

# PERSPECTIVE

## Simplifying Procurement in the Pharmaceutical Marketplace



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### **Abstract**

The pharmaceutical manufacturing industry has been significantly impacted by increased regulatory demands and growing pricing scrutiny. Organizations can no longer afford to absorb head count increases, add emerging capabilities, venture into new areas, and be all-encompassing. They have to streamline. As a result, the concept of outsourcing noncore business functions has recently gained momentum. While other industries have been forced to do so for quite some time, the pharma industry is now beginning to explore options to reduce their cost base and simplify overall business operations. While they focus on the functions which are essential to their core business, pharma companies need to rely on their partners to manage the outsourced, noncore functions.

A photograph of a modern operating room. The room features a large, multi-lens surgical light fixture hanging from the ceiling. The walls are made of stainless steel, and the floor is a bright green. In the foreground, there is a medical cart with a blue and white machine. In the background, a patient is lying on a table, partially covered with a blue drape. Various medical monitors and equipment are visible on the right side of the room.

## Shifting market dynamics

Driven by reduced growth rates in the US market and pricing pressures in the traditionally mature markets (US, Japan, East Europe) one of the major trends seen in the pharmaceutical industry today is a shift in strategic focus to the emerging markets of China, Asia Pacific, and South America.

Pharma companies are also appointing global heads for business and manufacturing, as opposed to traditional regional heads. Simplification of operations will be achieved by eliminating redundancies and reducing the resources required for support. The other trends emerging within the pharmaceutical industry are along the following lines:

- Simplifying the global operating model
- Integration driving new business models
- Improving collaboration across teams

Apart from this, organizations are finding much value in supplementing their own procurement efforts with external resources, thanks to the reach and expertise that outsourced procurement groups have to offer.



## Simplifying the global operating model

Outsourcing within the pharmaceutical industry is not a new concept. In certain areas such as contract manufacturing this has been prevalent for quite some time and is almost considered a standard practice. Additional areas, particularly for CROs and CMOs, have grown over the last decade. We are now however, starting to see entire new outsourcing industry sectors, such as high-throughput screening services, animal toxicology testing, and a rapid increase of outsourcing related to the corporate procurement operations. The evolution of 'shared services' centers are focused on simplification of the transactional and ordering processes.

The underlying nature of the pharmaceutical industry has changed as cost reductions and the need to gain efficiencies have become essential to success. Outsourcing has become an industry norm, and now includes the full range of corporate activities. Many areas previously immune to such initiatives such as marketing, legal, and consulting are being impacted as companies realize how their internal infrastructure can be simplified.

Outsourcing has proven effective at reducing operational and infrastructure costs for pharmaceutical companies. One of the major challenges becomes what functionality is retained versus what can be

outsourced. In some instances like facilities, maintenance, and security the decision is not as complex as when the functionality touches the core products. Other areas are deemed mission-critical, for example, primary sales and basic manufacturing.

Challenges arise when some aspects of complex functions are suitable for outsourcing and others are better off being retained by the company.

- Many components of core functions such as manufacturing, marketing, market research, and sales lend themselves to an outsource model
- Many support functions like human resources, finance, and legal are being looked at as being noncore, therefore may be outsourced
- Central functions such as regulatory compliance, main product sales, and core manufacturing are typically retained by the parent company

With procurement playing a larger role, companies are finding that they can gain competitive advantage by supplementing their own internal procurement efforts with additional support. BPO procurement efforts can provide support in areas where companies lack in-house expertise, or where global knowledge is not readily available.

## A business model driven by integration – A marketing example

The need to reduce costs is forcing companies to look at areas which have previously been ignored. One of these areas is marketing. The marketing of a pharmaceutical product is a long cycle and involves processes that begin long before the product itself is promoted. Up to the point where actual promotion begins, the functions associated with marketing are held very close by the parent company. However, in the recent past global marketing functions, specifically the production of promotional material, are being outsourced.

Historically, the strategy, development, and production of the collateral materials would be completely handled by the creative agency, and typically produced within the geography in which the materials were to be utilized.

But today, several major players in the industry have models in place where all assets, no matter where they originate or are to be deployed, are centrally created by one of a stable of outsourcing partners at offshore locations. The increased utilization of digital assets has facilitated migration to this model.

In pilot studies related to comparing costs of identical collateral material produced

via the offshore versus the traditional model, procurement savings in the vicinity of 30%–70% have been achieved. The wide range is a result of variations in the complexity and nature of the asset being produced. BPO companies can play a significant role by providing resources, along with data and processes, to achieve desired outcomes.

