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Forget lean inventories.

by - Victoria Reitz

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Forget lean inventories.

Heavy Reserves Lead to Faster Shipments

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For a good part of our 45-year history, Elpac subscribed to the typical, lean inventory approach. But the scheme called for continually hedging against sales forecasts and bracing for invariable high quantity purchases. The 1990's, however, called for a change in philosophy.

For many decades, an internal complaint was that customers just didn't forecast very well. If they could forecast better, we could do a better job supporting them. But even with \$ 200 million SAP systems, forecasting is hit or miss. This called for a new focus on inventory procedures, and how we could support customers long-term, even if they never learn to forecast well.



The answer was to develop an efficient inventory-control system and redesign our entire product line. We added significant inventory of long lead-time parts such as capacitors which often require ten weeks or longer to arrive. We now stock significant quantities of these and produce finished products in three weeks or less. Compare that to the 9 to 12 weeks needed by other suppliers.

It's true that some vendors are able to offer a relatively quick turnaround by stocking finished standard products, but rarely are these readily modified or customized. Our strategy is different. We prefer to:

- Design products with a common base of components
- Invest in an inventory of key raw materials
- Mix and match to build whatever customers need, and then
- Build-to-ship in a time frame far below the industry standard.

Having power supplies available on a fast turnaround basis is a big advantage for medical equipment OEMs. A client's sales force can't predict demand for their purchasing department so the requirement for more power supplies doesn't seem critical. That perception lasts until a major hospital chain orders 400 monitors and wants them in four weeks. Then they're out scrambling. Having product available makes a big difference in the success of their project.

The inventory system here allows responding to surges in demand from OEMs, regardless of whether they need standard, modified standard, or custom products. And as needed, we ensure prompt delivery by helping with arrangements for air shipments.

Another way to ensure customer satisfaction is through an extended warranty that stretches to five years. Customers see this warranty as an insurance policy provided at no extra charge. They know the promise is possible because of better design, manufacturing, and test methods.

