

Logipharma

GENEVA, APRIL 25 - 2012



GROENEWOUT



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Groenewout reference 9026X077/AB/it

The recommendations, advice and conclusions, mentioned in this report, are based on the information and data provided by client. Savings, operational costs and investment estimates are depending on the assumptions and preconditions stated in this report. All orders are accepted and carried-out according to the Groenewout Terms and Conditions 2012.

Agenda



Logistics trends in pharma

Associated logistics network strategies

When to use what network strategy

What operational measures are required

Pharma logistics trends

INCREASING SUPPLY CHAINS COMPLEXITY

PHARMA TRENDS

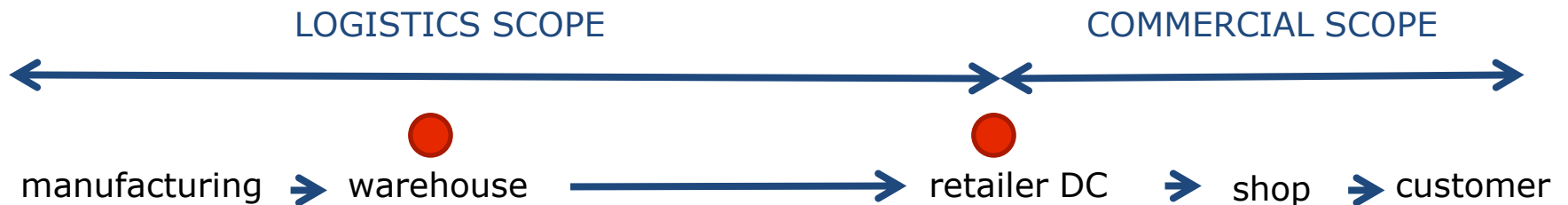
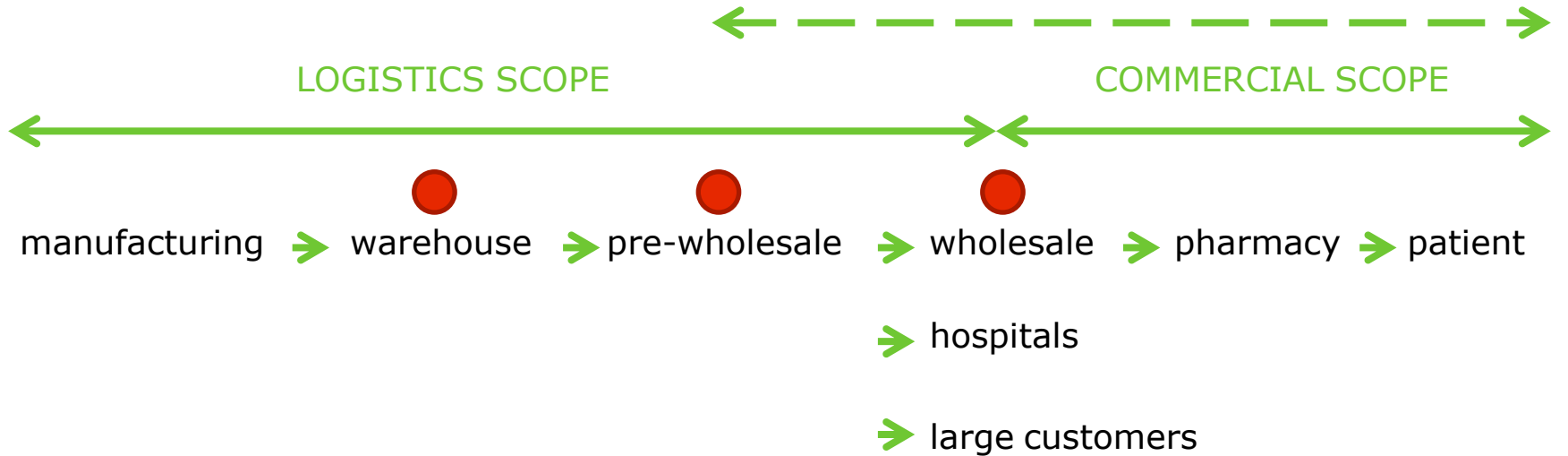
- Direct to pharmacy distribution
- Improved life cycle management
- Profit margins are under pressure
- More stringent requirements enforced by GMP/GDP
- Increase investments in R&D

LOGISTICS IMPACT

- Differentiation to distribution channels
- Increase in product portfolio - # SKU's – late stage customization
- Globalization & standardization of logistics processes
- Temperature controlled logistics / RFID / Track & Trace
- Control net working capital / inventory value

Distribution channel pharma vs. retail

AN ADDITIONAL INVENTORY NODE FOR PHARMA ?



Pharma distribution channel

NETWORK FUNCTION OF PRE-WHOLESALE



SERVICES & PRODUCTS

- Consignment stock
- Wide range of stock types handled: e.g. printed packaging material, promotional material

PHYSICAL INFRASTRUCTURE

- Few large warehouses
- 1 x next day delivery
- Some detail picking, mostly case pick, some pallet pick
- Local and cross border customers
- Larger vans and trucks

PRE-WHOLESALE VS. 3PL

EXPERTISE VS. NETWORK COVERAGE



Pharma distribution channel

NETWORK FUNCTION OF WHOLESALER



SERVICES & PRODUCTS

- Owned stock
- Only marketed products handled

PHYSICAL INFRASTRUCTURE

- Multiple small warehouses
- 2-5 x same day delivery
- High speed detail picking
- Local customers
- Small vans for transportation

Pharma distribution channel

LACK OF TRUST - POWER BATTLE BETWEEN MANUFACTURER & WHOLESALERS



PERCEPTION MANUFACTURER TOWARDS WHOLESALERS

- + Excellent distribution with high service (bi-daily to pharmacies)
- + Strong local presence, lacking European coverage
- Role in parallel imports/exports
- Demand for More Detailed and Timely Information
- Upstream & downstream diversification of wholesalers

