



BIOTECH SUPPLY CHAIN ACADEMY

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FOR IMMEDIATE RELEASE:

GARTNER to Present “The Healthcare Supply Chain Top 25” at the Biotech Supply Chain Academy Conference, October 26, South San Francisco, Embassy Suites

Register at www.biosupplyalliance.org/supplychainacademy.html



“Few life sciences and healthcare companies make the Supply Chain Top 25. To raise the bar on supply chain and operations performance in this industry, we have applied the same Top 25 principles to the healthcare value chain. The first annual Healthcare Supply Chain Top 25 recognizes those life sciences and healthcare companies that have demonstrated leadership in developing and leveraging supply chain capabilities.”

Wayne McDonnell, Barry Blake, Debra Hofman, Hussain Mooraj, Kevin O'Marah

San Francisco, California (September 2, 2010): The world's leading community for biotechnology supply chain professionals will meet on October 26, 2010 for the 3rd annual Biotech Supply Chain Academy conference at the Embassy Suites in South San Francisco to engage in “**TRANSFORMING THE GLOBAL SUPPLY CHAIN FOR END-TO-END VISIBILITY & QUALITY PATIENT CARE**”.

Devendra Mishra, Executive Director of the Bio Supply Management Alliance, producers of the third annual Biotech Supply Chain Academy, was able to garner insights for the biopharma industry from Gartner’s ground-breaking research in an interview with Wayne McDonnell, Director of Research for the Life Sciences. Wayne will be presenting the Healthcare Supply Chain Top 25 results at the Conference. At Gartner, Wayne is responsible for research across the life sciences and healthcare value chain, including the pharmaceutical, biotech, medical device, wholesale, and hospital industries. Prior to Gartner, Wayne has over 18 years experience in manufacturing, quality, and product supply management across these industries.

Mishra: For several years, Gartner has published the Supply Chain Top 25 to recognize companies across industries that have best demonstrated leadership in supply chain excellence, and that have excelled in integrating their focus on operations and innovation excellence. Why have few life sciences and healthcare companies made the cross-industry Supply Chain Top 25?

McDonnell: To answer this question, we must first understand the methodology employed for the cross-industry Supply Chain Top 25 ranking. We leverage publicly available financial data to calculate 3-year weighted averages for Return on Assets (ROA) and Revenue Growth, as well as a 1-year quarterly average for Inventory Turns, for all companies under evaluation. These measures are proxies for supply chain and operational excellence. We also ask industry supply chain executives to force rank companies against our model for demand-driven value networks in a peer polling process. Life sciences and healthcare companies significantly lag their cross-industry peers in inventory performance, which is one reason why these organizations don't appear on the cross-industry Supply Chain Top 25. Also, companies in our industry are not recognized by their peers as being particularly "demand-driven". This is largely because we have focused on the first economic trading partner as our end customer, and therefore have not developed a "demand-driven" perspective of the patient as the end customer in our value chain. Also, we have managed our operations to maximize regulatory compliance and product availability at the expense of supply chain agility, responsiveness and efficiency. We should note, however, that some life sciences companies do appear on the Supply Chain Top 25 from time to time. In fact, Johnson & Johnson has made the Supply Chain Top 25 every year since its inception.

Mishra: In 2009 Gartner launched the first annual Healthcare Supply Chain Top 25. What was the driver behind creation of this industry specific Top 25 and what was the methodology employed to assess and rank life sciences and healthcare organizations?

McDonnell: There were 2 drivers behind development of the Healthcare Supply Chain Top 25. First, we recognized the need to define supply chain excellence in the context of the healthcare value chain, and second we recognized the need to promote collaboration for better patient outcomes. We developed a model for "Value in Healthcare" that identified behaviors and capabilities that organizations from across the value chain should develop for more effective, value-add collaboration with trading partners. We identified the ultimate goal of collaborative efforts between trading partners as "high quality patient outcomes at optimal economic cost", or "Value in Healthcare". For the first annual Healthcare Supply Chain Top 25, we weighted the ranking toward peer voting of companies that are developing collaborative practices with "Value in Healthcare" as the goal. We also employed 2 quantitative metrics as proxies for operational and supply chain effectiveness: 3-year weighted Return on Assets and 1-year Inventory Turns. The end result was a first annual Healthcare Supply Chain Top 25 that represented the entire healthcare value chain, from life sciences manufacturers such as biotech companies, to wholesalers and distributors, to pharmacies and hospital systems.

Mishra: What were the key strategic leadership qualities you looked for in supply chain excellence of life sciences and healthcare companies?

McDonnell: In our inaugural model of "Value in Healthcare", we encouraged organizations to develop capabilities that enabled effective collaboration between trading partners. Therefore we placed emphasis on transparency and alignment of initiatives, collaborative establishment of goals and measures, bi-directional visibility to key data, extension of business processes to trading partners, and deployment of enabling technologies to support those business processes. We have since evolved this model to address the more enterprise level and longer term strategic

capabilities required to sustain supply chain excellence. This model calls for development of strategies that focus on the patient as the end consumer in our value chain, that are refined through collaboration with trading partners, and that make key data readily available across the value chain. We also emphasize the need to create dynamic supply capabilities across different supply chain segments, and to establish robust change management and governance processes at the enterprise level. Any life sciences or healthcare organization developing capabilities such as these are well on their way to achieving and sustaining supply chain excellence.

