



Supply chain planning for pharmaceutical companies in Southeast Asia

A focus on Sales & Operations Planning

Supply chain planning for pharmaceutical companies

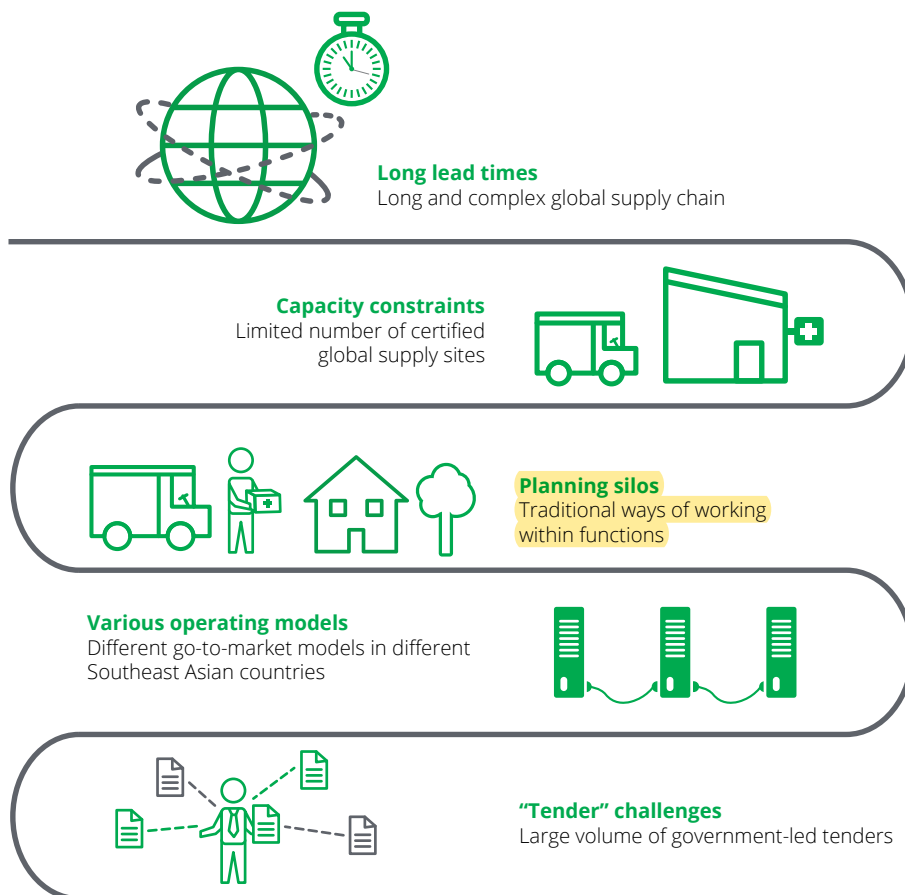
It is little surprise that when it comes to supply chain metrics such as capacity utilisation and inventory turnover rates, the pharmaceutical sector lags behind many others. Even as industry players recognise supply chain planning as crucial to delivering competitive advantage, their traditional approach of working in silos results in an environment where short-term supply issues often consume all the attention.

As a result, maintaining a long-term, strategic focus on profitable growth and cultivating a collaborative culture are priorities that tend to be relegated to the backseat. For pharmaceutical companies in Southeast Asia,

this picture is further complicated by the unrelenting external pressures on top-line revenues, in the form of an increased focus on generics and cost containment, as well as constantly evolving Essential Drugs Lists.

Given the increasing demand-supply complexity and the introduction of multi-tier pricing regulations, Sales & Operations Planning (S&OP) is now an endeavour that is equal parts science and art. With the experience of deploying S&OP initiatives across the Southeast Asia region, this publication presents five planning hurdles that pharmaceutical companies should focus on, and the corresponding strategies to overcome them (see Figure 1).

