

THE CMI MODEL

MANAGING INVENTORY OUTSIDE THE FOUR WALLS

Enhancing inventory operations through customer management

White Paper

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Connecting businesses to inventory everywhere

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Document Summary

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Overview:

The traditional approach to inventory management has been to view inventory within the four walls of an organization. Due to expanding markets and warehouses, along with manufacturers and distributors in different parts of the world, managing inventory beyond the four walls has become essential in business.

Customer Managed Inventory (CMI) is a business model that allows organizations to: access, control and replenish inventory from their manufacturers or suppliers. The benefits associated with CMI have given organizations a clear, complete edge in *attaining and retaining* customers, as well as cut operating costs significantly.

Clear Spider is the industry leader in CMI technology and offers a web-based application for organizations looking to implement this groundbreaking tool within their operations.



INTRODUCTION

Growing competition and customer expectations are forcing organizations to implement solutions that provide them with a competitive edge. While reductions in product price and other short-term strategies may help temporarily, changes to internal processes tend to bring more meaningful long-term results.

Organizations are looking at inventory as a means of improving business processes. Inventory consumes a large part of a company's balance sheet and as such, realizing cost savings in this area of business delivers profound effects. Customer Managed Inventory programs (CMI) can provide substantial benefits to implementing organizations.

CMI is a business model which provides organizations the ability to monitor, control and order inventory from their suppliers. It aims to integrate and simplify the supply chain. CMI is made effective by the use of technology applications, which assist in making the entire process efficient.

OUTSOURCING INVENTORY MANAGEMENT TO A 3rd PARTY

Companies began to realize that the best solution to their inventory problems would be to shift the burden to third party companies that specialize in developing inventory management software. This allowed them to better focus on their core business and free up valuable time. While implementing solutions provided by third party vendors, these organizations continued the trend with a new model of controlling inventory (CMI), which has resulted in significant expansion to numerous organizations.

WHAT IS CMI?

Customer Managed Inventory is a business model which gives customers in a vendor-customer relationship the ability to maintain and control their inventory. CMI rests on the customer's ability to have visibility of not only their inventory but also the inventory of their supplier. This information, along with pre-set maximum/minimum inventory parameters or re-order point logic, allows a CMI system to generate automatic replenishment orders. It's an efficient operation for not only the customer but also the vendor, who is better able to manage production accordingly.



THE BENEFITS OF A CMI MODEL

The CMI business model has the ability to solve many of the inventory related issues that may hinder the progress of an organization.

Some of the benefits associated with CMI include: increased sales, strengthened customer relations, reduced administration time, reduced costs, increased delivery performance and minimized shipping costs.

- **INCREASE SALES**

CMI has brought an increase in sales of over 20-35% to those companies who have implemented the tool. Its effectiveness comes from the system's ability to see on hand balances and generate orders prior to stock depletion. Avoiding stock-outs allow for the prevention of lost sales and continuous fulfillment of demand.

- **STRENGTHEN CUSTOMER RELATIONS**

CMI has helped many organizations form stronger relationships with their customers. Having available inventory, better shipping and delivery performance increases customer service levels and customer retention.

CMI also helps strengthen relationships with suppliers. Suppliers are able to relinquish much of the order taking responsibilities and a CMI system adds efficiency to their manufacturing and fulfillment process.

"A 5 percent increase in customer retention can translate to a 25 to 50 percent jump in profits."

Some of the benefits of strong customer relations include:

- Repeat customers spend 33% more than new customers
- Referrals among repeat customers are 107% greater than non-customers
- It costs six times more to sell something to a new prospect than a repeat customer



- **REDUCE ADMINISTRATION TIME**

CMI systems perform a large number of inventory management functions which free up time and resources required by organization personnel. This allows organizational members to focus on issues directed to the core of a company's business.

CMI executes replenishment so well that customer complaints and issues are a rarity. A significant decline in customer complaints helps relieve time spent dealing with these issues.

- **REDUCE COST**

CMI has a significant effect on an organization's revenue by creating sizeable reductions in its operating cost. This business model's ability to ensure that inventory is kept within minimum/maximum parameters prevents inventory buildups which cost companies millions of dollars in shrinkage, damage and obsolescence costs.

Carrying costs are also a considerable cost factor associated with excess inventory. Included in this cost are factors such as:

- Inventory financing charges
- Inventory insurance
- Increased difficulty for cycle count and inventory control

In fact, studies show that there is an increase in organizations dealing with the problem of excess inventory and the associated drawbacks associated with this situation, including product markdowns.

"The percentage of products that were marked down in the United States rose from less than 10% in 1980 to more than 30% in 2000, and surveys show that consumer satisfaction with product availability fell sharply during the same period."

(Avoiding the Cost of Inefficiency: Coordination and Collaboration in Supply Chain Management; BCG)

Cost of Capital	10-15%
Storage & Warehouse Space	2-5%
Obsolescence and Shrinkage	4-6%
Insurance	1-5%
Material Handling	1-2%
Taxes	2-3%

(source: Ross, David Frederick, *Distribution Planning and Control*, Chapman & Hall, 1996)

CMI eliminates the problems associated with excess inventory by restricting inventory re-order to be maintained within predetermined parameters. Along with full inventory visibility, there is no room for administrative errors or oversights which would result in excess inventory issues.

