The supply chain within the pharmaceutical industry is playing an increasingly important role to address new cost, performance, and quality challenges. As a result, pharma companies are following best practices of other industries like consumer goods and high tech to successfully run their outsourced supply chains.

AN INDUSTRY IN TRANSITION

The pharmaceutical industry has been one of the best-performing industries of the past decades. Over the years, pharma companies learned to excel at many disciplines – research and development, manufacturing, sales and marketing – while at the same time maintaining the highest safety and quality standards. As a result, both sales and profits rose more than in most other industries.

Yet, in recent years, the industry has been facing significant challenges:

- The competitive intensity has significantly increased with the fast rise of generics. Overall, the product portfolio has grown more complex, with niche products and the need
to serve new markets playing an increasingly important role.

- For over-the-counter (OTC) products, large drugstore chains are imposing the same high standards (e.g., on-shelf availability, promotions, etc.) as they do to consumer products companies. As a result, the pressure to have the right product at the right time on the right shelf is more intense than ever.

- Healthcare providers and government reforms continue to put strong downward pressure on prices.

- Quality regulations, the rise of counterfeit drugs, and the serialization mandate are forcing pharma companies to make their supply chains more robust to ensure full traceability.

All of this is putting new demands on the supply chain function to help address these challenges and bring the products to market in a cost-effective manner and with the highest service level.

At the same time, pharma companies are increasingly relying on a global network of R&D partners, suppliers, logistics providers, and contract manufacturing organizations (CMOs) to develop, test, produce, ship, and distribute their products. Using specialized outsourcing partners for key supply chain activities provides significant cost benefits and enables pharma companies to focus on their core competencies. Furthermore leveraging external partners also addresses the flexibility and response time requirements of the market.

Today, there is hardly a large pharma company that is not leveraging the benefits of outsourcing to some degree. Outsourcing has clearly paid off, with pharma companies being able to rely on specialized companies that can perform the work at a lower cost and, in many cases, do a better job at it. However, this new outsourced model brings additional complexity when it comes to addressing the product, cost, and quality challenges the pharma industry is facing. How do you tightly run a supply chain that is increasingly virtual? How do you run an outsourced supply chain when your ERP system has no data model to store inventory held at DCs managed by a third-party logistics provider or no visibility of your CMO’s quality performance? How do you manage workflows that involve exchanging information back and forth with outside parties across the multiple tiers of your supply chain?

FIVE LESSONS FROM THE BEST

Leading pharma companies are following the successes of other industries like high-tech and consumer goods. In essence, there are five recommended courses of actions for pharma companies:

1. **Connect and collaborate using a business network.** This is the foundation to run a multi-enterprise supply chain. The modern approach is to leverage the cloud to connect electronically to all outside supply chain partners. With the software-as-a-service (SaaS) model, there is no need to force suppliers or CMOs to install, run, and maintain specific software applications. A cloud network provides a wide range of connectivity options, depending on the partner’s technological maturity. Furthermore, to support this emerging outsourcing model that requires multiple actors to work in sync, these should not be point-to-point connections but a true, multi-tier network – connecting everyone, like the Internet does. Beyond the connectivity and end-to-end visibility that is enabled, collaboration capabilities are needed to
support the business interactions between the different actors, routing the information in both directions as required by the business – like an ERP system but for the entire supply chain. Without such a platform, it is almost impossible to enable the level of real-time visibility and coordination among all supply chain partners that is needed.

2. **Understand the true demand.** Demand forecasts are only an educated guess of what the future demand will be. In reality, the OTC business is in many aspects no different from other consumer products businesses. So, the most innovative pharma companies are now doing what leading consumer products companies are doing: they are capturing vast amounts of demand-related information which is then fed into sophisticated demand sensing solutions to better predict true demand. This means going all the way to point-of-sale (POS) data or even using signals like weather forecasts or trends via social media – whatever data is relevant to the business. This improved demand picture then needs to be propagated to all supply chain actors, ensuring that the pharma company, suppliers, and CMOs are truly aligned. Consumer goods companies have realized higher on-shelf availability and lower inventories with such an approach.

3. **Control the quality at the CMOs.** In the pharma industry which is heavily regulated and where quality is critical, companies need to ensure end-to-end traceability. When external parties such as CMOs are involved, this means pharma companies need to have visibility into their partners’ manufacturing operations. It is indeed critical to track product quality across the multi-tier, multi-enterprise supply chain. For this, companies connect to their CMO’s manufacturing execution systems (MES) to capture relevant manufacturing data at all stages of production. This provides the pharma company very granular factory transaction visibility to track material flows, lot genealogy, processing steps, and any associated parameters such as yields or test results – critical information to ensure traceability. This a key requirement for any serialization initiative.

4. **Quickly re-plan across the network.** A key requirement for pharma companies today is to quickly detect and respond to changes in the demand and supply picture. This requires visibility of the end-to-end supply chain, not only of the in-house operations. However, even if companies are able to integrate all the up-to-date supply chain data in a complete end-to-end plan, traditional planning systems lack the fast problem resolution and decision support capabilities required to manage trade-offs and iterate through multiple alternative what-if scenarios. Leading pharma companies are using state-of-the-art planning applications that give them rapid decision support with what-if scenario capabilities. These tools allow planners to rapidly evaluate the impact of new information – be it a supply disruption or an unexpected order – and easily compare alternative plans to select the best option to be shared with all supply chain partners impacted.

5. **Better manage the distribution.** Finally, on the distribution side, pharma companies are also increasingly relying on a range of external partners for transportation, warehousing, and other value-added services. Given how critical it is to ensure the right supply of the right product at the right location, pharma companies are taking the lessons from consumer product companies and are
tightly managing their distribution partners. In particular, this includes complete downstream inventory visibility and the support of different replenishment models. Leading pharma companies are also proactively managing the allocations to the different channels, as real time as required. This is particularly important in the OTC segment, where pharma companies need to optimally and profitably allocate the right products to the right channels and make reliable commitments when competing for shelf space at drugstore chains and pharmacies.

A SUPPLY CHAIN OPERATING NETWORK FOR PHARMA COMPANIES

The pharma industry is going through major changes and supply chain function has a key role to play to help address the new cost, performance, and quality challenges. Leading pharma companies have already developed new strategies that, to a large extent, leverage the experience of consumer product companies while taking into account the specifics of the pharma industry. A cloud-based network to enable end-to-end visibility and collaboration among supply chain partners combined with dedicated decision-support applications that leverage the data in this network is the best set-up for pharma companies to run an increasingly outsourced supply chain.

The early adopters are capturing a range of benefits, including:

- Up-to-date, end-to-end supply chain visibility – shared across all partners
- Full quality control of CMOs – as required for traceability and serialization
- Higher on-shelf availability, yet lower inventories
- Through smarter channel allocations, better margins but also higher ranking with channel partners – ultimately leading to higher market share

ABOUT E2OPEN

Founded in 2000, E2open provides the largest and most comprehensive Supply Chain Operating Network, including a broad suite of collaborative supply chain solutions. Leading global enterprises rely on E2open to provide greater end-to-end visibility, more accurate data and insights, and real-time business process orchestration across complex, multi-tier trading partner networks. For more information, visit e2open.com.

9600 Great Hills Trail, Suite 300E  |  Austin, TX 78759  |  Tel. 1.512.425.3500

© 2016 E2open, LLC. All rights reserved.