



Medical Device Supply Chain Council

Consignment Survey Summary Results



January 6, 2006

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About the Survey

Archstone Consulting conducted a survey, on behalf of the Medical Device Council, on consignment inventory management practices.

The survey was designed to provide insight into key critical areas relative to consignment inventory management for medical device manufacturers

- 1. How pervasive is consignment inventory in the industry?*
- 2. What are the major issues facing manufacturers in administering consignment inventory?*
- 3. How are companies responding to consignment inventory management challenges?*
- 4. How do your company's consignment inventory practices (current and future) compare to other medical device manufacturers?*

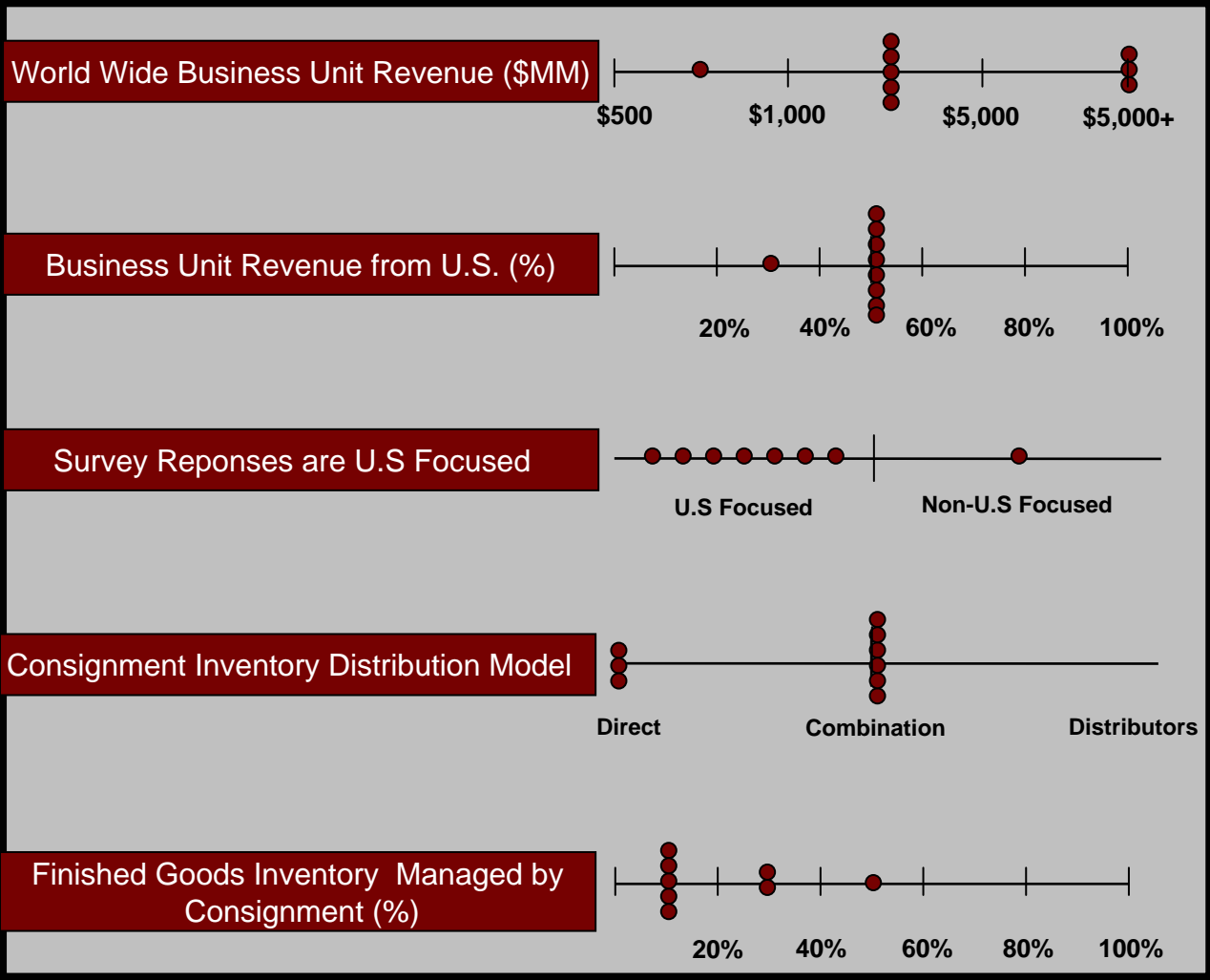
Key Areas Reviewed

- *Planning*
- *Ordering*
- *Replenishment*
- *Consumption Reporting*
- *Returns & Shrinkage*
- *Reporting & Auditing*
- *Collaboration*
- *Information Technology*

Survey Methodology

- **A web-based survey was conducted through the Medical Device Council website** to understand the consignment inventory issues and practices facing Medical Device manufacturers.
- **Areas of focus were based on input from Core Members** of the Medical Device Council.
- **There were no direct interviews with respondents.** The findings were based solely on on-line responses, and interpretation of those responses.
- Every attempt was made to make the questions as clear and intuitive as possible, but **there may have been variation in the interpretation of the survey questions.** This cannot be validated without further interaction with the respondents.
- While every attempt was made to gain as large a sample size as possible, **the data was limited to nine responses.**
- While the participants provided a good cross-industry perspective (e.g., products, markets), **in some cases this sample size may have been too small to provide a valid response to specific questions.** In those cases, the findings from those specific questions were removed from the survey findings.

