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Managing Obsolescence

EXECUTIVE SUMMARY





PMMI The Association for Packaging and Processing Technologies

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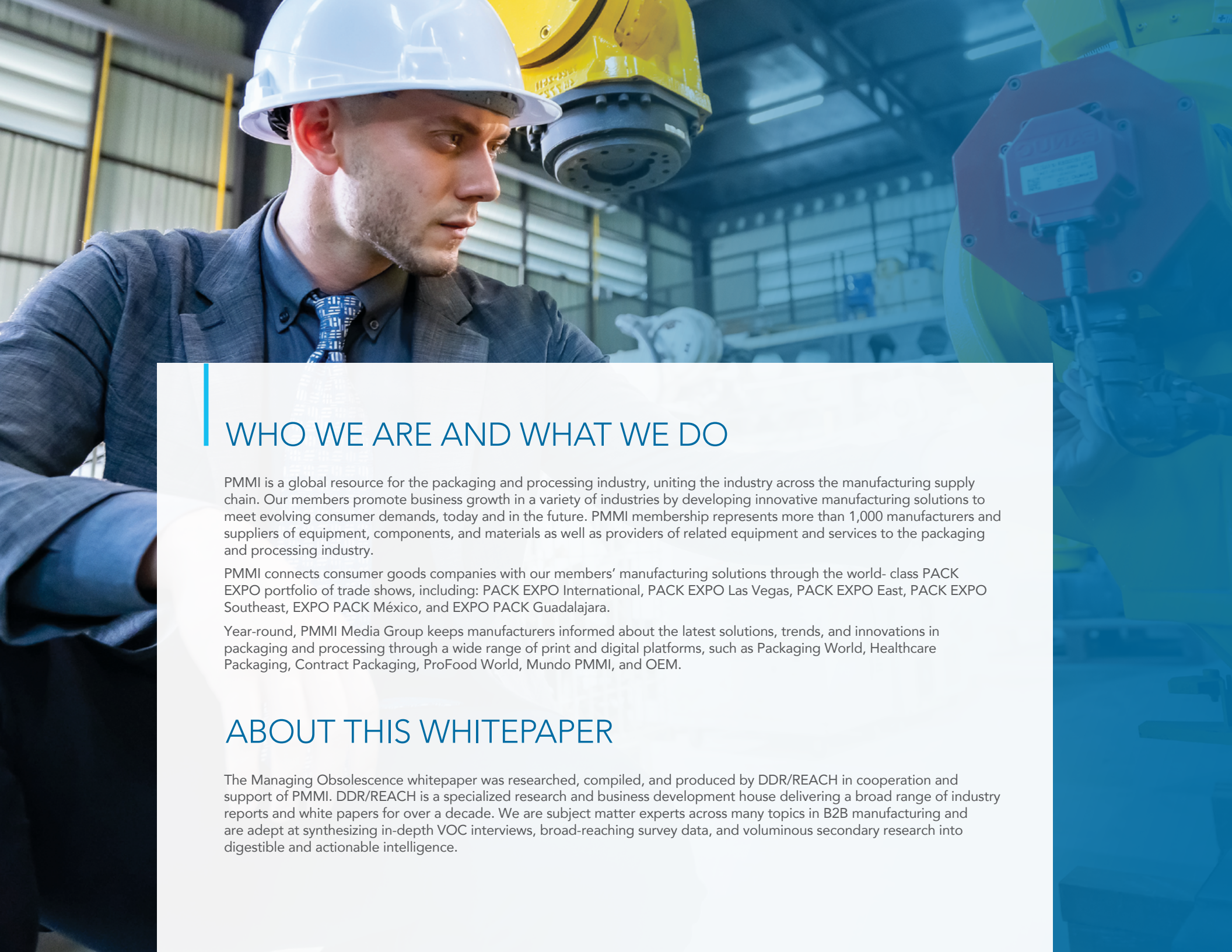
End Users: Users of manufacturing equipment

OEM: Original equipment manufacturer

CM: Component manufacturer

TCO: Total cost of ownership

R&D: Research and development



WHO WE ARE AND WHAT WE DO

PMMI is a global resource for the packaging and processing industry, uniting the industry across the manufacturing supply chain. Our members promote business growth in a variety of industries by developing innovative manufacturing solutions to meet evolving consumer demands, today and in the future. PMMI membership represents more than 1,000 manufacturers and suppliers of equipment, components, and materials as well as providers of related equipment and services to the packaging and processing industry.

