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Logipharma 2015

The 14th Annual Pharmaceutical Supply Chain Conference

LIFE SCIENCES SUPPLY CHAIN BENCHMARKING SURVEY 2015

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INTRODUCTION

What are the key trends developing in pharma supply chain, and how are the industry's most prominent organisations responding?

This report is designed for those who have their finger on the pulse of the industry. Inside you will discover responses on key issues from leading figures in the pharma supply chain.

Created by the team behind Worldwide Business Research's LogiPharma conference, the leading global end-to-end supply chain management event for pharma, our survey was distributed to over 200 Supply Chain Executives from large pharma companies across Europe. Participating executives include: Vice President of Supply Chain Management, Global Head Supply Chain Planning & Strategy, Director of SCM & Procurement, Head of Cold Chain logistics, among many others.

Our goal for this report was to understand where pharmaceutical executives like you stand on some of the key supply chain challenges, priorities and opportunities which are facing the industry.

If you ask yourself questions such as:

- To what extent are my competitors harnessing the potential of technology to achieve competitive advantage?
- To what extent is direct-to-patient distribution being implemented across the industry?
- Is the industry fully prepared to meet the EU GDP guidelines?
- How completely has integrated end-to-end supply chain planning been implemented industry-wide?

Simply keep reading to discover unique the insight and commentary inside this report, designed and written especially for pharmaceutical executives like you.

COMMENTARY

James Gregson,
Partner,
Deloitte Consulting

John Morgan,
Director,
Deloitte Consulting

The 2015 Logipharma® benchmarking survey shows that pharmaceutical supply chain executives are focused on the day-to-day challenge of balancing cost and customer service while, at the same time, laying the foundations to support new areas of market growth. Progress towards integrated end-to-end planning, however, appears not to be keeping pace and the slow adoption of cloud computing is perhaps a missed opportunity.

Global pharmaceutical spending is expected to increase by 6.9% per annum between 2014 and 2018[†]. Underlying that growth are two key trends that are shaping the strategic agendas of Supply Chain leaders. The first is the reshaping of the product portfolio, which is driven by the growth in generics from 27% market share in 2012 to close to 40% by 2020[†]; high value innovative medicines coming to market in therapeutic areas such as oncology and autoimmune; and growth in companion diagnostics. The second key trend is developing markets growth outstripping developed markets; increasing their share of global spending from 23% in 2014 to 32% in 2020[†].

The survey highlights that the trade-off between cost and customer service remains the leading challenge for supply chain executives today. However, in line with the key trends driving global growth, managing the supply chain for a rapidly changing portfolio is seen as the next greatest challenge and the survey results further indicate that the supply chain is viewed to have a vital market access role in developing markets.

In addition nearly half of all survey respondents have adopted multi-dimensional supply chain segmentation and, in many cases, are already adapting their global network designs to serve this growing diversity of products, customers and regions in a cost-appropriate and agile manner. One example is direct to patient distribution. Close to 80% of respondents see this as a differentiating factor, and the one third that have direct to patient distribution models in place today will be best placed as doctor-patient virtual interactions become the norm and care is increasingly delivered in the home.

An area of concern, however, is that while nearly all respondents are somewhere on the journey towards integrated end-to-end planning, few have achieved that capability. Furthermore, the majority of respondents have not embraced big data and cloud solutions yet. This presents a clear opportunity to employ cloud solutions to overcome weaknesses in the 'within the four walls' IT architectures of today to better align information, improve visibility and enable collaboration. This in turn facilitates the right decisions being made in a timely manner throughout the end-to-end supply chain.

In summary, the supply chain has a key role to play in the pharmaceutical industry in creating competitive advantage in a safe, efficient and scalable manner. Supply chain leaders will be those that adopt an outside-in business operating model that is able to configure the supply chain to meet very different patient needs across an increasingly complex product portfolio.

† Source: Deloitte Healthcare and Life Sciences Predictions 2020

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KEY FINDINGS:

Key players in the industry are yet to fully take advantage of the potential offered by Big Data and / or Cloud Computing – **85%** of respondents had no plan in place.