PERCEPTION WHOLESALERS TOWARDS MANUFACTURER

- Push wholesaler into role of 3PL, on flat fee rather than commercial margins

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Logistics trends in pharma



Associated logistics network strategies

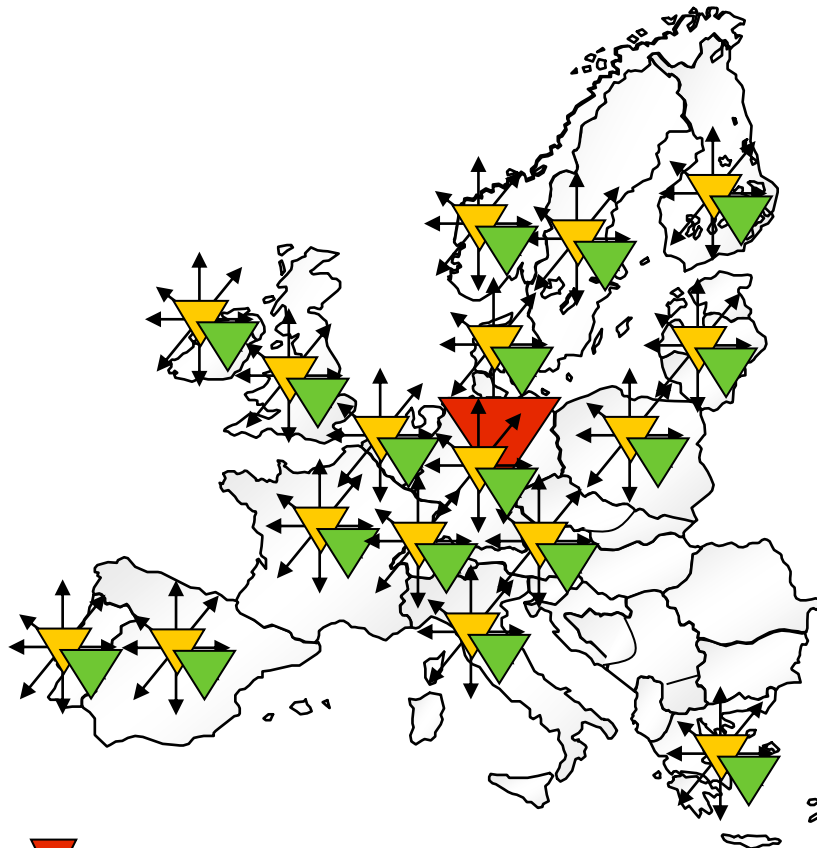
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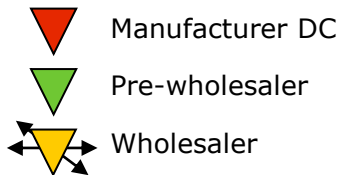
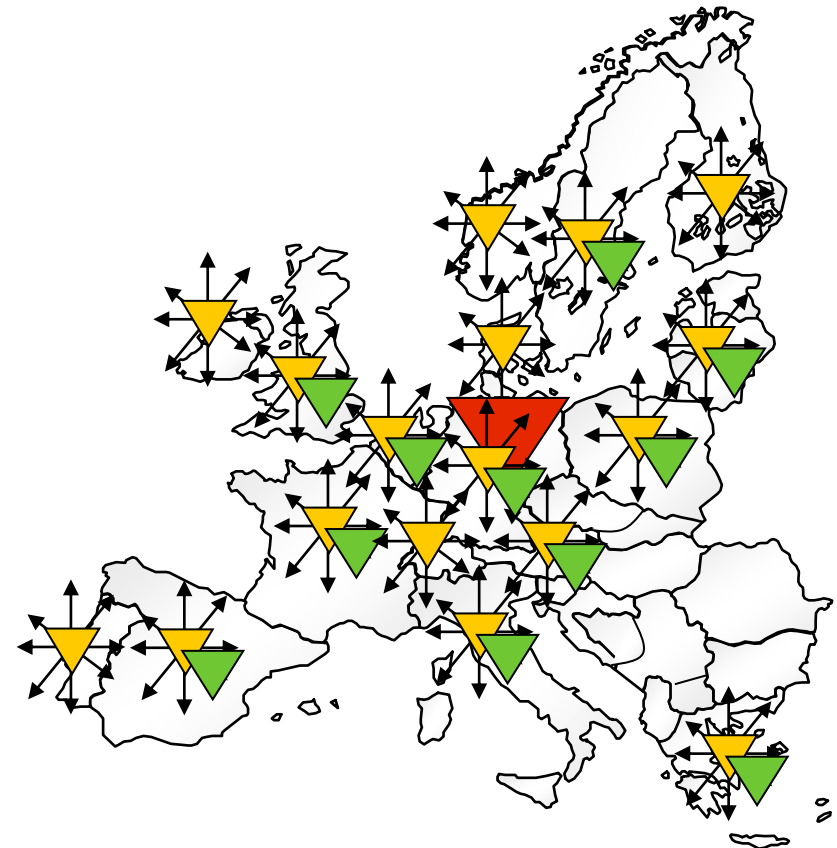
Logistics network strategy

