

# Building a Recession-Proof Supply Chain

A “pull system” can help ensure that supply-chain triggers are driven by customer demand in good times and bad

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Crisis avoidance is better than crisis management

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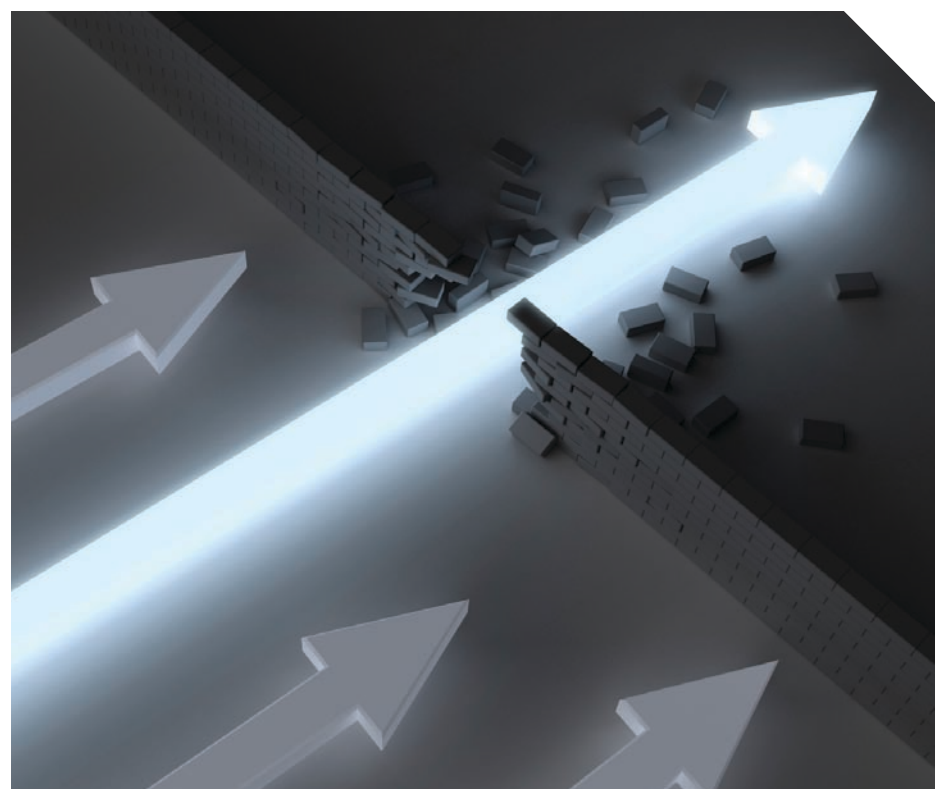
Corporations are focused as never before on risk reduction. Spurred by passage of the Sarbanes-Oxley Act in the United States in 2002, risk reduction management has been elevated to the board level. Companies have drafted detailed plans for recovering from catastrophic events—the big earthquake, hundred-year flood, loss of a plant or key supplier, death of key executives, product liability issues and so forth. All of these events are tragic. They are also quite rare.

Corporations are far more likely to experience downturns in a business or economic cycle. In the high-technology arena, business cycles occur every three to four years. This familiar foe reappears all too often, yet companies are perpetually ill-prepared to cope with it.

“Every other time in the modern era that the US economy has contracted more than 5% in a quarter, falling inventories have been a major reason, if not the single biggest factor,” says Rex Nutting, Washington bureau chief of MarketWatch. “Usually, really bad recessions are worsened by the need for companies to get rid of all the stuff they made but nobody bought. Once the inventories are sold off, the economy can grow quickly again because idled workers are called back.”

Crisis avoidance is better than crisis management. That means you need to prepare your supply chain for the next downturn. You must design and engineer every link from your customers and distribution channels to your factory and suppliers. A successful design requires mathematically engineered stocking levels throughout your supply chains that are dynamic and adaptive to current market conditions.

Proven techniques have been developed to optimise supply chains in terms of customer service and inventory levels during good and bad economic times. The stocking levels are dynamic and are



automatically updated. The key is in a “pull system,” which ensures that supply chain triggers are driven by true customer demand, not overly optimistic forecasts.

The benefits to a mathematically-engineered approach include:

- reduced inventory
- improved customer service
- a more-responsive supply chain that automatically resizes inventory as market conditions change, and statistically sizes it for the future
- reduced shareholder risk
- reduced inventory obsolescence caused by shifts in technology (which is common in the med-tech sector)
- cost savings associated with minimal inventory write-offs.

Just one indicator consistently predicts recovery from an economic slowdown: inventory reduction. This is true for any industry. Do not let your company be in an excess-inventory position. Better yet, reap the rewards when your competition has last year’s technology in the

pipeline while your supply chain is filled with only the latest and greatest medical devices.

In the world’s best supply chains, inventory declines faster than revenue, even during an economic downturn. Boards must direct management to adopt a dynamic, electronic and statistically-based programme to mitigate—or, better yet, avoid—the risks of this normal, frequent component of business that is a downturn.

Implementing such a programme, surprisingly, is free. Well-designed supply chains actually simultaneously reduce inventory and raise customer service levels. It is not unusual to achieve a 4- to 10-time return on investment within the first year. The inventory savings alone justifies the work. Crisis avoidance demands the initiative be put into action. ■

## ABOUT THIS PAGE

The Crisis Management page explores resources that may be useful to medical device manufacturers as they endeavour to develop and market innovative technologies during challenging economic times. If you have suggestions that you would like to share with our readers, please contact the editor: **norbert.sparrow@cancom.com**.

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