Nearly **60%** of respondents are still developing processes to ensure full compliance with the EU's directive on global serialization requirements.

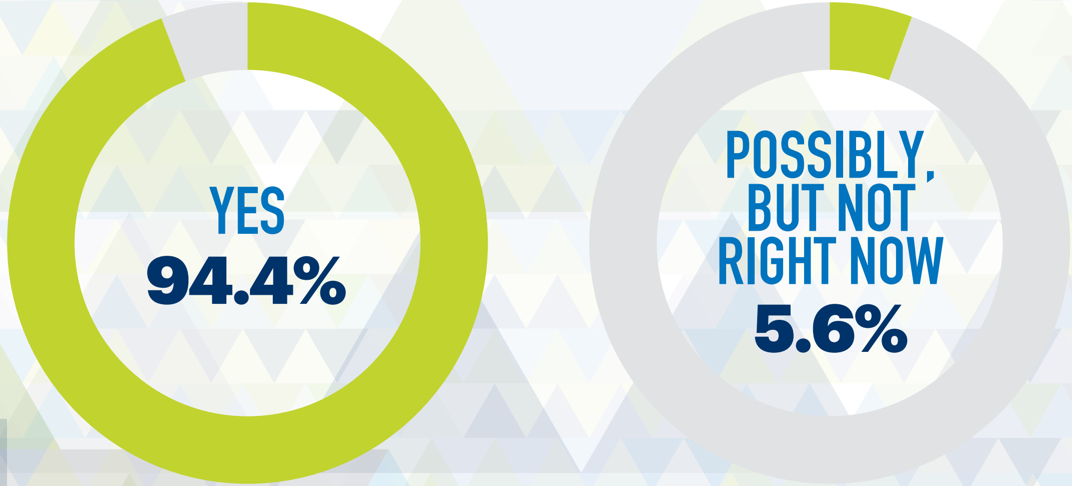
The Asia Pacific region is viewed as having the greatest potential for enhanced influence in terms of market access.

Only **17%** of respondents expect direct to hospital / pharmacy distribution to be significantly more common in the next 10 years.

Risk-assessing and adapting transportation routes is seen as the most crucial investment priority to meet GDP guidelines

01 DO YOU THINK THAT SUPPLY CHAIN CAN REALISTICALLY CONTRIBUTE TO THE BOTTOM LINE OF YOUR COMPANY?

The overwhelming majority of companies agree that supply chain can make a real contribution to the bottom line of any business – further to this it can also play a key role in the fulfilment of wider business objectives.



"Supply chain contributes significantly to the bottom line by reducing risk for continuity of supply, quality, and regulatory compliance."

– Paul Nelson, Executive Director, Supply Chain, Auxilium

02 WHICH IS THE BIGGEST CHALLENGE FOR YOU IN YOUR ROLE CURRENTLY?

The leading challenge for more than two thirds of surveyed pharmaceutical executives is how to provide excellent customer service while continuing to meet cost management targets.

"It is very important to identify needed skills, hire people to fill any knowledge gap, and manage interface more closely to Finance and Regulatory"

– Tom Fischer, Director, Actelion

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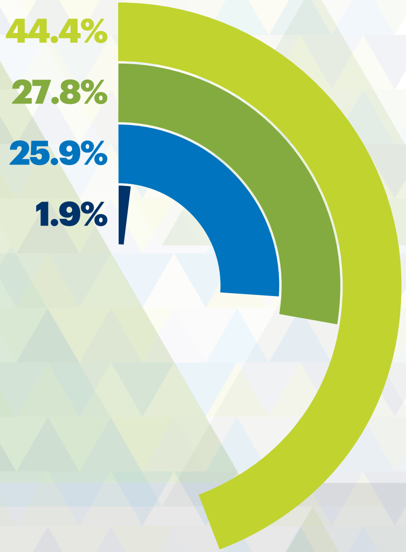
03

HOW DOES YOUR COMPANY SEGMENT THE SUPPLY CHAIN?

A clear majority of businesses take an integrated approach to the segmentation of their supply chain favouring a matrix of product, customer and region over segments divided exclusively by region or by customer.