REDUCE THE NUMBER OF PRE-WHOLESALERS

AS-IS



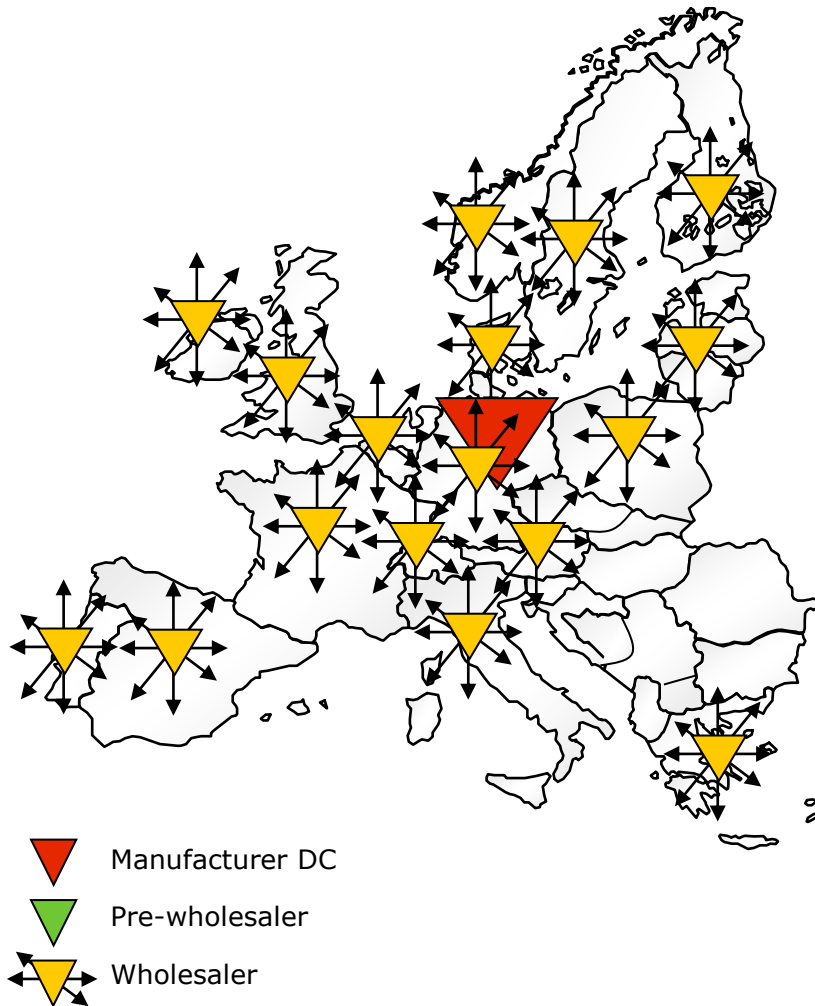
TO-BE



Logistics network strategy

REDUCE THE NUMBER OF PRE-WHOLESALERS

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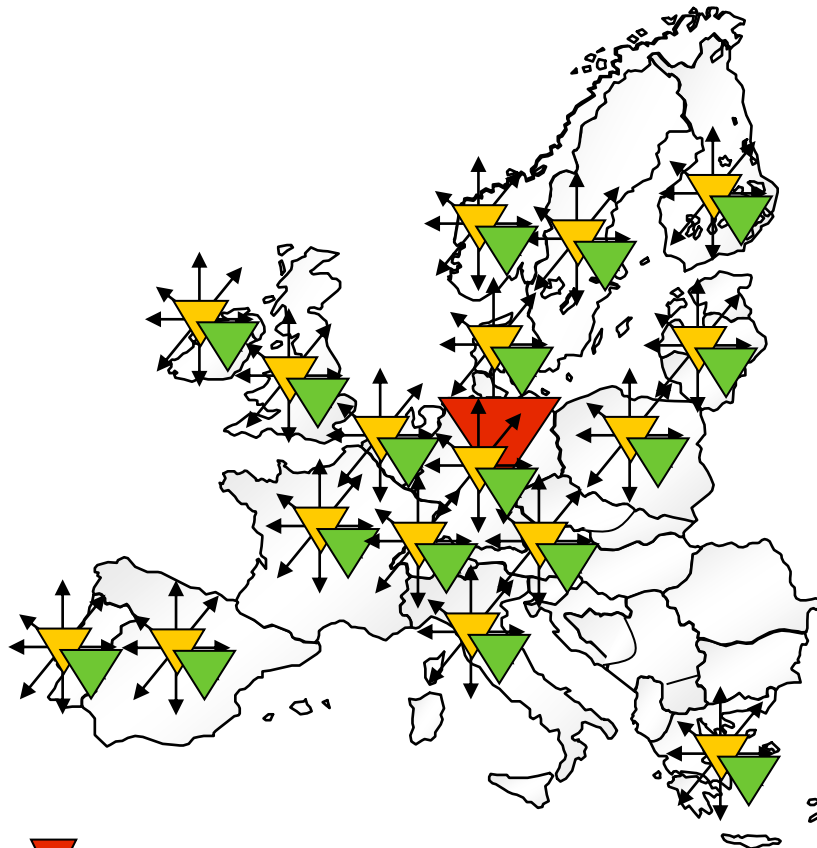
CONSIDERATIONS

- Service offering lies with the wholesaler
- “weekly” line-haul replenishment by manufacturer
- Regulatory / tax constraints
- Late stage customization

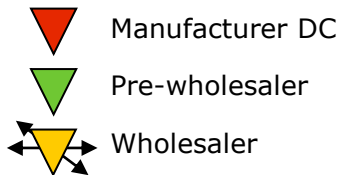
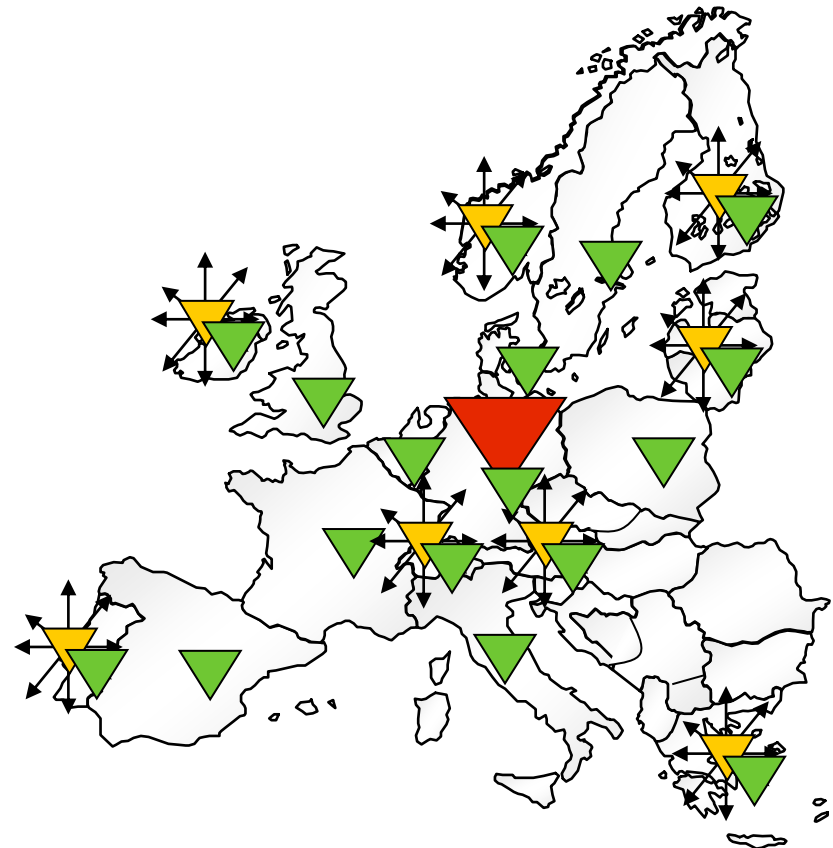
Logistics network strategy

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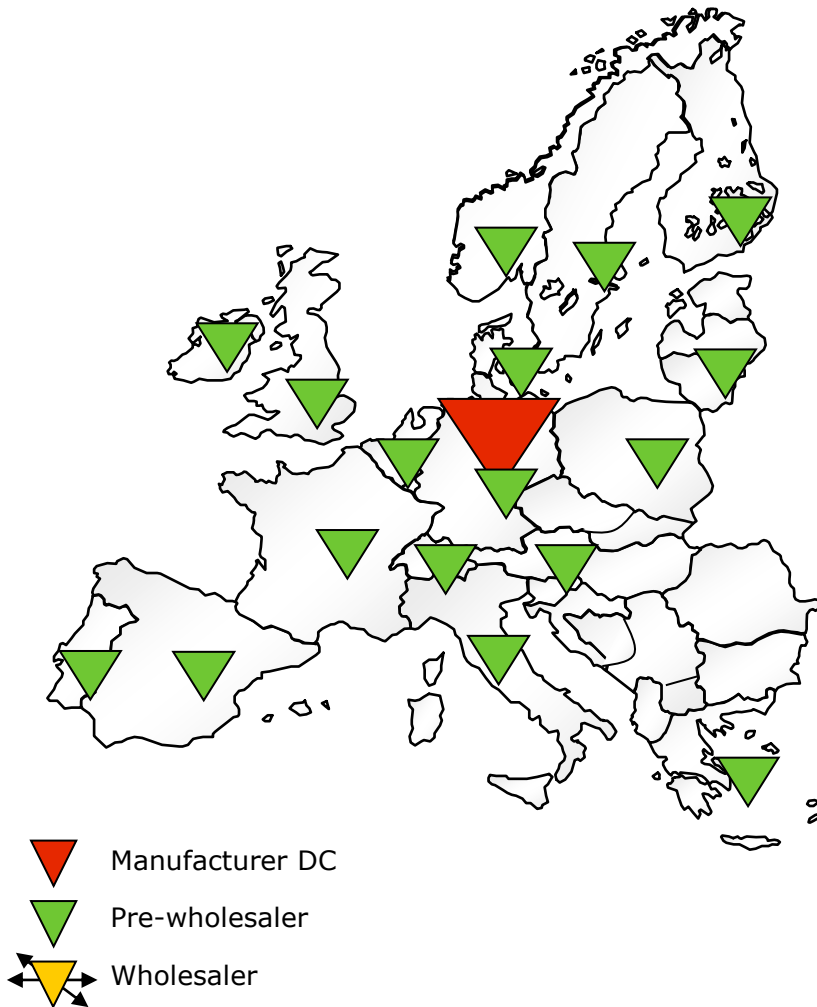
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Logistics network strategy

