

**MEXICO *NOW***

# **Mexico's Manufacturing Supply Chain Summit**

Conference - B2B - Plant Visits

**EL Paso, Texas  
March 27-28, 2014**

**April 26 & 27 2014**

**Cutting Costs and Improving the  
balance sheet using a VMI Model**

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“Thanks to our extensive cost-cutting efforts, we managed to turn a profit.”

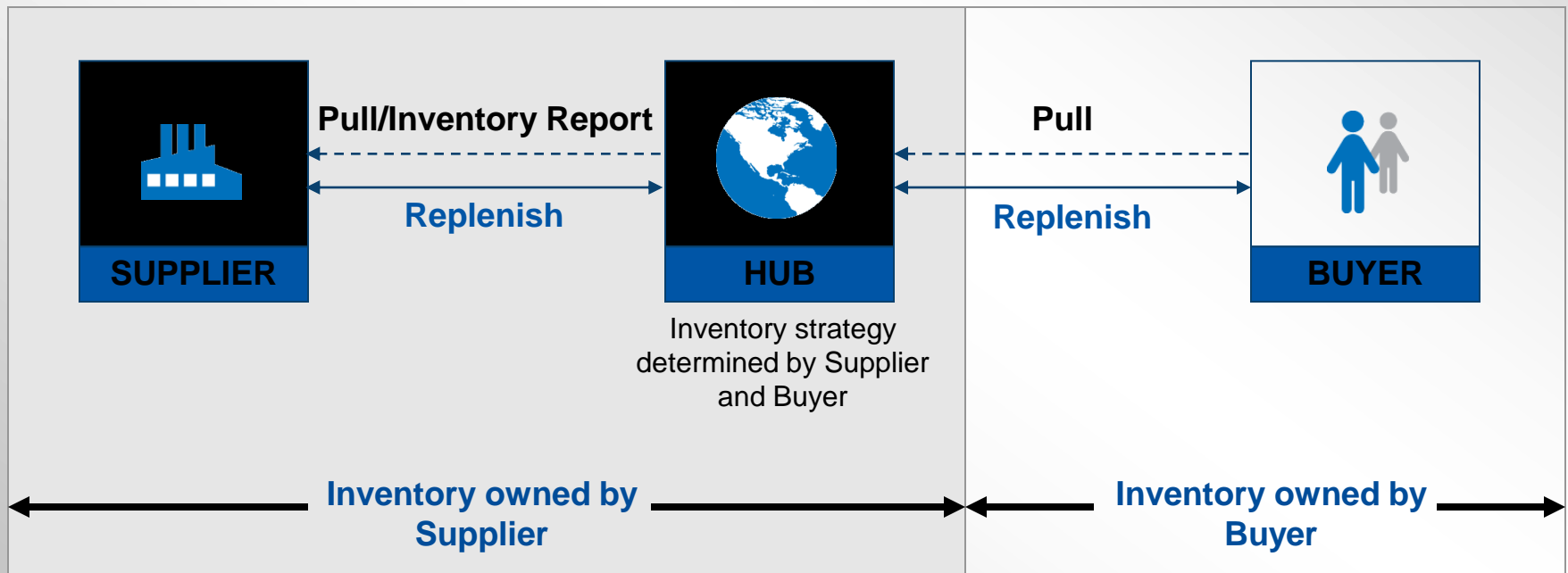
# Format

- Definition of VMI?
- Responsibilities
- Why VMI
- Benefits
- Keys to Success
- Choose the right 3PL