A matrix of product, customer and region	44.4%
Different parts of the supply chain are segmented in various different ways	27.8%
By region	25.9%
By customer	1.9%

"We deal with a chronic disease group who require their medication to be delivered to them but also tracked and traced through the supply chain to improve patient safety and, by visibility in the supply chain, reduce the cost."

– Feargal Mc Groarty, National Haemophilia System Project Manager, St. James's Hospital

04

TO WHAT EXTENT IS YOUR COMPANY EMBRACING BIG DATA AND/OR CLOUD COMPUTING TO DRIVE CHANGE IN YOUR SUPPLY CHAIN?

Not right now but we might be looking at big data and/or cloud computing in the future	51.9%
We are actively discussing big data and/or cloud computing	22.2%
Not at all	11.1%
Yes we are fully on board with big data and cloud computing	5.6%
We are embracing big data only	5.6%
We are embracing cloud computing only	3.7%

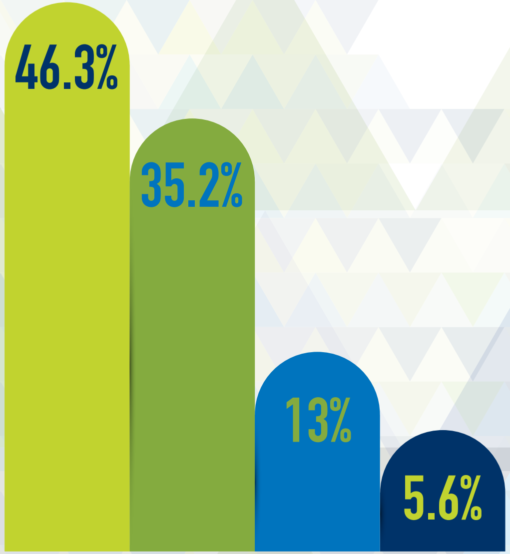
Less than 15% of responding businesses have actively embraced the possibilities offered by big data and cloud computing.

The fact that the vast majority of companies are still unsure about this new technology indicates a strong need for companies to discuss the potential these solutions may have to help them drive change in their supply chain.

05

DO YOU THINK TECHNOLOGY COMPANIES SUCH AS APPLE AND GOOGLE WILL HAVE BIG IMPACT ON PHARMA SUPPLY CHAINS?

The jury remains out on the prospect of a meaningful impact on Pharma supply chains from tech giants like Apple and Google with more than 80% of respondent unsure of the possibilities. However, the consensus view was that some amount of impact is likely, with only slightly less than 6% thinking they will have no effect at all.

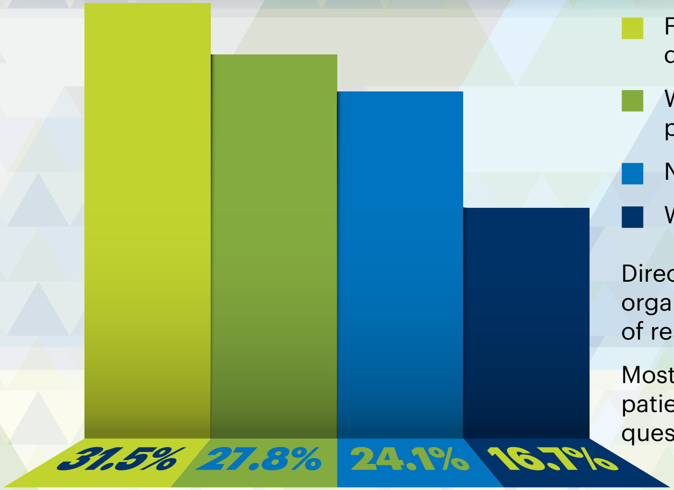


Hard to tell what impact it would have	**46.3%**
Might have a big impact	**35.2%**
Yes – a big impact	**13%**
No, not at all	**5.6%**

> ***Apple provided the cleverest approach on New Product Launch Management to make the products consistently available. This was tremendous success.***
>
> – Sevgi Çınar, TR&ME Zone Supply Chain Optimization Leader, Sanofi

06

HOW FAR ALONG IS YOUR COMPANY IN IMPLEMENTING DIRECT-TO-PATIENT DISTRIBUTION CHANNELS?



