



March 7-9, 2017 • Austin, TX
Hyatt Regency Lost Pines Resort and Spa

Protecting Margins while Preserving Efficiency

The 2016 LogiMed Benchmark Report





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Executive Summary

The medical device manufacturing industry is quickly reacting to cost pressures created both by regulation, including changes made by the Affordable Care Act, as well as competition in the market. With the need for savings to be built in to the framework of the organization, supply chain is an area that many are looking to reevaluate, seeking to protect their margins while promoting efficiency and reliability.

A high-inventory approach with static warehouses and lower annual inventory turns is no longer viable. Now, the industry is focused on adopting and perfecting a lean inventory approach, which places a heavy emphasis on adaptability to emerging markets, high inventory turnover, and the ability to both accurately gauge demand and quickly respond to it.

The majority of medical device manufacturers have been able to conform to the pressures of the market, or at least take steps towards doing so. However, they must also continue to reach ambitious savings targets. In order to do so, new technologies including improved ERP and inventory management solutions are being examined, as well as outsourcing of warehousing, fulfillment networks, or both. Ultimately, the call to become leaner has supply chain managers making tough choices about what they can outsource, what should be developed internally, and which technology solutions can help them maintain a view of their operations.





Medical device professionals have largely achieved the creation of reliable networks, but are facing cost pressures due to external factors including the Affordable Care Act.

Across all the metrics related to supply chain performance, over half of brands are exhibiting near optimal performance. This is a testament to the demands of the industry, where a failure to deliver predictably can put lives at stake. However, 58% are now facing pressure to reduce costs due to the ACA, meaning they must innovate to maintain reliability while cutting excess spend.



Balancing reliability of delivery with cost controls means adopting more pragmatic approaches to storage and fulfillment.

Techniques for controlling costs, while maintaining efficiency include shared warehouse space, investigation of third-party logistics (3PL) options, and evaluation of solutions that can more closely monitor inventory. Critical factors for success are flexibility, as well as the ability to react quickly to new market opportunities.



Being able to predict demand is more critical than ever in order to optimize inventory turns and minimize loss due to obsolescence.

Aside from developing more flexibility in the supply chain itself, inventory solutions that can track, then forecast demand for products are becoming more important components of supply chain management. With a tighter focus on the bottom line, the margin for error in demand forecasting has also shrunk, highlighting the growing value of visibility.

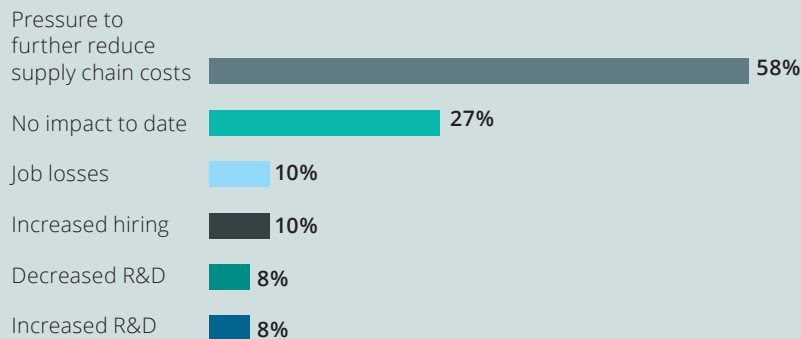


For more LogiMed content and information on the event, visit www.Logimed.wbresearch.com!



