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Cost optimization for pharma and MedTech manufacturers: The time is now

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Introduction

Robust growth in life sciences has been both a blessing and a possible curse for the industry. Confidence in their financial health has allowed companies to rest on their successes while potentially ignoring internal cost creep that can affect profitability and create a competitive disadvantage. To be blunt: When companies are financially healthy, and when product launches and revenue growth is the driver of enterprise value, operations efficiency isn't often top of mind—but it likely should be.

Today, market and economic conditions are changing, and now is the time for life sciences companies to consider changing along with them. It was foreseeable and inevitable that the industry would feel the effects of high inflation, rising interest rates, and post-pandemic supply chain gluts, redundancies, and stabilizations.

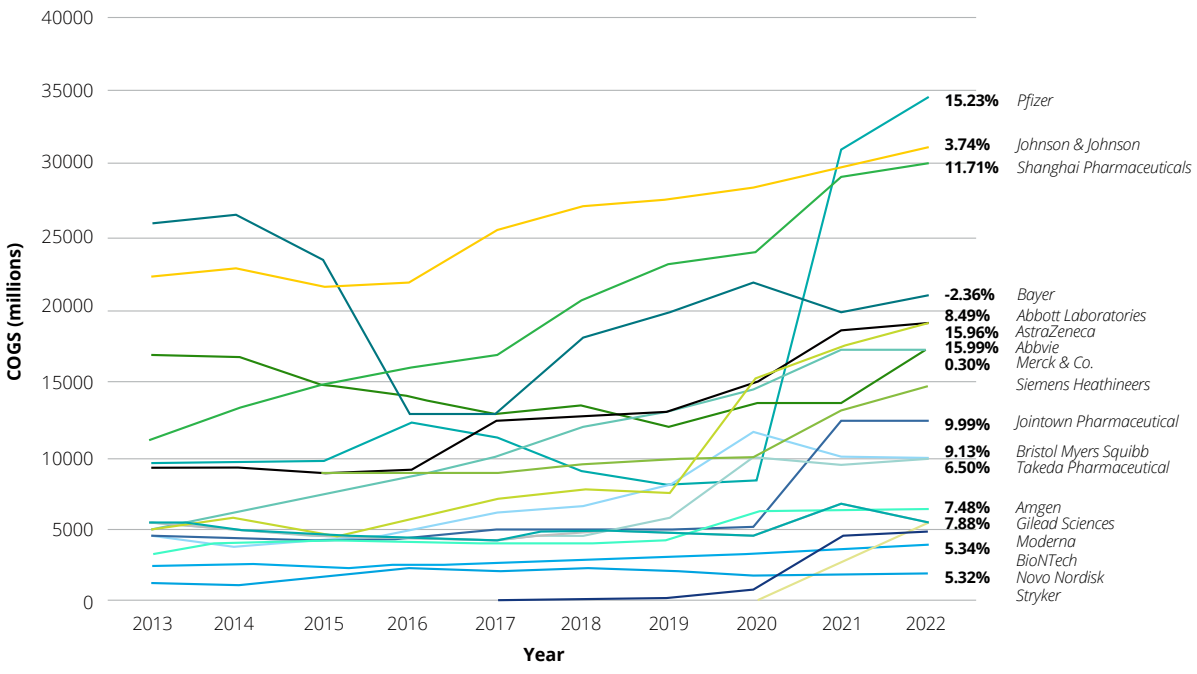
It should go without saying that life sciences companies need to evolve to meet these challenges head-on. If they are not experiencing it already, companies will likely begin feeling the pressure to reduce costs soon enough.

Are life sciences companies willing to step up now to succeed later? And are they willing to change the status quo so that cost and operations efficiency become core focuses of the business, even before cost pressures present themselves?

Now is the time for companies to focus on efficient operations but also to establish operations efficiency and cost and margin management as core business focuses for the future. This will likely give companies a competitive advantage the next time major market and economic forces pressure the business instead of sending companies into reaction mode. This can be done by embedding an operations efficiency-focused new way of working into all core operations functions.

It won't be easy—and it will require difficult investment choices as well as the organizational will to change to the way companies currently operate. Of course, change of this magnitude, no matter how important it is, can be daunting. Implementing a company-wide transformation will likely be a massive and potentially messy undertaking that could take years to fully adopt. But make no mistake, it is necessary, especially in an era in which the competition is investing in Generative AI opportunities within core operations. Companies should consider changing now or they may risk falling behind.

COGS across highest revenue life sciences companies



Where to begin

Before life sciences companies can establish this approach, they should first take stock of the core operational cost drivers of their operations (e.g., manufacturing and quality, external spend, network footprint and strategy, and inventory and cash flow supporting processes). They then should examine potential opportunities to optimize.

To save a lot of time, money, and effort, companies should ask the right questions early on:

- What levers can we pull to build a more efficient and effective network strategy?
- What parts of our operations should we fundamentally rethink and redesign?
- What steps can we take to reduce the inherent complexity of our business?
- How can we improve our profitability?
- What can we do to maintain a solid, robust, and secure supply chain that does not sacrifice reliability and resiliency?
- Where do we start?

