ABSTRACT

Inventory is an important asset for every single company and in every kind of business, whether it be in the form of raw material, work-in-process (WIP), finished goods, or maintenance, repair, and operating (MRO) supplies. Although inventory plays a significant role in keeping the business operating, it in turn, represents one of the biggest operating costs for most companies.

Vendor-Managed Inventory (VMI) is a collaboration tool and is one of the most well-known initiatives that has gained the interest of many supply chain practitioners. One of the benefits expected by putting VMI into practice is the overall reduction of inventory level, as well as inventory cost, for an entire chain. Most of the time, VMI allows the customer to make an adjustment to the proposed order (this initiative is referred to as Co-Managed Inventory) even though this adjustment might not be necessarily needed. The purpose of this paper; therefore, is to make an investigation into the effect of order adjustment on inventory carrying cost.

Towards the end of this report, key findings on the positive contribution of no order adjustment are discussed. The savings, in terms of inventory carrying cost, is computed and compared between the two scenarios, VMI and Co-Managed Inventory. A suggestion is finally made to the management of the company to consider the option of operating VMI instead of Co-Managed Inventory, in order to capture the saving benefit in the inventory carrying cost.