

Consignment stock: using supplier stock in your own plant

A consignment stock is a stock in which the supplier's goods are physically held at the buyer's premises but legally remain the supplier's property until withdrawal. The buyer only consumes the stock when they actually use it for production or resale. This makes it possible to shorten delivery times, reduce capital tied up and increase supply security.

Key facts

- With a consignment stock, the goods remain the legal property of the supplier until withdrawal.
- Withdrawn quantities are typically settled periodically, often monthly, (call-off or consumption-based invoicing).
- In practice, mainly C-parts, standard components and fast movers are supplied via consignment models.
- Stockkeeping usually takes place directly at the buyer's premises, less frequently in an external logistics centre of the supplier.
- Key advantages are lower capital tied up, shorter response times and reduced procurement costs.
- Clear contractual provisions on ownership, insurance, stocktaking and withdrawal are essential.

Definition: consignment stock

A consignment stock is a stock at the customer's premises filled by the supplier, whose stock legally remains the property of the supplier. Only upon withdrawal from the stock does the goods pass into the buyer's ownership and become the basis for invoicing. The availability of material directly at the production site combines the advantages of stockholding with low working capital deployment.

Distinction from other stock models

Unlike a classic storage warehouse, with a consignment stock the supplier bears the capital tie-up risk and, to a large extent, the obsolescence risk until withdrawal. It differs from a framework supply agreement in that not only quantities and prices are regulated, but also the physical provision at the customer's premises. There are also overlaps with the extended workbench warehouse (Vendor Managed Inventory): responsibility for stock management and replenishment typically also lies with the supplier there, but the legal transfer of ownership can be structured differently.

- Storage warehouse: ownership and risk with the buyer, payment on delivery.
- Consignment stock: ownership with the supplier, settlement on withdrawal.
- Vendor Managed Inventory: supplier controls stock levels, ownership transfer contractually flexible.

Typical areas of application in industry

In the manufacturing industry, consignment stocks are particularly suitable for parts with high consumption and low unit value: fasteners, wear parts, seals, tools or standard electronics. The model is also frequently used for powders, gases, lubricants or raw materials with stable demand. For high-value

A-items or slow-moving positions, however, it is rarely economical, as the supplier has to tie up capital and will demand this in the price or in terms.

Methods and approach: setting up a consignment stock

Setting up a consignment stock follows a structured process from article selection to the operational operating agreement. The decisive factors are the selection of suitable articles and suppliers as well as a clean contractual and system representation in the purchase-to-pay process.

Article and supplier selection

The starting point is an ABC-XYZ analysis: consignment models are particularly suitable for C- and B-items with high and stable consumption (X and Y profiles). A bottleneck analysis additionally shows which articles are critical for production and benefit particularly from local availability. Suitable suppliers are partners with reliable delivery performance and a willingness to invest in stock; benchmarking in procurement often provides indications of market-standard models.

- Determine demand profiles using ABC-XYZ analysis.
- Identify critical articles additionally via bottleneck analysis.
- Check suppliers for logistics capability and financial strength.

Contractual design

The consignment agreement or an annex to the framework supply agreement regulates minimum fill quantities, reporting and settlement cycles, prices and price changes, ownership arrangements, insurance and risk bearing, limitation periods for consignment stock as well as notice periods and handling of residual stock. A right to audit gives the buyer the right to inspect stock and settlement records. Since transfer of ownership, transfer of risk and tax treatment can be relevant depending on the country, the design should be reviewed legally and for tax purposes on a case-by-case basis.

- Define minimum and maximum stock levels per article.
- Establish the withdrawal and settlement mechanism (e.g. self-billing).
- Agree right to audit and take-back provisions for residual stock.

System integration and processes

Consignment stock must be managed in the ERP or inventory management system as special stock with an ownership indicator. Withdrawal takes place via scanning or weighing processes, from which call-off reports to the supplier and invoice or credit note documents are generated. Mandatory fields for storage location, article, quantity and ownership status prevent confusion with own stock. A duplicate check during article creation ensures that consignment and own stocks do not drift apart as separate articles of the same part. Optionally, the supplier can exchange replenishment and settlement data automatically via ASN procedures (Advance Shipping Notice) or punchout interfaces.

