

VMI Sample Contract

(as an Appendix to Main Supplier Contract)

Sidenote: All terms likely to be settled in main trade/supply agreement, have been left out to make it LEAN

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between

name of Buyer, address, code, town (hereinafter referred to as «Buyer»)

and

name of Vendor, address, code, town (hereinafter referred to as «Vendor»)

1. Object and term of the agreement

- 1.1. The object of this agreement is to regulate a Vendor Managed Inventory (VMI) process between Buyer and Vendor. It is agreed that under Vendor Managed Inventory:
 - The customer gives the supplier full responsibility to replenish inventories.
 - Both the customer and the supplier agree to share all the information which is necessary for VMI.
 - The supplier assures the customer the level of performance specified in the SLA.
- 1.2. This agreement comes into force **on (date)**, and the Vendor will operate the vendor managed inventory from calendar week **XX (order date)** onwards. The agreement is concluded for an indefinite period of time.
- 1.3. Unless otherwise specified in this agreement, the provisions of the main trade agreement (**date**), the general terms and conditions of business as well as the Buyer's logistics guidelines apply.

2. Service Level Agreement (SLA)

- 2.1. Parties agree to share all the information needed to support VMI over electronic data interchange (EDI), as specified in chapter 4. They commit themselves to adapt their information systems to new business processes.
- 2.2. Goals for performance, KPIs.
 - 2.2.1. Parties agree that the goal of VMI program is to increase availability while optimizing inventory. The following metrics and their target values are agreed upon:
 - Availability increase by **2%**.
 - Average days of sales (DOS) decrease **by 4 days**.
 - 2.2.2. The relevant KPI report is issued **monthly** and discussed in detail in a review meeting. In case the targets have not been reached, **...**
- 2.3. Handling of out-of-stock problems
 - 2.3.1. The parties undertake to inform each other immediately if signs of an OOS become evident and together find a solution.
 - 2.3.2. When a longer OOS (more than **7** days) occurs for the first time, the parties undertake to have a meeting within **X** days, in which the further steps are jointly specified in a form that is binding to the parties.
 - 2.3.3. In the event of recurring longer or shorter OOS, the Buyer may advise the Vendor by means of official notice that in the event of another OOS, he will invoice the margin lost in relation to the lost sales including a flat rate administrative fee of the mutually agreed amount. The lost sales are calculated on the basis of the average daily revenue of the Buyer's points of sale in the previous month multiplied by the number of OOS days from the date of the notice.
 - 2.3.4. Force majeure. Where proof is provided that the OOS was due to force majeure, any liability to pay compensation is waived. Typical traffic congestion does not constitute force majeure.
- 2.4. Delivery terms.
 - 2.4.1. Delivery times by Buyer locations are specified in chapter 4.4

- 2.4.2. The parties agree to inform the other party **X** days in advance if there will not be a delivery for a valid reason. During such period exceeding max quantities and OOS are allowed temporarily until the next expected delivery.
- 2.4.3. Emergency deliveries, which allow to react to unexpected demand changes (e.g. due to weather changes for seasonal products), can be done **(list of occasions)**.

3. Agreed Assortment and Promotions

3.1. Assortment.

- 3.1.1. Assortment will be agreed for **(x) months**. The assortment list is managed in an Assortment File **(name and location)**, which is coordinated by both parties. In case assortments differ by Buyer locations, the Assortment List should specify all assortments by locations.
- 3.1.2. Target minimum and maximum stock levels and delivery units are specified in the Assortment File. The minimum and maximum stock levels of each item will be reviewed **(how often)**.
- 3.1.3. Updates to assortment (new products, replacements and delisting of products) will be done as previously. New introductions, replacements and delistings are planned mutually.

3.2. Handling of promotions.

- 3.2.1. Vendor promotions are managed by **Buyer/Vendor**.

The Buyer must order the promotional volume from the Vendor no later than **X** weeks prior to delivery. Separate orders (EDI orders) are generated by the Buyer's inventory management system for this purpose. Any additional deliveries during the promotion are initiated and/or confirmed by Buyer.

Or

The Buyer discusses the rolling promotion schedule with the Vendor and determines the promotional volume to be sold jointly with the Vendor. No ordering from Buyer, and VMI is used to replenish also promotional items.

- 3.2.2. Buyer promotions. In case the Buyer plans measures to boost sales, such as longer opening hours, coupons or nationwide special offer days, the Buyer undertakes to advise the Vendor **X** weeks prior to the activity, so as to enable the Vendor to ensure general product availability.