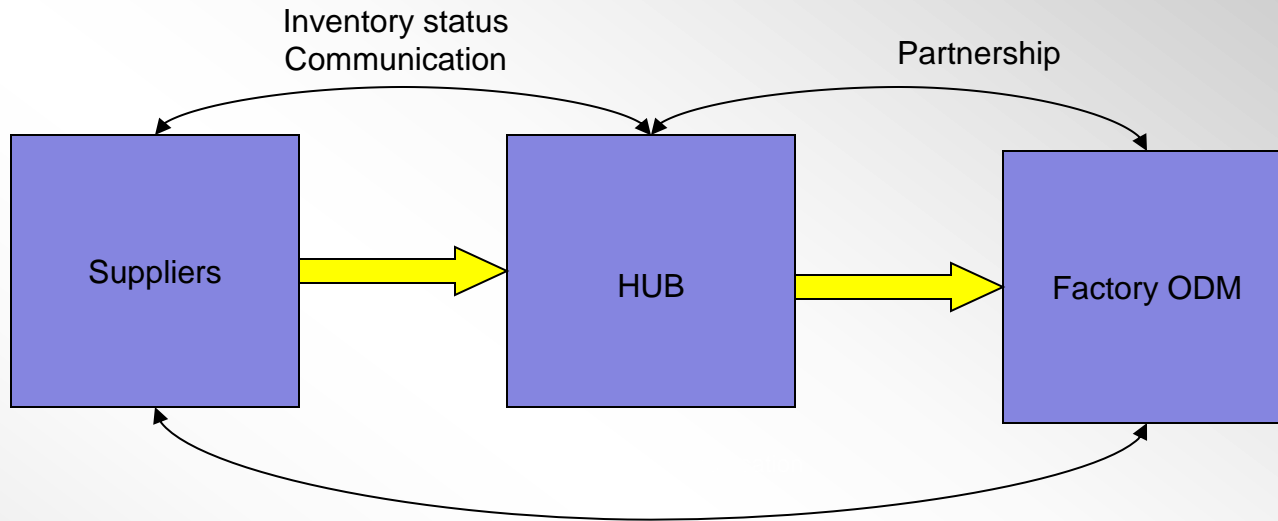


# Vendor Managed Inventory (VMI) Definition

- The buyer and the supplier establish collaborative replenishment processes to reduce inventory required for a given service level
  - The supplier manages inventory to a mutually agreed MIN/MAX levels at a selected VMI hub
  - The supplier maintains ownership of inventory until the buyer requests delivery for consumption (e.g., through a pull signal)



# Responsibilities



## New Responsibilities

- Inventory Adjustments
- Longer Liability
- Stock level supervision
- Storage and Handling Costs
- Some Customs responsibilities

## Benefits

- Control of Production
- Regular Payment Cycles
- Less Risks increase Security
- Increase customer Satisfaction
- Less expedited freight costs
- Improved on time delivery

## Services Performed

- Receiving and Shipping
- Inventory Management
- US and Mexican Customs
- Transportation into Hub
- Security control of components
- Risk Management
- Web visibility of stock levels
- EDI connectivity
- Increase efficiency
- 24/7/365

## Responsibilities

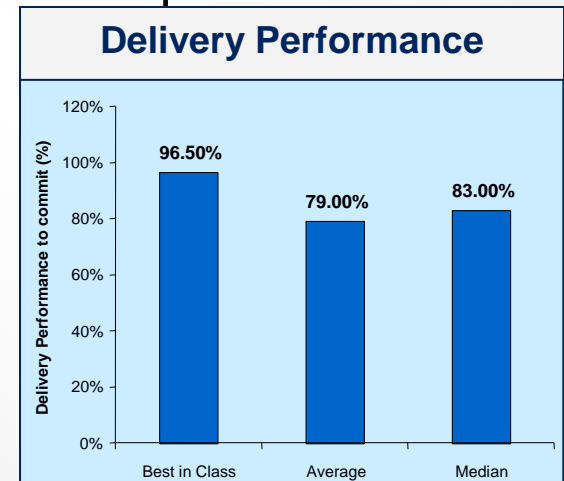
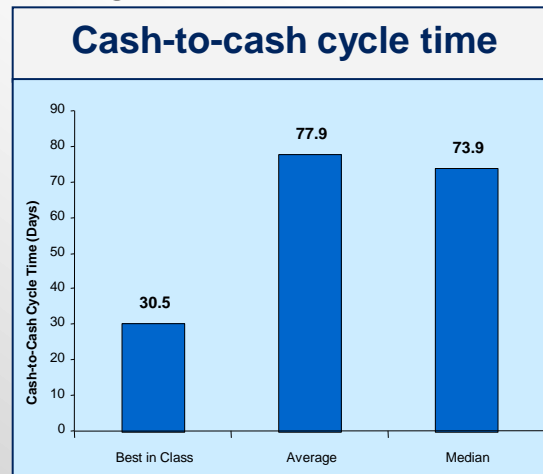
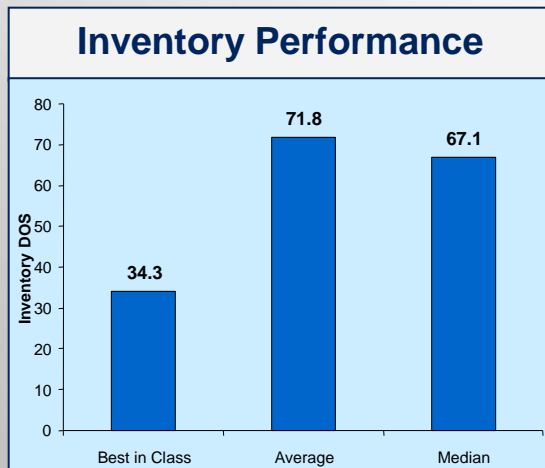
- Encourage vendors to use VMI
- Stock level supervision
- Shared Security

