

Overview

The purpose of this document is to outline the general operation and associated requirements of Variety Wholesalers' Vendor Managed Inventory partnerships. The basic operation of the VMI program at Variety Wholesalers is in line with common practices used by other mid- to large-size retailers today, whereby Variety, as the customer, supplies data to its vendor relating to item sales and/or stock position by store and item, and the vendor uses that information to automatically replenish its items in Variety's stores.

Evaluation and Testing

Establishing a productive VMI partnership involves detailed evaluation and planning of all the requirements and steps that must be accomplished, in advance of the partnership's activation. A high-level outline of those steps might be:

- a. Variety's buyer decides that an established vendor will be a good candidate for a VMI partnership, and that the vendor's products can be effectively replenished using methods common to VMI. Most often goods are delivered directly to each store that is enrolled in a particular vendor's VMI program.
- b. The vendor's authorized representative agrees to participate in a VMI relationship with Variety, and agrees on the vendor's behalf that the vendor will develop and test or has already developed and tested the associated processes and systems.
- c. The vendor's authorized representative and Variety's buyer work together to determine which of the vendor's items and which of Variety's store locations will be involved in the VMI program. Variety's buyer must supply to the vendor's authorized representative the Variety SKU numbers for items included in the VMI program, and the physical addresses of each store that will be replenished via the VMI program. In addition, the buyer and vendor's authorized representative should establish the Order-At and Order-Up-To points for each item and store. All this information must be used as input to the vendor's automated replenishment system.
- d. Variety's buyer communicates the VMI partnership request to Variety's EDI Coordinator, along with contact information for the vendor's technical staff.
- e. Variety's EDI Coordinator contacts the vendor's technical staff, and supplies specifications for EDI documents 852 ("Product Activity Data," hereafter known in this document as EDI 852) and 856 ("Ship Notice/Manifest," hereafter known in this document as EDI 856). Variety's EDI Coordinator will also provide testing and implementation support and cooperation. The vendor's technical staff should advise Variety's EDI Coordinator whether the vendor wants the EDI 852 document to contain item onhand units only, item sales only, or both onhand units and sales. Both values

would be supplied for each store and item in the VMI program, and if sales are included, those sales will be for the period of one week.

- f. The vendor's technical staff, working in conjunction with Variety's EDI Coordinator and its own authorized representative, sets up all parameters and system settings in their internal systems, and prepares to receive an EDI 852 document from Variety's EDI Coordinator.
- g. While the vendor's technical staff is working on item (f), Variety's EDI Coordinator will create Trading Partner and Test-Level EDI definitions supporting the EDI 852 and EDI 856 documents which will eventually be traded.
- h. When both Variety's EDI Coordinator and the vendor's technical staff are ready, an EDI 852 document will be sent from Variety to the vendor. Note that EDI 852 documents are created and sent once per week, on Sundays. Also at this point, Variety's EDI Coordinator will furnish to the vendor's technical staff a pre-defined range of purchase order numbers which are to be used on the shipments created by the vendor's automated replenishment system.
- i. The vendor's technical staff will advise Variety's EDI Coordinator of receipt of Variety's EDI 852 and the status of its interpretation and interface to the vendor's internal systems. If problems arise, they should be resolved before moving forward to the EDI 856 document. When the EDI 852 is problem-free, both parties should make it a Production document in their respective systems.
- j. The EDI 852 document received by the vendor should be used as input to the vendor's automated replenishment system. The vendor's system should use the data in the EDI 852 document to either (a) compare the Variety-supplied current onhand units, comprised of onhand plus on-order, for an item in a store to the Order-At point established for that item and store, and if current onhand is less, generate a shipment to build the store's inventory level up to the Order-Up-To point, or (b) use the Variety-supplied sales units for an item in a store to decrease a vendor-maintained onhand units level to determine the vendor-maintained current onhand units level. The vendor-maintained current onhand units level should then be compared to the Order-At point established for that item and store, and if current onhand units level is less, generate a shipment to build the store's inventory level up to the Order-Up-To point.
- k. Once automated replenishment processes have determined the suggested shipment quantities for each item and store, an EDI 856 document should be created for each store for which shipments are suggested, and sent to Variety via normal EDI transmission vehicles. EDI 856 documents should conform to the specifications obtained from Variety's EDI Coordinator. Each EDI 856 document should bear a unique Variety purchase order number from the series of purchase order numbers that was supplied by Variety's EDI Coordinator in item (h). **Vendor's EDI 856 data should always be sent to Variety and arrive prior to merchandise arrival at stores.** Note that the first set of EDI 856 documents should be sent to Variety as Test documents, after which time Variety's EDI Coordinator will work with the vendor's technical staff to make

necessary corrections. When the EDI 856 is problem-free, both parties should make it a Production document in their respective systems.

Production Document Trading

Once both the EDI 852 and EDI 856 are in Production, Variety will send the EDI 852 every Sunday, and then receive EDI 856 documents as the vendor sends them. The EDI 856 documents will be converted to purchase orders in Variety's Merchandising System.

The vendor should ship the merchandise to Variety's stores, including in each shipment a Bill of Lading or Packing Slip that bears the correct Variety purchase order number for that store, and the correct Variety item numbers for the items included in the shipment. Each store location can then detail-receive, in Variety's Merchandising System, the shipped merchandise using the correct purchase order number and item numbers.

The vendor should generate an invoice for each shipment-purchase order. It should include the correct purchase order number and Variety item numbers. **We expect that a window of 24 hours or more should exist between the send of the EDI 856 data and applicable EDI 810-invoice data.** Quantities billed on the invoice should be in eches, whenever possible. 810-invoices will be processed and forwarded to Variety's Accounts Payable section per normal custom. The VMI program implementation has no effect on methods used by the vendor for the delivery of Variety Wholesalers' invoices.

Please note that each Variety purchase order number should be used only once. When all order numbers in the series have been used, another series must be requested from Variety's EDI Coordinator. The new series must be incorporated as appropriate into the vendor's automated replenishment system.

Additionally, either the vendor's technical staff or its authorized representative should stay in close contact with Variety's buyer to ensure that all item and store information remains up to date. The vendor must be informed when stores open, if those stores are to be included in the VMI program; when VMI-replenished stores close; when Order-At or Order-Up-To levels should change; or when items are added or removed from the program. This information will not be passed to the vendor via the EDI 852 document, so must be communicated in other ways.

Variety Wholesalers Contact Information

EDI Coordinator:	Lisa Cooper	(252) 430-2303 lcooper@vwstores.com
EDI Technical Liaison:	Jane Bowman	jbowman@vwstores.com

End of VMI Specification