REDUCE THE NUMBER OF WHOLESALERS

TO-BE



CONSIDERATIONS

- Supplement to hospital and other DTP channels
- Customer intimacy between manufacturer & pharmacy
- Stock ownership remains with manufacturer until sold to pharmacy, requires ...
 - ... active inventory mgt. by manufacturer
 - ... translated into hub/spoke model

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Associated logistics network strategies

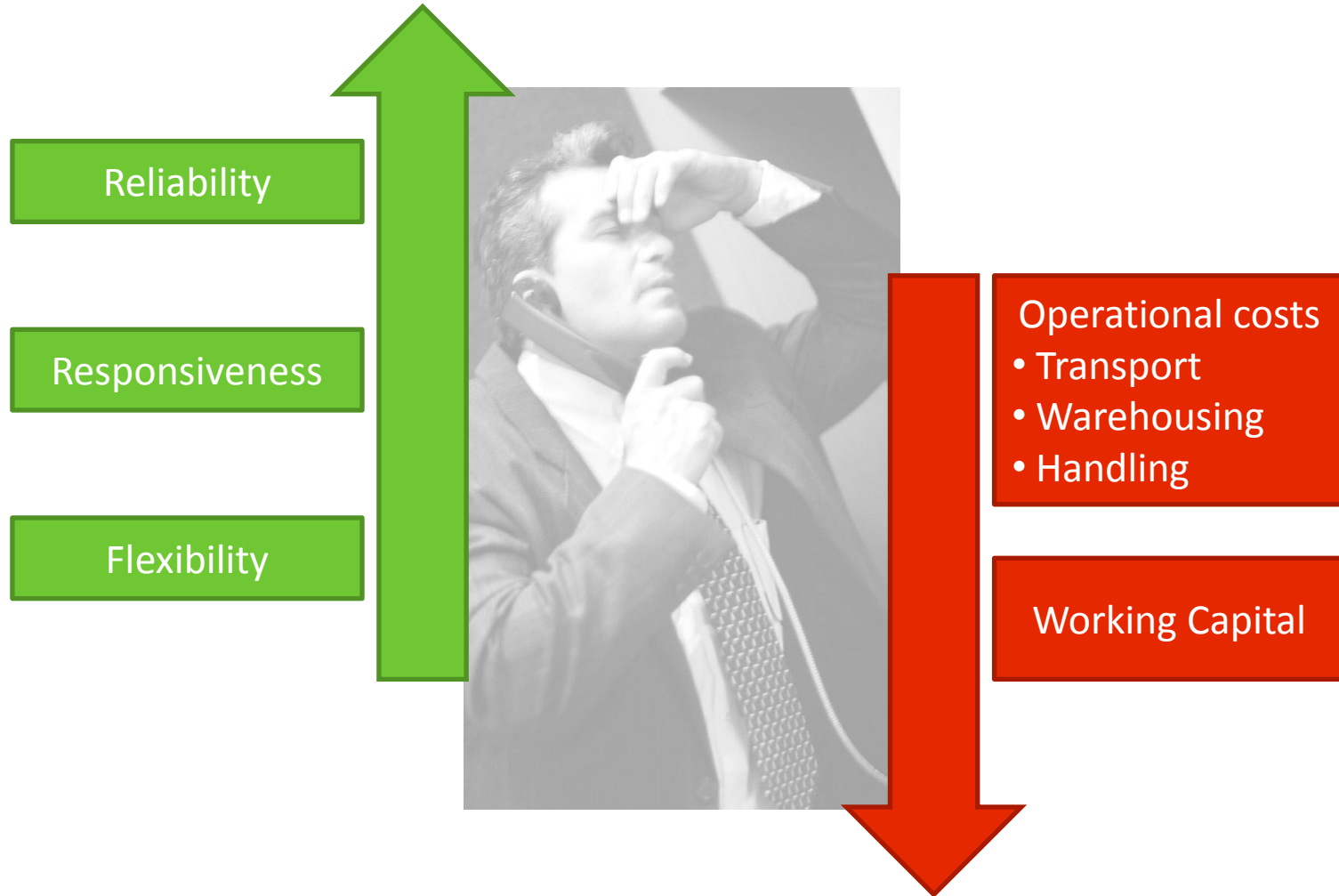


When to use what network strategy

What operational measures are required

Supply chains strategic design

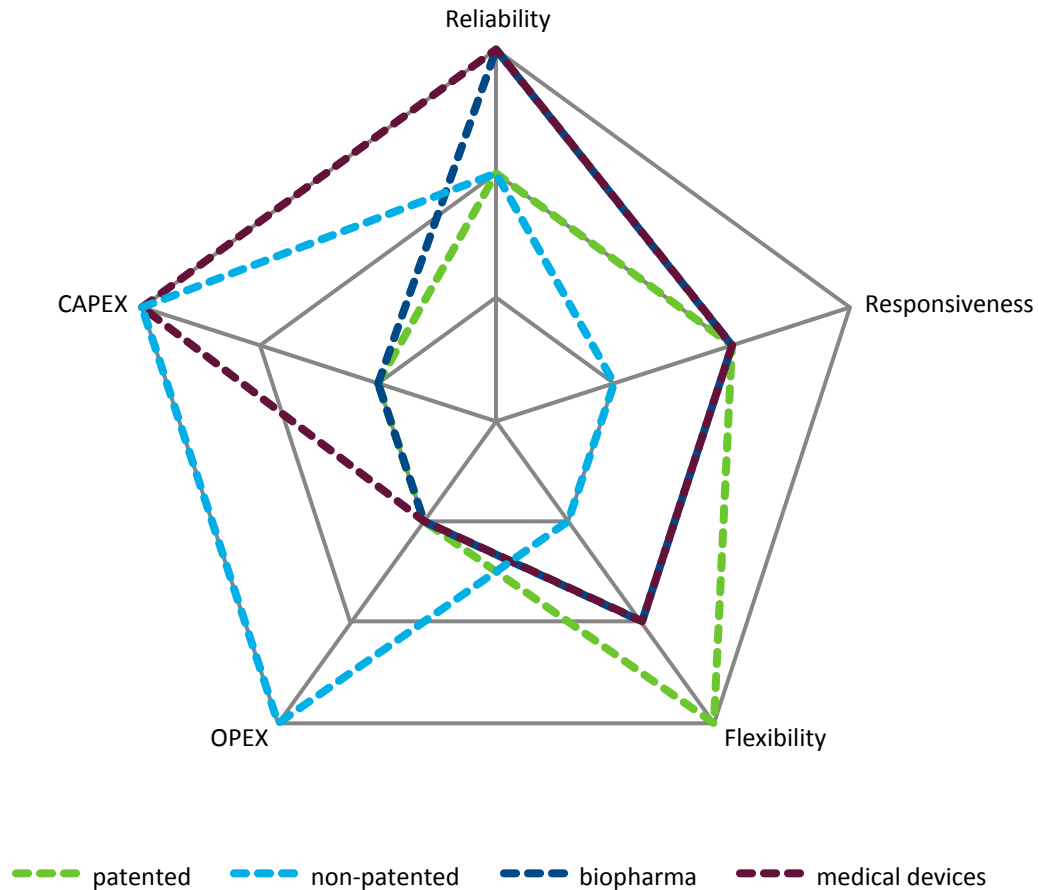
MAIN FIVE CONCEPTUAL DESIGN CRITERIA



Supply chains strategic design

DIVERSE DESIGN FOCUS WITHIN PHARMA SECTOR

Supply Chains performance attributes per sector



There is no one single network solution

MANAGING COSTS VERSUS SERVICE REQUIRES A HYBRID STRUCTURE



HYBRID STRUCTURES E.G.

- DTP model versus wholesale model
