

Pursuing excellence

The reassertion of the customer

Why early adopters in pharma are going back to basics and reducing abstraction in their supply chain

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The environment

Globalisation, the challenge from generics, a changing customer base and the constant pressure for innovation have made pharma supply chains increasingly complex, and it is a landscape that is probably going to get worse before it gets better. In a rush to cope with this radical upsurge in complexity, pharma companies have evolved into equally complex organisations, with deep-seated functional focuses vying with the new need to look across the whole supply chain, if not the whole enterprise. New people, new systems and new processes have appeared but the old ways are still rooted in the businesses' cultures. Inevitably, these organisations have become 'abstracted', moving away from the customer, more remote from a robust understanding of what is going on, and with less effective interaction between the functions.

Over the next five years, excellent pharma supply chains will need to reverse this trend. They will put the focus back on getting closer to the customer and their own colleagues, doing the fundamentals right while taking an end to end supply chain view, taking responsibility for the decisions and activities that make a difference and not relying on third parties or the press of a magical 'systems' button. Excellent supply chains will be close enough to the action to draw real insight from data and the environment, making timely decisions that are consistently better because they are based on a better view of reality, and because they are made by people whose capability has been developed to thrive in these circumstances.

The future is countering supply chain abstraction

At a basic level, a non-abstracted supply chain is a simple food market stall; the customer is there, the producer is there. The customer can see the product, they can see everything that is going on and can decide whether the quality is acceptable, they can decide exactly what they want, can negotiate a price, can walk away. The producer knows what the customer wants, knows how much they will pay and what it will take to delight them.

For many businesses, the customer-producer relationship is becoming so abstract that the producer is losing sight of the simple realities that underpin the business model. The challenge is that this simple customer-producer interface remains the fundamental dynamic that drives business, sales, profit and satisfaction.

Mapping the path of businesses stepping back from over-abstractation of supply chains will not be simple. This thinking represents a close to 180 degree shift from the direction of travel for many global supply chains. It will be painful. But it is our belief that the current abstract supply chains are almost impossible to manage and develop and, most importantly, they fail

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in the fundamental task of 'doing business'.

The topics explored in this paper are at the heart of how an organisation chooses to operate; these decisions are not only for the supply chain, but need to resonate and be answered within the context of the wider enterprise. It is only once these questions have been addressed that the supply chain will be in a position to build its capability to meet the needs of the future.

This paper explores the **symptoms** of organisations operating in this mode:

- ▶ Marginalisation of the doers
- ▶ Loss of content
- ▶ Parochialism of functional standards

It looks at **actions** to address these symptoms, highlighting several key themes:

- ▶ Reassertion of the customer
- ▶ Aggressive pruning of the project portfolio
- ▶ Promoting supply chain skills

And it shares **examples** of where organisations, either through necessity or design, have delivered excellence in specific areas, including:

- ▶ Dismantling excessive complexity
- ▶ Skill development
- ▶ Demand sensing excellence
- ▶ Critical capacity management

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Symptoms

Among the core symptoms of an over-abstracted supply chain are:

Marginalisation of the doers

Ingenious logic is driving the virtualisation of many supply chains. It is extraordinary the number of big corporations who, in their downtime, toy with the idea of “renting everything in”:

“We will use contract R&D, combined with contract manufacture, with contract sales force and distribution. We will coordinate at the centre and our profitability and flexibility will soar.”

Like all idle thinking about outsourcing, this can be plain wrong. There are really compelling reasons for outsourcing: specialisation of skills, sharing of idle capacity, access to markets, but too often the people who “do” – whether developing, making, selling or moving – are moved out of organisations simply to reduce headline counts of, for instance, headcount, factories and facilities. Putting an asset or people outside the organisation when they remain, in fact, entirely dedicated to the organisation is little better than banks sequestering assets off balance sheet. The problem of the marginalisation of the doers, and our observation is that an increasing number of businesses have rising concern about this, is that the organisation loses touch with the fundamental drivers of the business, the ability to connect with and satisfy customers. In the absence of this close connection, the business becomes dependent on its legacy market positions, and without real connection with the reality ‘in the field’, unable to innovate in ways that connect to customers.