PMMI connects consumer goods companies with our members' manufacturing solutions through the world-class PACK EXPO portfolio of trade shows, including: PACK EXPO International, PACK EXPO Las Vegas, PACK EXPO East, PACK EXPO Southeast, EXPO PACK México, and EXPO PACK Guadalajara.

Year-round, PMMI Media Group keeps manufacturers informed about the latest solutions, trends, and innovations in packaging and processing through a wide range of print and digital platforms, such as Packaging World, Healthcare Packaging, Contract Packaging, ProFood World, Mundo PMMI, and OEM.

ABOUT THIS WHITEPAPER

The Managing Obsolescence whitepaper was researched, compiled, and produced by DDR/REACH in cooperation and support of PMMI. DDR/REACH is a specialized research and business development house delivering a broad range of industry reports and white papers for over a decade. We are subject matter experts across many topics in B2B manufacturing and are adept at synthesizing in-depth VOC interviews, broad-reaching survey data, and voluminous secondary research into digestible and actionable intelligence.

INTRODUCTION

Opportunities Abound

Obsolescence has been a constant in manufacturing and is closely tied to core industry principles such as continuous improvement and the pursuit of greater efficiency through technological advancement and design. As technology and manufacturing processes advance, older components are phased out through obsolescence, in favor of newer solutions.

Obsolescence can take a number of different forms. In the broadest sense, obsolescence is defined as components or systems that are no longer supported, produced, or compatible with existing setups. For the purposes of this paper, we have divided obsolescence into three primary categories:



Mechanical obsolescence, which involves physical, moving parts of machines.



Electrical/electronic obsolescence, which involves electronic components such as sensors and indicators.



Digital/software obsolescence, which involves software programs and the digital infrastructure that underpins modern manufacturing.

Understanding how different stakeholders in manufacturing view obsolescence is also essential for identifying the strategies used to address different types of obsolescence. The primary stakeholders and their typical role in the obsolescence chain are:

- **End Users of manufacturing equipment**, who experience obsolescence through declarations from OEM and CM partners, or through their own operational changes that trigger an obsolescence event.
- **OEMs of manufacturing equipment**, who experience obsolescence through declarations from their CM partners, or through machinery redesigns that require new components.
- **CMs (Component Manufacturers)**, who primarily make obsolescence declarations, often triggered by factors such as low volume/margin products, changing technology, and material cost/availability.

This white paper explores how different stakeholders in manufacturing view obsolescence, what challenges create the greatest operational impact, and how they are deploying different strategies to plan for and address obsolescence events. By analyzing the opinions and insights expressed by all three stakeholders, organizations can work toward key industry goals such as streamlining the communication of obsolescence events and better addressing the challenges created by obsolescence.



EXECUTIVE SUMMARY

Obsolescence Communication, Responsibilities, and Timelines

Communicating obsolescence can be challenging, considering the diversity of strategies organizations use to manage obsolescence.

58% of End Users and 67% of OEMs/CMs do not have a dedicated person or department responsible for obsolescence.

26% of End Users and 36% of OEMs/CMs note they split obsolescence responsibility between multiple departments.

All stakeholders noted the same top three preferences for communication channels:



Expectations for obsolescence notification timelines and obsolete part backstocking mostly align across all stakeholders, but there is always room for improvement. End Users and OEMs note the more time, the better.

- 78% of End Users and 81% of OEMs say notification lead times are typically three years or less.
- Both groups also note a preference of 1-3 years as the minimum acceptable period that obsolete parts should remain available for purchase. This is true for all component types: mechanical, electrical/electronic, and software/digital.
- 52% of OEMs and 72% of CMs note they keep obsolete components backstocked for three years or less.

Communication and backstock expectations are an ongoing challenge for all stakeholders, with a plurality of End Users (44%) and a majority of OEMs/CMs (52%) noting they do not have a formal process for obsolescence.



