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# Supply Chain Management in the Pharmaceutical Industry: the key to further enhancing shareholder value

Edward Sweeney, NITL, DIT

## Background

The international pharmaceutical business environment continues to develop at a rapid rate. Increasing interactions between economies, particularly between North America, Europe and Asia, has 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.

It must be recognised that a product is delivered to the ultimate customer through a complex interaction of several companies on the way. The manufacturer's ability to give the customer what they want, when they want it, at the price and quality that they want, 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.

## Defining SCM

NITL defines SCM in terms of *Four Fundamentals*, all of which are vital to the continuing profitability of the companies in all parts of the pharmaceutical supply chain. *Fundamental 1* relates to the overall objectives of SCM. These are concerned with:

- Meeting or exceeding customer service requirements in the market; and
- Optimising total supply chain costs and investment.

Both are self evidently important. Traditionally, supply chain costs (as a proportion of total cost base) have been lower in the pharma industry than in others, resulting in a lower focus on SCM. However, as with all other aspects of the industry downward pressure now exists on supply chain costs (such as purchasing costs, production costs, transport costs and customer service costs). Simultaneously, customer service requirements are becoming more and more demanding. *Fundamental 2*, relating to SCM philosophy, recognizes that a supply chain is only as strong as its weakest link. This is as true in the pharma industry as it is in any industry. It requires that raw material suppliers, distributors, manufacturers, retailers and others work together in new and innovative ways. It further requires that barriers between internal functions and activities to be tackled. *Fundamental 3* is concerned with the efficient and effective management of material, money and information flows throughout the supply chain. The latter (i.e. management of information flows) is of particular importance. Significant investment in information and communications technology (ICT) in the pharma industry in recent years bears testament to this. *Fundamental 4* requires companies, particularly in an environment where outsourcing of supply chain functionality has become more common, to re-appraise both internal and external customer/supplier relationships.

## Characteristics of SCM Excellence

So what are the characteristics of SCM in evidence in companies that might be regarded as world class. "World Class" in this context means companies that have been successful in tough, competitive international markets over a sustained period of time. It is impossible to develop an exhaustive list of the characteristics of SCM excellence but 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 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!*

This is based on documented evidence of SCM "best practice" and allies with the author's experience in a range of sectors. Whilst pockets of excellence undoubtedly exist, in Ireland generally[1] and in the Pharma industry specifically, it is clear that there is significant room for improvement.

## Concluding Comments

In short, 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.

NITL is Ireland's Centre of Excellence in SCM. The Institute offers a range of SCM services including advice and consultancy, research and training and education. Courses are run on a part-time modular basis allowing for maximum flexibility and a work-life balance. NITL's Annual Conference takes place on October 6th 2005 in Croke Park, Dublin. The conference will feature a series of presentations and case studies that will highlight the benefits of SCM.

[1] NITL's recent "SCM Barometer" study provides evidence of this. Please contact the author for further information.