

Reaping the Benefits of E-Procurement

Not just a quick fix, e-procurement requires a thoughtful and thorough approach to produce the most rewards

Pharmaceutical industry executives who are keen on finding an edge in today's competitive marketplace increasingly are looking to e-procurement systems. These systems use the Web to automate supply acquisition and management.

Of course, plenty of online technologies exist that are worth pursuing, but e-procurement stands out for its quick benefit to the bottom line. "Industries across the board are recognizing that there's an immediate payback to this, and the pharmaceutical industry is no exception," said Sara Wells, a senior research analyst with INPUT (www.input.com), a market research firm.

The National Association of Purchasing Management, now the Institute for Supply Management (www.ism.ws), claims that the use of e-procurement can slash the average cost associated with generating a purchase order from \$150 to \$30; thus, a company with 10,000 purchase orders per year can expect to save \$1.2 million in processing costs alone. In addition, the technology may speed up the buying process, eliminate maverick buying, help negotiate bulk discounts, and improve employee productivity.

Implementing a successful e-procurement solution, however, is a complex undertaking.

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It requires executive sponsorship, up-front analysis of current processes, integration with back-end systems, and change management.

Although some may be tempted to see e-procurement as a quick fix, the technology is most rewarding to those who take a more thoughtful and thorough approach, according to Jim Martin, director of strategic sourcing for materials and operations at Schering-Plough Corporation (www.schering-plough.com). His company is getting ready to roll out an e-procurement platform across its domestic operations.

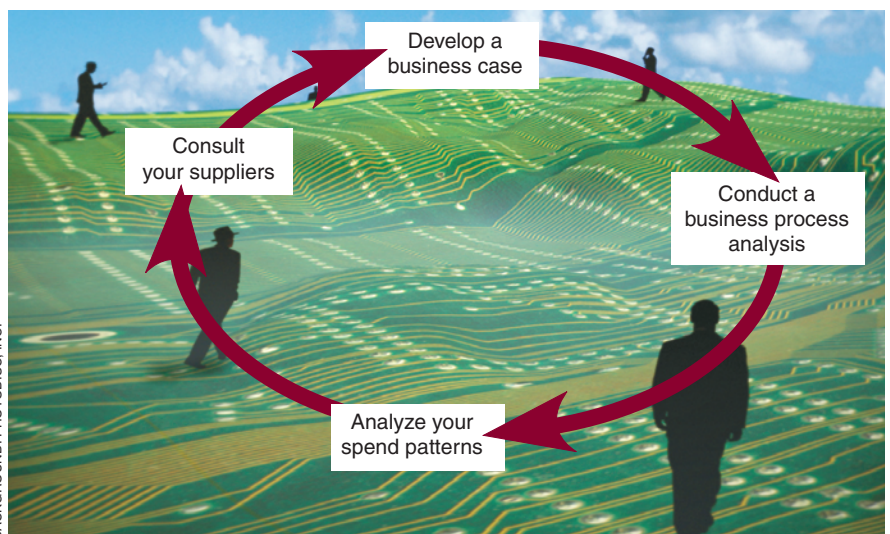
"As you're putting together your business case, you need to be very self-critical," Martin said. "You've got to test constantly for flaws in logic, because it's easy to get wrapped up in the hype. Otherwise, you might end up underestimating the work and cost involved in implementing and maintaining the system and not get back the benefits you expect to get."

For companies seeking to invest in an e-procurement system, experts suggest a three-pronged approach: conduct up-front analysis and preparation, choose a solution and a vendor, and launch a change management program.

Start at the Beginning

Companies often are eager to pick out a software package, but the most critical elements of an e-procurement implementation occur before the technology phase. For starters, e-procurement must be a business-driven initiative rather than one put into operation by the purchasing division or technology department.

"If you don't have executive sponsorship and buy-in from all parts of the company, then people will not understand or accept all of the changes that such a system will entail," said Jacqueline Olynyk, a partner in the Global Risk Management Solutions



Group for the Pharmaceuticals Industry at PricewaterhouseCoopers (www.pwcglobal.com). "As a result, people will quickly fall back to their old way of doing things, and you'll never get a payback."

Industry observers also suggest the following up-front actions.

Develop a business case. Determine your primary business drivers, identify your expected return on investment (ROI), and

assess whether an e-procurement process will deliver that ROI.

Conduct a business process analysis.

Determine how goods and services are

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Outlook

What does 2002 hold for the contract services industry? The year 2001 was robust for most publicly traded CROs and contract manufacturers, with many companies able to turn losses into profits and show revenue increases of 20% or more compared with revenues in 2000. The 2001 POMA Sourcing Survey (see "Outlook Commentary," *BioPharm* 14(11), p. 57, November 2001) indicated that contractors can anticipate another good year in 2002, although growth rates are not expected to be as strong. As we move into 2002, some trends that accelerated in 2001 are likely to reshape the outsourcing industry during 2002.

Growing importance of biotech. Contractors are increasing the representation of small pharmaceutical and biopharmaceutical companies in their client mix. Although the 40 largest pharmaceutical companies account for two-thirds of industry R&D spending and produce most of the commercially approved products, most view outsourcing as only a tactic to overcome near-term capacity shortages. Big pharma relationships can be volatile, low-margin, and subject to cancellation at a moment's notice.

In contrast, smaller companies offer opportunities for strategic relationships that are more stable because of their limited in-house capabilities. Their dependence creates opportunities for contractors to secure equity or royalty positions that can boost financial returns. Moreover, the maturing biotech pipeline and accelerating licensing activity are generating more opportunities in this segment. Successful contractors still need a core of big pharma business, but look for them to pursue smaller company business ever more aggressively.

Searching for appropriate business models.

