

Context for each section of the Supply Chain Survey

Section 1 and 2

The survey data highlights the persistent pressures on suppliers managing rising logistics costs. While these costs have gone down to almost pre-Covid levels, this has not necessarily meant cost pressures have receded. While Covid was challenging and suppliers found ways to navigate the meteoric rise in logistic and inventory costs, in the last 12 months, suppliers are now expected to seamlessly operate in an environment where freight and raw material costs are increasing. Suppliers are being repeatedly hit with cost pressures and may not have necessarily fully recovered from COVID but still need to ensure reliable supply of their product.

This is reflected in the results when asking suppliers about cost increases over the last 12 months, with some suppliers reporting cost increase by up to 50% for both air and sea freight and by up to 40% for raw materials.

There are emerging geo-political tensions that may now mean costs are becoming harder for suppliers to manage and could rapidly escalate if conflicts become more intense. Hence, the concept of the 'surprise chain' is very apt, as while COVID has largely dissipated, this has not meant things are necessarily business as usual for suppliers with new disruptions emerging that suppliers need to navigate.

Section 3

There are continual challenges for suppliers in ensuring adequate levels of medical technology products and this has meant companies have needed to hedge against this uncertainty by increasing their inventory levels. The consequences of having higher levels of inventory to ensure reliable supply are the increasing costs to suppliers. 66% of suppliers reported increasing inventory holdings and over the last 6 months (July 2023 to January 2024) suppliers noted increases ranging between 10% to 40% in the costs of holding inventory. When compounded with increasing freight and raw material costs, this highlights cost pressures persist for suppliers.

Section 4:

Some of the drivers in medical technology supply chain activity include suppliers trying to minimise costs being passed on to customers while reliably supplying products and maintaining a high service quality. At the same time, customers expect suppliers to provide high quality products at competitive pricing. Furthermore, suppliers acknowledge there are challenges in trying to meet customer expectations identifying increases in product lead time, fuel surcharges and workforce shortages.

What this highlights is that suppliers are increasingly expected to find ways to responsibly manage the array of challenges that can impact on pricing and supply of medical technologies. However, without addressing practices on the customer side that can help supplier increase delivering value, cost pressures will only escalate. One area that comes to mind where both suppliers and customers can find innovative solutions is the consolidation of purchase orders. Customers could consider consolidating purchased orders to minimise freights cost undertaken by suppliers for each separate order. At the same time, 81% of suppliers indicated that they have not considered consolidating orders with other suppliers as a way to supply technologies more

cost effectively. This represents a potential opportunity for customers and suppliers to collaborate on.

Section 5:

The importance of the supply chain workforce was revealed during the pandemic especially when it came to reliably supplying medical technology. Post COVID, workforce challenges are still ongoing with 48% of survey respondents indicating workforce shortages had an impact on supply chains resulting in slower operations. When examining specific roles that were negatively impacting medical technology supply chains, 48% of respondents noted warehousing staff and 26% indicated truck drivers and 16% for stevedores. What this illustrates is that suppliers can struggle to reliably provide product for customers with increased labour shortages. There needs to be a review of pathways to attract these workers to the MedTech supply chain. Otherwise, there is an ongoing risk with not being able to adequately supply customers (eg hospitals), leading to longer procedure waiting times, and reduction on overall healthcare benefits to patients.

Section 6

The concept of supply chain resilience is one that is often used but can be hard to readily measure. By breaking down resilience into different domains, this can help companies better understand their existing capabilities and areas where they need to improve. Looking at the industry perspective, 52% of respondents scored a 3 in terms of visibility of their supply chains (know what is clearly happening across all parts of the supply chain), highlighting challenges to be across the complex interrelationships across MedTech supply chains for each supplier. In terms of flexibility, relating to the ability to adopt solutions or alternative arrangements when there is disruption, over 70% scored between 3-4 – which could be attributed to learnings during Covid and need to have contingency measures in place. Finally, in terms of agility (how quickly can suppliers respond to a disruption), 42% scored 4 suggesting suppliers are on the whole confident and able to address disruptions as they occur.

Section 7: ESG slides – understanding the trends

Slide 6: Most MTAA members are engaging in some sort of environmental sustainability initiative as part of their supply chain operations. From reviewing the companies that responded, this includes companies across a range of different types of medical technologies:

- prosthetics devices.
- consumables.
- capital equipment.

Slide 7: This highlights different ways member companies are contributing to a greener healthcare system through their supply chain operations. A key one is that our members are working with their third-party logistics companies to find greener ways to deliver products to their customers. These partnerships will continue to be important in helping decarbonise supply chains and reduce waste (eg using less packaging when moving product).

However, survey qualitative feedback suggests that for more progress to be made by industry there needs to be clear signals at the government level (state and federal) about the approach. More specifically this would involve:

- how governments want industry to report on tracking greenhouse gas and waste targets in a way that is clearly measurable
- will particular standards be endorsed by government that industry needs to comply with (ISO14001 or ISO14064).
- harmonising endorsed standards across states and between State and Commonwealth.
- in state contracts, understanding how weight and evaluation criteria assess environmental sustainability criteria, and will this be the same across states/ territories.
- thinking about how assessments impact SMEs (which have a large number of smaller companies in our membership).

It should also be noted many of our member companies that operate in Australia are sales offices and there is limited manufacturing. There are also some companies that are pure distributors in our membership. Again, from a government policy perspective, developing appropriate targets to reflect the different types of business activities members undertake in Australia.

Slide8/9: Regarding public facing carbon reduction plans and providing CO2 data to customers, it is interesting to note there is a fairly even split in how our members responded to both. The 'Yes' respondents may reflect the role some of global companies have in other jurisdictions where sustainability requirements are more advanced (eg UK/Europe) and where customers need to have public plans and share CO2 data.

However, the substantial 'no' segment also reflects that not all of industry is at the same level of maturity in reporting on greenhouse gas targets in Australia. One potential reason could be limited visibility around Australia's decarbonisation journey (with the National Strategy only recently released in December and survey results were between November 2023 to January 2024) and waiting for the state government to roll out their own reporting requirements in tenders.

The current data shows that as a baseline, industry is still progressing how it reports on CO2 emissions.

Section 8

This section provides a high-level overview of the increasing use of digital solutions in MedTech supply chain operations. Most companies (roughly more than 80%) responded that data analytics, cybersecurity protocols and artificial intelligence is embedded in their supply chain operations. Upon reviewing responses, in situations where respondents did not respond 'Yes' or 'N/A', this could be due to assumptions about how respondents viewed artificial intelligence and cybersecurity as no specific definition was provided. In addition, respondents may not be aware of the full spectrum of cybersecurity and AI capabilities being used across the business, as the survey targeted directors or manager responsible for supply chain operations.