## Benefits

- Less Inventory Carrying costs
- Improved Cash Flow
- Minimal Customs Risk
- Materials ready available 24/7
- Less Customs brokerage staff
- No transit time

# Why do VMI

- VMI programs deliver benefits to all by reducing inventory and transaction costs in the supply chain, while minimizing lost sales
  - 75% to 85% reduction in buyer inventory;
  - 30% to 40% reduction in supplier inventory
  - 50% to 80% reduction in stock-outs
  - 1% to 2% increase in business with strategic partners for all parties
  - 80% to 90% reduction in transaction costs for both buyers and suppliers
- Companies implementing VMI realize best-in-class performance



# Why have a VMI Program

*“Leave it to the experts they are better at this”*

*quote from a loyal customer*

- 336 Maquilas in Juarez alone
- Avg. Inventory is 12 Million
- Avg. Inventory accuracy is 98%
- 2% = \$24,000 – You can save per/Inv/turn = at 1.5 months x 8  
= \$192,000 per year

*Note: 2 % represents inventory discrepancies, mysterious disappearances, damages, obsolete, lost material, inventory adjustments*



# Financial Benefits

- Improves Cash Flow
- Improves your balance sheet
- Time Value of Money – interest
- Better payment terms
- Less duties MPF, ADD, HMF - Juarez



# Logistics Benefits

- Vendor/Supplier responsible for transportation
- Reduction of expedited costs
- Reduce premium air freight costs
- Reduce your customs costs and risks
- Reduce logistics staff
- Eliminate of your cross dock facility



# Operational Benefits

- Six Sigma's dream
- Improved inventory accuracy
- Product always available
- Close proximity
- Better productivity
- Less people managing inventory
- Less people planning
- Better planning with expanded hours
- Run 3 shifts
- Less hands in the SC cookie jar



# Intangible Benefits

- Better use of your floor space
- Damages and risks are now suppliers responsibilities
- “NO production line shutdown”
- Customs Risks – NO penalties



# VMI Benefits for your suppliers

- Sales
  - Increase sales
  - Payment consistency
  - Increase market share
  - Builds customer loyalty
- Logistics
  - Better buying power
  - Reduce your premium air freight
- Operational
  - More in tune with your customer needs
  - Ability to expand into other markets
  - Less handling costs
  - Offer this service to other customers



# Keys to Successful VMI Hub

- Get your local management buy in
- Must have corporate support
- Internal and external sales
- Have a fair approach with your suppliers
- Do a supplier seminar make them part of your plan
- Have easy and comprehensive agreements
- Develop a transition and implementation
- Select the right HUB provider



# Choose the right Hub Provider

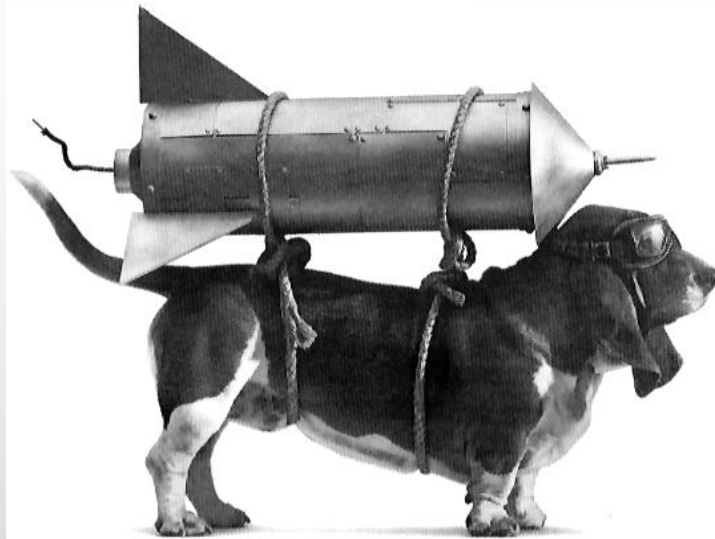
- Facilities
  - Security CTPAT
  - Flexibility
  - Clean and organized
  - Insured
- Experience – proven track record in VMI Hubs
- Systems –WMS, EDI and web visibility, reporting
- Integrated services
  - Own Immex – Service Permit
  - In house customs services
  - Transportation, all modes of transportation



# Q&A

## Using information systems well

- Strapping New Technology to Old Business  
**IS NOT THE SOLUTION**





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