4. Information Exchange

4.1. Information sharing over electronic data interchange (EDI)

- 4.1.1. EDI services of **(name of EDI operators)** are used to exchange all data and documents between the parties. All documents will be forwarded in either **(XML, EDIFACT, Ideal Message, etc) format**.
- 4.1.2. If the Buyer receives an EDI transmission regarding an imminent delivery too late, or the transmission is incorrect or the Buyer does not receive it at all, the resultant costs are charged to the Vendor, unless he proves that he cannot be held responsible for the circumstance.
- 4.1.3. Back-up process. If the electronic data interchange cannot be guaranteed for several days, the Vendor is authorised to trigger the order process on the basis of the available data (extrapolation). In such circumstances, the Buyer undertakes to send daily inventory reports to the Vendor by fax or e-mail.

4.2. Data quality

- 4.2.1. Data quality is a key requirement for a successful VMI process. For this reason, sensibility checks and rigorous detection and elimination of the root causes of false alerts are fundamental and need to be established in the work procedures.
- 4.2.2. Each partner is responsible for keeping their data updated and ensuring a defined level of data accuracy, e.g. there is a responsible person for system performance and helpdesk assigned.
- 4.2.3. If there is ambiguous information, the receiver of information is responsible for clarifying the situation with the sender.

- 4.3. Standardised EDI documents that are exchanged between Buyer and Vendor are **(pick from list)**:

Code	Description	Responsible for sending	Frequency
INVRPT	Inventory Report	BUYER	Daily
SLSRPT	Sales Report	BUYER	Daily
PROACT	Product Activity Report	BUYER	Daily
ORDRSP	Order Response	VENDOR	For each transaction

DESADV	Despatch Advice	VENDOR	Before each delivery
RECADV	Receipt Advice	BUYER	On each receipt
...			

- 4.4. Product master data synchronization. For each product, the following attributes need to be shared (on top of regularly exchanged master data):

Field	Explanation	Sample value
GTIN	Global Trade Item Number	120788734657
Minimum target stock	Replenishment point, safety stock	4 CU / 6 DOS
Maximum target stock	Level of stock that should not be exceeded	8 CU / 10 DOS
Order processing time		1 day
In transit time		2 days

- 4.5. Locations, Buyer warehouses/locations. The following elements should be detailed:

	Field	Explanation / Sample value
1	Ship to address GLN	
2	Invoice to address GLN	
3	Replenishment frequency	Daily / weekly or Mo and Thu
4	Agreed delivery time	10:00 a.m.

5. Miscellaneous

- 5.1. The parties undertake to treat as confidential vis-à-vis third parties all information which is marked as confidential or which obviously is confidential and which they receive from each other as part of the VMI cooperation. They ensure that their employees and contractual partners also comply with this obligation. This duty to maintain secrecy continues after the end of the agreement for as long as there is an interest in maintaining confidentiality.
- 5.2. The contacts at both contractual parties for Operations, Sales, Management and Technical Support are listed in Contacts list below:

	Vendor	Buyer
VMI Project Owner		
Operations		
Sales		
Tehcnical Support		
...		

If specific responsibilities are reassigned in the course of business, the relevant adjustments must be made within X weeks, taking into account the formal requirements agreed.

- 5.3. Amendments and supplements to this agreement and its appendices must be in writing and by mutual agreement of the parties.

5.4. Termination of contract

- 5.4.1. The present agreement will automatically end when the underlying main agreement ends, without requiring separate notice of termination. VMI cooperation may be terminated by either party to the end of each month, subject to a notice period of **X** months, whereby the validity of the main agreement may continue independently.
 - 5.4.2. Contract can be ended upon Vendor's continuous failure to replenish goods, and achieve the target KPIs.
 - 5.4.3. In addition, each party has the right to terminate this agreement without notice for good cause at any time. Any circumstance which makes it unacceptable for the party terminating the agreement to adhere to the agreement until the next possible ordinary date of termination is deemed to be good cause. This includes, for example: the opening of bankruptcy proceedings or composition proceedings relating to the counterparty.
- 5.5. This agreement is governed by **(your country)** law. Any disputes arising during the performance of the agreement shall be resolved by way of negotiations. Upon failure to reach an agreement, the disputes shall be settled in **Some Court**. The arbitral tribunal shall be composed of a sole arbitrator and the language used in the arbitral proceedings shall be **English**.
- 5.6. This agreement is drawn up in duplicate. Each party receives a copy signed by both parties.

Place, date

Name and signature of the Vendor; Supply Chain Manager and Key Account Manager

Name and signature of the Buyer; Supply Chain Manager and Purchasing Managers