While savings can be substantial, the road to achieving it is not simple and straightforward. But once the changes have been implemented into the ongoing marketing operations, the end result is a simplified process which yields significant cost reduction.



## Improved collaboration

While the example above illustrates a major global initiative, gaining efficiencies and reducing cost structure is not limited to sweeping initiatives which impact the entire corporate structure. Many opportunities exist for lowering costs through improved collaboration with sourcing partners, and can be enacted at the business unit or regional level. Some models which have been implemented by various organizations are indicated below:

### Local suppliers

Oftentimes, due to the temporal requirements of receiving a product or service, partnering with a supplier who is in proximity to the client will yield total cost savings, even if the unit cost of the product or service is higher.

### Regional supply base

Similarly, the business demands of a particular region, unit, or geography, may be met by selecting suppliers who have core competency in delivering to a specific geography.

### Preferred sub-partners

Even within established supplier relationships, various elements are subcontracted out for completion. Procurement can expand its influence by moving further down the supply chain and negotiating contracts with subcontractors of their preferred suppliers. Care should be taken that when work needs to go outside a supplier's shop, it is directed to one of the preferred subcontractors.

### True partnerships

Some pharmaceutical companies have formed relationships which extend way beyond the traditional client / vendor relationship. In partnerships of this level, true enterprise interactions take place to look at the entire breadth of operations to bring mutual benefit to both organizations.





## Moving ahead

In addition to outsourcing, there are also additional measures which are being invoked in an effort to simplify. Some of these trends are:

### Demand management

Demand management can provide significant results in simplification of operations. Organizations which come into global structures from previous regional or local structures often find tremendous redundancies. Applying demand management techniques can remove redundancies and unveil areas of significant cost reduction by allowing procurement organizations to leverage consolidated purchasing volumes and reassign spend to preferred suppliers.

### Lean process improvement (LPI)

This trend dovetails nicely with demand management. While demand management is focused on purchases, LPI is focused on processes. Similar to demand management, organizations while restructuring into global operating units often contain numerous redundancies in processes. Lean techniques such as 5S can help improve workplace efficiency, while the focus on eliminating unnecessary steps can help speed up processes to reduce cycle times.

### Big data

Increased capability in this area is poised to reveal significant advantages for pharmaceutical companies. Advances such as predictive modeling in drug development, patient identification in clinical trial enrollment, real-time monitoring of clinical trials, and electronic data capture will allow pharma to simplify collaboration, improve decision-making, and reduce cycle times. A recent study by McKinsey estimates that applying big-data strategies to better inform decision-making could generate a value of up to US\$100 billion annually across the US healthcare system – by optimizing innovation, improving the efficiency of research and clinical trials, and by building new tools for physicians, consumers, insurers, and regulators to meet the promise of more individualized approaches<sup>1</sup>.

### Business processes

Business process management can help pharmaceutical companies gain efficiency through a combination of process improvement, standardization, and automation. Optimization and automation of business processes can reduce redundancies and risk of errors and rework.

The paradox of the pharmaceutical industry is that increasing complexity is calling for increased simplicity. As the demands on the industry increase, the workforce is being challenged to take on more and more. Since expansion of head count is no longer an option, the solution is to simplify processes and seek partners who can take on noncore work.

Utilization of BPO providers is an attractive option. Companies can bring in immediate expertise for execution of noncore activities and scale resources on demand, while focusing on hiring for core business functions only. The model is simplified, the options are enhanced, and the results are improved.

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1. James Manyika et al., Big data: The next frontier for innovation, competition, and productivity, McKinsey Global Institute, May 2011; Peter Groves et al., The 'big data' revolution in healthcare: Accelerating value and innovation (PDF–1.4 MB), January 2013; and Ajay Dhankhar et al., Escaping the sword of Damocles: Toward a new future for pharmaceutical R&D (PDF–1.8 MB), McKinsey Perspectives on Drug and Device R&D 2012.



## About the Author



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Mike is Principal Consultant in the Sourcing and Procurement practice at Infosys BPO. He has 24 years of experience in the areas of marketing and marketing procurement. As a charter member of the marketing procurement effort at Merck & Co. Inc., he led the areas of media, agencies, print, paper, and digital marketing procurement. He also served as Media Director for several years. Mike also led the procurement effort for global outsourcing of marketing production as Procurement Director for AstraZeneca Pharmaceuticals.

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