Participant Profiles

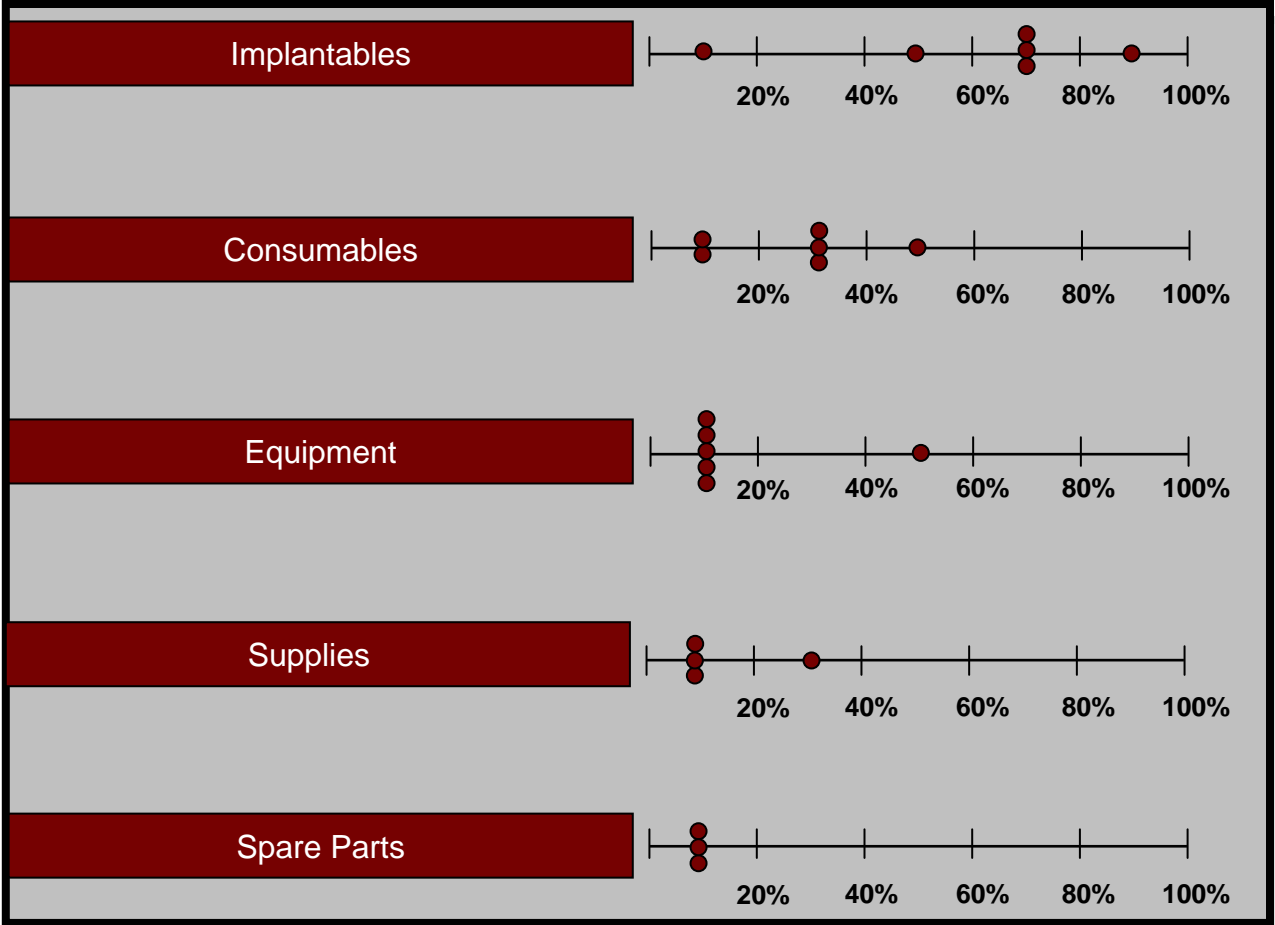


- ### Product Categories
- Implantables
 - Consumables
 - Equipment
 - Supplies
 - Spares

- ### Therapeutic Areas
- Cardiovascular
 - Diabetes