Loss of content

We recently reviewed the change programmes in a major corporation. They were alarmed as the study showed that 95% of all the project time on all the programmes they were running was being spent on coordinating activities, such as aligning working programmes, interfaces with other projects and project chartering. Their head-office was populated by teams of programme and project managers who were shown to spend much of their time meeting each other to coordinate the activities of their projects. Our observation is that this level of coordination overhead is not uncommon in businesses that have become too abstracted from the market.

Much of this has arisen from the consolidation of operations and activities into groupings that have extremely complex accountabilities which require long and convoluted measures and protocols to define their tasks. Apart from the spectacular cost of coordination, the other feature is the loss of focus on content. A small but strong example was a piece of work done on inventory setting for a large corporation. It held billions of dollars’ worth of

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inventory to cover multi-echelons of manufacture and uncertainty of demand and supply. There are well established statistical techniques to determine how much inventory should be held to cover these uncertainties. However the project was entirely consumed by issues of ownership, protocols of sign-off and navigating competing project scopes. There was no priority on the technically complex but absolutely achievable aim of setting the optimum inventory process. We see this hollowing out of improvement programmes as a symptom emerging more and more in large organisations.

Parochialism of functional standards

Increasing pressure to be able to demonstrate good operational practice has led to a resurgence of functional myopia in many large corporations. The internal focus of functionalism is the ultimate abstraction of the end to end supply chain; the direct needs of the customer (any customer) are lost or at least heavily modulated by a focus on, most commonly, manufacturing standards and jargon that start as necessary quality standards but end up too many times in over-automation, excessive bureaucracy, lack of flexibility, and, at its worst, a simple failure to produce enough product. We recently came across a recruitment process for the top manufacturing officer of a pharmaceutical company which indicated that the entire focus of future leadership of manufacturing was to achieve definition and implementation of the internal manufacturing system rather than to deliver results to the overall corporate performance.

All of these symptoms are not of themselves bad. Large complex organisations do not need to do everything themselves; they have many activity types and priorities and these need to be coordinated. To do what they do they need professional standards that are open to external scrutiny in every area.

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Actions

Stepping back from over-abstraction will not be a simple path and it will take many forms. These are a few we are observing or anticipate seeing.

Reassertion of the customer

The only proven rigorous relationship in any business is that between a customer and supplier. Many attempts are made to reproduce this tension within businesses and most end up being weak and ineffective. We observe three steps that separate real success:

- ▶ Go back to the real customer. Re-energise and re-empower the layer of the business closest to the real customer. If in doubt this is always the person who uses the product (the person who pays is also critical, but in our experience they are more variable). Make the customer-facing roles the real power in the organisation, which has some painful implications as it strengthens end-market managers. Make the performance measures geared to re-enforcing the customer connection, with the primary measure for the majority of managers being the revenue and profitability of the end markets.
- ▶ Simplify the tasks and be wary of multitask service centres and supply centres. They can exist but the organisational prejudice should move back to “if in doubt keep it simple”. If that sub-optimises the infrastructure in the interests of accountability then that is a worthwhile trade-off.
- ▶ Make sure the customer, even when it is an internal customer, has the key characteristics that a real customer has: they have a free choice to buy or not; they agree to use the supplier; they are not subject to oppressive contracts (however convenient that might be for the next stage back upstream in the supply chain).

Aggressive pruning of the project portfolio

Project and programme managers inevitably tend to spawn more projects, programmes and coordination. Cutting these back requires active use of techniques like priority based budgeting where a zero based approach is applied to all activities and all projects are reviewed against a rigorous critique of cost and necessity. With a reduced portfolio, measure the level of coordinating activity in running projects; in our experience a surprisingly high level (around 50% of all time) can be appropriate, but any more than that is an unacceptably scoped project and it should be stopped or re-structured fundamentally.