Fully operational – we have been distributing by direct-to-patient channels for over a year	**31.5%**
We are actively discussing but there are no plans to put in place yet	**27.8%**
Not at all	**24.1%**
We will be implementing in the next 1-3 years	**16.7%**

Direct-to-patient distribution is, although well developed in some organisations, not currently ubiquitous in the industry. In fact, nearly 70% of respondents do not have any direct-to-patient channels in place.

Most companies recognize the importance of implementing direct-to-patient distribution channels to differentiate from competitors – the questions remains, how will they achieve this?

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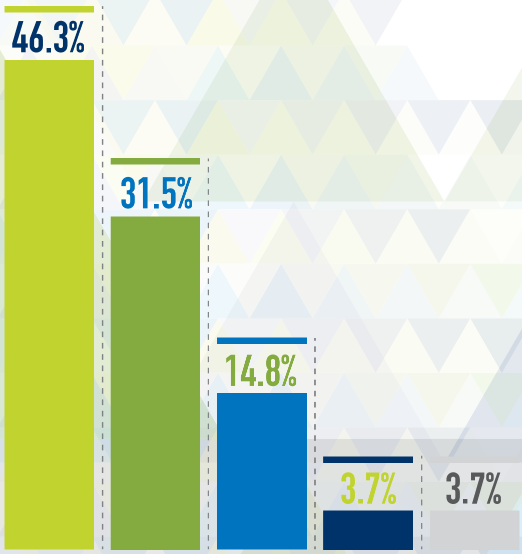
DO YOU THINK DIRECT-TO-PATIENT DISTRIBUTION CHANNELS WILL DIFFERENTIATE A COMPANY FROM ITS COMPETITORS?

The potential importance of direct-to-patient channels to pharmaceutical executives is clearly underlined here with nearly 80% of the respondents showing a clear belief that these channels will become even more important over the next few years.



Yes absolutely	**46.3%**
It might do in the future, but it's too soon to tell now	**31.5%**
Possibly - it's worth putting in place	**14.8%**
Not really, everyone has implemented already	**3.7%**
No, not at all - it's not an advantage	**3.7%**

"Until now agents have acted as a bridge between the needs of customer and the pharma companies. Reaching customers directly and having the products available at point of need would help companies to develop their brands as well as the trust of the patients. This will create loyalty."

– Sevgi Çınar, TR&ME Zone Supply Chain Optimization Leader, Sanofi

08

HOW PREPARED IS YOUR COMPANY FOR THE GLOBAL SERIALISATION REQUIREMENTS OUTLINED IN THE EU FALSIFIED MEDICINES DIRECTIVE

Somewhat prepared, but we are still developing our processes and technologies	**57.4%**
Very prepared – we have all of our processes and technologies in place	**29.6%**
Not at all prepared - we need more information	**11.1%**
Not very prepared, it would be good to find out how other companies are managing this	**1.9%**

In general the industry is quite well prepared to meet the global serialisation requirements set out in the EU Falsified Medicines Directive, with nearly 30% of responding businesses full prepared with all necessary processes and technologies in place.

However, whilst many companies are prepared for serialisation requirements, just over half are still looking for the right way to do it. This demonstrates a clear need to find out which tools and technologies are available.

09

HOW FAR ALONG IS YOUR COMPANY IN INTEGRATING END-TO-END SUPPLY CHAIN PLANNING?

We are someway to achieving fully integrated planning	55.6%
We have fully integrated planning, end-to-end throughout our supply chain	20.4%
We'd like to implement fully integrated planning, but we don't have the resources	11.1%
We are actively discussing fully integrated planning, but no plans have been put in place yet	9.3%
Not at all, we're not considering integrated planning	3.7%

The results to this question show a clear desire among pharmaceutical leaders to achieve integrated end-to-end supply chain planning, with only 4% of respondents stating that they are not considering implementing it at all.

