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## Change is the new constant: Can procurement keep up?

What life sciences procurement can learn from other industries.

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# Introduction

Rapid and often radical changes are writing the future of procurement in life sciences, as emerging strategies, skills, technologies, and tools create new opportunities to overcome old challenges. What *isn't* changing is the consistent financial pressures that leaders expect procurement to alleviate, whether from inflationary impacts of input components, regulatory changes, or adjustment to ongoing business cycles.

When it comes to external spending, the procurement function has traditionally reacted to external factors such as, in recent years, the COVID-19 pandemic, unprecedented supply chain disruptions, inflation, and high interest rates. No matter what factors drive cost and supply shifts, the procurement function is forced to react, and play catch up. For some organizations in industries such as biopharma and medtech, raising prices has successfully offset cost increases.

But with new cost pressures, greater industry transparency and regulations on pricing, life sciences procurement functions need a fresh mindset, beginning with incorporating leading practices that are commonplace in other industries.

# Shifting gears

While cost pressures normally have a trickle-down impact, improving margins today demands that procurement leaders apply a broad set of strategic levers and constantly refresh category strategies. To stay a step ahead of external spending and offset supplier price increases, procurement's focus should shift from *reactive* cost containment to *proactive* cost mitigation. This may seem intuitive, but changing behaviors can be a challenge.

There are tangible steps that the procurement function can take to help drive a greater impact on margins—and on the organization overall. While this is not an exhaustive list, below are some initial thoughts to help procurement take a more proactive approach to its day-to-day dealings.

## Make margin management a core competency

For-profit enterprises will continue to focus on margin management, whether top or bottom line. But it needs to be a core competency rather than simply responding to developments. The pandemic challenged organizations to overcome supply restrictions, and to regain continuity to sell products and drive revenue.

Many procurement leaders were content to rebuild supply chains—and failed to anticipate the inflation that inevitably followed the massive supply-demand disruption.

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Life sciences companies, with less direct competition than in most other industries, have long been able to maintain margins by raising prices.<sup>1</sup> But price transparency and economic uncertainty are squeezing even a sector accustomed to immunity from margin disruption, only highlighting the importance of making margin management a core competency.

## Shift procurement from transactional to collaborative

Procurement is generally siloed, seen simply as the back-office function that acquires goods or services as necessary. It's no wonder that at a certain scale, many leaders begin measuring the function on speed and efficiency rather than on value contribution and stakeholder satisfaction. But procurement need not be relegated to a purely transactional role for issuing RFPs and redlining contracts.

Leaders should seek to expand the function's role and collaborate more, working to unlock new sources of value. Procurement can position itself to deliver valuable insights and play a more nuanced and strategic organizational role. Consider the product development cycle, in which formulations, external supply commitments, specifications, and other key inputs are set and embedded into the product bill of material.

<sup>1</sup>IQVIA Institute, "Operating margin dynamics for life sciences companies," August 17, 2020; Frédéric Kahn, "How historically high margins led to quality issues for drugmakers," LinkedIn, November 1, 2022.

Procurement can work to create value at every stage: For example, procurement can collaborate with R&D during discovery/business development and contribute at the pre-clinical and clinical stages to ensure products are designed to use raw materials, application programming interfaces, or parts with long-term availability during commercialization and after product stabilization.

Procurement can also add value by making recommendations on packaging that might save on shipping costs—or enable a platform using advanced analytics, cost/parametric modeling, and other cost transparency techniques to help ensure that contract manufacturing tolling arrangements are fair and can scale as the business grows.

Only procurement is positioned to offer such insights. By demonstrating proactive thinking and strategic partnerships, procurement leaders can help change the trajectory of an organization's external spending and potentially improve its P&L in perpetuity.

## Anticipate category fluctuations with advanced analytics.

Category fluctuations are inevitable, but with advanced analytics, they are also predictable. Market pressures can spark a change in focus for category management teams, which should pivot their focus to categories in which variability is anticipated. Identifying imminent fluctuations requires a deep dive into the data—and not every

organization, much less every procurement function, has in place the necessary talent, strategy, and training curriculum.

Indeed, using the business's talent to focus on parametric modeling—which requires specifying parameters before they can be used to make predictions—may be easier said than done. In procurement, finding highly specialized talent is a constant challenge: In Deloitte's [2023 Global Chief Procurement Officer Survey](#), more than 70% of respondents found it difficult to attract talent over the previous 12 months.

Plus, management teams that don't (yet) see procurement as a strategic partner are unlikely to invest heavily in talent for the function.

The real challenge, then, is altering the business mindset—within both the function and the organization as a whole—to reposition procurement from its traditional transactional role to a true business engagement partner with a legitimate seat at the leadership table. And this requires reevaluating the function's organizational structure, talent, roles, and capabilities.





# Determining the path forward

When it comes to building the right team to help mitigate excessive spending, organizations face the age-old question of “make versus buy.” Companies can either build teams internally or hire external vendors, depending on business needs, available financial resources, and their current talent pool and operating model. The benefits for both *make* and *buy* are clear.

With advanced analytics central to procurement’s added value, some leaders are building centers of excellence with that focus, often buying on-demand capabilities and skills from other companies. This talent operates as an extension of internal category management teams to perform selective specialized activities, such as predictive cost modeling.

This can accelerate procurement’s transformation toward becoming a strategic partner that delivers actionable insights and opportunities to the business.

Other organizations are pivoting existing procurement operating models to meet the business’s changing needs, taking a more homegrown approach to become strategic partners in companywide cost reduction efforts.

In our experience, such changes are imperative at a time when the life sciences sector is in a period of cost pressure and transformation. More importantly, these changes to the procurement function can help drive competitive advantage in the long term.

Whichever path a procurement organization takes, it’s important to understand where it is heading and how leaders plan to get it there. Asking some of the right questions can help:

- Does procurement measure itself differently than the business, and is there a common definition of value creation between the business and procurement?
- Does procurement have a seat at the table when category decisions are made throughout a product’s lifecycle, or does procurement operate as an RFP factory? What steps should be taken to change that?
- How well is data classified, and is there a standard taxonomy for category data to drive decisions and inform category analytics?
- Is there enough transparency into suppliers’ cost structure?

These and other questions can help provide a blueprint for organizations to take a deeper dive to determine how to start building a leading-edge procurement function that can contribute to cost reductions and supply resiliency in the short and long terms.



# Final thoughts

However much the life sciences industry shifts, procurement will always be relevant—indeed, it's increasingly so. This presents an opportunity for procurement to become a key stakeholder that can help the business drive external spend overhauls.

Change is the new constant, and with new developments always on the horizon, procurement should step up its contributions; with the right operating strategy, procurement can become a profit center for the entire organization.

Change can be difficult; falling behind can be much worse.



# Continue the conversation

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