Figure 1: Five planning hurdles for pharmaceutical companies in Southeast Asia



1. Long lead times

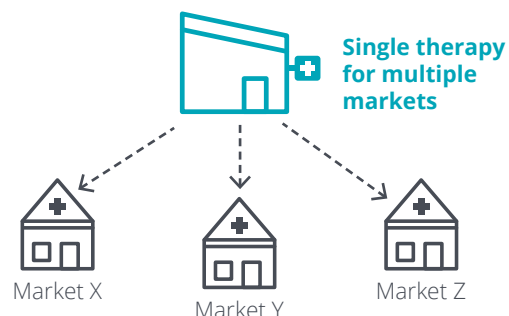
Relative to other industry sectors, lead times are considerably longer for pharmaceutical companies. There are many reasons for this, including but not limited to challenges relating to value chain intermediaries, compliance with multiple regulatory requirements such as Good Manufacturing Practice guidelines, as well as the size of product portfolios that are served by global supply sites. In several instances, local Southeast Asian markets may even have to work around lead times in excess of six months, especially for products manufactured in Europe or the US.

Supply plans for pharmaceutical operations in Southeast Asia will need to take into consideration these long lead times, and ensure alignment of country planning calendars across the organisation's global operations. They will need to design processes, policies and systems to implement the planning cadence from local to regional, and from regional to global supply chains. Depending on how this supply is planned, a different S&OP process flow will be required.

To help pharmaceutical companies manage this complexity, IT platforms can be used to reduce manual errors and improve process efficiencies. Companies should invest in a robust infrastructure that could include, for example, an integrated Enterprise Resource Planning (ERP) system that provides end-to-end supply visibility, or the increasingly widespread Planning-as-a-Service outsourcing model.

Scenario management can also be an effective way to manage lead times, by building flexibility into long-term plans to accommodate unforeseen future risks and opportunities. Demand-supply scenarios can be developed and managed at both strategic and tactical levels and, once identified, should be integrated into the organisation's S&OP process.

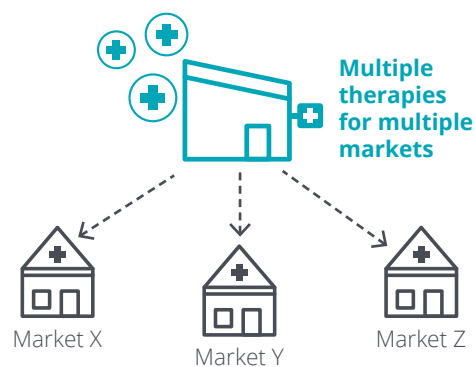
Figure 2: Planning for different types of supply chains



- 1 Global supply chain**
One global supply plan for each therapy



- 2 Regional supply chain**
One local supply plan for each market-site



- 3 Site-led supply chain**
One global supply plan for each site

2. Capacity constraints

Many global pharmaceutical organisations operate under capacity constraints, with supply allocation to Southeast Asian markets often receiving a lower priority than the larger, more mature markets of Europe and the US.

An integrated, enterprise-wide supply planning process can help to ensure the visibility of requirements across the globe, especially those from increasingly important emerging markets such as Indonesia, Malaysia and Philippines. In order to maintain a sense of urgency and secure the buy-in of

top management, companies can hone in on metrics related to lost sales by focusing on constrained and unconstrained forecasts.

Throughout the planning process, pharmaceutical companies should adopt a long-term horizon (see Figure 3). The requirement by some Southeast Asian markets for import licences to be renewed on a regular basis, for example, can take up to six months or more. With a long-term view, organisations can respond to these challenges by maintaining higher levels of inventory during the renewal period.

Figure 3: The role of S&OP in wider business planning



3. Planning silos

Due to the high cost of lost sales, pharmaceutical companies have traditionally focused on meeting all demand by holding inventory – a strategy that may work well when the focus is on expansion. However, with more recent top-line challenges and the rise of generics, operating efficiency has come under the spotlight.

The drive for visibility on the buffer inventory used to match the two ends of the supply chain has exerted a stress on the dynamics between the different functions of pharmaceutical organisations such as commercial operations, finance, and supply chain. Pharmaceutical companies thus need to understand that their legacy way of working in silos must change, and that collaborative planning is now an imperative.

As a first step, companies should focus on fixing the short-term planning issues that are likely to surface within the next three months. This usually involves the use of forums to increase the visibility and communication of such issues across different functional stakeholders. Once these issues have been addressed, the focus can then shift to the medium- and long-term issues.