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Build supply chain skills

The defining feature of the supply chain, as opposed to the functions within it – sourcing, manufacturing, distribution and sales – is the trading off of choices between functions. In most businesses end-to-end supply chain skills are very weak, while functional skills are high, sometimes obsessively so. Supply chain decisions are tough, complex and dynamic and they do not spontaneously develop out of systems implementations or experience. They need to be learnt and applied. Typical areas where urgent work is required in many pharma business are:

- ▶ Forecasting, specifically event management and demand sensing. A significant opportunity for the future supply chain, particularly in the pharmaceutical sector, is penetration of demand sensing to the point of use.
- ▶ Inventory optimisation (both at single and at multi-echelon). Blue chip pharmaceutical companies recruit some of the most technically capable people available, yet why do none of them set their inventory levels correctly?
- ▶ Strategic network configuration. Moving away from a simple focus on reducing the “number of dots on the map” towards a clearer understanding of roles, relative advantage and market requirements.
- ▶ Activity management of outsourced activities. Knowing what activities should cost, do cost and can cost, and making informed decisions about what is actually needed.
- ▶ Accurate customer service measurement. Moving beyond crude “this must be simple” to recognising all the dimensions the customer is measuring and making sure they can be tracked and ranked appropriately.
- ▶ Sales and operations management. That is, cross functional end-to-end medium term planning of the supply chain.
- ▶ Transparently describing key business processes in ways that the operating teams can easily understand, can score their current performance and can map for themselves how they choose to improve when required. There is a need to specifically avoid the problem of “there is only one correct way to do this and it is the over-engineered gold standard process designed for our most complex markets”

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Examples

Delivering improvements is rarely about getting people to understand complex ideas. It is about focus and providing a vision that people buy into. Using cross-sector examples, it can be seen how different organisations can recognise upfront where their competitive advantage lies and focus efforts to drive excellence accordingly:

Dismantling excessive complexity

A major 'consumer goods with pharma' business was merged into a much smaller consumer goods business. The bigger company had established a fully global management model with complex matrix organisation, toll manufacture, shared service centres and, unfortunately, very poor business performance. Marketing and new products had got lost in the organisation and so had any clear accountability for customer satisfaction. The smaller company, which was taking over, undertook a radical return to focusing on the customer and consumer. Marketing and new products were heavily invested in and a stream of new products was launched. The market managers were re-empowered and every senior manager in the organisation was given extremely lucrative but very demanding targets built on only three measures: sales, profit and working capital.

Skill development

This global consumer goods business needed to consolidate costs, improve supply chain operations and achieve 'one business' clarity. They established a template of global business process standards which every operation had access to. These standards are not just a way of doing things, they are a tiered approach describing in unambiguous detail each stage of development in a journey to very best practice, but with an absolute principle that not everyone needs to achieve 'mastery' in each process. The tiers of achievement are written down, they are transparent and everyone can see where they stand, who has best performance and decide what level to achieve for their markets. This clarity was normalised by a process of peer-review that allowed fair comparison between operations. These developments have been combined with strong development of cross functional supply chain skills, which has transformed the quality of decision making within the business.

Demand sensing excellence

This direct seller of cosmetics launches a new catalogue of new products every two weeks. These are made in-house, the majority in 3 factories worldwide, and demand is highly volatile. A particularly strong product can sell 6 times predictions. Products are only put in around 10 catalogues before withdrawal. To prepare for block-busters, this company senses demand in each market by having some of the sales force selling one catalogue forward (the catalogue that will be used by the majority of the

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sales force in the following month). They supplement this demand sensing data with strong tracking of first week sales to ensure demand is immediately responded to in flexible factories. The information on sales from these trend leaders is then used to manage ramp up production and ensure a minimisation of discontinuance. They also have a very aggressive clear up process when products come to the end of their life, ensuring surplus inventory is sold at aggressive prices to clear.

Critical capacity management

This example relates to the largest maker of beverage cans. Demand is highly seasonal, capacity is extremely expensive and inventory is extremely bulky and expensive to ship. They have very advanced and clever business processes to explicitly understand the trade-offs of the costs of inventory, capacity and the cost of lost service, at multiple time periods: 'in-flight' management during the season; Sales & Operations Planning for the yearly balancing; strategic planning processes to ensure long term capacity is viewed in the context of the whole market place (all customers, all manufacturers in one decision model).

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Summary

The key to competitive success over the next five years for major global corporations will be reducing abstraction in the supply chain.

We believe that some large corporations are already realising this and early adopters are leading the way in re-creating a simpler, more coherent and profitable way forward, even if this sometimes reduces the overall economies of scale that appear available from centralisation, integration and coordination.

It is time to go back to the real customer. Remember that market stall.