 - OTC - regional DC
 - Patented drugs - wholesaler
- Road versus air transport
- X-nations hub- & spoke network models

OPERATIONAL REQUIREMENTS

- Dispersed Inventory- & order management supported via Sales- & operations planning
- Multiple distribution channels that each require a critical mass via horizontal collaboration

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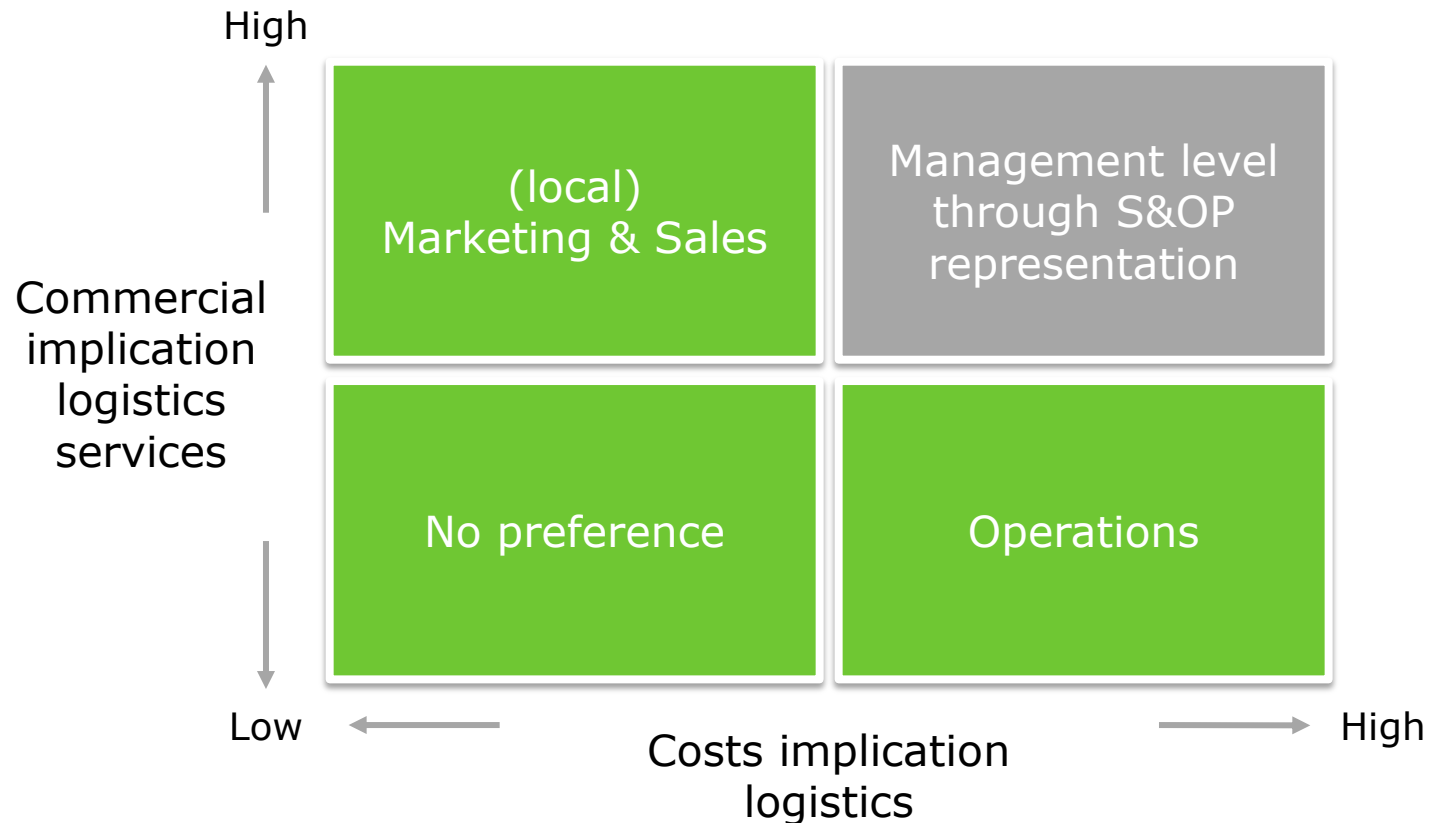
When to use what network strategy



What operational measures are required

Adapt to the pharma logistics future

SALES & OPERATIONS PLANNING IS A REQUIREMENT



Adapt to the pharma logistics future

SALES & OPERATIONS PLANNING IS A REQUIREMENT

ORGANIZATIONAL STRUCTURE

- Neutral position between sales and production
- Sponsorship / representation on a senior management level

BUSINESS PROCESSES

- **Do, Accountable, Consult, Income matrix**
- Business processes / flow schemes
- Communication structures / meeting