Mishra: Why has the professional discipline of supply chain management taken a long time to reach the top of executive agendas in life sciences and healthcare?

McDonnell: Earlier we said that our industry's primary operational focus has been on maximizing regulatory compliance and product availability. This operational focus complemented the larger business goals of discovering and then marketing life saving therapies to patients. When pipelines were full and productive, and regulatory compliance and product availability were high, there weren't many reasons to focus on supply chain efficiencies. Quite simply put, profits were bountiful and productive pipelines quickly filled any gaps left by the occasional patent expiration. Also, as an industry we often point to regulatory requirements as reasons that preclude us from implementing supply chain efficiencies. So in this operating mindset, inventory was almost considered free, "demand-driven" strategies focused on reactive order fulfillment capabilities, and collaboration beyond the first economic trading partner was confined to clinical research. Supply chain was relegated to procurement and distribution, and supply chain priorities were typically buried in manufacturing initiatives.

Mishra: Why is this tide changing and why has the supply chain wave now crested in the board room?

McDonnell: The answer lies between the top and bottom lines. From a top line perspective, R&D pipeline productivity has declined significantly from its peak in the 1990's, and a shift from small to large molecules has changed research priorities. When you add the impact of reduced reimbursements and more vigorous global competition, you can readily see the revenue impact on the top line. From a bottom line perspective, decades of a near-vertical approach to product supply has left many companies with large and expensive manufacturing platforms that are operated below capacity with inefficient practices. This has led many companies to promulgate operational challenges for cycle time, inventory and cost reductions that were unimaginable in the past! So in between the top and bottom lines, executives from life sciences companies are looking to supply chain professionals to balance demand and supply, drive a deeper understanding of true profitability, and develop the operational strategies that will realize enterprise goals for the next 5 to 10 years.

Mishra: The genesis of the Biotech Supply Chain Academy has been to promote collaboration for it is the driving force for an industry to achieve excellence. How central did you find collaboration in your research?

McDonnell: Collaboration is essential and cannot be understated. Gartner points to several excellent examples of collaboration in our research. This collaboration is occurring between manufacturers and distributors, distributors and health systems, and manufacturers and

health systems. The collaboration is occurring at the head of supply chain and operations levels as part of conscious enterprise level strategies. However, some organizations face an interesting dilemma when they engage in new collaborative initiatives with trading partners. The industry's deep roots in science and engineering compel some companies to seek near-term, tangible return on the investment of time and effort required for collaboration. While this is understandable, collaboration is a longer-term initiative with dividends that may take years to realize. Companies with this more visionary, longer term approach to collaboration will not only be recognized by their peers as collaborators but will be the companies that do realize tangible returns in the future.

Mishra: What is your recommendation for companies aspiring for excellence in demand-driven supply chain or value chain as you describe it?

McDonnell: Earlier I identified the longer term strategic capabilities required to sustain supply chain excellence. It's important to note that these capabilities must be built on a solid foundation of demand-driven supply chain capabilities. At the core of a demand-driven supply chain is the integration of demand management, right-first-time supply and innovation processes. These processes must be complemented by an ability to make conscious trade off decisions at the enterprise level that optimize performance on select business goals. Any life sciences or healthcare organization that starts by building these foundational capabilities are well on their way to achieving and sustaining supply chain excellence.

About Gartner

Gartner, Inc. (NYSE: IT) is the world's leading information technology research and advisory company. We deliver the technology-related insight necessary for our clients to make the right decisions, every day. From CIOs and senior IT leaders in corporations and government agencies, to business leaders in high-tech and telecom enterprises and professional services firms, to technology investors, we are the valuable partner to 60,000 clients in 10,800 distinct organizations. Through the resources of Gartner Research, Gartner Executive Programs, Gartner Consulting and Gartner Events, we work with every client to research, analyze and interpret the business of IT within the context of their individual role. Founded in 1979, Gartner is headquartered in Stamford, Connecticut, U.S.A., and has 4,300 associates, including 1,200 research analysts and consultants, and clients in 80 countries.



About the Bio Supply Management Alliance

The Bio Supply Management Alliance was born of the need to create a worldwide community of operations and supply chain management leaders and professionals in the biotechnology industry. Based in the San Francisco Bay Area, home to more than 600 biotech firms, the Alliance provides a forum for collaboration, learning and best practice sharing of practitioners, executives and thought leaders in these uniquely demanding industry sectors. Founders Tim Salaver and Devendra Mishra have forged relationships with key industry leaders and defined initiatives with a vision to create process, people, and policy improvements in this vital sector.

Because life depends on us, the Bio Supply Management Alliance supports B2B networking, continuous learning and career improvement of bio supply management professionals.

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