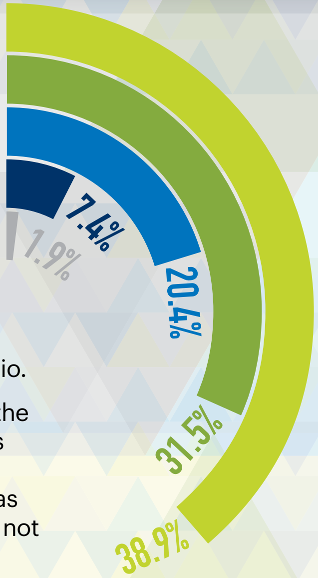
Clearly, most companies believe that fully integrated planning is important; however some do need help as they do not have the plans or resources currently in place.

10

DO YOU THINK YOUR COMPANY NEEDS TO CHANGE ITS GLOBAL NETWORK DESIGN TO MATCH A CHANGING PORTFOLIO?

Just under 80% of responding businesses admitted the need to change their global network design to match a changing portfolio.

However of them, only 7% have completed the change and just over 30% are in the process of implementing plans.This presents a clear opportunity for companies to exchange ideas on both what has worked well and what has not for them.



Yes, we are actively discussing changing our global network design, but no plans have been put in place	38.9%
Yes, we are in the process of changing our global network design	31.5%
No our current global network design matches the need of our changing portfolio	20.4%
Yes, in fact we have recently changed our global network design	7.4%
Not at all – our portfolio isn't changing	1.9%

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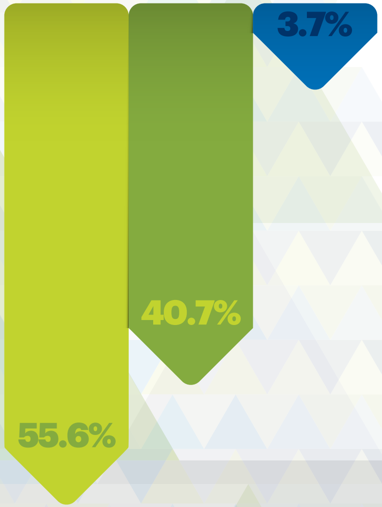
DO YOU THINK YOUR COMPANY SHOULD COLLABORATE WITH OTHERS TO ACHIEVE A MORE EFFECTIVE SUPPLY CHAIN?



- Yes absolutely – it's important to work with other pharma companies to develop a more effective supply chain **55.6%**
- Possibly, but it depends on the situation **40.7%**
- No – supply chain should be used to differentiate from competitors **3.7%**

The need for cooperation between pharma companies is clearly demonstrated here; however the debate lies in the detail. Just how much cooperation is enough, and how much is too much?

41% of respondents to the survey admitted that their willingness to collaborate on developing a more effective supply chain would be highly contextual.

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IS YOUR COMPANY MOVING FROM S&OP TO COMPANY-WIDE INTEGRATED BUSINESS PLANNING (IBP)?

- Not at all, we haven't considered IBP **51.9%**
- Yes, we are in the process of moving from S&OP to company-wide IBP **18.5%**
- We are currently putting plans in place to move to IBP **13%**
- We are actively discussing moving to IBP, but no plans have been put in place **13%**
- Yes, we have completely moved from S&OP to company-wide IBP **3.7%**

At the present time IBP is simply not on the radar for more than half of companies. In many ways this is surprising given the rising cost of bringing new drugs through the development chain and the resulting need for companies to achieve operational efficiency.

Around 50% of companies haven't considered IBP at all, but with 20% in the process of moving to company-wide IBP, this may well be something that more companies need to look at.