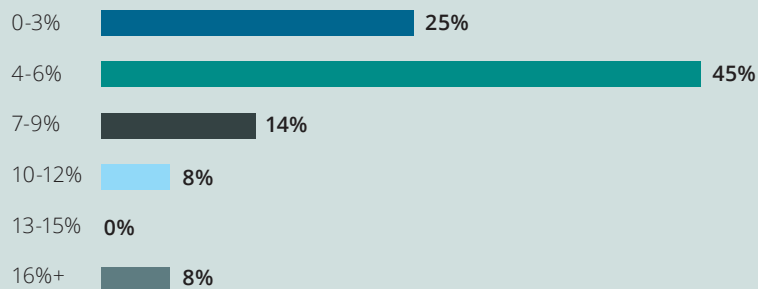
Meeting medtech supply chain savings targets after the Affordable Care Act

How has the Affordable Care Act impacted your company? (check all that apply)



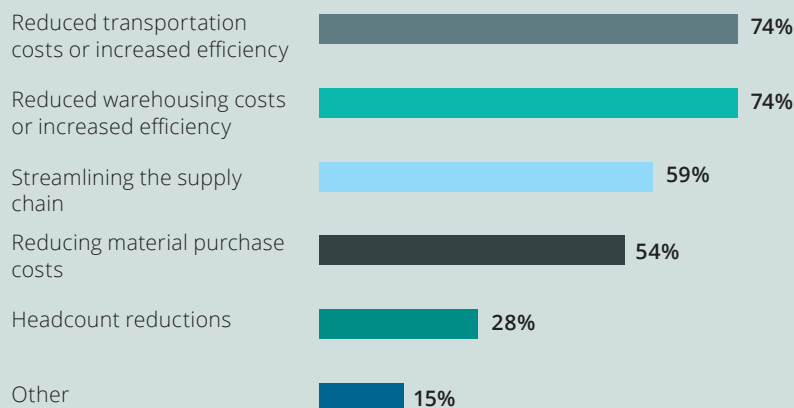
For the majority of medtech supply chain managers (58%), the Affordable Care Act has had the effect of creating further pressure to reduce the costs of their supply chains. While just over a quarter (27%) have seen no impact at all, an equal share (8%) have had their emphasis on R&D either increase or decrease, and hiring increase or jobs be cut from their payrolls (10%).

What supply chain savings targets are you currently charged with?



Close to half (45%) of supply chain managers are tasked with creating savings for their organizations between 4-6%, while another quarter are responsible for between 0-3% savings. Just under one in ten (8%) supply chain managers is tasked with the lofty goal of creating over 16% savings in their supply chain.

How are you approaching that savings?

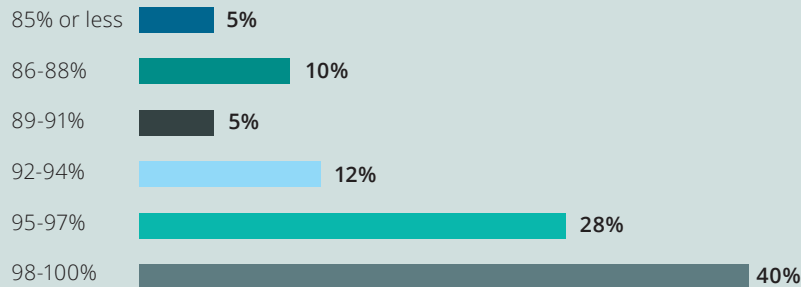


When it comes to the techniques that supply chain managers are using to create these savings, the majority are exploring at least several options, the most common of these being reducing the costs of warehousing and transportation by increasing the efficiency of how they are used. For 59%, streamlining the supply chain is a key piece of their efforts to create savings, while 54% are trying to reduce their material purchasing costs. For 28% of supply chain managers, a reduction of their team's headcount has become unavoidable.



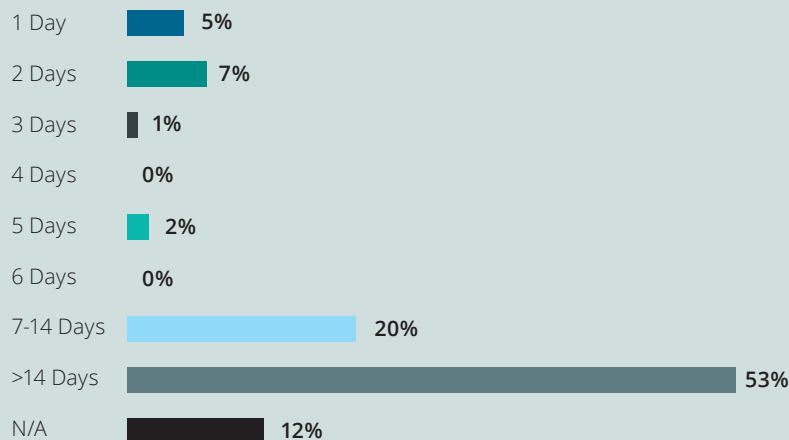
Managing fulfillment and anticipating demand