An effective S&OP strategy is one that ensures one version of truth based on the demand plan or the agreed consensus forecast. In reality, however, any organisation is likely to have multiple planning numbers, such as revenue targets, finance budgets and manufacturing targets. A mature planning process is one that plans to the agreed demand while managing the gaps with the other numbers. With the right cross-functional collaboration, these gaps will also need to be called out and made visible.

4. Various operating models

There are various go-to-market models in the Southeast Asian market. In Malaysia and Singapore, for instance, many pharmaceutical companies do not own warehousing and distribution teams. Instead, distributor partnerships are used to manage all the inbounds, repackaging, warehousing, order handling and distribution logistics.

Other emerging markets such as Cambodia and Myanmar, on the other hand, have small volumes dispersed across a large geographical region and are often supplied out of larger neighbouring markets, such as Thailand and Vietnam, or by very small local distributors. Much of the purchasing is also undertaken by government procurement bodies, who then sell the products at subsidised rates to the end-consumer. Thus, there is little sell-through visibility and pharmaceutical companies can only forecast demand up to the primary sales level.

To ensure alignment between the primary and secondary sales forecasts, collaboration between demand planners, commercial and marketing teams, as well as distributors will be critical. For distributor-led markets, net requirement calculations – derived by comparing the forecast of distributors' sales to available inventory – can also help to improve the accuracy.

5. "Tender" challenges

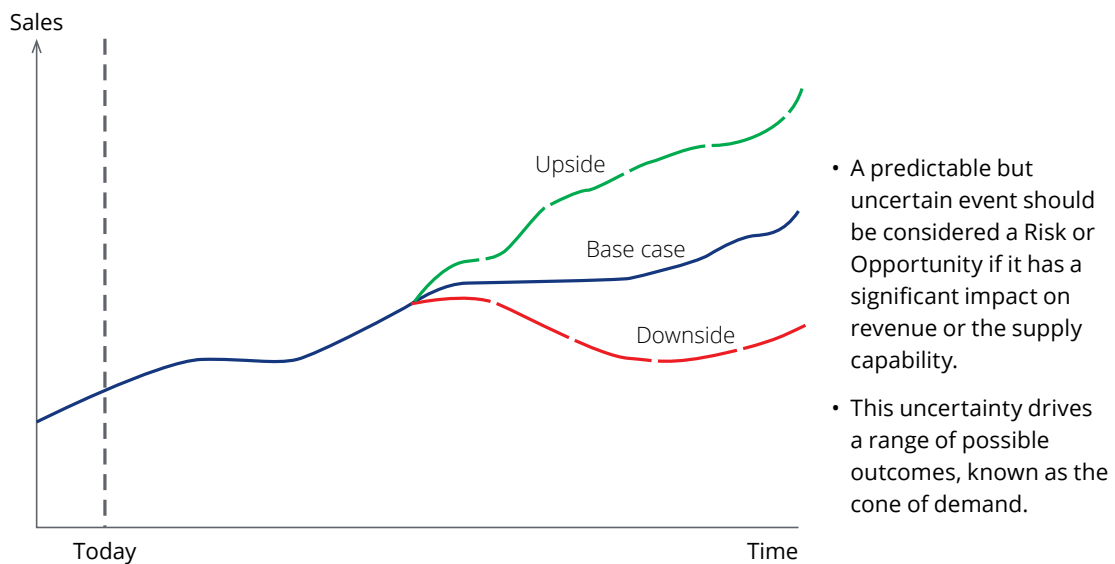
Emerging markets in Southeast Asia have a large portfolio of infectious diseases that are managed through public programmes and their related government tenders. Such tenders, typically taking place on an ad hoc basis and without a fixed cycle, make it a challenge for pharmaceutical companies to develop reliable demand forecasts.

Adding to the complexity are the increasing penalties that governments are levying on sub-fulfilled tenders. Social and political considerations may also come into play. In markets with a large proportion of Chinese consumers, for example, pharmaceutical companies will need to ensure a sufficient supply of vaccines

during "auspicious" years which are likely to witness a baby boom.

In order to plan for tenders, demand forecasts will need to include scenarios with tender award probabilities and be adjusted for historical tender bias (see Figure 4). Throughout the tender's lifecycle, these tender award probabilities must also be refreshed. For selected Southeast Asian markets, tenders can have significant impacts on the financial planning process. Hence, pharmaceutical companies must consider the value impact of tender forecasts, embed collaboration between commercial and finance teams, and track the tender forecasts as a separate metric in its own right.