 - Endovascular
 - Optical
 - Orthopedic

Consignment Inventory by Product Category

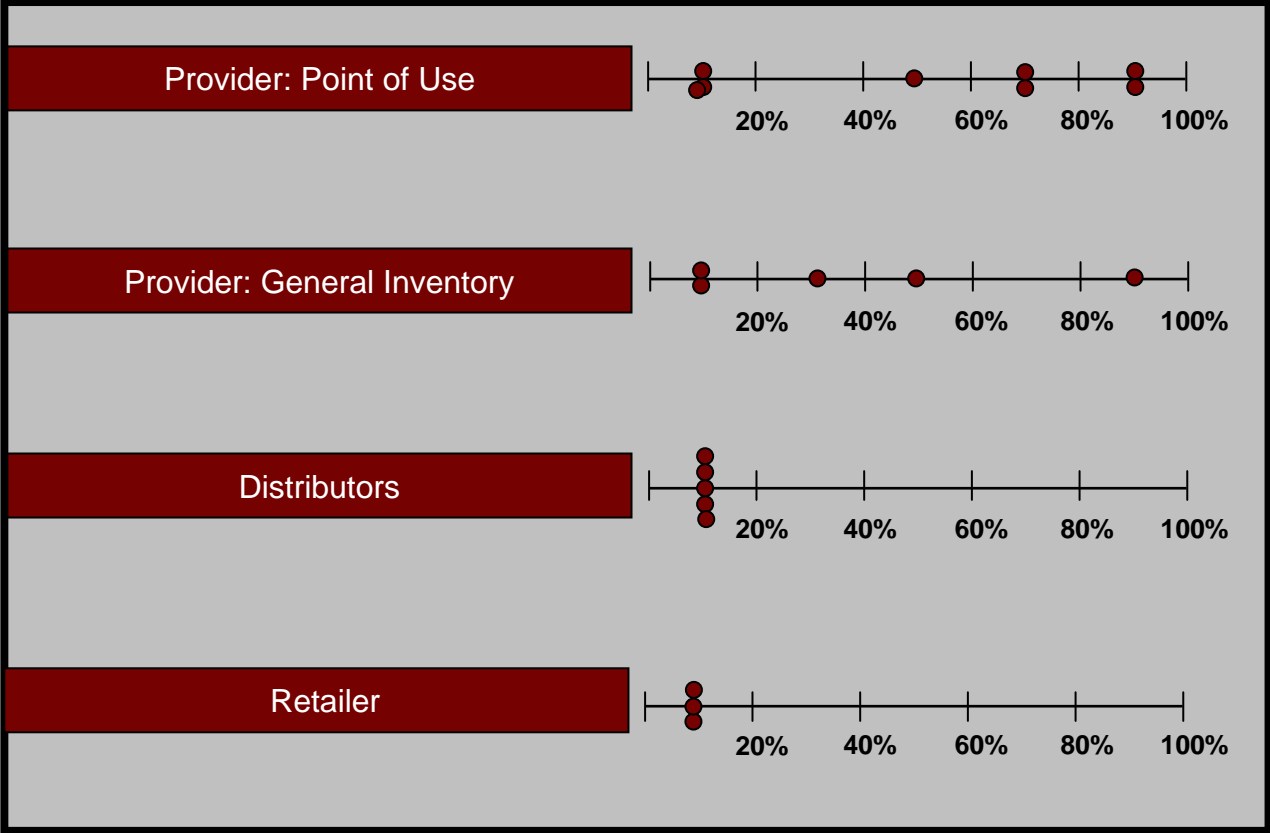
Percentage of finished goods in consignment inventory by product category



