

RESILIENT & SUSTAINABLE SUPPLY CHAINS FOR LIFE SCIENCES

Good for business. Good for patients.

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In a 2023 global survey of manufacturing, life sciences, and retail supply chain executives, less than half (46%) reported having the necessary supply chain visibility and resiliency to react to disruptions effectively¹.

This spells trouble for life sciences organizations. In the coming years, supply chains are expected to become increasingly disrupted as companies face a growing array of challenges and concerns, including labor shortages, rising materials costs, and compliance violations.

Meanwhile, traditional methods of management – namely carrying significant stores of inventory to weather delays – are no longer effective due to shrinking margins, the increased pace of product development, and a changing product mix.

In this environment, we see that life sciences organizations must evolve and transform their supply chain to deliver increased levels of resiliency, agility, and sustainability to meet the requirements of a modern business and serve the needs of patients.

Top challenges and concerns for supply chain executives



Source: Supply Chain Resilience Study, BDO Alliance USA

What is an Intelligent Supply Chain?

An Intelligent Supply Chain is an integrated, collaborative, responsive ecosystem that leverages advanced digital technologies, including cloud and AI, to provide end-to-end visibility of the entire value chain, enable the frictionless flow of information among partners, and seamlessly orchestrate all stakeholders.

¹IDC: <u>Next-Generation B2B Integration Enables a Digital-First, Resilient Supply Chain</u>

THE FIVE FACTORS OF SUCCESS FOR EVERY LIFE SCIENCES SUPPLY CHAIN

Traditionally speaking, life sciences supply chains were optimized according to three factors: service, cost, and cash.

Just a few short years ago, before the Covid-19 pandemic, inventory was used as a hedge to withstand disruptions, though doing so typically tied up significant stores of cash. Now, post-pandemic, as inflationary pressure and rising materials costs make it impossible or at least impractical to carry massive amounts of inventory, companies must find new ways to mitigate disruption and delays, as well as respond to rising demands for environmentally responsible and ethical business practices.

With this in mind, the traditional supply chain model has been expanded to include two new metrics:



By expanding this model, companies now have a more difficult time balancing the defining factors and finding the optimal tradeoff among them – a challenge made more complex by the pace of change and the higher probability of continued external disruption.

With that in mind, it is important to realize that in many cases companies may not be able to optimize all five factors at the same time. Rather, the key is to be able to constantly assess changing conditions to identify opportunities for improvement and quickly adapt operations and processes in order to realize the benefits of an alternate tradeoff position.



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Customer Experience

- Rising customer expectations on service reliability and flexibility
- Margin and cash pressure driven by increased expectations for affordable health care from patients, payers and providers



Global Volatility

- Supply Chain bottlenecks, particularly in electronic components and the correspondings need for greater resilience
- Demand spikes and shortages, particularly in biologics and vaccines, requiring greater end to end visibility and agility

Advancing Technology

- Increasing of product innovation in pharma and MedTech, requiring faster capability to deliver in market
- New technologies such as MRNA, requiring the capability to design and operate increasingly complex supply networks

Regulation and Compliance

- The ongoing need for vigilance in Quality Assurance, patient safety and compliance with regulatory requirements
- Challenging sustainability commitments to deliver carbon neutrality and net zero on aggressive timelines

ENABLING TRADEOFFS WITH AN INTELLIGENT SUPPLY CHAIN

To enable the rapid reevaluation of tradeoff positions, two things must be reimagined within the supply chain:

- 1. The traditional, complex, and rigid global supply network must become an integrated and collaborative ecosystem to allow for the end-to-end visibility and orchestration of the entire value chain
- 2. The flow of information must be made frictionless such that it enables touchless operations and real time proactive decision-making

We call this integrated, collaborative, and frictionless future state the Intelligent Supply Chain.





Putting data to work in an Intelligent Supply Chain

Many life sciences organizations still rely on manual extracts and Excel-based systems to perform basic tasks like identifying where inventory is or when a shipment will arrive. Because these traditional systems require both human input and analysis, they tend to be inefficient and prone to error. As the supply chain becomes more complex, it can be an extraordinarily difficult task for companies to pull the required data from different systems in different formats and produce an accurate and complete snapshot of the current state – let alone predict or respond to potential disruptions.

An Intelligent Supply Chain automates the majority of data-related activity, including collection, formatting, analysis, and saving. It continuously captures and connects data from all internal systems, as well as from the extended partner ecosystem, to provide supply chain leaders with end-to-end visibility of the system. It also leverages advanced analytics and AI to identify potential disruptions and help the business make decisions about how to respond to them. Ultimately, this helps the company find those optimal trade-offs between the five different factors of service, cost, cash, resiliency, and sustainability.