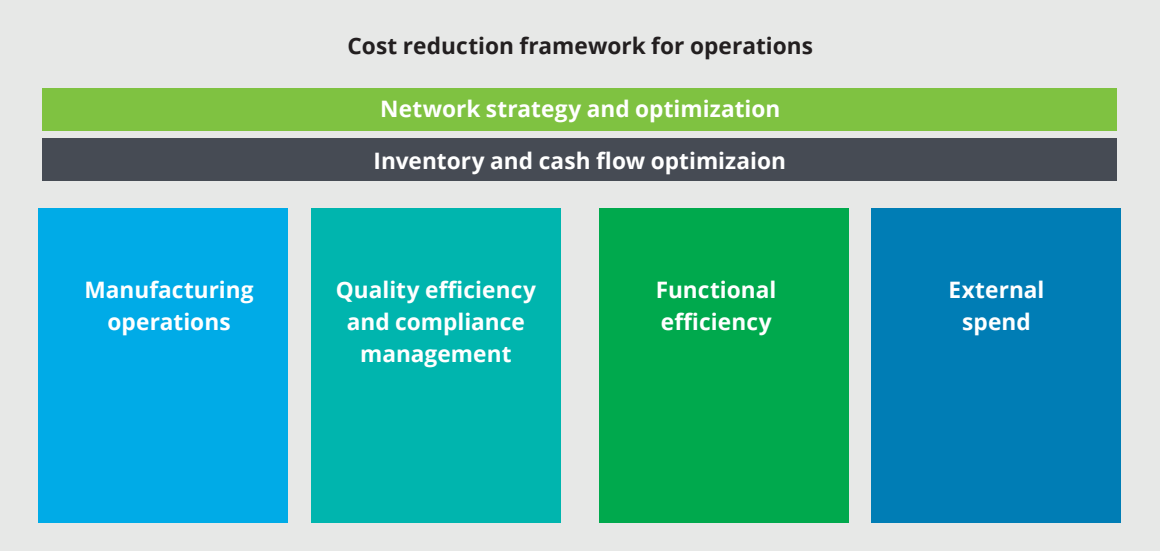
Answering these and other questions that are specific to individual companies can be challenging. But understanding business requirements and managing to the right key performance indicators can help simplify the path forward to building an operations efficiency program that can reduce the cost of operating.

With these key questions addressed and the necessary resources in place, forward-looking organizations should plan to take a holistic approach to help ensure that cost reduction and margin improvement programs yield real results.

While a holistic approach might sound simple in the planning phase, it can be much more complicated in the implementation phase. There are many reasons for this disparity, most notably the harsh reality that large companies tend to operate in silos, making it inherently difficult to tackle issues on a wider scale and across the business.

To achieve real and lasting results requires a dedicated program, a transformation structure, and a concerted and organized effort to deliver operational change at this scale. With full buy-in at the executive level, the right framework can become a powerful tool to continually evaluate the business and effectively position it to make any needed course corrections moving forward.

In fact, once a transformation structure is established, this construct can be employed repeatedly in the future—or done as part of routine business—saving both time and money.



Operations efficiency framework defined

The key components of a sustainable and future-oriented operations efficiency framework include core manufacturing and quality, external spend, network strategy and optimization, and inventory and cash flow/supporting processes.

In the coming weeks, we will address each of these components (outlined below) in more detail across a series of additional articles, and we will provide current thinking around how organizations can effectively implement an operations efficiency program for cost optimization and margin improvement.

- Core manufacturing and quality: This will examine how to find operational efficiencies, how to identify and implement opportunities to increase capacity of existing plants, and how to optimize the way overhead functions are deployed against manufacturing and quality operations. We will demonstrate how, through work with different life sciences clients, the approach has resulted in 20% to 40% increases in capacity for some plants, as well as significant cost reductions from optimizing operations and overhead. This topic will be addressed in two articles, one focusing on manufacturing and quality in biopharmaceuticals and another focusing on manufacturing and quality in MedTech.
- External spend: This piece will demonstrate how external spend is ripe for cost reduction opportunities for life sciences companies. It will also examine how rethinking the role of procurement in the organization, and therefore revisiting the procurement talent model, can help companies make better choices and reduce spend among the supplier base. Layered on top of efficiencies to manufacturing and quality operations, a focus on external spend reduction can help the business achieve up to a 25% reduction in cost of goods sold.
- Network strategy and optimization: This article will examine the aftermath of manufacturing site optimization and how the true potential capacity of the manufacturing network is understood. We delve a little deeper to look at how network strategies can be reassessed at this point, which can lead to greater network optimization through strategic choices, such as moving manufacturing of certain work-in-progress or finished goods materials to more cost-effective manufacturing sites, closing underperforming or unnecessary sites, and reevaluating how manufacturing operations and distribution work together to best serve markets and customers.
- Inventory and cash flow/supporting processes: In this article, we will examine how improving inventory working capital is a lever that can contribute to cost savings by reducing inventories. Inventory reductions can occur in a stepwise fashion, by first optimizing levels to meet the needs of the supply chain, and then by making operational and technology changes to the business to bend the inventory curve and dramatically change the inventory levels needed to support the business. According to Deloitte Consulting analysis, life sciences companies have seen up to a 20% reduction in gross inventory levels because of dedicated C-suite sponsored efforts.
- We look forward to sharing Deloitte's perspectives and to beginning a dialogue to help companies ease the adoption of an operations efficiency program and embed it into a core way of working that drives cost optimization now and for the long term.

Get in touch

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