key suppliers," describes a purchasing manager at a large packaging manufacturer. "We have leveraged our volume of inventories of MRO items by utilizing fewer sources and requiring them to provide higher levels of value-added services for this increased volume." While time savings have not been calculated, he notes costs savings average 10% to 20%.

Supply Chain Review Initiates a Change in Policy

"We shifted inventory usage/ownership to subcontractors that previously were supplied inventory consigned by us," according to a manager of international sub-contracts at a midsize maker of portable power devices. "A review of our supply chain revealed a significant amount of inventory was purchased and then consigned to subcontractors who didn't have the partnerships and alliances with our suppliers. The change in practice has lowered our inventory investment more than 25%."

Consigned Inventory a Partial Answer

"We have moved to a consignment inventory arrangement in which the material is located in our facility, but the ownership rests with our supplier," explains a materials manager at a small manufacturer of lighting systems. "The arrangement provides us with benefits such as increased inventory turns, and we don't have to include it as 'our' inventory until we use it, and the supplier replaces only what we use." However, "It still consumes floor space in our facility."

Third Party Provider Comments on "Shifting" Trend

"For the organizations we serve, most of them are shifting the inventory responsibility to us," according to the vice president, supply chain solutions. "The gain for us is . . . the visibility of the inventory and all its uses without suffering the waves of inventory based on forecasts, orders that haven't arrived, and so forth."

Reduced Space Available Forces Move to Supplier Partnership

"We began to shift more of our inventory to a third-party logistics/warehouse provider while also insisting that the supplier maintain ownership of the inventory," describes a manager of material distribution at a utility company. "We entered into a partnership arrangement with that supplier."

Shift Ownership, but Share Schedules

"When we began to shift inventory ownership to our suppliers, we also introduced them to our production plans and schedules through EDI and autofaxing," says a planning facilitator at a mid-sized producer of fluid control devices. "This effort was the beginning of a trading partner relationship. Part of the arrangement called for a quarterly discussion of service, delivery, and other appropriate items."

Source: Adapted from the *Inventory Reduction Report*, Issue 99-2, February 1999, pp. 1 and 7. Reprinted by permission. © Joe Mazel, IOMA's Inventory Reduction Report. (212) 244-0360. http://www.ioma.com/.