



## THE POWER OF EXPERIENCE: VENDOR-MANAGED INVENTORY (VMI) PART 3

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This is the final article in a three-part series of articles regarding Cooper Power Systems' Vendor-Managed Inventory program. The first article (Cooper Power Systems Provides Superior Service through Vendor-Managed Inventory) was published in December 2006. The article defined on a technical level how the Cooper VMI program functions. The second article (Cooper Vendor-Managed Inventory (VMI) Improves Planning and Reduces Lead Times) was published in August 2007. The article explained on a conceptual level how the Cooper VMI program provides superior customer service. Both articles were published in *The Line* magazine and are available online at [www.cooperpower.com](http://www.cooperpower.com). This article will showcase the Cooper VMI program in action. Specifically how Cooper Power Systems used its experience to build a team to provide superior inventory performance to the utility.

### VMI Risks vs. Benefits

In 2002, a major East Coast utility decided to implement Vendor-Managed Inventory (VMI) with all of its major trading partners. The potential benefits included improved service level, reduced inventory, standardized interaction with suppliers, decentralization, and reduced internal transportation costs. Potential risks included having stockouts on materials required to keep the lights on or maintaining excess inventories that impact the bottom line.

Were the suppliers up to the task? Cooper Power Systems has been. By listening to the customer and using past experience with VMI, Cooper was able to design the process, assemble a qualified team of individuals, and use best-in-class software tools to implement a successful VMI program.

### The Requirements

Goals were identified through listening sessions with the customer. The offering should

encompass all materials supplied by Cooper Power Systems (CPS). Material should be managed and supplied to thirty-five different utility warehouse locations. A service rate calculation was specifically designed by the customer, and a 93% target was set. A list of storm material (mainly comprised of fuses and arresters) was identified with a requirement to maintain three months' worth of usage in stock for this material. While demand had to be monitored at thirty-five locations, extremely large material (over 2,000 lbs) would be shipped to a central storage location for distribution to the field with special handling equipment. It was determined that all electronic communication will be performed using XML. The daily inventory activity information will be in the form of thirty-five XML planning schedules (one for each location). The planning schedule will contain additional future requirements (reservations) data by week, beyond that of the standard VMI Electronic Data Interchange (EDI) transaction.

### Two Paths to Success

The project began with analysis of the data. The materials to be supplied could be aggregated into Line Installation and Protective Equipment (LIPE), which includes fuses, arresters, elbows, and other protective equipment and large equipment, consisting of transformers, switchgear, and reclosers. Cooper Power Systems created a solution to the customer's request by using two distinct supply chain paths. It was a natural opportunity to team with distributor HD Supply Utilities<sup>sm</sup> (HDSU) on the LIPE products, while offering the larger equipment direct from Cooper Power Systems.

### Distributor Path

The first path put in place was from HDSU to the utility and from HDSU to CPS. HDSU was quickly able to implement the data feeds to and from the utility and begin managing the utility's inventories.

At the same time, CPS was putting in place the connectors to manage HDSU inventories. This sharing of information greatly reduced lead-times and drastically improved performance. HD Supply Utilities has been able to efficiently distribute material to the thirty-five locations. They also provide additional service for the utility, such as maintaining the special storm stock inventories. HD Supply Utilities maintains service rates greater than the 93% requirement to the utility while maintaining extremely competitive turns performance above their six-turns goal.

### Direct Path

The next phase of the project designed automated data feeds directly between the utility and Cooper Power Systems. The implementation included data

feeds for order processing and inventory activity. The inventory activity data is used for standard replenishment calculation and statistical forecasting. Combining the statistical forecast with the future information supplied in the planning schedule provides an extremely accurate vision of demand—allowing Cooper to provide the utility with lead-times that are less than one-quarter that of standard orders, which in turn allows the utility to reduce their inventory carrying costs—affecting their bottom line. Cooper Power Systems was initially challenged to ship low quantities of single-phase, pole- or pad-mounted transformers to all thirty-five utility locations. As a more efficient solution, Cooper teamed with HD Supply Utilities to offer a cross-docking arrangement in which the Cooper shipping department can

choose to ship a single truck to HDSU, and they in turn take the units and deliver them to the utility as part of their normal route.

### Results

As a result of the VMI program, the utility has reduced stock outs, improved fill rates, and reduced inventories. The success of the program has also driven the utility to expand their requirement to implement VMI with major suppliers. They are also exploring the potential to implement VMI with other divisions of Cooper Industries. In recognition of the success over the last couple of years, HD Supply Utilities is currently in discussions with Cooper Power Systems to expand the program to an additional five distribution centers located along the East Coast. ■



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