Key KPIs for consignment stocks

Consignment models can be steered with clear key figures. It is important to separate service-oriented and cost-oriented metrics in order to make delivery capability and capital advantages equally visible.

Availability and delivery performance

The supplier's delivery reliability (on-time-in-full) and the fill rate compliance against agreed minimum

stock levels show whether the model actually increases supply security. The lead time from withdrawal report to replenishment is also a central indicator. If it falls below the lead time of conventional procurement, the model's main advantage has been realised.

- Delivery reliability: typically target values above 95 to 98 per cent.
- Fill rate: proportion of articles above the minimum order quantity.
- Response time in demand peaks as an additional key figure.

Stock, capital tie-up and process costs

Although the stock legally belongs to the supplier, it ties up space, handling and capital in the broader sense. Key figures such as stock coverage in days, storage space utilisation and withdrawal rate (ratio of withdrawals to minimum stock) reveal whether the stock is correctly dimensioned. On the buyer's side, the model does not automatically reduce days payable outstanding, but shifts the point of payment to actual use. Overall, process costs fall through reduced ordering processes, as the requisition cycle time share for standard parts shrinks considerably. In addition, the effort for requalification when changing storage locations is often eliminated, as the articles remain under defined storage conditions.

Risks and controls in consignment stock

Consignment stocks reduce risks on the buyer's side, but do not eliminate them entirely and create new ones. Without clear control mechanisms, stock discrepancies, settlement errors and legal grey areas frequently arise.

Economic and operational risks

Suppliers can effectively have consigned stock financed by the customer through pricing or minimum fill quantities; the savings should therefore be benchmarked regularly against alternative procurement routes. With shifts in product demand, outdated stock is a risk, and the disposal or take-back arrangements for it must be agreed transparently. Operationally, there is a risk of double bookkeeping and stocktaking discrepancies if storage locations and ownership indicators are not properly maintained.

- Regular price and model comparison against alternative suppliers.
- Anchor stocktaking obligation and discrepancy clause in the contract.
- Fix obsolescence and take-back rules in writing.

Contractual and legal controls

Since the goods remain the property of the supplier until withdrawal, the supplier may in certain circumstances have rights of separation in the event of the customer's insolvency; conversely, in the event of a supplier's insolvency the buyer must clarify whether the stock can continue to be used. Insurance cover, duties of care in storage and liability for damage should be expressly regulated. For quality matters, the requirements for quality management in procurement apply unchanged: incoming replenishment deliveries must be capable of being checked for conformity, especially for regulated products or requirements arising from a Restricted Substances List (RSL). For deadlines and orders affecting the consignment stock, clarity about withdrawal and termination rights up to termination for cause in the event of repeated fill rate breaches is also recommended.

Current developments around consignment stock

Digitalisation, sustainability requirements and supply chain pressure are changing the way consignment

models are operated and evaluated.

Digitalisation and automation

Intelligent cabinets, weighing systems and RFID-supported withdrawal points record consumption automatically and independently trigger replenishment and settlement. This reduces the requisition cycle time path to virtually zero and minimises stock discrepancies. In the purchase-to-pay environment, self-billing procedures are increasingly replacing classic invoices; the obligation to confirm orders is partially eliminated in such models, as framework agreements and consumption reports carry the process. A prerequisite is uniform mandatory fields in the master data of both systems.

