High Performance in Pharmaceuticals Procurement
Over the last years, however, that picture has changed dramatically. Today, the pressure is growing as generic drugs continue to enter the market. In addition, R&D requirements and marketing efforts are rising constantly, while governments and health insurance companies exert growing price pressure on the industry.

At the same time, business complexity is increasing, due to operations in emerging markets as well as legal, regulatory and supply-chain related challenges. As a result, diminishing margins are already reflected in stock price developments.

Consequently, pharmaceuticals companies are searching for new ways to raise revenue and improve efficiency in every business area. For instance, marketing departments are investing significant efforts in finding innovative ways to increase turnover. They are also exploring new markets, product lines and sales channels. One of the biggest margin-engines still promises to reveal significant untapped value potential in the future for the pharma industry – procurement.
Competitive Advantage Through Innovative Procurement

Yet, according to the “Accenture Pharma High Performance Procurement Study” and dozens of interviews with industry leaders, procurement still struggles to get the necessary mandate and attention from top management.

At the same time, pharma procurement is an area ready for achieving sustainable efficiency gains a lot quicker than in industries like automotive or retail.

Many managers are focused elsewhere even though procurement represents more than 50% of total costs in the pharmaceuticals industry and plays a key role in driving innovation, achieving marketing success, controlling costs and risk and managing volatile raw-material supply markets.

Overall, pharma procurement organizations traditionally outperform other industries in the area of direct spend control (raw materials and production), but only a few pharma companies achieve top results in controlling the much bigger indirect spending categories, such as IT, MRO, FM, office supplies, travel, marketing and R&D.

In the past, too many companies overlooked indirect spending because cost pressure was not acute. They did not start the often difficult process of gathering complex spend data from different systems and stakeholders; these companies also missed out on sourcing and cost-reduction measures for less-critical spend categories.

Compared to other industries, pharma procurement organizations are facing significant challenges in supplier relationship management, technology harmonization and workforce management, since their main focus is on ensuring regulatory compliance and creating global supply chain transparency.

Figure 2: Accenture High Performance Pharma Procurement Results Overview

- **Performance results:**
  - highest direct spend under control across most industries
  - low indirect spend under control
  - low savings for indirect categories

- **Mastery level:**
  - good category concepts and strategies
  - weak execution, acceptance and mandate in indirect spend
  - significant improvement potentials in the areas of workforce/career management, technology and SRM

Source: Pharma High Performance Procurement Study ©2012 Accenture. All rights reserved.
Top Imperatives for Pharma Procurement

The good news, as the Accenture study and dozens of industry-leader-interviews show, is that procurement is starting to play an increasingly important role in efforts to achieve efficiency. Masters are distinguishing themselves from the rest by ensuring spend control and collaborating effectively across divisions and functions with their supplier networks and internal stakeholders.

Thereby, companies on a journey to high performance not only create more innovation, but they also achieve up to 2% to 3% higher savings. This translates into $20 to $30 million per year per $1 billion of spend.

Compared to other industries, pharma and life science companies are lagging behind in procurement, despite the potential benefits that mastery can bring to them. The gaps can and need to be closed quickly.

To do just that, pharma procurement organizations must focus on the following imperatives:

**Imperative 1**
Break up the Silos—Formalize collaboration between business functions and sourcing category heads

**Imperative 2:**
Know Where All Your Money Goes—Increase cost management for indirect categories

**Imperative 3:**
Think Innovation—Collaborate with suppliers to bring in fresh ideas

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Figure 3: Accenture High Performance Pharma Procurement Results Mastery Level

![Chart showing Accenture High Performance Pharma Procurement Results Mastery Level](image-url)
Still too often, procurement is seen as a support function rather than a strategic, integral part of the business. This can be observed in more complex categories like clinical trial outsourcing, marketing and the purchase of production equipment, but even in IT related areas.

Business managers looking for strategic partners are often reluctant to put such decisions in the hands of the procurement organization. To tackle these challenges, companies striving for peak performance create procurement standards that help functional experts trust in the company’s processes for selecting the best partners for their business needs.

The experts see the value that procurement brings by professionally negotiating for optimum performance and output, as well as setting up payment terms based on milestones and outcomes. In addition, clear procurement roles and responsibilities need to be better defined. Frequently, big pharma companies have well-defined strategies in place, but they lag behind dramatically when it comes to operational execution.

One way to catch up to masters is to implement a middle-office concept. A middle office can help create clear accountabilities, establish streamlined processes, motivate employees and focus on value-adding tasks and important business stakeholders (see Figure 4).

Accenture recently helped several pharma companies by standardizing processes and supporting information-sharing between cross-functional experts and their procurement counterparts. The developed strategies involved joint conferences, planning and forecasting, supplier KPIs, recruiting from business functions and job rotations. Experts in areas like clinical development or marketing gained insight into the way the procurement divisions work and successfully create savings, additional value and trust within the companies. Such comprehensive process improvements are set to become more important in the future as even more pharma companies work to control costs and restructure their balance sheets.

“Knowing and managing your key stakeholders is vital for procurement success today - more than ever before. Only managing this collaboration will enable procurement to introduce innovative concepts that go beyond ‘traditional purchasing’ to create and realize new cost reduction opportunities.”