Consignment is being used, to varying degrees, across all product categories

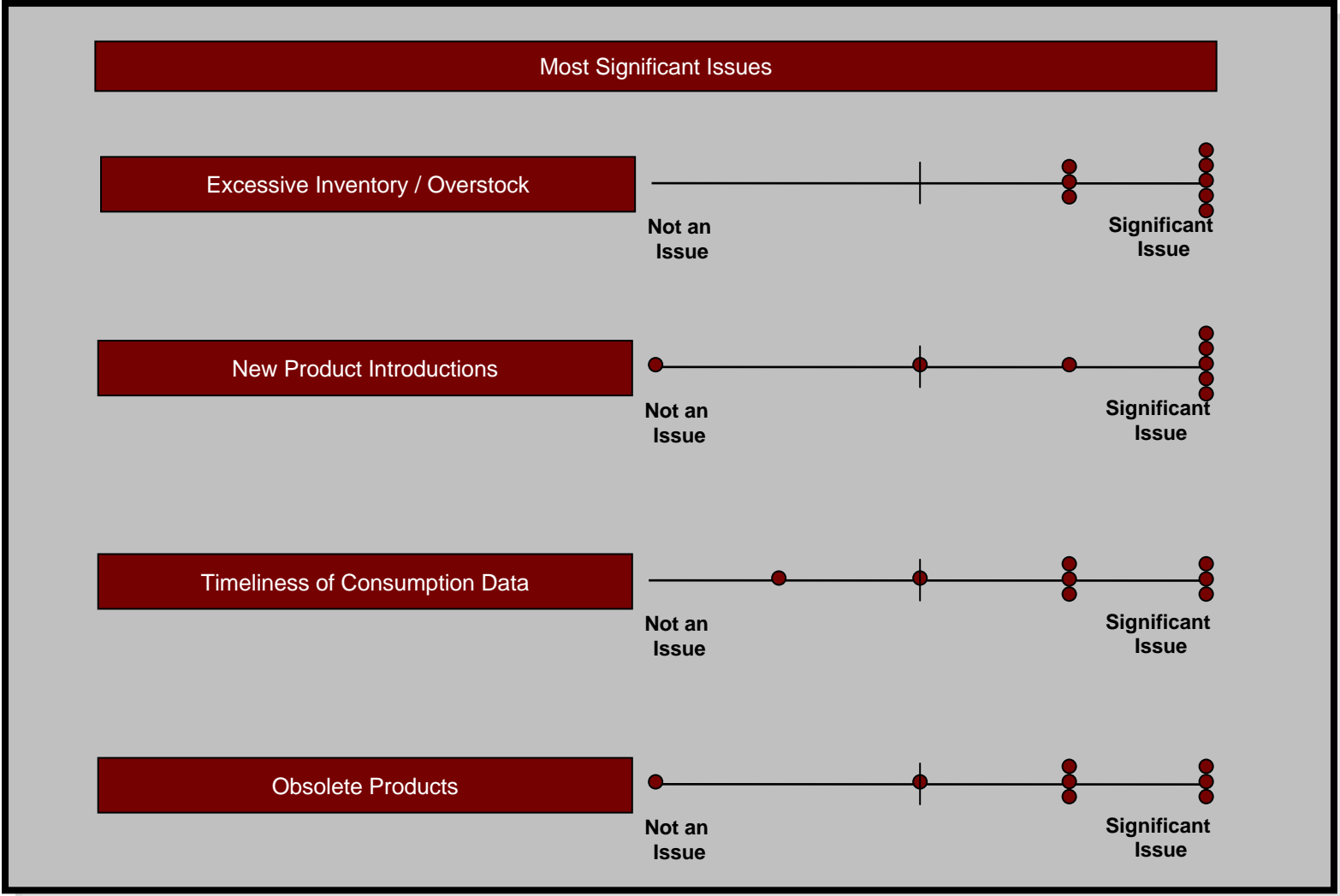
Consignment Inventory by Channel

Percentage of consignment inventory in each of the following channels by \$\$ volume