Updating processes to enable performance

While an Intelligent Supply Chain is often seen as a technology initiative, it requires transformation of processes and people as well. Much like data must be connected from one organization to another and across functions within the business, so too must people and processes be united to enable a common way of working.

Integrating people, processes, and data not just within the organization but across the entire supply ecosystem helps position the company to foresee challenges, collaborate and identify solutions. This capability contributes to the overall resiliency of the supply chain and can be used to find ways to influence other metrics such as cost optimization or carbon footprint reduction.

Integrated business planning – connecting all the different actors and their processes – is another important aspect of ensuring that the Intelligent Supply Chain initiative drives the optimal value for the business and patients.

CALCULATING THE VALUE OF AN INTELLIGENT SUPPLY CHAIN FOR BUSINESSES AND PATIENTS

Supply chain transformation is both good for business and good for patients.

To start, an Intelligent Supply Chain can identify and proactively respond to disruptions, avoiding costly and potentially catastrophic delays and interruptions at any stage of the lifecycle. For the business this means lower operating costs and a decrease in working capital, as well as efficiency and productivity gains by automating routine and recurring tasks. In the case of new treatments, it can also mean improved time-to-market, which allows the company to begin earning revenue faster, thus optimizing new avenues of growth.

For patients, a resilient supply chain often means an improved experience and better outcomes. When companies demonstrate that they can reliably provide access to the treatments their patients need, it bolsters the reputation of the company and, more importantly, allows the patient to focus on what really matters: their health.

While many life sciences organizations are lagging when it comes to sustainability (and perhaps with good reason as even minute changes have the potential to upend intricate processes and, by extension, jeopardize regulatory compliance) some initiatives, particularly those related to operations (such as energy efficiency measures within manufacturing plants or offices), present life sciences companies with the same opportunities for optimization and cost reductions as other industries.

Another important consideration when it comes to sustainability is that the regulatory requirements for all companies in virtually every country are mounting, making it important for organizations not just to be able to comply with the current regulations but also design processes and systems so that they can easily adapt to future needs, track progress, and report outcomes.

Further, while it is unlikely that patients facing significant health events will factor environmental responsibility into their treatment decisions in the future, societal views dictate that sustainability is an important part of corporate identity and, increasingly, one that shapes public perception and goodwill.



Source: Capgemini



GUARANTEEING THE SUCCESS THE TRANSFORMATION INITIATIVE – AT A TIME WHEN FAILURE IS THE NORM

Research indicates that nearly 70% of all transformation efforts fail – and supply chain initiatives are no exception².

To be successful, life sciences organizations must consider the transformation to Intelligent Supply Chain as an enterprise-wide journey. While technology plays a role in enabling the future state, it is not the solution itself. Rather, the company must take a holistic approach, blending best practices in people, processes, and digital to deliver on the value opportunity of the Intelligent Supply Chain.

²McKinsey & Company: <u>Why do most transformations fail? A conversation with Harry Robinson</u>

Four pillars of success for Intelligent Supply Chain transformation

EXECUTIVE SPONSORSHIP

CHANGE MANAGEMENT

ADAPTABILITY

ACCOUNTABILITY



Many digital transformation initiatives fail because they do not have the proper buy-in from leadership. Having a dedicated executive to sponsor the program and shepherd it through the business helps ensure that the company is primed for change and has the necessary crossfunctional alignment to be successful.



The success of any major digital program is dependent on how well people respond to change and embrace the new system. An effective supply chain modernization program will not only outline how to transform existing processes and underlying technologies, but also engage people so that they understand how to use this new system and the value it will bring to their day-today routine.



The reason why companies need to modernize supply chains is because they are facing new levels of internal complexity and external disruption. As such, the ultimate goal of any supply chain initiative must be to help the organization adapt to a variety of challenges and concerns, as well as simplify and scale solutions.



Finally, the supply chain initiatives must clearly define desired outcomes of the program, as well as the governance of the organization's users and its partners. Ensuring that people are consistent in following new procedures and protocols (and that they will not revert to old processes or identify their own workarounds) is crucial to the overall operation and success of the system.



THE JOURNEY TO AN INTELLIGENT SUPPLY CHAIN STARTS TODAY

Just one in four organizations today have reached the highest level of digital supply chain resiliency ³. This underscores the need for marked progress for the majority of life sciences organizations – and the incredible value opportunity for those who embrace change.

Perhaps as importantly, companies must also consider the cost of inaction. Life sciences organizations that resist change may inadvertently increase risk as old systems struggle to reliably deliver treatments to patients and contribute to the profitability and revenue generation of the company.

In this way, an Intelligent Supply Chain becomes a critical enabler of the business and its goals – helping life sciences organizations solve profound and persistent challenges and deliver value for the company and the people it serves.

³IDC: <u>Next-Generation B2B Integration Enables a Digital-First, Resilient Supply Chain</u>

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