



#### SOLUTION BRIEF

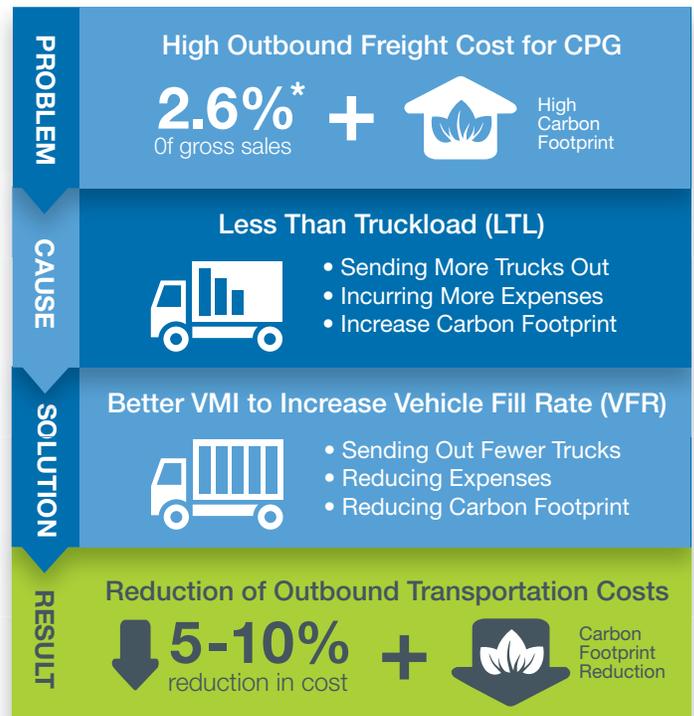
## How VMI Helps Reduce Outbound Transportation Costs for CPG Companies.

Hint: It's all about maximizing Vehicle Fill Rate (VFR) along with customer performance metrics

As you well know, outbound transportation costs significantly impact your company's bottom line and it's one of the things your company counts on you to minimize.

According to the most recent Grocery Manufacturers Association (GMA) Logistics Benchmark Report, outbound freight costs averaged 2.6% of gross sales for food, beverage and consumer product companies. For the largest CPG companies, outbound transportation is a multi-billion dollar expense. Even for mid-size companies, it can cost hundreds of millions of dollars a year. Outbound transportation also has a big impact on your company's carbon footprint – a key component of its overall sustainability program. A 5-10% reduction in your outbound transportation costs would be a big win.

You and your team probably think about ways to minimize transportation costs just about every day. You may not wake up each morning thinking about how to use Vendor Managed Inventory (VMI) to help with this effort, but maybe you should (well – maybe one day a week, anyway).



## Vendor Managed Inventory (VMI) and Vehicle Fill Rate (VFR)

The relative use or non-use of VMI in your customer relationships has a significant impact on outbound transportation costs. The details of how effectively your VMI process works do as well. Specifically, it impacts your average Vehicle Fill Rate (VFR) – sometimes also called Truck Fill Rate (TFR). Obviously a higher VFR means you are sending out fewer trucks, incurring less expense, and putting less carbon in the air. It's likely to be a metric you track closely.

Let's take a quick look at what drives down VFR; therefore driving up transportation costs. (See Figure 1)

### For your non-VMI customers

- **Poor truck building:** many customer systems are simply not capable of consistently building optimal truck loads.
- **Rush orders:** without the mutual demand visibility provided by VMI, more rush orders inevitably occur, resulting in less efficient, higher-cost shipments.
- **Master data problems:** many customers struggle with data issues like incorrect case weight or cases/pallet that result in poor order quality

Figure 1

- **Lack of motivation:** the bottom line is that the customer is not as motivated as you are to fill trucks beyond the minimal FTL agreement you've established. The customer wants your FTL price, but has little reason to optimize beyond that.

### Inadequate VMI solution

- **Poor truck building:** your VMI system may not have the ability to build optimal trucks either. If it can't precisely plan cube, weight or floor position in conjunction with replenishment needs, you may be forced to under-build trucks to avoid problems at the shipping dock.
- **Lack of Club capability:** traditional VMI systems do not handle the challenge of the club channel where individual location orders must be optimally built up to a FTL. Separate VMI and non-VMI orders: most VMI systems do not effectively combine VMI and non-VMI orders together, increasing LTLs.