Obsolescence Rates, Drivers, and Cost

Most stakeholders indicate **obsolescence events are increasing or have remained steady**. End Users and OEMs also note that electrical/electronic and software/digital components experience obsolescence more frequently than mechanical components.

- 52% of End Users and 49% of OEMs/CMs report obsolescence events have been increasing over the last five years.
- End Users and OEMs report electrical/electronic and software/digital components experience more frequent obsolescence than mechanical components.

End Users and OEMs/CMs identified slightly different drivers for obsolescence, but **all stakeholders agree new technology development is the most influential**.

- End Users reported new technology (59%), digital incompatibility (37%), and breakdowns and failures (36%) as top drivers.
- OEMs/CMs reported new technology (80%), low-demand and low-margin items being cut (39%), digital incompatibility (37%), and material cost and availability (37%) as top drivers.

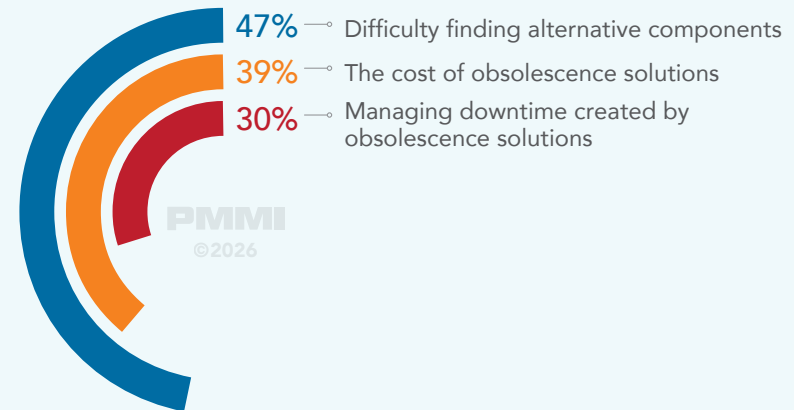
End Users are interested in understanding the cost of obsolescence in TCO calculations, as well as exploring options for up-front obsolescence packages.

85% of End Users consider obsolescence in TCO calculations at least sometimes, but only 47% of OEMs note including these calculations in their TCO estimates.

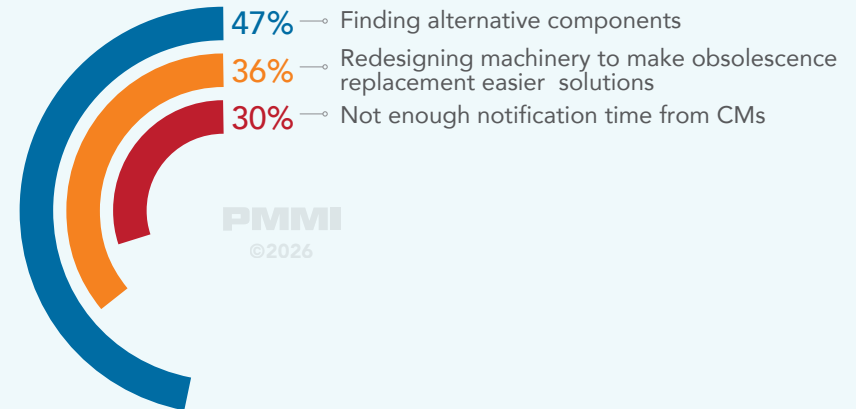
77% of End Users are interested in an up-front obsolescence package, but 66% of OEMs note they never offer this type of package as an optional addition.

Obsolescence Challenges

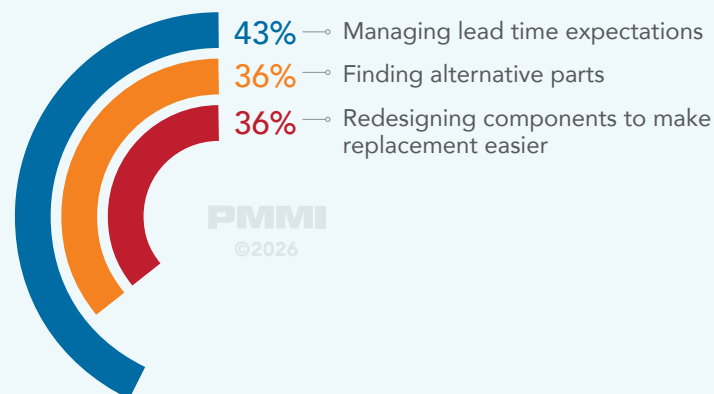
End Users face a number of challenges in managing obsolescence, including



