

## IMPLEMENTATION OF LOGISTICAL OUTSOURCING FOR RETAIL PHARMACEUTICAL COMPANIES

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This article explains possibilities of outsourcing in logistics in pharmacy sector, the advantages of this strategy for pharmaceutical companies and conditions that could cause the growth of outsourcing in logistics in this sector of economy.

The interaction of subjects of pharmaceutical industry is impossible without professional, hi-tech and efficient logistics. The pharmaceutical logistics as specialized logistics requires an active operating impact on delivery process of pharmaceutical products assortment in every specified position.

One of the activities to optimize the retail pharmaceutical companies lies is working out a system that could respond flexibly and effectively to ensure the interaction of basic elements of pharmaceutical logistics system: «supply - storage - transporting - marketing».

In practice, the greatest economic efficiency is provided with the integrated logistical service of manufacturers and pharmacy networks, which provides integrated logistics operator services in these market segments.

The integrated logistical services can reduce both costs directly related to logistics, and after a time period - a full logistical drugs cycle from producer to consumer. Such efficiency for commercial pharmaceutical companies will be achieved by improving the logistics provider capacity for responding to various market changes, as well as through total control over the movement of medicines, thereby reducing the risk of delays and the stock overfilling.

The pharmaceutical logistics operator should base the activity on core competence in the field of logistics, and also on a well-developed logistics infrastructure. These companies will provide integrated logistics services to their partners, paying attention to their needs rather than implement wholesale of the pharmaceutical goods.

The main logistics pharmaceutical company service is to manage delivery cycle cash flows from a pharmaceutical manufacturer to the end

user, including inventory management and pharmacy networks. In addition, the pharmaceutical logistics operator has a whole range of logistics services, including storage of pharmaceutical products in their warehouses, their customs clearance, forwarding services and daily transported to every pharmacy outlet. At the core of such a logistics company should be based on an extensive logistics infrastructure (in particular the distribution centre), without which maintaining such business is impossible.

The purpose of logistics management outsourcing in the retail pharmaceutical company is a reconfiguration of assets (as of pharmaceutical companies, and extensive use of the assets of the environment), which allows for a serious increase in economic benefits, to concentrate available resources on the development of pharmacies organization's main trading functions that form a strong competitive advantage.

A typical symptom of pharmaceutical 3 PL-providers is the combination of its own and attracted subcontracted assets. An additional feature - the availability of its agent network, providing increasing amounts of value added services and economies of scale.

Basic requirements for the logistics provider in the pharmaceutical field, in our view, are as follows:

- ◆ The developed logistics infrastructure;
- ◆ The effective communications with manufacturers and suppliers of pharmaceutical products;
- ◆ Qualified personnel;
- ◆ Use of the integrated information logistics systems.

The central link in the infrastructure logistics operator is the analytical department, which effectively manage inventory customers, as well

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as a modern warehouse complex to enable the storage and customs clearance of goods, its processing, filling and labeling, distribution and delivery “just in time” to each of the retail outlets pharmacies network.

The study showed that called pharmaceutical 3PL-provider is required to provide a wide range of logistics services required for the movement of goods throughout the supply chain. As a result, logistics functions have been identified, which represent the greatest potential for logistics outsourcing strategy in the pharmaceutical field. These functions, in our view are:

- ◆ warehousing;
- ◆ external and internal transportation;
- ◆ quality control of pharmaceutical products;
- ◆ clearance / charges;
- ◆ information technology, information services;
- ◆ management applications pharmacies, reception / processing of orders;
- ◆ management of stock of pharmaceutical products;
- ◆ routing traffic and transportation;
- ◆ logistics consulting, etc.

It should be noted that the authorities normally are interested in the integral nature of the services offered by logistics intermediaries, for example, in bringing in a package of transportation, processing of products, accompanying service, etc. Research showed that 60 to 70% of logistics services at the request of consumers are complex<sup>1</sup>.

Thus, among the customers trends the tendency to outsource strategic logistics functions and features that are targeted to the buyer. Functions, largely related to the use of information technology, often passed provider, reflecting general trends of development services market - the desire to fully utilize the advantages of specialization and integration of business processes, which provides logistics outsourcing.

Logistics approach of pharmaceutical operator is based on technical, technological, information and economic integration of certain parts of the supply chain into a single end-to-end management and information flow.

