Revisiting your Asia Pacific supply network: Considerations for Life Sciences companies

Two out of every three Life Sciences CEOs indicate that penetration in emerging markets is a top strategy, according to the most recent KPMG Global CEO Outlook Survey[1]. However while Asia is the largest continent and home to a rising affluence, it is not a homogenous region. Capturing the opportunities will require some level of localization.

"The shifting geopolitical climate in Asia is affecting businesses across many sectors. Business leaders are not only grappling with diverse cultures and practices in this region, but also finding themselves caught up in managing the impact of the region's geopolitics," said Andrew Mantilia, KPMG Global Head of Geopolitics. "The issues range from local and regional socio-economics and politics, to protectionism, to differing sector and national policies, governance and compliance standards. All these add to the complexity of doing business in a highly-diverse region."

In Asia, the Life Sciences sector is continuously evolving to keep pace with shifting demands from various stakeholders (regulators, payers, providers, patients), and, as a result, the companies find themselves having to reexamine their portfolio of products and go-to-market plans. To achieve greater customer centricity, some are even reshaping their supply chain and relocating warehousing facilities in a bid to be more agile and to increase capabilities to support demand-driven performance.

"A complete relook of the network – giving consideration to quantitative and qualitative aspects – may be necessary to help supply chains be more flexible and agile. It can also help drive significant cost savings," said Nikhil Patil, Director of Operations Advisory at KPMG in India.

In the following sections, we take a look at how a Life Sciences multinational corporation (MNC), with the help of KPMG, streamlines its supply network in Asia and reorganizes its warehousing arrangements in India with the aim of reducing costs, improving customer delivery performance, and creating an asset utilization strategy best suited for its business and operations.

Undertaking 1: Optimize the distribution model

In the current state, all orders were placed through a central processing unit which coordinates delivery with the distribution centers, and all products were shipped, either by air or sea, directly from its manufacturing facilities in the US, Europe and Asia. However, this process was not without its challenges. Some of the issues identified included unconsolidated shipments resulting in multiple flights to one destination on the same day, high inventory holding costs due to long lead times, and low forecasting accuracy leading to many expedited orders. To address these concerns, the Life Sciences MNC and KPMG carried carried out a customer segmentation and cost-to-serve modeling exercise and, based on the findings, adopted the following interventions:

Freight consolidation: maximization of daily loads to reduce freight costs without changing the network, shipment modes, or shipment frequency. This resulted in **net savings of 25%.**

Inventory controls: assignment of target service levels by brand and by market. This resulted in an estimated **annual cost savings of 17%.**

In addition, a clustering exercise was performed to set up a Regional Distribution Center (RDC) model for Asia. Site selection parameters included labor and rental costs, logistics and infrastructure capabilities, availability of skilled labor, ease of import/export, and economic freedom (Figure 1). Although slightly more expensive, Singapore was selected for its infrastructure capabilities and ease of trade.

Potential Locations	40% Operational Cost	30% Infrastructure	30% Ease of Trade	100% Final Score
Singapore	#.#	#.#	#.#	#.#
Shanghai	#.#	#.#	#.#	#.#
Hong Kong	Hidden due to confidentiality and need to tailor to each company/supply network scenario			
Bangkok	#.#	#.#	#.#	#.#
Kuala Lumpur	#.#	#.#	#.#	#.#

Figure 1: An example of a criteria analysis for RDC location selection

[1] Growing Pains: Global CEO Outlook; KPMG, 2018; Retrieved from: *https://home.kpmg/xx/en/home/insights/2018/05/ceo-outlook.html*

"Singapore is a strategic location of choice for MNCs to set up key Asia operations such as regional headquarters, manufacturing, and R&D," said Ajay Sanganeria, Head of Life Sciences practice at KPMG in Singapore. "The Singapore Government offers various incentives and has created a business environment that makes MNCs feel comfortable operating here. At some point, cheaper is not always better and MNCs should look carefully at the full range of factors involved in such decisions."

The new RDC model includes an order management process that is now integrated with central planning. These interventions put the Life Sciences MNC in a better position to negotiate improved, long-term contracts with key suppliers.

Undertaking 2:
Rationalize the warehousing without compromising customer service

India is a key market for the Life Sciences MNC, which has nearly 50 distribution centers (DCs) with no customer segmentation nor order windows. A review of the India model came into focus with the withdrawal of the Central Sales Tax (CST), which was replaced by the introduction of the Goods & Services Tax (GST).