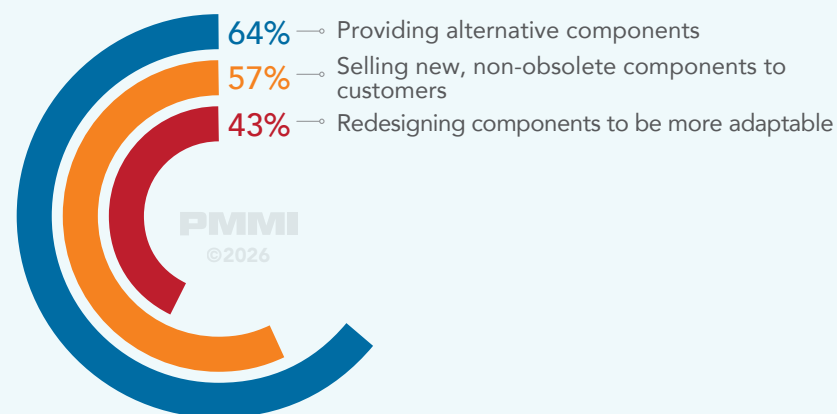
OEMs face a host of challenges when it comes to obsolescence. The most frequently reported challenges include:



Like End Users and OEMs, CMs face a number of different challenges related to obsolescence. The most common challenges included:



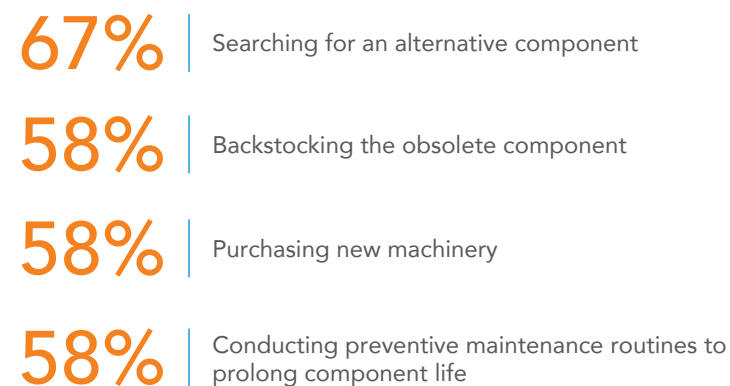
CMs report deploying numerous solutions to help support obsolescence at their customers, including:



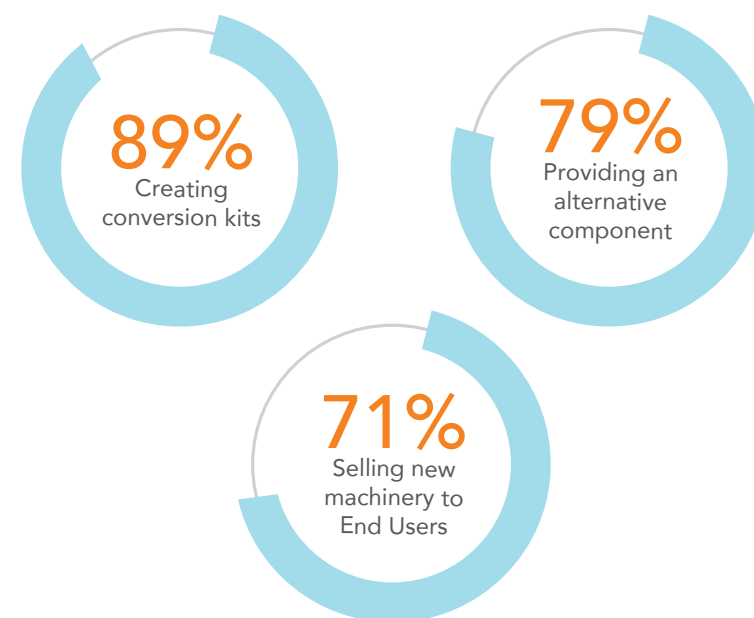
Overall, the data indicates stakeholders deploy a host of different tools to address obsolescence, rather than relying on a single solution.