Supply chain security, sustainability and financing

In times of disrupted supply chains, local buffers in the form of consignment stocks are gaining in importance, especially for critical pre-products. Sustainability requirements such as CO2 pricing or CO2 price clauses can influence consignment models, since shorter, consolidated replenishment routes can reduce emissions. On the financing side, consignment is also discussed as implicit supplier financing; buyers should note that aggressive pressure on supplier stock can aggravate the days payable outstanding and balance sheet discussion. With international partners, AEO status (Authorised Economic Operator) can facilitate the flow of goods from a customs perspective; project-capable safeguards such as a bank guarantee are rarely necessary for consignment stock of high value, however, but can make sense for value-intensive pilot stock as part of a proof of concept procurement.

Typical metrics

Delivery reliability (OTIF): > 95–98 %

typical target value for consignment suppliers

Fill rate compliance: > 97 %

proportion of articles above the agreed minimum stock levels

Replenishment time: < 5 working days

time from withdrawal report to replenishment; can be considerably shorter depending on the article

Reduction in ordering processes: up to 80 %

typical magnitude in practice for C-parts compared with conventional procurement

Practical example

A medium-sized mechanical engineering company with around 400 employees repeatedly experienced production stoppages due to missing small parts in fasteners, wear parts and tools, even though the overall stock was high. Following an ABC-XYZ analysis, around 1,200 C-items with stable consumption were identified as suitable for a consignment model. Three regional suppliers took over the filling of two consignment stocks close to the plants with minimum fill quantities and monthly consumption-based settlement via self-billing.

- Introduction of barcode-supported withdrawal points with automatic consumption reporting to the suppliers.
- Consignment agreement with right to audit, stocktaking obligation and take-back of residual stock on termination.
- Special stock management in the ERP system with an ownership indicator and duplicate check during article creation.

- Six-monthly benchmarking of terms against alternative suppliers.

Conclusion

Consignment stocks combine high local availability with low capital tie-up on the buyer's side and are therefore a proven instrument for standard and C-parts in the manufacturing industry. Decisive for success are the right article and supplier selection, a precise contractual regulation of ownership, settlement and stocktaking as well as a clean system representation. With automated withdrawal and settlement processes, process costs can be reduced noticeably and delivery capability increased. At the same time, economic risks such as obsolescence and price disadvantages are not automatically ruled out and require regular monitoring. Those who operate the model with discipline gain supply security and working capital flexibility at the same time.

Frequently asked questions

What is a consignment stock in simple terms?

A consignment stock is a stock held at the customer's premises that is filled by the supplier and in which the goods remain the supplier's property until they are withdrawn. The buyer draws material as needed directly on site. Only the withdrawn quantity is invoiced, typically on a monthly basis.

Who owns the goods in a consignment stock?

Until withdrawal, the supplier remains the owner of the goods; ownership only passes to the buyer upon withdrawal for production or resale. This arrangement should be expressly fixed in the contract, as it can also have implications in the event of insolvency. The exact legal treatment must be examined on a case-by-case basis.

What advantages does a consignment stock offer buyers?

Buyers benefit from lower capital tied up, because they only pay when the material is used, as well as from high availability and short response times directly at the production site. The effort for ordering and inspecting standard parts falls significantly, which reduces process costs. In addition, supply security increases in the face of fluctuations in the supply market.

Which articles are suitable for a consignment stock?

Articles with high, stable consumption and low to medium unit value are particularly suitable, such as fasteners, wear parts, seals, tools and operating supplies. An ABC-XYZ analysis helps to identify the right items. A-items and slow movers are usually unsuitable because of the capital tied up at the supplier.

How does invoicing work with a consignment stock?

Settlement is usually done via consumption-based invoicing or self-billing: the withdrawn quantities are recorded, reported to the supplier and invoiced or automatically settled periodically, usually monthly. The basis is contractually defined prices and reporting cycles. Digital withdrawal systems now record the quantities largely automatically.

What is the difference between a consignment stock and Vendor Managed Inventory?

With a consignment stock, ownership of the goods lies with the supplier until withdrawal, and the focus is on physical provision at the customer's premises. Vendor Managed Inventory describes more comprehensively that the supplier takes over stock planning and replenishment control; ownership

transfer in that case is freely negotiable by contract. In practice, both models are frequently combined.