"The Indo-Pacific corridor remains a significant opportunity, particularly as India continues to dominate in generics and to supply affordable medicine to customers in emerging markets," said Mantilia. Yet as Sanganeria noted, it's not only about business strategy. "A company's tax position can be pivoted from a cost to a competitive advantage," he said. "In the case of India, all companies and especially MNCs should have a look at how best to navigate the new landscape of GST."

The warehousing rationalization exercise involved interviews with stakeholders (internal and external), a clustering and scenario analysis in order to correctly anticipate the demand, and ascertaining the potential to reduce freight costs and inventory levels through the reduction of the number of distribution centers without impacting customer service.

Armed with the findings from the exercise, the Life Sciences MNC landed on a hub-and-spoke model that helped eliminate arbitrary inter-DC transfers and allowed them to reconsider the use of costly air shipment for the majority of its product portfolio. With this model in place, **annual savings in freight costs are estimated to be 35%, with an additional 15% reduction in monthly inventory costs**.

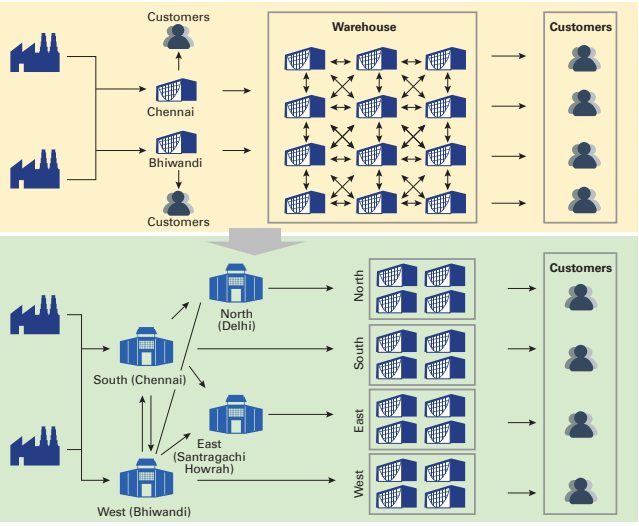


Figure 2: A comparison of the original vs strategic warehousing model in India

Other interventions introduced include:

- revised service levels – six hours or same-day delivery only for top-tier customers and those within 80km of a DC
- review of consignment stock, particularly for larger hospitals
- order cut-off window to allow for processing and collection by third-party logistics (3PL)
- consolidation of orders for "milk runs" rather than point-to-point shipments
- use centralized DCs for activities such as cross-docking, deconsolidation, holding buffer stock
- revisit 3PL contracts based on new customer service levels, and explore activity-based cost tracking

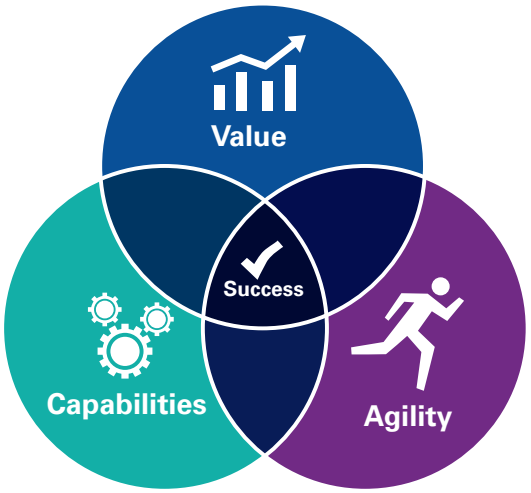
Don't wait, activate the gameplan

Only one in ten Life Sciences companies have complete visibility of supply and capacity information, according to KPMG research[2]. This is far from the ideal model of a connected enterprisethat links the corporate strategy across the front, middle, and back offices. The obstacles most often cited by Life Sciences supply chain executives largely relate to keeping up with growth plans such as changes in product mix, new launches, and increasing customer demands.

The future will become even more complicated. Tied to the novel therapies coming to market more quickly, Life Sciences companies must consider strategies such as continuous modular processing and resource sharing with competitors. Medical products via vending machines, perhaps once a distant vision, are already starting to appear in Asia.

Now is the time to be innovative in the region and assess your network footprint. KPMG has the experience and tools to achieve fast data insights in order to identify the improvement opportunities. This can first be done as a pilot to assess the process and benefit, before rolling out on a wider scale.

Future proofing the supply chain by redefining:



[2] Fast forward: Future proofing the life sciences supply chain; KPMG, 2016; Retrieved from: *https://home.kpmg/xx/en/home/insights/2015/05/future-proofing-the-life-sciences-supply-chain.html*

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