By having an application that streamlines the entire replenishment process, organizations realize significant savings and increase in productivity of the organization as a whole. As with the underlying theme of a VMI model, these benefits also extend to the customer organization.

- **INCREASED PERFORMANCE ON DELIVERY TIME**

CMI's forecasting capabilities allow for better planning in the inventory replenishment process. This allows inventory to be available when required and eliminates inventory stock-out and mismanagement of inventory.

Further, CMI allows organizations to better coordinate with the manufacturing schedule and inventory planning of their suppliers. This ability to better manage and plan the entire supply chain process makes meeting delivery performance standards easier.

- **SHIPPING COSTS MINIMIZED**

Another drawback of dealing with poor delivery performance is the increased shipping costs that must be paid for last minute, rush deliveries. Allowing for planned shipments greatly minimizes transportation and shipping costs for organizations. With better managed shipping, companies save thousands of dollars in expedited or last minute shipping costs.

The current economic climate which is giving rise to rising fuel costs makes efficient planning of transportation and shipping a necessity. The CMI model's ability to forecast and plan in advance has given organizations significant cuts in shipping expenses.



CLEARSPIDER

Clear Spider is the industry leader in Customer Managed Inventory and Vendor Managed Inventory solutions. Clear Spider offers a web-based inventory management system that eliminates the major inventory management problems that organizations encounter with remote inventory.

Clear Spider's web-based application allows users to log on from any part of the world, at any time, as long as they have a browser. The convenience of being able to access the system makes Clear Spider an industry favorite.

Clear Spider's system has been designed to work in a wide range of industries and organizations with varying levels of expectations and needs. Clear Spider is designed to be flexible. Our team of industry professionals takes full responsibility in deploying the solution to fit the needs of your organizations.

As well as CMI solutions, the company is also the industry leader in Vendor Managed Inventory (VMI) and inventory management services. The former allows the supplier/vendor, as opposed to the customer in the CMI model, to monitor and control inventory replenishment. The latter allows inventory within an organization to be managed more effectively.

Whichever the deployment model (CMI/VMI), Clear Spider provides a quality product and service at a competitive rate. Users can opt to either purchase the software or pay a monthly subscription fee (on demand).

Whether an organization is looking to implement such a system or is curious in learning more about the possibilities of a CMI system, they are encouraged to contact Clear Spider.

HOW IT IS USED

Web-based

The Clear Spider application can be accessed online through the use of an Internet browser. With minimal hardware and software requirements, the system allows maximum efficiency for all users of an organization.

Reports

The Clear Spider system also promotes efficiency by producing reports of purchase orders generated in the system. These reports can be downloaded in an .XML format. Open purchase orders, which show purchases for which shipment has not been received or not accounted for in the system, are highlighted within the system.

Reports and data can also be imported into the Clear Spider system and data can also be exported into your business systems in numerous formats.



SECURITY

The Clear Spider system has been architected to provide access to a myriad of users who are looking to achieve specific goals. They are architected to run so that all users can enter a DMZ or demilitarized zone to access their data. This ensures they are not entering corporate systems where sensitive financial data is housed. Various user types can be setup so a particular customer or supplier can see just their data or the portion of it that you want them to see. This allows the users to collaborate more freely in an environment setup for this particular purpose.

INTEGRATION

Clear Spider's CMI systems have been architected to allow for data integration both into and out of the system. The benefit that a supplier experiences by having replenishment orders flow directly to his fulfillment systems is as important as the benefit a customer receives by having the purchased material information flow directly into their business systems. The system allows for smaller clients to key data, use various file formats to both import and export data, and for larger clients to use EDI to XML to accomplish their integration goals. These integration capabilities further reduce the cost to both acquire inventory (the cost of Purchase Orders), as well as replenish it (the cost of Order Management).

BAR CODING TECHNOLOGY and POINT OF USE TECHNOLOGIES

Additionally through the use of various bar coding technologies (wedge scanners, data collective devices, RF scanners, RFID), and through the use of dispensing equipment or scales, inventory changes can be quickly and easily captured. This allows for fewer transcription errors and reduces the effort involved in everything from cycle counts to the process of adjusting or consuming inventory, thus further automating the CMI model.



CONCLUSION

Inventory management has historically been viewed from an internal organizational perspective. However, with evolving technological applications, organizations are beginning to implement business models that enhance inventory management. Customer Managed Inventory (CMI) gives organizations visibility of supplier inventory which allows them to better plan, control and order inventory.

Managing inventory outside the four walls has proven to be a successful venture for those organizations with sales increasing an average of well over 20%. Managing inventory with a CMI model allows business to: reduce stock-outs, strengthen customer relations, reduce operating and administration costs, and increase delivery performance. Whether it is the vendor/supplier or the buyer/customer, CMI solutions provides benefits that both parties can enjoy.

FOR MORE INFORMATION:

For information on the different services offered by Clear Spider including Vendor Managed Inventory (VMI), Customer Managed Inventory (CMI) and Inventory Management, please contact Clear Spider:

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