Contractors also are tinkering with their business models to gain greater operating leverage and more predictable revenues. Technology-intensive services

experiencing strong demand (for example preclinical and bioanalytical testing, pharmaceutical chemistry, and informatics) are getting a lot of attention from the larger CROs. The substantial capital investment requirements for those services represent barriers to entry for smaller competitors. In contrast, traditional labor-intensive services (such as clinical trials monitoring and data management) are easily entered by low-cost competitors. Some of the big CROs also are using their financial strength to make direct investments in clients. The implication: Look for the major CROs to drop some service offerings while making significant investments in targeted strategic capabilities.

Consolidating contract manufacturing. We've entered a second generation of contract manufacturing. Deep-pocketed and financially sophisticated global corporations have acquired many of the independent players, especially in biologics manufacturing and dose manufacturing.

This capital intensive industry now offers sponsors a much greater level of financial stability than when it comprised small, independently owned companies. Also, sponsors now have the opportunity to partner with companies with which they are likely to have long-standing business relationships. And more contract manufacturers now have the wherewithal to make capacity expansions and add new technologies to respond to the changing needs of the market.

As a contract manufacturer's business grows, its scope also expands. Many contractors are backward-integrating into formulation and process development in hopes of capturing clients at an earlier development stage. Some are looking to add value and differentiate themselves by offering unique or proprietary drug delivery technologies.

The bottom line. With greater financial strength and broader capabilities, contract manufacturers have become more attractive strategic partners for large and small sponsors. We expect to see big pharma giving contract manufacturers more serious consideration in the coming year.

DPT Acquisition

The DPT Laboratories Ltd. (www.dptlabs.com) acquisition of the Lakewood, NJ, contract manufacturing and packaging operations of West Pharmaceutical Services, Inc. (www.westpharma.com) is a win-win deal for both parties. The deal, which closed at the end of November, doubles DPT's semisolid and liquid dose manufacturing capacity, gives it a mid-Atlantic location near the headquarters of several major sponsors, and makes it a player in the contract packaging business. The deal also seems to vindicate DPT's strategy of focusing on semisolid and liquid dose manufacturing, where it has been very successful despite considerable competition and surplus manufacturing capacity in the market.

The deal also provided West Pharmaceutical with a graceful exit from the contract manufacturing business. The company seemed serious about pursuing a contract services strategy when it purchased the Lakewood facility in 1995 (when it was known as Paco Laboratories) and then bought a clinical research services business in 1998. In recent years, however, West Pharmaceutical's contract services businesses suffered operating losses resulting from revenue declines, and management seemed more focused on building its drug delivery business. Despite a decent performance turnaround in 2001, the price of \$30 million in cash, notes, and assumed debt was less than half of revenues.

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purchased today and how various internal organizations interact. Then you can decide what processes must be modified or eliminated in anticipation of the e-procurement system and determine how those changes are going to occur within the enterprise.

Analyze your spending patterns. How much are you spending? What are you spending it on? Who are you buying from? Which suppliers are online? "Once you understand all of this, you can really start to get the ROI," said Harry Goldberg, e-procurement practice director for Unisys Corporation (www.unisys.com) "And that's because you're capturing the spending from the organization, and you can refocus that spending on high-priority vendors and high-priority commodities."

Consult your suppliers. Preferred vendors should be contacted early to ensure that they're capable of going down the e-procurement path with you. Olynyk suggests holding workshops while developing the business case and including representatives of key suppliers.

Make a Choice

Several criteria should be used to select an e-procurement solution. The most important ones, according to Olynyk, are interoperability with your current computing environment and ease of use. List price, she said, should rank lower on the list. "The biggest mistake I see companies make is using a cost-driven model. They just look at the licensing costs without looking at all those hidden background expenses such as integrating with legacy systems, getting suppliers online, and conducting user training," she said.

In addition, if a solution isn't easily integrated with back-end systems, "there might be a lot of custom coding needed to make it work," Olynyk explains. "Then later, when you have to upgrade either the e-procurement system or your legacy systems, you're faced with a lot of rework."

For its solution, Schering-Plough chose the Ariba (www.ariba.com) e-procurement platform, which generates a requisition electronically, automatically routes it for necessary approvals, converts it to a purchase order, and then transmits it to the supplier. The system will be used initially

for indirect purchases such as computers, office supplies, and laboratory supplies.

The system, Martin said, is an improvement when compared with current processes because it provides users with immediate visibility into a requisition's status. It also provides an easy and pleasant buying experience. "Anybody who surfs the Web can essentially figure out how to work his or her way through the system," he said.

An e-procurement vendor, meanwhile, should be evaluated on the basis of its ability not only to implement the software but also to integrate back-end systems. In addition, personnel should be able to manage the business transformation. "You want someone who can ensure this implementation isn't going to cause a major disruption to your business," explains Craig Jett, global marketing executive for the Business-to-Business (B2B) and Supply Chain Management Group at IBM Corporations (www.ibm.com).

Get Up to Speed

Users faced with drastic change can sabotage a new system faster than anything, experts say, but a solid change management program can ward off cultural resistance. To ensure user acceptance, companies should set up a program management office, devise a communications strategy, and hold user training and workshops. "E-procurement has huge implications throughout your company and with your relations outside the company, so it's definitely in your best interest to do the change management piece right the first time," Olynyk said.

Schering-Plough has definitely heeded that advice. Even before the e-procurement implementation began, the company launched a change management program. Officials developed an early communications plan to raise the system's visibility and make employees aware of the impending changes. More recently, the company changed its internal sourcing Web site so users are automatically directed to the new platform. "Ultimately, we envision all requisitions flowing through the system, so essentially, the e-procurement system becomes the only alternative," Martin stated.

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