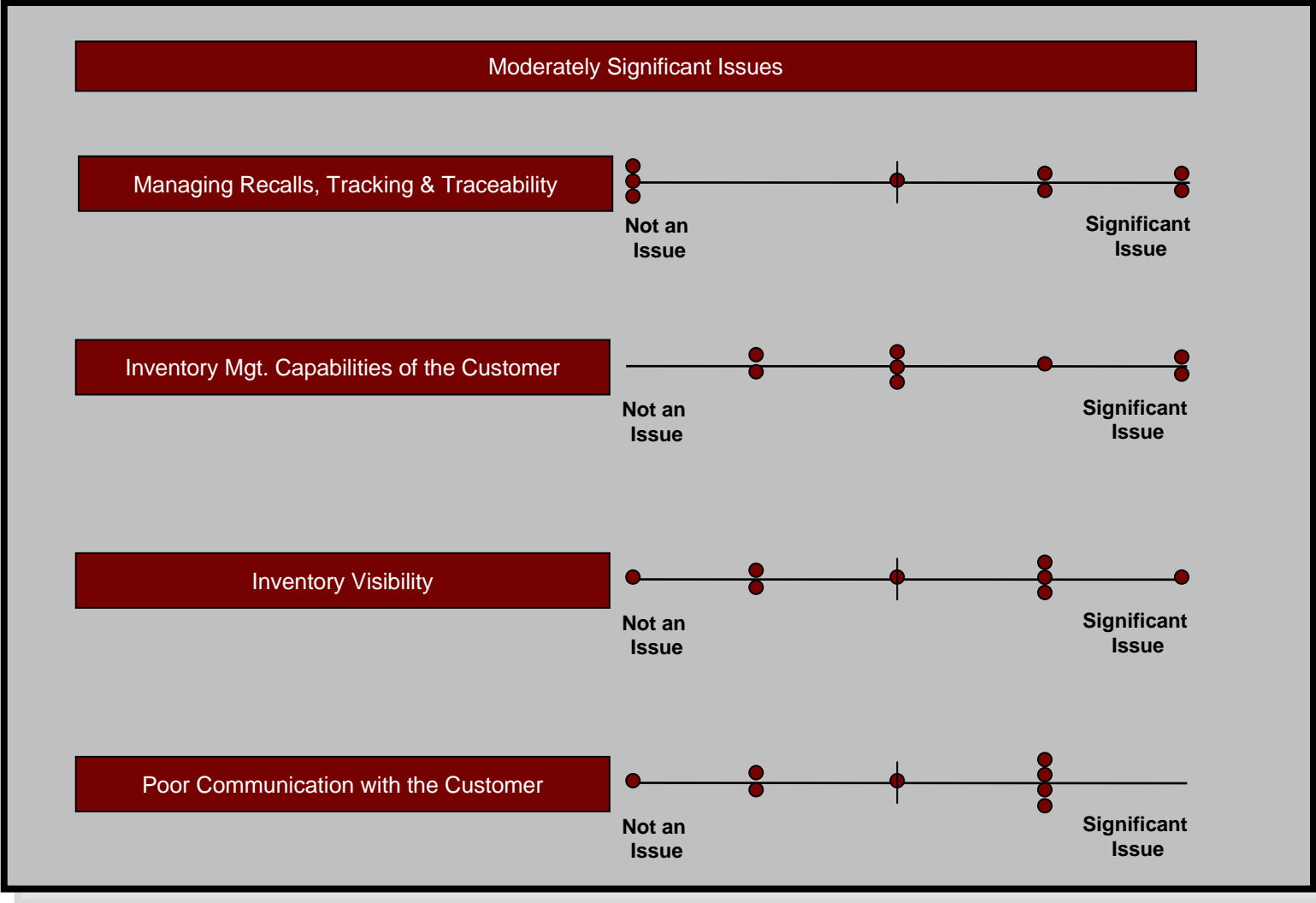


The dominant requirement is with Providers at Point of Use, and this appears to be an increasing trend

