Cahners

SEPTEMBER 2001

Logistics®

Management & Distribution Report

MANAGING THROUGH A MERGER:

Planning proves key for AstraZeneca

James Kulda,
director of customer
relations and services,
AstraZeneca

Side effects

When two pharmaceutical giants joined forces, they expected to streamline their logistics network. What they didn't foresee were several hundred million dollars in savings and a surge in orders.

By Etta Walsh

James Kulda, director of customer relations and services at AstraZeneca Group's U.S. headquarters, credits a cross-functional team's dedication and cooperation with achieving the flawless integration of distribution systems after the merger of two pharmaceutical-industry giants.

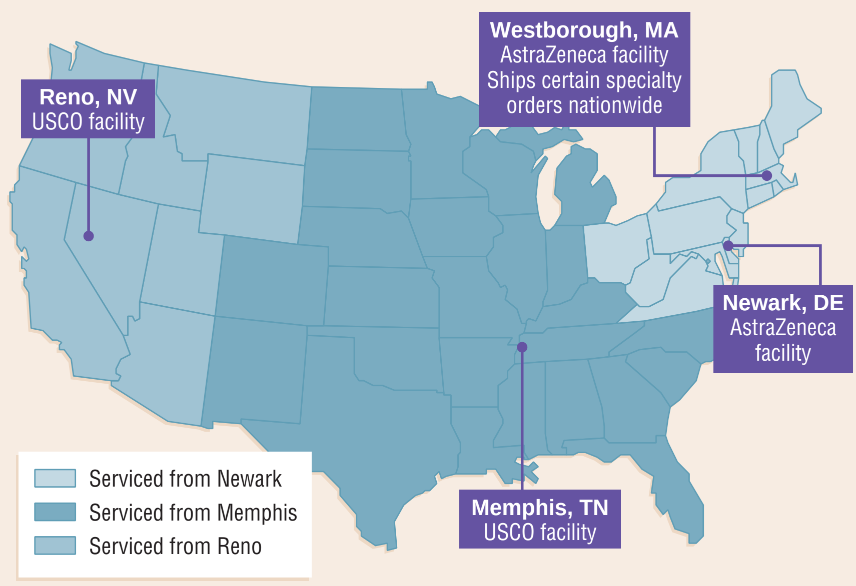
Marc Berlow

When pharmaceutical companies Astra AB of Sweden and Zeneca Group PLC of the United Kingdom decided to merge in 1999, James Kulda, director of customer relations and services, figured that combining operations for the two huge global drug-manufacturing companies would be complicated. How right he was.

Headquartered in London, with U.S. headquarters in Wilmington, Del., the new company, AstraZeneca, definitely qualifies as a giant. Ranked number four worldwide in the pharmaceutical industry, the company has manufacturing activities in more than 20 countries and operates nine different sites for research and development, employing more than 50,000 people worldwide. New products in the pipeline include a medication for reducing cholesterol levels, a treatment for potentially fatal blood clots, and treatments for a range of cancers.

AstraZeneca recorded sales of $15.8 billion in 2000, with a pre-tax profit of $4.1 billion. The company plans to be the world leader in oncology by 2005 and to be the world's largest supplier of cardiovascular therapies by 2010, according to its 2000 annual report.

New consolidated AstraZeneca distribution network



Network Difficulties

Handed the challenge of planning and executing the large-scale integration of AstraZeneca's U.S. logistics operations, Kulda spent 18 months of his life working out the details. That planning has paid off. Not only did the integration go smoothly, but it came in on budget and on time, debuting during the July 4th weekend in 2000. It has saved the company money as well. Although there are no breakout figures for the U.S.-based logistics consolidation, the company's 2000 annual report says AstraZeneca has achieved $650 million in savings globally, about $150 million ahead of schedule.

But getting there wasn't easy. The integration of U.S. logistics operations required a reworking of Astra's and Zeneca's distribution networks, consolidating eight distribution centers (DCs) down to three and bringing all the various legacy IT systems into compliance. Prior to the merger, Zeneca had five DCs in the United States, shipping its entire product line to customers from Chicago, Dallas, Atlanta, Delaware, and Nevada. Astra had DCs in Georgia, Pennsylvania, and Massachusetts.

Kulda's first task was to form a project team at the new company to manage the transition. Although that team averaged about 30 people from both Astra and Zeneca, it swelled up to 80 members during some phases of planning, he says, as representatives of various departments were polled for insights on how the proposed consolidation would affect their areas. For example, when planning the consolidation of distribution centers, the team included members from customer service, distribution, warehousing, sample administration, finance, quality assurance, internal audit, and logistics/transportation. "You can't have too much cross-functional planning," says Kulda, "or too much communication, both internally and externally."