On Time Delivery (Number of items delivered on time divided by total number of items ordered)



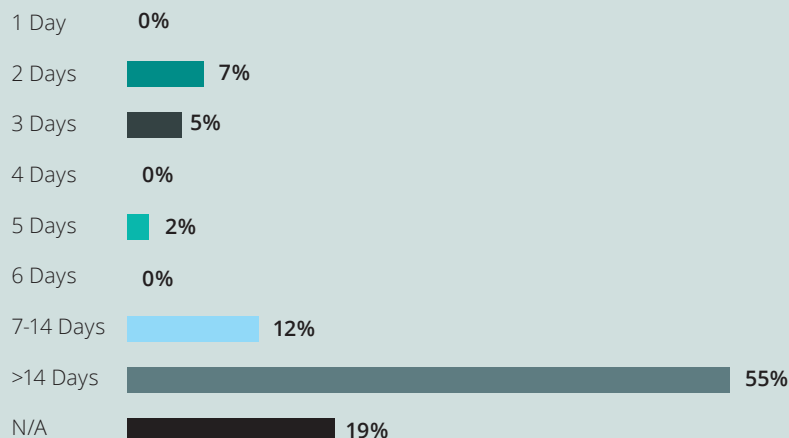
On time delivery (OTD) is one of the most critical metrics not related to cost that medical device supply chain managers must build into their priorities, given the life saving nature of their products. Currently, 40% of medical device supply chains have increased their OTD rates to 98% reliability or better, and a further 28% fall within the 95-97% range. From this point, there is a relatively evenly distributed 32% of supply chains spread out over the possible response options, with only 5% of the pool reporting OTD rates that dip below 85%.

Make-To-Stock Lead Time



The make-to-stock lead-time of medical device manufacturers is clearly concentrated in the range of over fourteen days (53%), indicating that medical device manufacturers are insulating themselves against perceived demand well in advance of when they predict a surge. Another 20% make-to-stock between one to two weeks out from their anticipated times of demand. Only a collective 15% have managed to reduce their make-to-stock lead times to less than a week, effectively managing to meet newly forecasted demand on an almost instantaneous basis.

Make-To-Order Lead Time

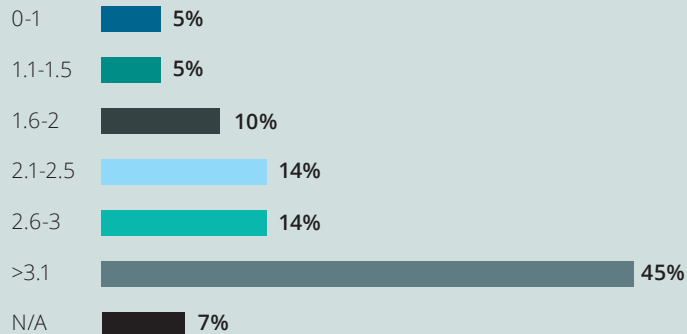


Virtually the same turnaround times are present around the make-to-order lead times, with 55% of medical device manufacturers taking over two weeks to fulfill new orders. While 12% have managed to get their fulfillment speed on made-to-order products within a range of one to two weeks, just 14% fall below that margin.