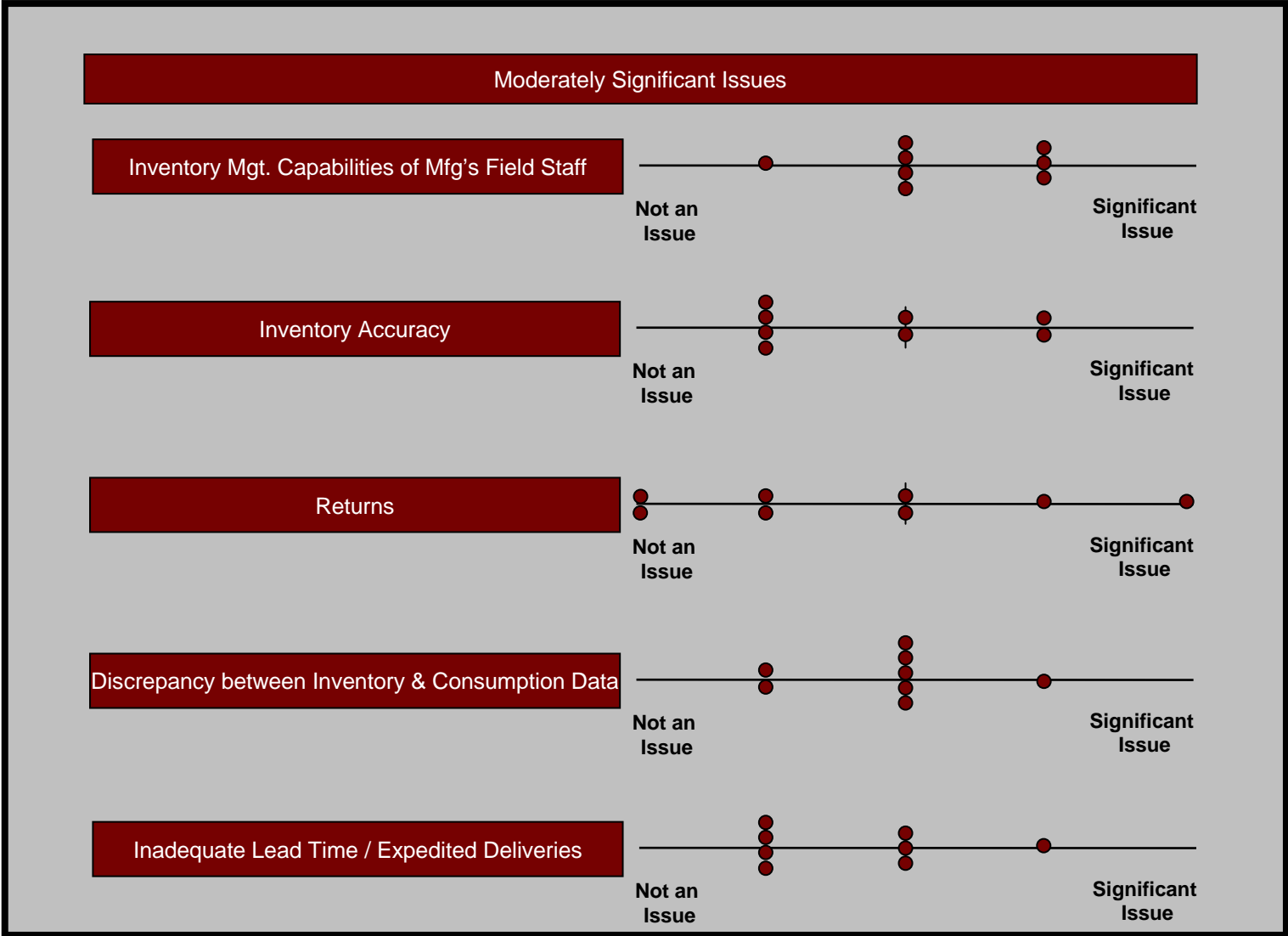
Consignment Inventory Issues By Significance / Perceived Importance