Of particular importance in the restructuring of the retail pharmaceutical company based integrative logistics belongs to information technology support. Integrated Information System pharmaceutical logistics should be an optimized synthesis of the major information systems with

the creation of a unified software and hardware, the availability of stable and reliable information channels. In order to enhance business transparency and build an effective system of management of pharmaceutical logistics flows, an expedient transition to information and logistics class ERP is required.

Through this program complex pharmaceutical 3 PL provider is in a position to effectively manage all logistics operations, including management of wide range of medicinal and cosmetic products in each of the pharmacy outlets. Pharmaceutical ERP-system must be compatible with any information systems, pharmaceutical manufacturers and pharmacy networks and will move to a qualitatively new level of management streamed process and ensure integration interaction of all participants in commodity chain.

In some active pharmaceutical ERP-systems (in particular, “RBC Pharma”) affects all the specifics of sales of pharmaceutical products: a series of certificates of quality of drugs, functional conformity of the public registry prices, storage of medicines.

To optimize network pharmacies should apply automated procurement system to automatically assess the movement of goods and create applications for the missing range of positions. Logistics information systems allow pharmacies network:

- ◆ carry out operational monitoring of stock-levels, factors determining the demand for different product groups and marketing units and changing the speed of implementation of stocks (the incidence, time of the year, advertising in the media, etc.);
- ◆ forecast the demand for a certain period of time;
- ◆ quickly evaluate suppliers in terms of selection criteria: quality of products, price, breadth of products, product organization (logistics, timing and other), business ethics;
- ◆ monitor minimal quantities of mandatory product-positions;
- ◆ to build retail prices by ensuring the profitability and competitiveness of enterprises;
- ◆ assess the competitive environment;
- ◆ to monitor the level of treatment costs for maintenance of inventory;
- ◆ carry out an order to supply the necessary assortment of positions.

The introduction of the pharmaceutical ERP-system will automate accounting and financial accounting, sales and range of customers, suppliers and purchase goods and the management of the warehouse that will facilitate the integration of the supply chain of pharmaceuticals from manufacturer to the final consumer.

In addition to the positive aspects that arise when implementing information systems, logistics activities in the retail pharmaceutical enterprises have been identified and the obstacles to the implementation of these systems:

- ◆ high-cost (from 400 000 rubles and above);
- ◆ lack of personnel to make effective use of the system;
- ◆ lack of a unified, standardized nationwide system of identification (bar coding) medicines and products of other product groups.

In assessing the feasibility of acquiring and implementing pharmaceutical ERP-systems it is necessary to perform certain calculations of performance indicators data transformation. At the present time to evaluate the effectiveness of ERP-systems of the most popular was the criterion of sufficient size costs for information technology (IT). Based on foreign analogies to spread rate of IT costs as a percentage of turnover (0.6 - 1.5% depending on the size and dynamism of the company), the percentage of IT costs per employee (from \$ 200 - \$ 1000 per person).

An alternative assessment of ERP-systems is to consider them as investments. In doing so, enterprises frequently use the following methods - the definition of the term payback, the definition of internal rates of return of investment, net present income, the amount of added value, efficiency ratio improving quality with quantity of the products<sup>2</sup>.

Examining the effectiveness of ERP-systems as an investment project is not universally accepted, because quite often it is impossible to quantify the effects obtained. Indeed, information technology affect indirectly, through business-technology, on the final financial and economic performance of the company. Information technology does not improve the position of the organization in the marketplace, not reduce material the final product, but give the management personnel new technology and the effectiveness of their use is directly dependent on how well established the bridge is on the

capacity of IT to business opportunities particular organization.

Thus, the desirability of introducing IT in logistics, optimal choice of an IT system or the effectiveness of investments in IT project in the area pharmacies must be preceded by a clear definition of goals and desired results of such implementation.

Overseas outsourcing logistics system has accumulated a large enough positive experiences in the field of specialization and delegation of authority in high-quality and relatively low prices.

Experience has shown that the use of logistics outsourcing in the pharmaceutical industry in Russia and abroad, as a result of it's application pharmacists network got quality and integrated logistics services and reduced their operating costs, and producers were able to concentrate on the production and marketing of their products, staying focused on the distribution of goods and development of non-logistics infrastructure. Working without intermediaries with companies producing pharmaceutical products, specialized operator can guarantee the quality of entering the pharmacy network products. Expertise operators in the provision of logistics services contributes to the development of the integrated nature of their activities, as well as significantly increasing their role in turnover on the pharmaceutical market.

