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Supply Chain: Adding Value Through Excellence

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SUPPLY CHAIN

ADDING VALUE THROUGH EXCELLENCE

Edward Sweeney, National Institute for Transport and Logistics (NITL) writes on enhancing shareholder value in the Pharmaceutical industry: the supply chain dimension.

The international pharmaceutical business environment continues to develop at a rapid rate. Increasing interactions between economies, particularly between North America, Europe and Asia, have raised many important issues regarding transport infrastructure, logistics and broader supply chain management (SCM). The potential exists to further enhance shareholder value through enhanced trade, provided that these issues are addressed in a logical and systematic manner.

Ireland is a key global location for the pharmaceutical industry. Currently 13 of the top 15 companies in the world have substantial operations in Ireland, with six out of 10 and 12 out of 25 of the world's top selling drugs produced here. The majority of products are manufactured for global markets.

SCM EXCELLENCE

It must be recognised that a product is delivered to the ultimate customer through a series of complex interactions with several companies along the way. The manufacturer's ability to give the customer what they want, when they want it, at the price and quality that they expect is not just determined by the efficiency and effectiveness of the manufacturer's own operation. Inefficiencies anywhere in the supply chain will reduce the chances of the manufacturer successfully competing against other suppliers. Without a proper focus on total supply chain management, therefore, a company will never achieve true competitive advantage.

The increasingly international nature of markets and companies has resulted in many companies becoming part of large and complex global supply chains. In addition, the potential benefits associated with emerging electronic commerce technologies provide the potential to simultaneously improve customer service levels and to reduce supply chain costs. These factors have sharpened the focus on the need for improvements in all aspects of supply chain performance.

So what are the characteristics of SCM in companies that might be regarded as world class? The following four elements appear to be of critical importance for most companies in most sectors:



- Identification and measurement of customer service because customer service 'sets the spec' for supply chain design.
- Integration of supply chain activities and information because many supply chain NVAs are caused by fragmented supply chain configurations.
- SCM regarded as a senior management function because SCM is a strategic activity.
- Establishment and measurement of supply chain key performance indicators (KPI's) because what gets measured gets done!

Recent research by NITL indicates that while pockets of excellence undoubtedly exist, there is serious room for improvement. A survey of 776 companies in the Republic of Ireland (including many in the pharma sector) in relation to the factors outlined above showed that:

- Approximately 50% measure customer service formally and those have very limited measurements;
- Companies score low in relation to having the latest supply chain information and communications technology (ICT) and having them integrated across the supply chain;
- Less than 10% have any formal SCM position;
- Few companies had clearly defined SCM KPI's.

SUPPLY CHAIN

Furthermore, a number of possible barriers to SCM excellence have been identified and will be explored as part of the ongoing research and associated analysis. These include:

- Inefficiencies are often built into the supply chain.
- Communication structures are ineffective and exchange of information poor.
- Culture is inappropriate.
- There is an excessive reliance on forecasting and stock-holding.
- Problems are often managed, rather than their causes eliminated.

CONCLUDING COMMENTS

The potential exists across the pharma industry to significantly enhance shareholder value through the adoption of SCM thinking. The regulatory environment in which the industry operates brings its own particular challenges but these are not insurmountable: rather, they require that creative SCM strategies be developed, and then executed superbly, with strong attention to detail.

ABOUT THE AUTHOR

Edward Sweeney is Director of Learning at the National Institute for Transport and Logistics (NITL), based at the Dublin Institute of Technology (DIT). NITL was established in 1998 as Ireland's 'Centre of Excellence' in supply chain management. Since then, it has provided a range of education, training, consultancy and research supports to companies in Ireland and abroad.

At NITL, Edward is responsible for the development and implementation of the integrated supply chain management (SCM) development programmes and carries out research and consultancy work on behalf of NITL client companies. He is an engineer by background and has worked and lectured in over 20 countries in Europe, North America and Asia. His work has been widely published and he is a regular contributor to business and academic conferences and seminars throughout the world. His most recent book, 'Perspectives on Supply Chain Management and Logistics: Creating Competitive Organisations in the 21st Century', is available through Blackhall Publishing.

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