INDIVIDUAL PROCEDURES & -TARGETS

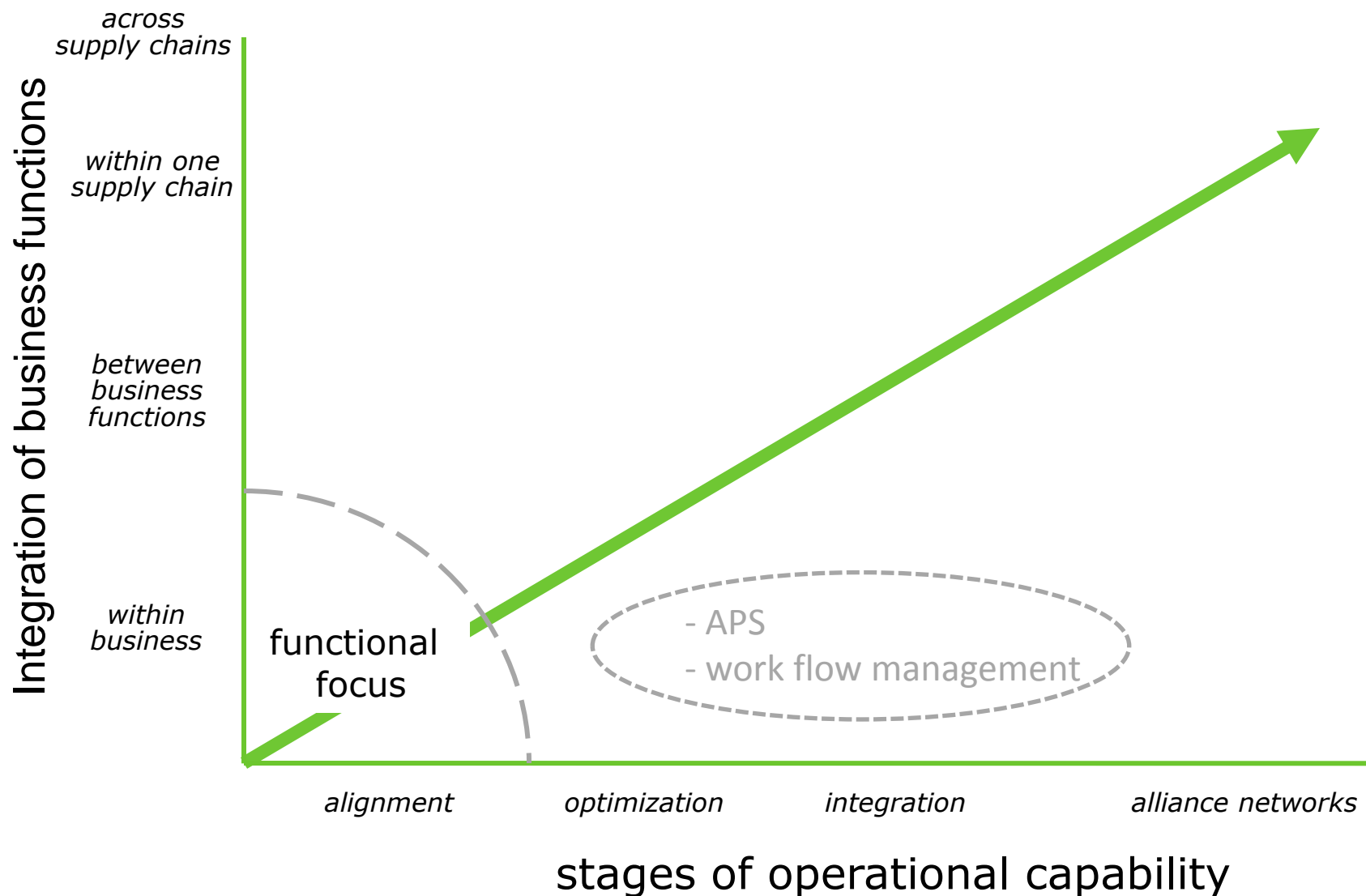
- Functional descriptions
- Key Performance Indicators (KPI's) & bonus schemes

