**The success of VMI programs depends on the health of the industry**

*Ismini Scouras*. [**EBN**](http://proquest.umi.com/pqdweb?RQT=318&pmid=11644&TS=1295245971&clientId=29440&VInst=PROD&VName=PQD&VType=PQD). Manhasset: [Sep 23, 2002](http://proquest.umi.com/pqdweb?RQT=572&VType=PQD&VName=PQD&VInst=PROD&pmid=11644&pcid=2497781&SrchMode=3). , Iss. 1331; pg. 26

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Vendor-managed inventory (VMI) seems to be the service du jour, to no surprise. The inventory glut made the weak business environment ripe for a program of that kind to evolve. But I wonder: How well will VMI programs work when demand comes roaring back and component shortages plague the industry once again?

It seems to me that VMI is a stop-gap measure for suppliers to generate sales and profits as the growth rate for new orders continues to languish. OEM customers and EMS providers, which are motivating suppliers to implement VMI programs, should ask themselves whether their partners will be as eager to offer these services as a means to more accurately determine true end-market demand and differentiate themselves from their competitors when demand picks up.

The success of VMI depends on the economic climate. VMI works during times of oversupply because it's easier for suppliers to control inventory when there's plenty of it.

Requests for VMI aren't likely to die down either. To ensure continuity of supply, OEMs and EMS providers will more likely rely even more heavily on their partners' programs in an effort to avoid ending up on allocation.

Will suppliers agree? If their customers' financial commitment is not iron-clad, will suppliers be inclined to continue offering these programs, or do away with them because the risk of carrying the inventory is too great? And can suppliers afford to maintain the level of investment to carry out these programs?

Remember, suppliers won't have a need to distinguish themselves from their competitors based on services, and instead will take business from any paying customer as soon as shortages hit the market.

Indeed, their level of commitment should be questioned.

The supply chain should turn inventory management over to distributors. The channel players recognize, too, that as they lose traditional distribution sales to more suppliers selling direct, they must find other revenue streams.

In response to the direct-sales trend, large distributors are offering VMI on a fee-for-service basis.

Avnet Electronics Marketing, for example, last week said that it will extend its VMI services to suppliers. It makes sense. The company already has the infrastructure in place to implement VMI programs for a countless number of suppliers on a global basis.

Component vendors should take them up on it. Suppliers should worry about cost-effectively advancing technology, not making inventory management a core competency.

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