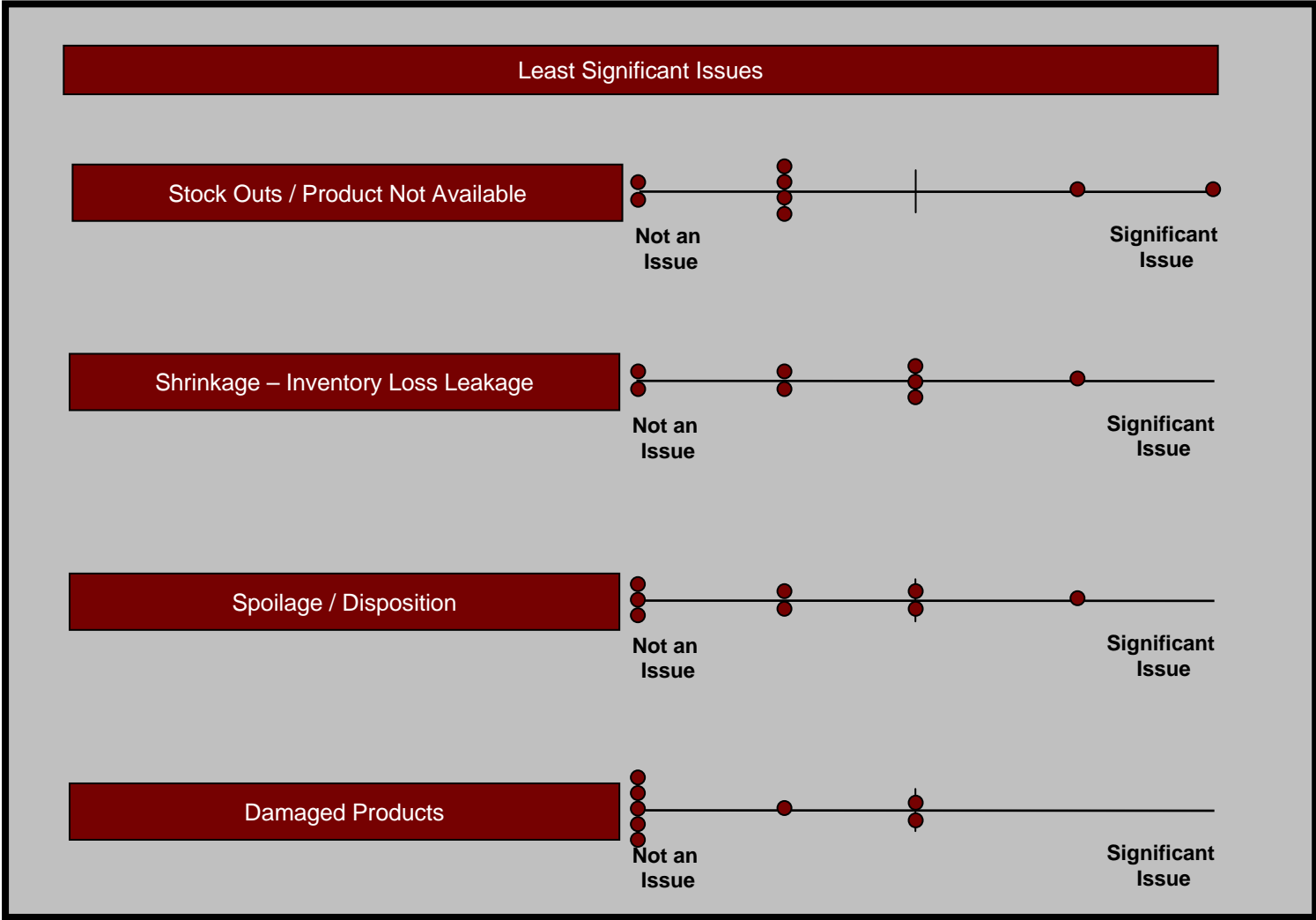
Consignment Inventory Issues



Consignment Inventory Issues



Consignment Inventory Issues



Findings Summary – Consignment is a business requirement that is requiring additional operational focus

Observation

Consignment inventory management is a requirement across all products and therapeutic areas surveyed

Perspectives

- At one point the service was considered a differentiator. Now it is often the “price of admission” due to customer and competitive pressures.
- Execution excellence in consignment inventory management can provide a competitive advantage.
- As the volume of consignment inventory increases, so does the financial risk, product liability and administrative overhead.
- Depending on the value of inventory in question, this can become a SOX exposure issue.
- Complexity increases with SKU proliferation.
- Additional challenges are posed by “unique” situations such as “loaners” and “trunk stock”.
- While there does not appear to be a consistent view that the amount of inventory managed as consignment is increasing, the point at which it is managed appears to be shifting (e.g., from central locations to point-of-use).

Findings Summary – Provider capabilities versus expectations

Observation

Inventory management is not a core competency for Providers

Perspectives

- Customers are using consignment to compensate for their own inadequate capabilities and systems, as well as their need to manage space and working capital. This shifts the burden (resources and cost) from the customer to the manufacturer.
- Visibility, timeliness and accuracy of inventory data are viewed as inadequate.
- Potential for revenue leakage exists in how discrepancies are resolved
- Systems and data collection vary greatly across providers. While some are moving toward a more integration information environment, financial and resource limitations will slow the progression.
- In some cases, manufacturers and distributors are providing consulting services and other capabilities to help the providers improve performance and to increase “brand loyalty.”

Findings Summary – “Inventory covers all sins”

Observation

The primary mechanism for managing the uncertainty in demand and consumption is through excessive inventories



Perspectives

The Results:

- Excess inventory consuming working capital