### Complex issues impacting virtually all your customers

- **Promotion handling:** The additional demand quantities determined by your customer and sales people to support promotions are outside normal replenishment calculations. If turn and promotion quantities are not considered together when building trucks, you may end up with two LTL shipments when you could have had one or none.
- **Product availability issues:** A product may be in short supply due to either unexpected demand or production shortfalls. When your customer or VMI analysts are unaware that product availability is limited, it is common that a shortage is not recognized until after the truck has been built. Once the truck is at the dock, there is little time to determine what else might reasonably be put on that truck, so the only real choice is to send it out LTL.

## VMI Helps Address All These Issues

IVMI relationships and modern VMI systems help you address all of these issues. Fundamentally, VMI gives your company the demand visibility needed to build fuller trucks while always shipping the customer's most needed items. With VMI you are in a far better position to achieve high average VFR to improve your bottom line while at the same time delivering high inventory turns to improve your customer's bottom line.

To maximize this effect, a GOOD VMI system will:

- **Respond quickly to changes in demand,** providing forward visibility that enables FTLs of the right products
- **Integrate VMI and non-VMI orders** to optimize overall lane shipments
- **Effectively build trucks** that best balance VFR with customer performance metrics

To go even further, the BEST VMI systems available today will also:

- **Utilize advanced truck building capabilities** from specialists in this sophisticated and complex area to gain that extra 2-10% in VFR within the bounds of delivering the right products.
- **Provide visibility of shortages** to VMI planners at replenishment planning time so that trucks are built for maximum VFR with the knowledge of actual availability.
- **Provide multi-stop truck building** so that deliveries to individual store/DC locations can be combined across locations or even combined with shipment opportunities to other customers in the same area.
- **Provide cross-dock truck building** so that deliveries to DC depots, particularly important in the club channel, can be sent FTL while meeting individual store needs and requirements.

A well-functioning VMI process puts YOU in control of how you ship product. VMI will keep you within agreed upon customer inventory metrics while also giving you the ability to maximize VFR.



Figure 2

## Ask one Simple Question to Know How Well You're Doing and What Action to Take

In order to know if you are using the full capacity of VMI to reduce transportation costs, all you need to do is to ask your team one simple question:

### ***“What is our VFR for VMI and non-VMI Customers?”***

The answer tells you the course of action you probably want to take:

- **If VFR is NOT HIGHER for VMI customers**, you probably have an old VMI system and should investigate a modern best-in-class VMI platform that provides more sophisticated truck building capabilities that will reduce transportation costs.
- **If VFR IS HIGHER for VMI customers**, you should probably consider expanding your VMI program to more customers as a means of reducing your outbound transportation costs. Of course, you might still want to investigate a modern best-in-class VMI platform that is more scalable AND provides even more sophisticated truck building capabilities

## Datalliance VMI

CPG suppliers using Datalliance VMI have the most robust truck building capabilities of any VMI platform available today. In addition, Datalliance users have:

- Lower systems costs to run VMI
- Lower people costs to manage VMI
- Access to continuous VMI innovations that are making VMI more valuable than ever
- Happy customers with good quarterly scorecards!

Contact us today to take a closer look at Datalliance VMI. It will be easy to do your own estimate of what you can save your company on transportation costs while also reducing the cost of your VMI program.

## About the Author

Doug Bethea is Vice President Consumer Goods Solutions for Datalliance. He is responsible for driving new Vendor Managed Inventory (VMI) innovations that enable consumer goods companies to move beyond their first generation VMI solutions and further down the road in becoming a demand-driven supply chain.

Doug has over 30 years of experience in a variety of information technology leadership roles in Sales, Supply Chain and Customer Logistics. Among other achievements prior to Datalliance, Doug led development of Procter & Gamble's Continuous Replenishment Program (CRP) that became the VMI standard for the CPG industry in the late 1980s and revolutionized the relationship between manufacturers and retailers.



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