Basing its decision on customer-service levels, leadtime, transportation cost, and risk minimization, Kulda's team eventually settled on Reno, Nev., Newark, Del., and Memphis, Tenn., as the nodes in the streamlined DC network. (See figure at left.) Before deciding, Kulda adds, his team actively sought input from customers of the former Astra and Zeneca. "That strategy served us very well," he says. "Having customer buy-in of what we were doing and when we were doing it made all the difference."

But the team's mission did not end once it had determined the network configuration. The group was also handed responsibility for the following high-level tasks:

- *Inventory transition.* Ensuring the effective transition of Zeneca and Astra products into the new distribution network.
- *System testing.* Ensuring a production-ready system.
- *Conversion testing.* Ensuring that all conversion activities (automated and manual) were executed successfully for the go-live phase.
- *Training.* Ensuring that the organization was prepared to accept the integration of processes, products, and systems.
- *Communication.* Ensuring that key information was presented internally and to external partners, such as customers.

Teaming Up

As preparation gave way to implementation, Kulda's team decided the company needed the services of a third-party logistics provider (3PL) as well. They didn't have to look far to find one that came highly recommended. USCO Logistics was already working with Zeneca when the merger occurred and, after an evaluation process by the team, the Hamden, Conn., company was awarded the job of integrating

> "You can't have too much cross-functional planning or too much communication, both internally and externally."
>
> James Kulda, Director of Customer Relations and Services, AstraZeneca

AstraZeneca's logistics operations.

USCO, with more than 3,000 employees at 70 North American locations, provides transportation, warehousing, and information management services and has more than 15 million square feet of shared and dedicated warehouse space in the United States, Mexico, and Canada. It also boasts more than 25 years' experience in handling pharmaceutical products, offering validated systems with full-lot tracing. (The company was recently acquired for $300 million by Swiss 3PL conglomerate Kuehne & Nagel International AG, which has 600 locations in 90 countries.)

Christopher Baumann, vice president of pharmaceutical supply chain solutions for USCO, says his biggest concern in formulating a 3PL strategy for AstraZeneca was that the drug company's team might be plagued by biases in favor of each member's former way of doing things. Yet that didn't happen, he says. In fact, Baumann discovered that the AstraZeneca team was "uninhibited" in searching for new ways to configure the company's distribution network that would improve on what each company had achieved individually. "It was incredible," he says. "It was all about collaboration and planning." Kulda adds that his team, in turn, viewed USCO "as an extension of AstraZeneca" and that the two groups "all worked together very well." Kulda continues, "The success of AstraZeneca's logistics integration was due to the hard work, dedication, and unconstrained cooperation of all the team members."

Ultimately, Kulda says, the intensive planning and collaboration paid off. Each of the eight DCs, with its legacy IT systems, was phased into the new network at about two-week intervals. Although there were contingency plans in place, he says, they weren't needed. When the Independence Day holiday rolled around, the new network was up and running at a level beyond his wildest dreams. "We went live without a single customer complaint," he marvels.

There was one unexpected development, however, he says. With the consolidation of logistics, Kulda expected there would likewise be some consolidation of orders. That hasn't happened to the degree expected. "We continue to work with our customers to develop the optimal order profile," he says.

Optimal Network—for Now

During planning, Baumann says, USCO focused on helping AstraZeneca design operations for both the short and the long term. For example, right now the pharmaceutical industry's largest distribution channel is retail chain pharmacies (about 30 percent), independent pharmacies (18 percent), hospitals (12 percent), and mail order to consumers (11 percent). Bauman expects to see a shift toward more direct purchasing from manufacturers.

Other changes loom as well. Merger and acquisition (M&A) activity in the pharmaceutical sector is expected to continue driving growth, he reports, while industry dynamics are raising the cost of innovation and competition. That means investors demand proof that future mergers and acquisitions will create synergies favorable to the bottom line, he says, "which makes it incumbent on M&A principals to institute superior logistics management in order to achieve successful integration of logistics operations." Thus, Baumann adds, "the newly formed company must create a unified brand and a streamlined distribution network in order to present one face to the market."

AstraZeneca acknowledges that it faces continuing pressure to run a lean, cost-effective operation while still funneling adequate resources into research and development of new products. But the aging population's demand for high-quality, innovative medicines more than compensates for the loss of revenues arising from price reductions and substitution of generic drugs. Advances in human genetics will create tailor-made drugs and consumers will increasingly demand such individualized treatment, the company predicts in its annual report. Both of these developments will have profound implications for the pharmaceutical industry as a whole, and for how it distributes its lifesaving and life-enhancing products. L

Etta Walsh is a freelance journalist who specializes in transportation and logistics.

What did you think of this story?
Let us know at LM@cahners.com.

Reprinted from Logistics Management & Distribution, September 2001 by Reprint Services. 215622
For reorders call Reprint Services 651.582.3800. For subscription information call 610.205.1077.