Obsolescence Strategies

End Users rely on a wide variety of strategies to address obsolescence events.

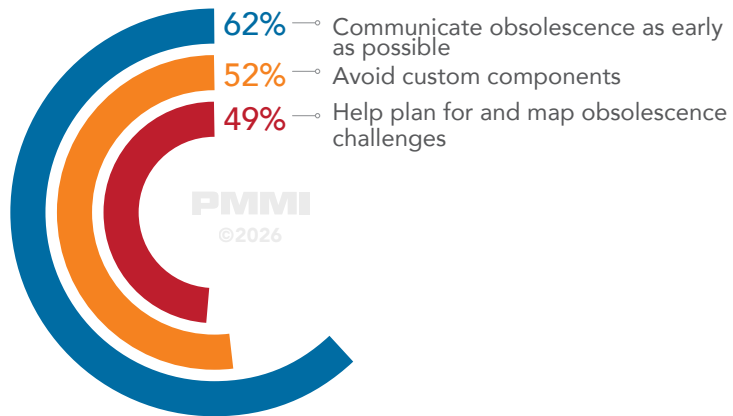


OEMs report many different strategies to address obsolescence at End Users.

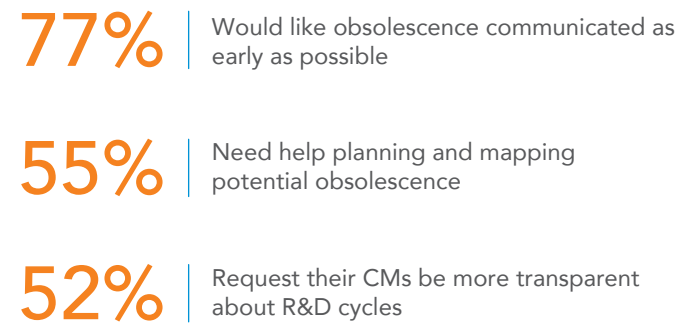


Obsolescence Requests

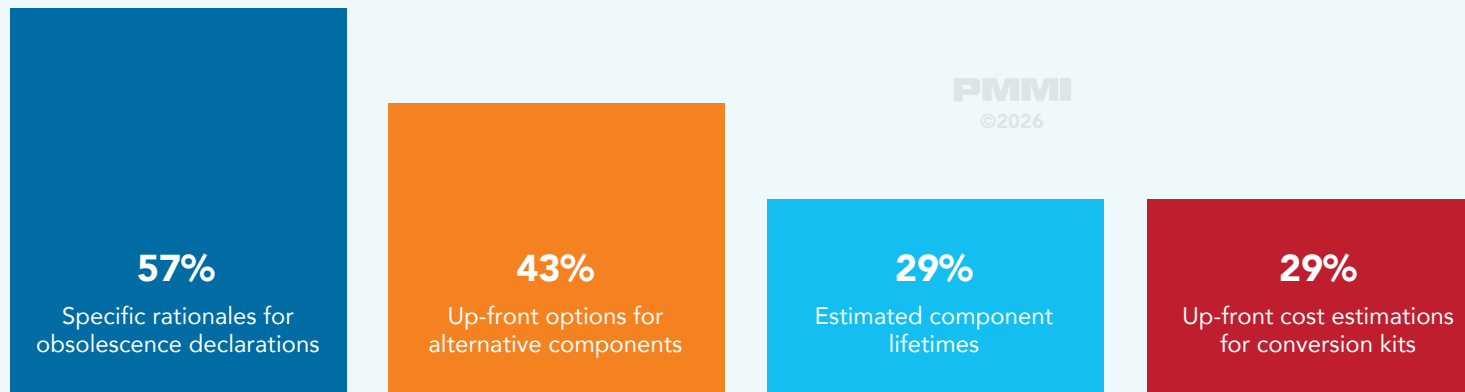
To better manage obsolescence, End Users request their OEM and CM partners to:



To help support obsolescence challenges, OEMs have a number of requests for their CM partners.



Many CMs indicate they endeavor to provide customers with extra information to better understand and support obsolescence, such as:





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