- Excess or incorrect Par inventory levels
- Slow moving and obsolete inventory (in an industry that generally manages to 2-3 turns) and associated returns for short-dated or expired products
- Challenges in overall product life cycle management, and managing new product introductions

Findings Summary – Consignment inventory management is not a core competency for the Sales organization

Observation

Consignment inventory management performance is directly related to the amount of collaboration both internally (across Supply Chain, Sales, Finance) and externally (with the Customer)



Perspectives

- Ownership and management of consignment inventory and the related management process varies by organization and products/markets
- Auditing and cycle counting responsibility, frequency and performance vary significantly (e.g., monthly to “never”)
- Operational performance relative to consignment inventory management in general is the weakest where primary ownership lies with the Sales organization, although almost half of the surveys identified Sales as the primary driver of setting inventory levels and auditing inventory accuracy and consumption.

Findings Summary – An inordinate amount of effort for the inventory involved

Perspectives

Observation

Consignment inventory management, while generally representing less than 20% of the overall inventory investment, requires and inordinate amount of time and resources



- Highly manual administration and reconciliation processes – more prone to issues regarding timeliness and accuracy
- Primarily administered through “spreadsheet and telephone,” with manual interfaces to core ERP systems
- Loss of Sales capacity due to administrative distraction

Findings Summary – Technology, the great “enabler”?

Perspectives

Observation

Current information technology capabilities generally do not improve the process



- “Newer” technologies such as portals and hand held devices are helping to facilitate some processes. Standards still remain an issue.
- ERP systems are the primary platform for managing inventory, consumption and billing. Manual processes are still significant to “manage” the data and related information.
- There is a belief that RFID will aid the process, but the question is how and when.

Sample Activities/Initiatives Identified to Improve Consignment Inventory Management