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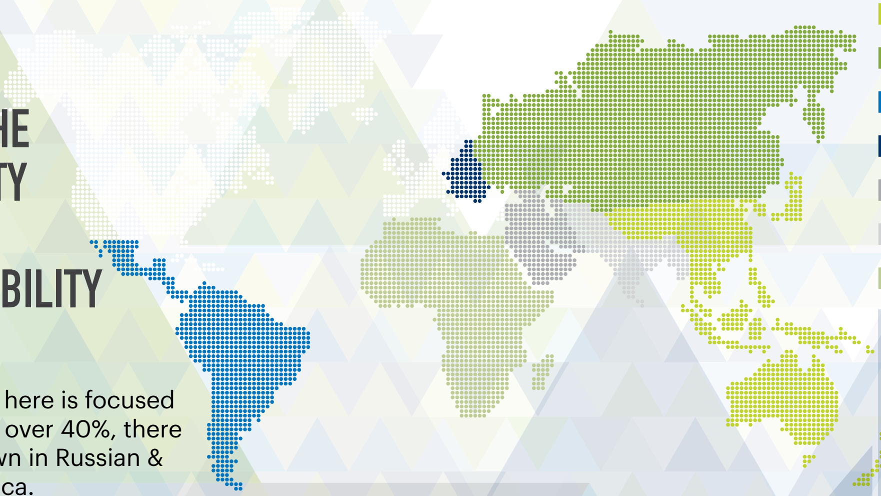
WHICH REGION DO YOU THINK PROVIDES SUPPLY CHAIN WITH THE GREATEST OPPORTUNITY TO INFLUENCE THE MARKET ACCESS CAPABILITY OF YOUR COMPANY?

Although the majority of interest here is focused on the Asia Pacific region, at just over 40%, there was also significant interest shown in Russian & CIS, as well as Latin/South America.



Asia Pacific	40.7%
Russia & CIS	27.8%
Latin/South America	22.2%
Eastern Europe	18.5%
Middle East and North Africa	16.7%
Rest of Asia	13%
Africa	13%

"The Middle East and North Africa are major regions of interest for us - Because of its market size, dynamics and growth potential."

– Sevgi Çınar, TR&ME Zone Supply Chain Optimization Leader, Sanofi

14

WHAT DO YOU THINK THE NUMBER ONE INVESTMENT PRIORITY FOR MEETING GDP GUIDELINES SHOULD BE?

The majority of companies rely on risk assessing and adapting transportation routes to meet GDP guidelines, but with over 25% looking at investment in service providers and technology solutions, should more companies look to providers to help them?

Risk assessing and adapting transportation routes	55.6%
Consolidating or finding new transportation service providers	13%
Reassessing and changing strategy for freight – sea vs. air. vs. truck vs. rail	13%
Investing in active solutions	11.1%
Investing in passive solutions	7.4%

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WHICH ONE OF THE FOLLOWING CHANGES IS THE MOST LIKELY TO OCCUR IN 10 YEARS' TIME?

Given the even split in predictions for changes in 10 years' time, it seems that most companies believe these changes are likely to take place!

- Supply chains will be far more segmented and specialised according to product **33.3%**
- Supply chain will have a much more significant impact on the bottom line of the company **29.6%**
- Supply chain will have a much greater influence on market access **20.4%**
- Direct to hospital and pharmacy distribution will be significantly more common **16.7%**

ABOUT DELOITTE

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Working with leading organisations, governments and commercial bodies, our role is to unlock potential for growth and innovation. We believe this requires real collaboration, with our own networks and with our clients. It's why we commit to getting under the skin of our clients' needs, developing a full appreciation for their environment, goals and ambitions. We are not afraid to challenge. In so doing, we build long-term and trusted affinities.

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ABOUT LOGIPHARMA

LogiPharma is the ONLY GLOBAL VP-level, end-to-end supply chain event focusing on strategic and tactical improvements for Europe & the rest of the world. It caters to professionals from across the spectrum of innovative pharma, generics, animal health as well as biotech companies, tackling the most relevant, pressing challenges and opportunities present in the industry.

- Meet and benchmark with your peers: 30+ hours of networking, learning and practical takeaways from case studies, round table discussions, topic driven lunches, seminars, and more
- A programme designed alongside an Advisory Board of leading supply chain executives
- Get insight into strategies from across the globe: 50+ countries in attendance
- Over 85 senior representatives from the foremost 20 pharma businesses will be speaking
- Network with your peers in an informal setting at our drinks and networking receptions