Figure 4: The cone of demand for tenders



Examples of events which are Risks or Opportunities

- One-off tenders: Will we win?
- Split tenders: How much will we win?



Examples of events which are not Risks or Opportunities

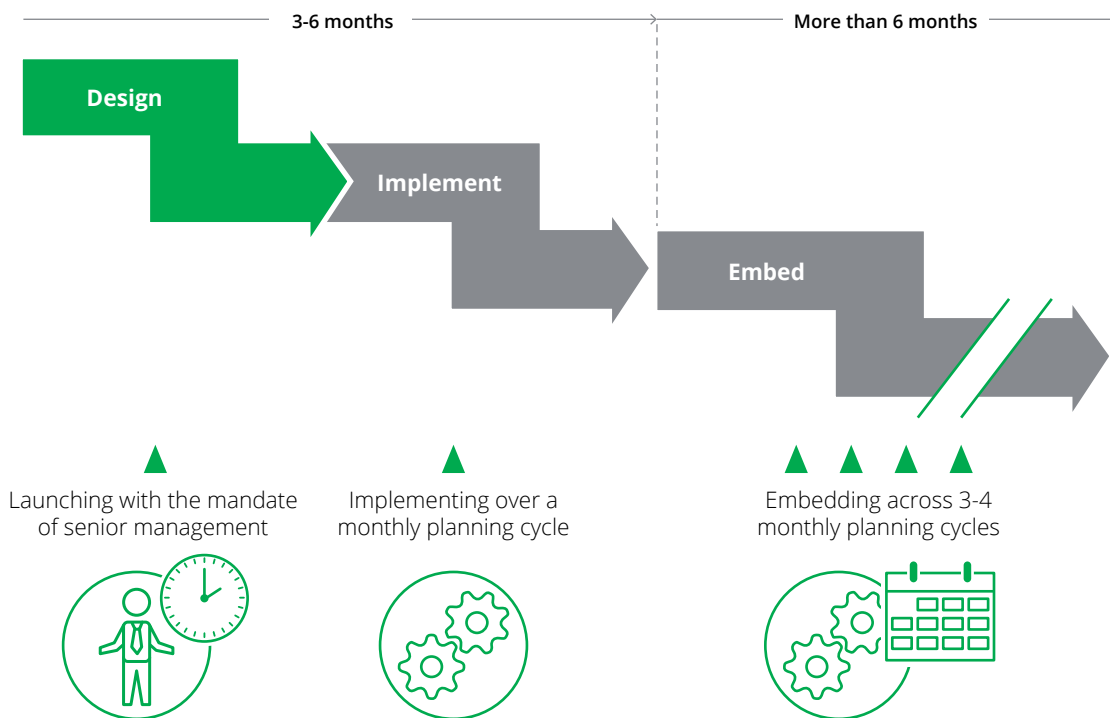
- Long-term supply agreement, such as with hospitals or authorities

The journey towards a world-class S&OP process

In recent years, the overall strategic thrust of S&OP programmes in pharmaceutical companies has shifted away from the delivery of customer service to the creation of a platform for robust decision making.

Organisations will do well to remember that creating a world-class S&OP process is not just an exercise – it is a long-term journey towards transformation (see Figure 5). There are, however, a number of actions that they can take to accelerate this journey.

Figure 5: An S&OP transformation plan



- **Create a sense of urgency:** Executive leadership should be leveraged to remove roadblocks and ensure the alignment and cascading of performance targets throughout the organisation.
- **Lead and communicate change:** Objectives for the S&OP programme must be communicated to all employees in a consistent way, and a strong business case should be developed upfront with the buy-in from country management.
- **Identify change champions:** Change champions should be identified at a country level to help country teams adopt, own and sustain the change across silos in the organisation.
- **Understand the difference between global and local:** The S&OP toolkit should be leveraged as an accelerator to build momentum while balancing the needs of the global organisation for growth and expansion with the local needs of the Southeast Asian market.
- **Establish clear responsibilities and accountabilities:** S&OP implementation goals should be integrated into the annual key performance metrics and goal-setting process of the S&OP participants.

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