

# Making the marriage work – post merger blues in the pharmaceutical industry

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Mega-mergers of the last decade have transformed the pharmaceutical industry – and left many large pharmaceutical companies struggling with a number of issues. Unresolved differences in culture in an organisation formed from two or three entities can have a deep impact on operational effectiveness, innovation and customer relations. The problems are often exacerbated by lack of a common system platform and common processes.

Attempts to address these issues by quickly installing a completely new ERP system, and/or establishing hybrid processes, have left some companies worse off than when they started. They failed to recognise adequately the need for education and enrolment of the people involved, if the new company with its new systems and processes was going to work.

Meanwhile, a bid to gain the synergies promised by the merger, and reduce over-capacity, has tended to focus attention on increasing operational effectiveness. But this is only one dimension of success, and others – such as product leadership and customer intimacy – are equally, if not more, important – because it's not just the companies that have changed: the industry, and the world in which it operates, are also changing.

Blockbuster drugs were the road to success in the past – but today there are questions about how sustainable this is going to be in the longer-term. As science becomes better at targeting specific strains of disease and how they manifest themselves in individual patients, while competition becomes ever fiercer, a more likely scenario contains broader portfolios of products with lower sales levels.

These changes have the potential to put enormous strain on the supply chain. They demand decision making structures and processes that accurately reflect the company's strategy. And they require full enrolment and engagement of the workforce, to put the strategy into action effectively on a day-to-day basis.

A strategic approach to design and optimisation of the supply chain is a prerequisite. Central to such an approach is the recognition that new choices may need to be made about things that were considered

'in stone' in the past. Although the COGS in ethical pharmaceuticals isn't a major driver at present, it will assume greater importance as prices and margins are squeezed. Companies need to focus on how they want their supply chain to run and operate in the future and use that as a basis for rationalising the existing asset base.

The rapid take-off of some newer products, and similarly rapid decline of some products post-patent expiry, present further challenges in the supply chain. A robust approach to risk management is required, which can address both potential upsides and downsides.

Clarifying the decision-making processes is an imperative, in order to manage the complexities of a truly global business. Where the decision making authority lies must, of necessity, reflect the balance of local, regional and global focus in the strategy.

Perhaps most importantly, in order to ensure the strategy is consistently implemented and the supply chain operates in the most effective way – in a world that is changing faster and faster – pharmaceuticals management has no alternative but to relinquish any tendency toward command and control. Different functional groups need to have the skills and the motivation to engage with each other across the organisation, and possibly across the globe as well, in horizontal processes.

The type of enrolment and education that will take place in order to achieve this in an ongoing, constructive way will take more time than some pharmaceutical companies feel they have, in the current business environment – but the investment of effort and time will pay significant dividends in the long term.