Among the key benefits and advantages of outsourcing logistics services in the pharmaceutical industry, in our view, include the following:

- ◆ Reducing the cost of logistics functions transferred for outsourcer. This can occur through specialized outsourcing firms, which on the one hand, reduces the cost by «wholesale» sales skills and knowledge, and on the other hand, ensures the quality of functions for the same price because of competition.

- ◆ Focusing its own resources of pharmaceutical companies on core activities. By shifting to the external organization the implementation of logistics functions, the company can focus on its main tasks that will improve key processes and gain additional competitive advantage. Logistics company channel all their efforts and potential toward the development and improvement of logistics operations, which provides the necessary quality of service to their customers.

◆ Reduce risk - all of the risks associated with the logistics functions borne by the pharmaceutical 3 PL provider. There is the transfer of logistics functions, reflecting the strategy of diversifying risk among pharmaceutical companies and outsourcer.

◆ Changing the direction of investment in infrastructure. Capital investment in logistics is also moving to outside organizations, since the logistics outsourcing reduces the need to invest in logistics support functions and development activities that do not provide the bulk of the retail pharmaceutical company profits.

◆ Access to new technologies. 3 PL provider due to effects of «wholesale» sales of its services has more incentives and opportunities to acquire and master new technologies work in a separate pharmaceutical companies may be not profitable.

◆ Outsourcer has the necessary resources to respond to increasing demand or other changes of market conditions, including seasonal.

◆ Outsourcer provides a complete monitoring of the logistics chain, which is in the interest of end-user and avoids the costs of disruptions in supply. 3 PL provider is responsible for the smooth operation of networks and the implementation of logistics operations in terms of certain contracts.

Despite the many advantages that arise in the use of logistics outsourcing, there are certain risks that reduce the effect of the transfer of works and services to other organizations.

Among these risks include: the risk of increasing logistics costs, reducing productivity in key activities; loss of control over the company executing logistics functions; leaked confidential information, or incorrect valuation of termination of the contract in connection with the decision of the buyer to use the services of another company; legal risks.

Some types of logistics functions 3 PL provider, taking into account the specifics of the pharmaceutical market today are very difficult to implement in existing Russian logistics companies.

One of the obstacles to the development of logistics outsourcing is the lack of financial models for calculating the effectiveness of such a move. Often the decision to allocate the assets of the company's managers are without adequate justification and evaluation of the effectiveness of such change.

As foreign and Russian experience shows logistics providers are established on the basis of shipping companies, warehouse operators, brokers / freight-forwarding companies, companies involved in the optimization of transport services and the formation of shipments, consulting companies, developing and introducing software to meet the increasing demands from customers and provide them with a wider range of services<sup>3</sup>.

In our view, in modern Russia the development of pharmaceutical industry's greatest prerequisite for the attainment of a level 3 PL providers are wholesale distributors and trading companies.

At present, distributors have to provide the Russian pharmaceutical networks not only products at the lowest prices, along its high level of service, but also loans for a long time. This leads to lower profitability of the business, increasing receivables and as a consequence - to cash gaps. In turn, this implies the emergence of arrears to the distributor's manufacturer, a violation of the interaction between them and the deteriorating conditions of supply. As a result, the average link in the chain of producer-distributor of pharmacy gradually falls, forcing pharmaceutical distributors think about their future existence.

For the development of pharmaceutical distributors to 3PL providers must change their approach to business processes regarding a chain of pharmaceutical products and transform commercial activities in the wholesale business provider of logistics services. The successful implementation of logistics outsourcing needs a new technology platform and skilled personnel to meet the goals. The use of 3PL providers is necessary for the implementation of logistics business processes technology, knowledge and experience changes the practice of a particular organization and approaches to the management of material and information flows, providing a flexible response to market and total control logistics chains. Thus, the outsourcing of logistics services can improve the competitiveness of the pharmaceutical companies, focusing on addressing the major challenges and strategic development.

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<sup>1</sup> *Nikandrova M.* Features activities logistics operators // *Logistics and Supply Chain Management.* № 4. 2005.

<sup>2</sup> *Outsourcing as a form of investment // Investments in Russia.* № 12. 2004. P. 25-30.

<sup>3</sup> *Chernousov E.* Market Analysis of logistics providers - foreign experience // *Management in Russia and abroad.* № 6. 2002. P. 70-89.