Case Study

SUPPLY CHAIN FLEXIBILITY

Pharmaceutical Manufacturer's Rx for Shifting Market Forces: Strategic Outsourcing

Life Sciences

Challenge

Outdated warehouse & distribution model

Shifting market forces

Security and risk mitigation issues

Lack of contingency plan

Solution

Increased flexibility with outsourced supply chain

Shifted distribution to strategic locations

Leveraged IT, labor and global resources

Results

Volume

Costs

Unit costs

Given the complexity of pharmaceutical supply chains, most leading manufacturers have developed sophisticated, tightly held in-house warehousing and distribution operations. However, Novartis, a leading global manufacturer with major U.S. operations, looked to the future and saw an array of market forces reshaping the industry that would require more flexible, agile supply chain and distribution strategies.

➔ The Challenge

This forward-thinking company recognized that changing industry dynamics might require a major shift in supply chain strategy in order to provide needed flexibility. Novartis' in-house warehouse and distribution operation, centralized at its U.S. corporate headquarters on the East Coast, was designed only to support a wholesale marketing strategy.

Novartis recognized the need to:

- Clear transport congestion on the headquarters campus from heavy truck traffic and more than 5,000 employees;
- Reduce costs. The company was using costly space in an office park for a warehouse operation that could be located in a lower-cost area;
- Improve security measures to combat theft, counterfeiting and bioterrorism;
- Enter new markets;
- Ensure business continuity and contingency plans by decentralizing product as opposed to the single point-of-failure associated with a single distribution center at headquarters;
- Justify costs associated with upgrading the existing facility; and
- Diversify risk.

At the same time, the company's business was changing, which meant additional complexity coming into its dynamic supply chain. A new distribution strategy had to account for issues such as:

- The potential for international shipments of pharmaceuticals, now a common practice in the European Union (parallel trade); and
- The emerging growth of biomedical treatments requiring temperature-controlled distribution to ensure safety.

"Our industry has never faced a longer list of shifting market forces that, taken as a whole, create such a diverse set of challenges — and possibilities," said Bill McLaury, executive director for North American pharma supply chain at Novartis. "We could no longer focus primarily on compliance and execution, so we knew we needed to seriously consider supply chain outsourcing to take costs out of our distribution infrastructure."

Further, the company recognized that adapting its in-house operation to support a more flexible supply chain would be a costly undertaking — and a distraction from its core expertise in research and development, marketing and drug management.

➔ The Solution

Novartis knew that partnering with a third-party logistics provider (3PL) could offer many advantages, including a flexible supply chain infrastructure that could adapt to marketplace changes while reducing costs. In addition, other business units in the company had successfully worked with 3PLs to achieve strategic goals.

It decided to move forward with 3PL outsourcing with Exel. Exel had a well-established national and global infrastructure, extensive experience with other life sciences companies, IT expertise, reputation for excellent customer service, and proven ability to deliver cost savings.

During the contracting process, Exel provided flexibility to enable Novartis to gain comfort in working with a 3PL partner. From the initial stages of the partnership, the team focused on developing a high-quality relationship based on open communication and collaborative brainstorming.

Supply Chain Flexibility

"A flexible supply chain was critical for this leading pharmaceutical manufacturer during a period of shifting market forces. Our flexible supply chain infrastructure helps the customer remain agile and able to respond efficiently to any issues — and opportunities — that appear on the horizon."

- Scott Cubbler, Exel's vice president for the life sciences industry

The operating agreement affords the customer a high degree of commercial flexibility with infrastructure, systems and the business model, and in turn, Exel is able to operate a strategic, highly transparent partnership. This atypical arrangement allows both parties to collectively focus on the core business: life-saving drugs and commitment to the patient.

Collaboratively, the two companies developed and implemented a supply chain re-positioning plan without disrupting the continuity of supply to its customers. Exel provided the flexible supply chain solutions essential for addressing immediate needs — and responding to future changes.

Key elements of the plan included:

- Relocating Novartis' warehouse to a new off-campus site, identified by Exel, relatively close to the company's headquarters. The new warehouse also offered an ideal combination of size and layout to minimize cost of operations.
- Gaining immediate distribution flexibility via Exel's 100 million square feet of warehouse and distribution real estate in North America. Locations could be chosen based on a variety of considerations including tax, foreign trade zone access, transportation costs, end-customer proximity, and warehouse profile, among others. This infrastructure would provide future flexibility.
- Accessing Exel's network of locations that are managed to minimize overtime and turnover while promoting collaboration;
- Implementing new customer-centric initiatives such as Exel-managed same-day order processing and seasonal product launches to enhance service levels particularly amid product changes and other special projects;
- Deploying a new warehouse management system that supported multiple business unit implementations;
- Developing new IT processes such as complex, customer-specific electronic data interchange (EDI) mapping and sophisticated IT disaster recovery plans;
- Optimizing warehouse management system configuration for ePedigree and serialization initiatives looming on the horizon; and
- Leveraging Exel's global infrastructure to promote collaboration among business units around the world. Exel provided the support for setting global standards, best practices and business strategies.

➔ The Results

In partnership with Exel, the pharmaceutical manufacturer achieved a high standard of quality in the first year of operation. The transition was completed at a substantial cost savings compared with the investment that would have been required to upgrade Novartis' East Coast location. The strategic partnership and special terms and conditions arranged allow both parties to remain focused on delivering pharmaceuticals and patient care. From a cost standpoint, volume ramped up quickly while total costs and cost per unit declined sharply.

Strategic planning and improvement programs are moving ahead to deliver enhanced supply chain flexibility, including:

- Enhanced disaster recovery and business continuity;
- Improved security and tracking with ePedigree/serialization;
- Increased collaboration among multiple business units;
- Reduced labor costs; and
- Better efficiency with shipment consolidation.

The project's success was also recognized by key trading partners, as Novartis earned a "Supplier of the Year" award from McKesson.

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Contact our
Life Science experts:
800.272.1052

consult.lifesciences@exel.com

www.exel.com

Raising expectations.

When market forces and business changes create supply chain challenges, collaborating with an experienced supply chain expert can provide the flexibility essential to adapting for success.