Jochen Bucher, Director Corporate Category - Construction and Installation, Merck KGaA

Figure 4: Accenture Procurement Middle Office Concept

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Procurement spending represents up to 50% of total costs of a typical pharma company. The vast majority of this amount goes to indirect spend categories, such as office supplies, IT, MRO, travel, marketing and logistics.

Although pharma companies manage even more direct spend than average masters, their track record for controlling indirect spending is far less impressive.

A Chief Procurement Officer of a large European pharmaceuticals company recently stated, "We are unable to manage 25% of our indirect spend. That accounts for more than €1 billion a year."

As companies face additional cost pressure and regulatory compliance demands, masters succeed in having full visibility of every type of spending.

By improving procurement processes with strict policies and the proper tools, companies that strive to achieve high performance are taking advantage of huge opportunities to cut indirect spending and force regulatory compliance.

Accenture has partnered with pharmaceutical companies to help improve supplier management by implementing service-level agreements, actively managing partners and trimming the list of suppliers.

“Our vision, mission and strategy is strongly aligned with the corporate statements. That way we set the corner flags for our own journey to achieve procurement excellence and support the success of the business.”

Patrick Mohr, Associate Director - Group Indirect Procurement, Takeda Pharmaceuticals International

Figure 5: Spend under control
The good performance of direct spend control is not yet leveraged in the much larger indirect spend area.
Nearly a quarter of clinical studies are conducted by external partners called Contract Research Organizations (CRO). Best-in-class companies use vetted strategies for managing their outsourcing partners by aligning incentives for companies to work quickly and pragmatically to meet milestones and regulatory requirements.

This avoids an unplanned change in supplier during the middle of drug development, a move that trims off precious patent life – the most expensive development cost factor of all. Market entry delays can mean forfeited profits of up to $3 million per day and per drug. This is profit that would otherwise be invested in the next generation of innovation.

Pre-defined and regularly measured KPIs are proven tools for successfully managing CROs. Accenture supports pharmaceutical companies in establishing a clear set of KPIs and value-based performance measurements and contracts for outsourcing partners. These may include bonus and penalty payments, incentives for milestone achievement and profit-sharing for bringing drugs to market on time. Implemented correctly, these tools help align incentives in a commercial way and attract the best talent to projects.
Imperative 3
Think Innovation–Collaborate with suppliers to bring in fresh ideas

Perhaps the most crucial imperative is the focus on innovation in sourcing and procurement. Leaders in the field are setting up strategic partnerships with suppliers and vendors, involving them early in the product development phases and creating innovative payment methods that reward good performance and value, also in service areas.

The focus on innovative ways to collaborate with suppliers spans almost every business area: In marketing, for instance, pharma companies that are at the top of their game are creating incentives for suppliers to bring in novel ideas about how to reach new markets via new sales channels.

In clinical development, the incentives reward the development of new compounds or product improvements, such as better efficacy for drugs. And with the proper incentives, even suppliers of packaging and logistics partners can deliver additional value by creating innovative solutions that help fight counterfeits or making suggestions for improving the supply chain.

Accenture recently supported a global pharmaceuticals company as it implemented an incentive scheme for its media agency. Specifically, Accenture adapted its sourcing methods for creative services and assisted with benchmarking, bundling and standardizing, as well as the avoidance of double work. Efficiency gains were shared between both parties.
Summary

In conclusion, procurement strategies have vast potential to work wonders in a wide variety of business areas, such as risk control, human resources, supplier management and innovation. Like a magic potion, they can help companies meet the challenges of the industry.

Apart from a few exceptions, procurement in pharmaceuticals companies is lagging behind mastery levels. But it’s not too late. Procurement projects are gathering steam, capturing the attention of managers and even CFOs, due to their potential for quick and sustainable efficiency gains, particularly in the indirect spend category.

Certainly procurement is not only about cutting costs: Procurement organizations need to re-focus on tasks that add value and acquire new skill-sets that go far beyond traditional profiles.

Accenture research shows that the market will continue to see more frequent and more sophisticated sourcing programs, higher cost-cutting and innovation targets and more implementations of supplier management systems. And, as these transformations take root, CPOs will work more closely with CFOs and COOs to ensure that new processes and systems are adopted across the enterprise to sustain the value they create.

In short, pharma procurement organizations will certainly be among the most fascinating areas to work in during the next years.

“Our Procurement organization costs double digit million Euros per year. We better have good answer how this money takes effect. A well positioned and effective Procurement Organization easily displays high returns on the investment.”

Volker Bargon, Global Head Purchasing
Boehringer Ingelheim
To learn more about Accenture’s approach for pharma procurement organizations, please contact

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Our Life Sciences industry group works with pharmaceuticals, biotechnology, medical products, medical technology, regulators, distributors, wholesalers and other companies to help bring life-enhancing health solutions to people around the globe. We provide consulting, technology and outsourcing services across the entire life sciences value chain, from large-scale business and technology transformation to post-merger integration. Our key offerings include: Research and Development, including pharmacovigilance and regulatory outsourcing; Supply Chain and Manufacturing Optimization; and Marketing and Sales, including commercial services, analytics and digital marketing.

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