TECHNICAL FACILITATION

- IT systems

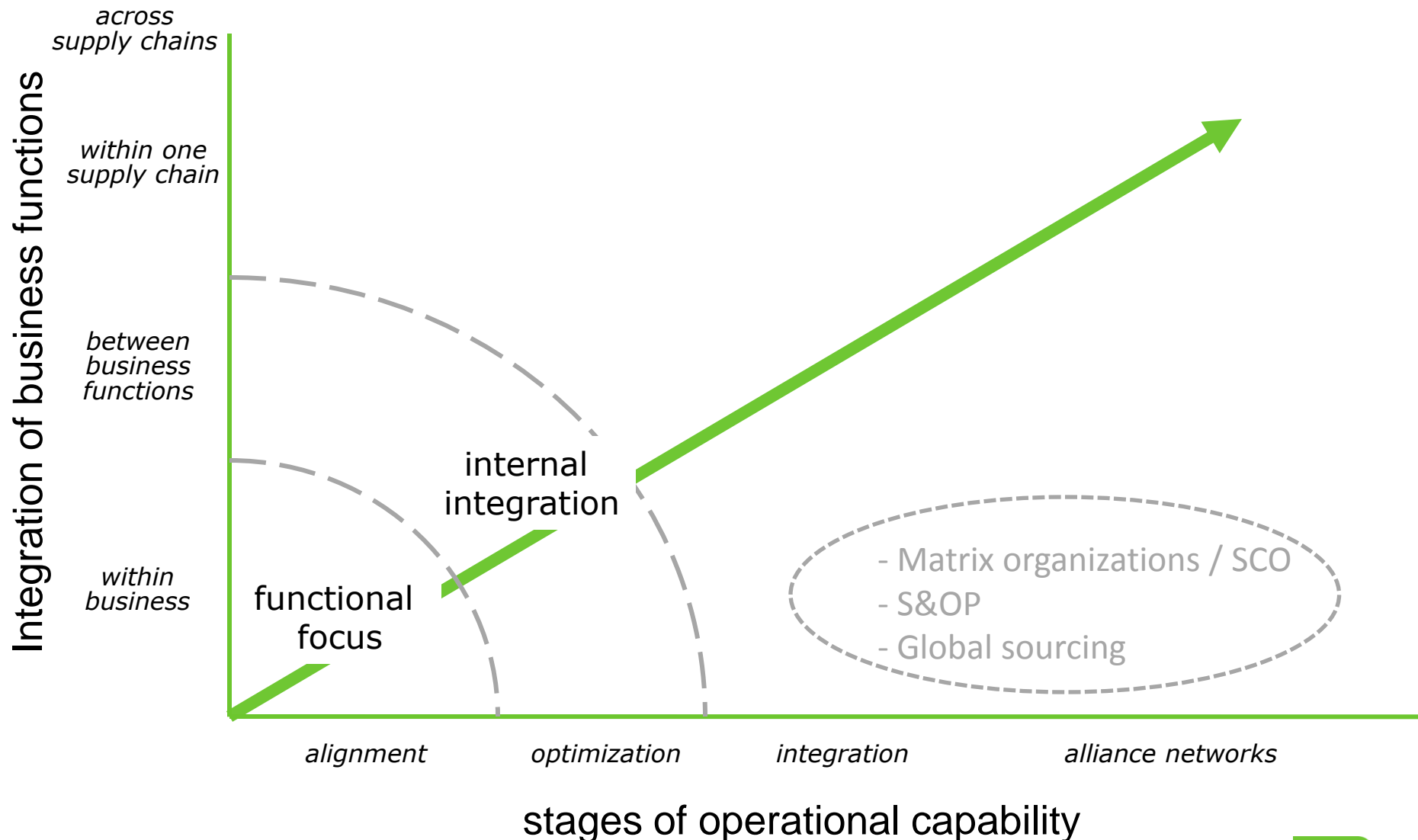
Adapt to the pharma logistics future

STAGE 1 – FUNCTIONAL FOCUS



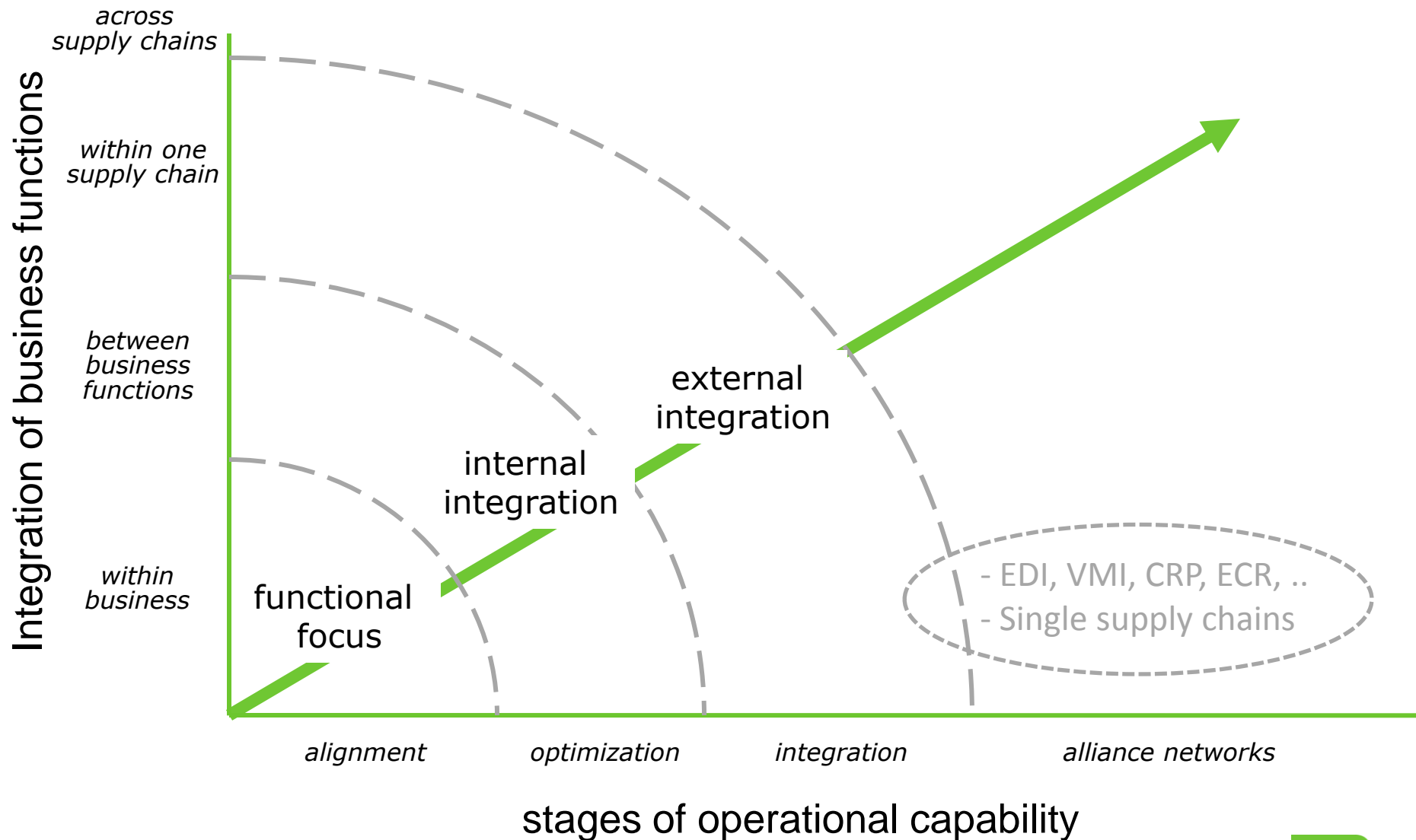
Adapt to the pharma logistics future

STAGE 2 – INTERNAL INTEGRATION



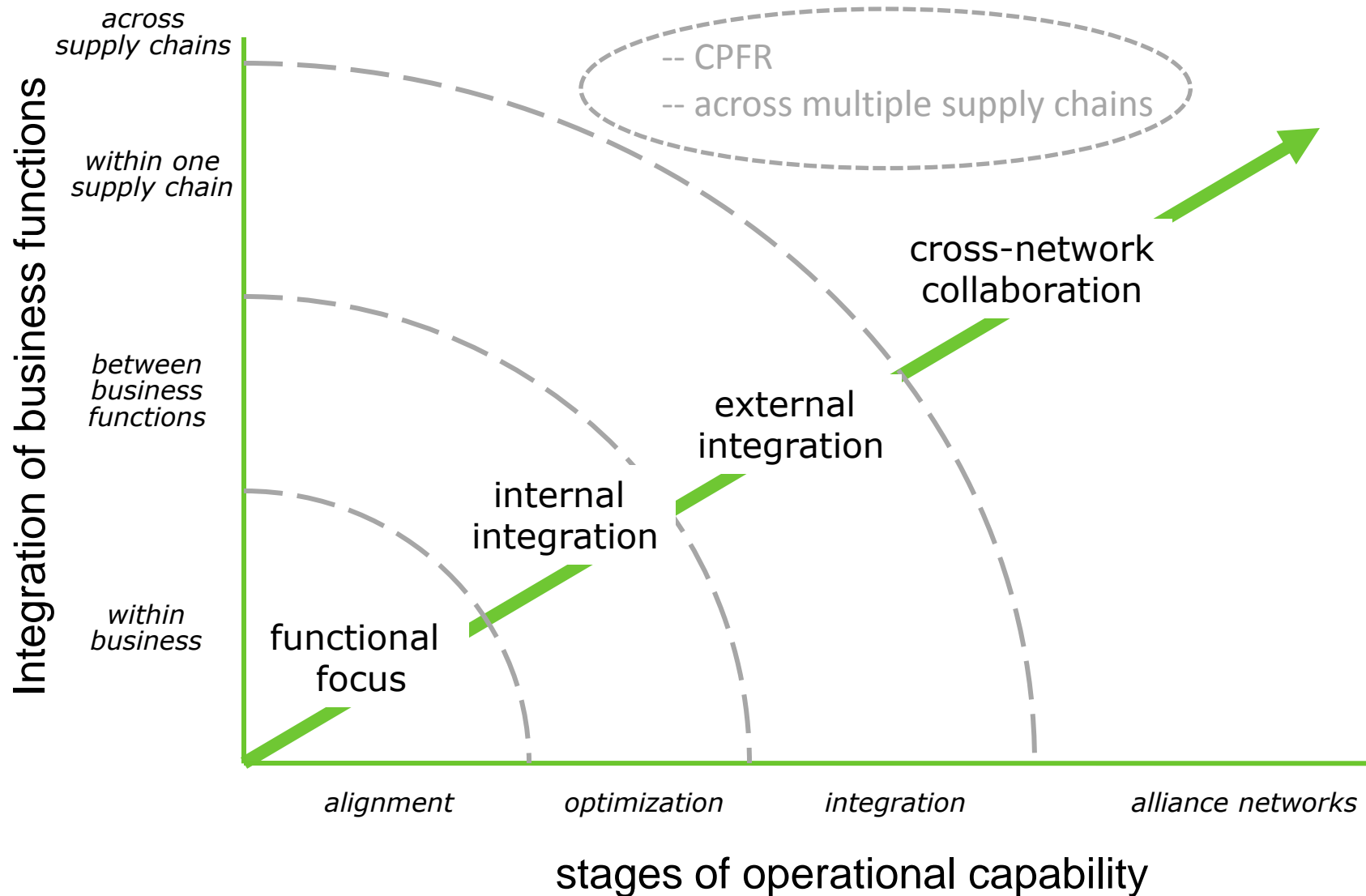
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STAGE 3 – EXTERNAL INTEGRATION



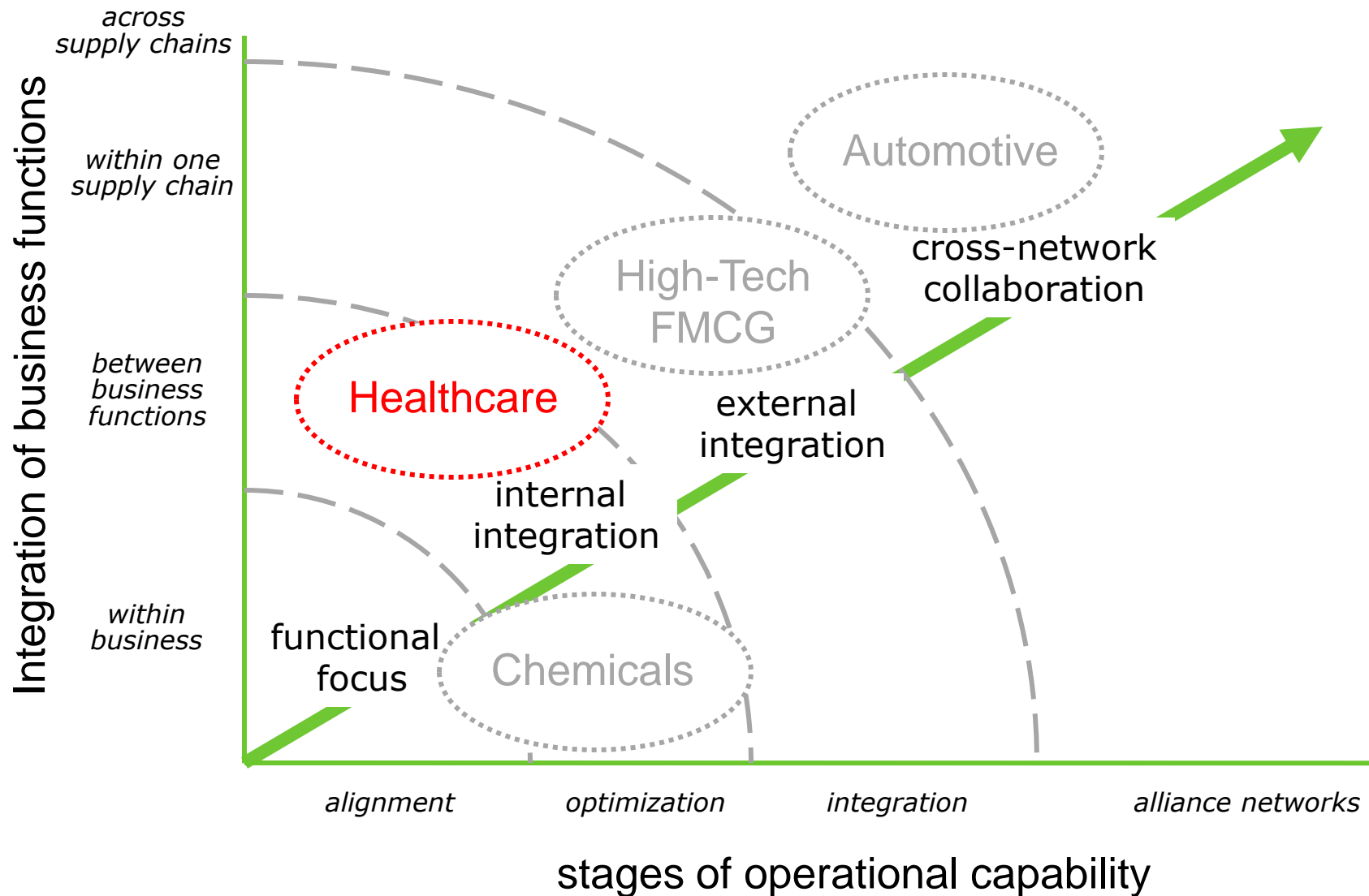
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STAGE 4 – ALLIANCE NETWORKS



Horizontal collaboration to manage costs vs. service

HEALTHCARE SECTOR LAGS BEHIND



"What to share with your team on Monday"

3 STRATEGIC AND 3 PRACTICAL POINTS



STRATEGIC POINTS - FLEXIBILITY

- Implement a flexible logistics management model, that supports any or hybrid network structure
- Start looking for partners or solutions to bundle volumes to continue your economies-of-scale even in your smallest of distribution channels
- Start obtaining market- i.e. customer transparency to become the conductor of your own supply chains

PRACTICAL POINTS – COST-2-SERVE MODEL

- Do I have a double logistics coverage in a certain region?
- What's the impact of my future volumes- & price increases on your logistics spend?
- Can I decouple service & transport for larger customers, e.g. VMI, night-deliveries