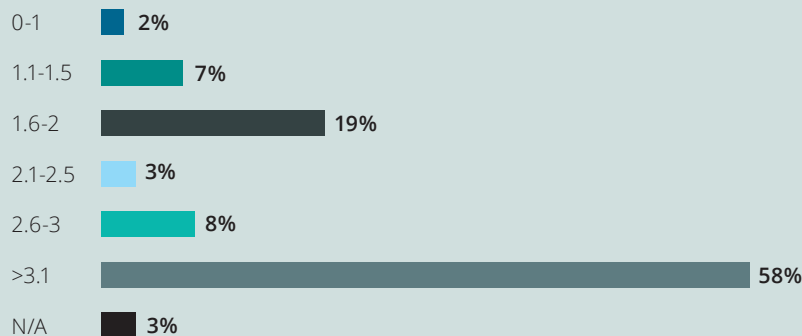
Increasing inventory turnover and avoiding loss

What is your total inventory turns level?



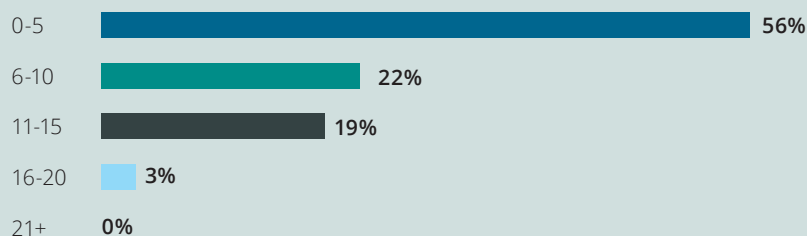
For 45% of medical device manufacturers, the average number of inventory turns is now above 3.1, indicating a strong ability to predict and meet demand. Fourteen percent are now between 2.1 and 2.5, and 2.6 to 3, respectively, while less than a quarter of device manufacturers are currently turning over their inventory less than twice a year.

What is your finished goods inventory turns level?



The concentration of medical device manufacturers with over 3.1 annual finished goods inventory turns is even more pronounced, with 58% reporting that they are at this level or higher. Compared to general inventory turnover, there is a secondary concentration around the range of 1.6 to 2, reported by 19% of supply chain managers.

What percentage of your inventory becomes obsolete or is lost/damaged?



Apart from predicting demand and pushing up the number of inventory turns, supply chain managers are also concerned with ensuring that their inventory is able to be sold as cutting edge product, and does not get lost or become damaged either in the warehouse or on the way to the buyer. Fifty-six percent of supply chain managers have managed to bring the percentage of their inventory that is lost due to these causes below 5%. Close to a quarter (22%) have reduced their losses to between 6-10%, while the same number still struggle with higher levels of inventory loss. As the ability to more accurately forecast demand grows on the part of medical device manufacturers, the concentration of brands with less than 5% loss is likely to grow.



58%

of supply chain managers are facing pressure to reduce their supply chain costs

45%

of supply chain managers are tasked with meeting savings targets between 4-6%

74%

of supply chain managers are approaching savings by reducing warehousing and transportation costs and increasing efficiency



40%

of supply chain managers have achieved an OTD rate between 98-100%

53%

of supply chain managers have a make-to-stock lead time of over 14 days

55%

of supply chain managers have a make-to-order lead time of over 14 days

45%

of supply chain managers report over 3.1 annual inventory turns

58%

of supply chain managers report over 3.1 annual finished goods inventory turns

56%

of supply chain managers lose less than 5% of their inventory annually





Appendix A: Methodology

The results analyzed in this report were gathered from responses to an on-site benchmarking survey delivered at LogiMed 2016, and prepared by report author Andrew Greissman. 61 executives responded to the survey.

LogiMed

LogiMed is a focused conference for supply chain VPs and Directors from medical device and diagnostics manufacturers. Through case study examples, small group discussions, and structured networking activities, you'll identify best practices to improve your end-to-end supply chain and minimize cost in today's dynamic healthcare environment.

To learn more about LogiMed, visit our event website at www.logimedusa.wbresearch.com



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WBR Digital

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