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Inventory optimization for Medtech

Solving this longstanding issue can stop eroding—and start building—value

Inventory's effects on the Medtech sector should never be ignored. Current economic conditions dictate that there is little room for error. The excess that companies have been carrying is adding pressure on operations to get inventory management right to drive working capital improvements for the organization.

In today's reality, right-sizing inventory takes significant work and companies are holding more inventory than they likely need. With a magnifying glass focused on cost reduction, inventory optimization is becoming a new imperative for Medtech companies. This is especially true for companies that tend to hold excess inventory because of their commercial sales models.

Why isn't inventory optimization already happening—as it has in other industries for many years? In short, until recently it wasn't particularly necessary. Historically, Medtech manufacturers were cash rich, with high margins, allowing resources and attention to focus elsewhere. Additionally, commercial sales representatives are incentivized to carry excess inventory across the product lines they sell to providers because not having a product on hand when visiting a hospital could mean a lost sale. And sales drive the business.

Looking back 15+ years, operational costs didn't seem to be as much of a priority as they are becoming today. Industry players at the time were flush with resources as markets grew exponentially and companies experienced patent exclusivity. With billions of dollars in the coffers, companies were comfortable in their ability to take on—and pay off—large debts.

Answering key questions helps optimize inventory

Medtech manufacturers must recognize that inventory is a compounding issue and that poor inventory management processes today can increase monetary problems tomorrow.

But the news isn't all bleak. Because many companies side-stepped their inventory issues for decades, inventory optimization presents an important and addressable opportunity to positively impact the bottom line in today's challenging environment.

To optimize their inventory, Medtech organizations need to start somewhere.

It is helpful to drill down into the current state of their inventory processes with key questions for leaders that include:

- What are our inventory needs to meet customer demands?
- What are the optimal planned levels of inventory by SKU and by location?
- What's the product portfolio I need to support my customers, and can the mix be simplified?
- How do we use our current capabilities (e.g., technology, analytics, and process) to drive improved planning?
- Are there new capabilities we should invest in to better manage planning?
- Are there changes to the commercial operating model that can move the needle on inventory, while maintaining or even improving service levels?

The answers to these and other questions can be found through mechanisms that include analytics, automation, and rethinking the operating model. Today, organizations can't solve their inventory shortcomings without a sound strategy. And it is more than just a people and operating model problem; it's also a matter of how to automate and engage the right analytics to illuminate inventory opportunities and help manage inventory for the long term.



The role of technology and analytics in inventory optimization

There is often an assumption that technology is the silver bullet that will solve inventory issues. While technology can certainly play a major role in inventory optimization, it is just one piece of a multi-faceted puzzle.

First, it is essential to understand what the market needs and why, and then determine the inventory and supply and distribution models that work best based on market needs, demands, and anticipated changes (e.g., evolving product portfolios).

Next comes the understanding of the technology that can support and drive the process, which may mean adopting new capabilities (e.g., an ability to do multivariate segmentation). And because models and decisions around inventory and how to supply the market can involve numerous stakeholders and many constantly changing data points, implementing AI solutions to manage and support decision making is an opportunity that leading companies are chasing.

Leveraging GenAI to help with root causing and exception handling

Medtech companies today can face Inventory-based disruptions, which can significantly impact supply chain operations and result in lost productivity. While exception capabilities are common, it can be difficult to access exceptions and root cause quickly and effectively. GenAI-powered solutions can help planners root cause, manage exceptions, and optimize inventory, saving time and

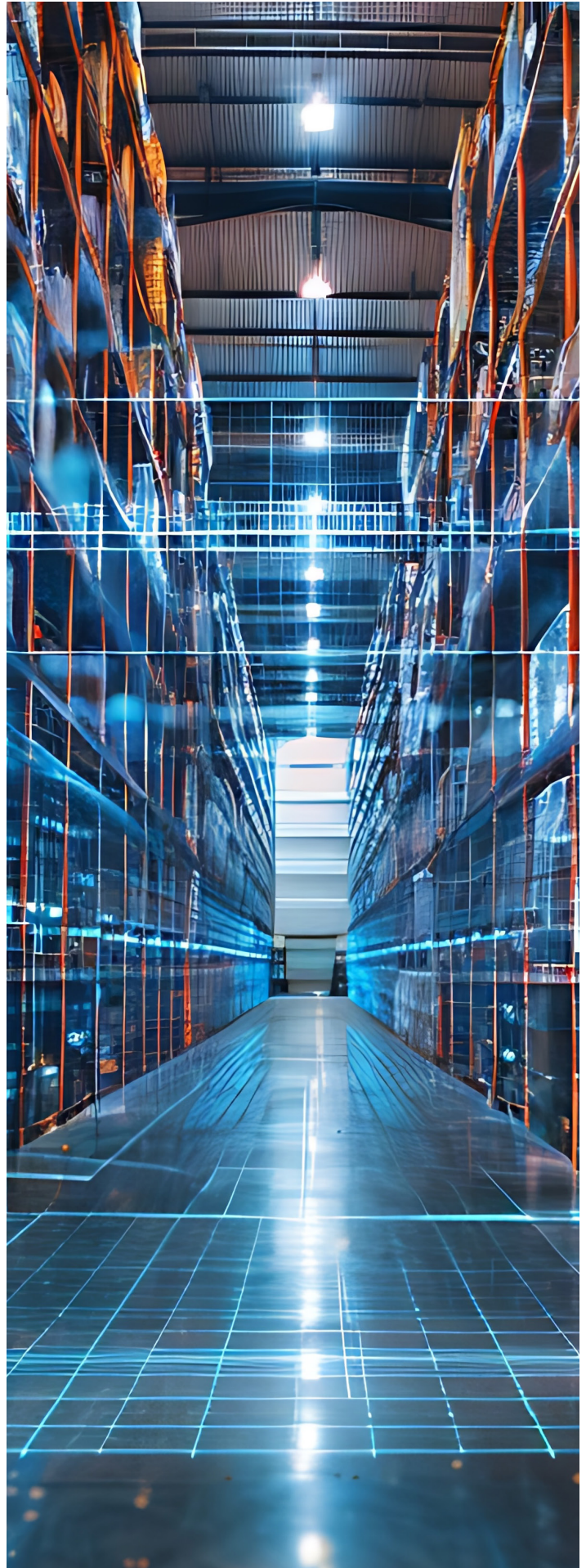
money through increased productivity and AI-supported optimal decision making. Ultimately, GenAI can help unlock additional value from S&OP plans, optimize inventory through Gen AI-supported investigation and decision-making, improve operational efficiency, and raise productivity.

Case study

A global medical device company struggled with high inventory days on hand (DOH) and excess and obsolete inventory, which affected its profitability. Deloitte conducted an in-depth inventory analysis to increase visibility and identify inventory reduction opportunities, creating roadmaps for best-in-class inventory management. The company faced issues like limited visibility due to more than 20 disparate data sources, poor master data management, and siloed initiatives with unclear benefits. Deloitte helped consolidate the validated global data, developed advanced analytical models, and created a single source of truth for inventory management. Key outcomes included establishing a foundation of advanced analytics, defining inventory reduction targets, and identifying short-term and long-term reduction opportunities (\$1B+), while recommending governance and incentives for sustained improvements.

Final thoughts

Whether it's market volatility, shifts in demand, or supply chain challenges, now is the time for Medtech companies to navigate their inventory issues more effectively. Inventory optimization is both an overlooked problem and an untapped opportunity for the sector. In the end, inventory optimization can drive real value and can help with the financial pressures facing today's Medtech companies.



Continue the conversation

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