

Distribution Partnerships that Boost Revenues and Profits

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How does an emerging company know when it has outgrown its third party logistics model? And what is the right model for replacing it?

Over the past five years, a well-known, rapidly growing research-based biopharmaceutical company began marketing its own proprietary portfolio of pharmaceuticals. Since 1998, the company has made multiple product submissions with several successful approvals and launches. The company's revenue has grown to almost \$1 billion per year. With new products and the continued success of its existing products, it expects further revenue growth coming years.

New products and revenue growth will have significant implications for the company's supply chain. The launch of recent products has dramatically increased operational complexity, and combined with future products and expected growth requires a transformation of warehousing, distribution, and logistics operations. In particular, the company must prepare to support:

- A 50% increase in trade shipment orders;
- A 50X increase in sample orders;
- A 50% increase in SKUs;
- A 50% increase in required pallet locations;
- Increased scrutiny of overall supply chain costs;
- Increased storage and handling requirements, including controlled substances, hazardous materials, temperature controlled, and refrigerated product.

STRAINING CURRENT CAPABILITIES

The supply chain management leaders assessed the company's future distribution requirements and ascertained that a typical 3PL arrangement would most likely be unable to support their long-term needs. To avoid constraining growth, the company needed a partner that could deliver more advanced warehousing and distribution capabilities required to support an established life sciences company facing the increased supply chain complexity associated with commercial success.

- Scalability—both for anticipated growth and for handling potentially unanticipated future volumes.
- Multi-site network—at least two pharmaceutical grade distribution centers to provide rapid, cost effective order fulfillment throughout the United States, and an adequate level of redundancy to mitigate supply chain risks.
- High service levels.
- Reliable capabilities for temperature controlled, refrigerated, and DEA controlled substances.

Executives realized that the choices facing the company required expertise beyond the in-house capabilities, and that the time commitment involved would be prohibitive. They decided to work with a consulting firm to examine their options.

Supply Chain Partnership Selection Network



Transitioning from a single 3PL distribution center to a multi-site network with dedicated space and resources will result in annual savings of about \$2 million

A NEW DIRECTION

During the first half of 2005, a cross-departmental company team began working with consultants to define a new warehousing and distribution strategy capable of supporting the anticipated growth. The team identified several strategic options ranging from continuing with a traditional transaction-based 3PL arrangement to building and operating a company-owned distribution center. The analysis showed that the traditional 3PL would most likely not provide the company with adequate service levels—especially during peak shipping at month and quarter end. It also

revealed that building and operating its own distribution center would be both expensive and high-risk because the company has limited internal expertise in those areas.

The project team defined a hybrid strategy, based on best business practices, that combined some advantages of a company operated warehouse with many of the benefits associated with a traditional 3PL model. A major component of the strategy involved leveraging the expertise of an established warehousing and distribution partner. However, unlike a traditional 3PL arrangement, the hybrid relationship involves dedicated facility space, management, and labor, as well as elements of cost-plus pricing. The project team and executive management felt such a hybrid model would provide greater flexibility and operational control at a reasonable cost.

PARTNER SELECTION

With their distribution and business strategies now aligned, the team embarked on a rigorous three-month process to evaluate and select a partner with the capabilities and willingness to support the warehousing and distribution strategy. (See Supply Chain Partnership Selection Network.) First, the team developed a short list of candidates, each of which possessed

the required capabilities. Next, the team conducted due diligence, that included several site visits, a formal proposal process, and multiple working sessions with each candidate focused on critical areas. To compile and track the information obtained, the team used a customized evaluation model. The model enabled the team to select a preferred partner that offered the most compelling combination of experience, expertise, cost, and risk.

REALIZING VALUE

Implementing a new distribution strategy, selecting a new distribution and transportation partner and migrating to a multi-distribution center network will save the manufacturer close to \$2 million annually and is expected to increase earnings per share.

CRITICAL SUCCESS FACTORS

Strategy-Driven Selection Process.

The team developed a distribution strategy that was aligned with the company's business objectives. This process required the team to define and prioritize decision criteria that aligned with the company's overall strategy and goals.

Cross Functional Involvement.

Representatives from Supply Chain, Quality, IT, Operations, Finance, and

Selecting the best candidate required balancing tradeoffs between multiple, and sometimes conflicting, business priorities.

Customer Service participated on the team, enabling the company to consider all business issues when selecting a partner.

Executive Steering Committee Support. Periodic updates to an executive steering committee at important milestones during the selection process reassured senior management that the project was aligned with their priorities, on track, and would result in a sound recommendation. Additionally,


having an executive steering committee participate at key points demonstrated to potential partners that the company was serious about the selection process and prevented candidates from trying to circumvent the project team by pitching to one or two key executives.

Robust, Comprehensive Decision Criteria. Selecting the best candidate required balancing tradeoffs between multiple, and sometimes conflicting, business priorities. The team applied weights to high level and detail criteria in areas including technical capabilities and services, cost, risk, partnership attributes, and industry expertise.

Extensive Due Diligence. The selection team spent significant time getting to know and understanding each candidate on the short list. The entire team toured one of each of the candidates' distribution centers and conducted in-depth working sessions with key representatives from various functions within the organization.

Team members also interviewed at least two customers from each candidate.

Third Party Expertise. The involvement of an objective third party bringing industry expertise and a rigorous, structured selection process helped to ensure accuracy, consistency, and comprehensiveness in the evaluation, and left the team members feeling comfortable and confident with the outcome.

With a strong and scalable distribution partnership in place, management can now maintain focus on developing, commercializing, and ensuring the supply of innovative new products. 

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