

Advancing HEALTH

Symbion Pharmacy Services (SPS) is a division of the recently formed Symbion Health (previously Mayne Group Pty Ltd.) and is one of Australia's leading wholesale distributors of over-the-counter (OTC) and ethical (including prescription only) pharmaceuticals. By Simon Coates.

With significant investment in inventories, a national supply chain with thirteen (13) distribution centres directly supplying over 3,000 pharmacies up to twice daily blended with intense service level and competitive pressures, effective forecasting and planning is an essential capability.



In 2001, SPS initiated a software evaluation and selection process to enhance their forecasting and planning capabilities. GAINS, a demand, inventory and supply chain planning system (supported locally by supply chain consultancy GRA), was selected and

implemented. The aim was to equip the business with the ability to optimally balance capital, costs, capacity and customer service levels.

What did it achieve?

Inventories reduced by 26% whilst first-fill service levels (excluding manufacturer stock-outs) increased from 96% to more than 97%. Noting that inventories are a significant item on the balance sheet, the inventory reduction boosted return on assets (ROA) whilst freeing up capital, and the increase in stock turns improved supply chain efficiency. Forecast accuracy has also improved markedly. SPS is now managing by exception and operating with less inventory, improved service levels and lower costs. That's the bottom line, and it's a good result, particularly because it is sustainable.

Was it that easy? Of course not. Anyone who has ever implemented software knows

that you don't just switch it on and watch the results roll in. Fundamentally, the software must have the right capabilities, and it is important to 'lift the bonnet' and understand how the system works. Most packages boast similar features and outcomes, but they can vary significantly in approach, fit and capability. However, once you have satisfied yourself that the package you are implementing will do the job, the job at hand is the implementation itself. Importantly, SPS looked at the implementation not as a technical project but as a change process regarding their planning practices, organisational structure and management framework.

Implementation as a change process

As mentioned earlier, SPS was primarily interested in reducing inventories and improving service levels. They understood that in order to do this, key processes such as demand planning, inventory

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optimisation and supply chain planning needed to be enhanced.

Using the software as a fact-based modelling tool, SPS developed stocking strategies and service level policies for their distribution centres, replenishment frequencies based on cost and capacity considerations and management methodologies for fast and slow moving lines. Processes such as demand and promotions planning, purchasing, stock balancing, new item introduction and phase-out were enhanced to take advantage of the opportunities created by the software.

The system supports these processes by automating a number of processes, including:

- Statistically generating forward demand and replenishment plans for each item in each location.
- Generating forward replenishment plans for local and overseas suppliers that are risk managed, service level focussed and cost optimised.
- Balancing stock at each point in the supply chain.
- Refreshing and optimising stocking targets to ensure service levels goals are consistently achieved with the least amount of inventory and cost.
- Highlighting exceptions for the planning team to focus on.
- Providing fact based decision support at both the tactical and strategic levels.

To highlight some of the challenges here, it is helpful to understand the scope of the business.

SPS has thirteen distribution centres



that supply over 3,000 pharmacies twice daily. Given the nature of their products, service levels are extremely important to its customers and as such, it is a highly competitive industry. Competition is fierce for pharmacy market share and as an example, 'cornering supply' or buying up all of the available supply of a key product to block competitors is not uncommon in this industry. In addition, stock-outs on certain ethical products-listed on the federal government's Pharmaceutical Benefits Scheme (PBS) carry a financial penalty.

SPS might be considered a fast moving business given the company can buy over \$40 million worth of inventory in a single week. However, to say that SPS are a fast moving consumer good (FMCG) business is to oversimplify the situation. Think of all different kinds of products you can buy in a pharmacy: nutritional supplements, sunscreen, contact lens solution, hay fever medicine, prescription drugs, cosmetics and paracetamol. Even in this distilled list, there are fast movers, slow and sporadic movers, highly seasonal lines and products that are subject to promotions. OTC products are promoted via catalogues and

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might be promoted in some pharmacy brands and not others. Demand for ethical products is driven by the PBS list and is regulated by the government.

From a replenishment planning perspective, SPS has 400 regular suppliers. 95% of these are local with lead times ranging from 2 days to 4 weeks and 5% import with lead times ranging from 8 to 16 weeks. Across its supplier base, SPS might have different purchasing constraints (eg minimum and/or incremental buy quantities), different costs, different trading terms and different lead times. When SPS first implemented GAINS, its structure was very much aligned to state based buying. In other words, buyers purchased all the products stocked in the distribution centres in a given state. After using the new system for a short period of time, SPS realised the tool provided an opportunity to shift to supplier-based national buying and to better aggregate and manage purchasing activity. This is a classic example of where the tool highlighted an opportunity, but the process and culture change were key to realising the benefit. The change required reorganisation internally, modifications to existing planning processes and communications with suppliers to manage the new processes in.

In addition to managing supplier lead times and constraints, SPS ordering and stocking strategies had to be cognisant of supply chain issues such as replenishment increments (eg. pack sizes, cartons, pallets, containers), distribution centre capacity and efficiency and inbound and outbound transportation requirements. And of course, there was the technical aspect of the implementation. At the time SPS implemented GAINS, the company was part way through the implementation of their Masterpack ERP system. Due to this transition, they had GAINS drawing data from three different systems at one point in time. As the superseded technology was phased out and more of Masterpack brought on line, SPS reconfigured the data feeds accordingly. It wasn't ideal and did create some additional technical workload, but the transition wasn't a real impediment.

GAINS now draws all of its data from Masterpack and creates its demand, inventory and replenishment plans. The approved actions are then electronically passed back into Masterpack for execution. It's a tidy process that does not require re-keying or manual data entry and all users work from the same set of numbers.

Last but clearly not least were the cultural aspects of the implementation. Firstly, SPS had a deeply entrenched buying culture, as distinct from a demand, inventory and service-management culture. When they started using GAINS, their buyers were managing both the forecasting and replenishment activities. However, the historical focus on buying remained, and the new 'world order' of demand management proved difficult to instil. To ensure they had the right people doing the right things, SPS made a distinction between the demand planning and replenishment roles and revised the team's performance measures accordingly. Now the company has a demand planning team that works closely with merchandising and a replenishment planning team that works closely with supply chain and logistics. SPS has found that this reorganisation has put the necessary emphasis on each process and created time for value-added

communication with other nodes in the chain.

Early on, SPS encountered some issues with data quality and as a result some of the planning recommendations were impacted. It soon learned that some of the planners were overriding the system's output to address this rather than investigating and amending the incorrect data element. This wasn't due to lack of initiative, rather, the planners didn't know that they were authorised to make the changes. Nor did they know how to make the changes in either the host system or in GAINS. This was addressed and they now investigate the inputs (eg. forecast adjustments, lead times, minimum order quantity, etc.) when they see a questionable recommendation. Importantly, this reduced the planning workload because it eliminated the causes rather than treated the symptoms.

SPS also revised the management structure and processes to provide the necessary checks and balances in the planning processes. They implemented a sales and operations planning (S&OP) process to manage demand and supply trade-offs, address capacity issues and plan for future scenarios. The business is now working with a consistent set of numbers, and their key performance indicators are linked and auditable from top to bottom.

Having said all of that, it's relatively easy to install software, redesign processes and change organisational structures. What's more difficult is transitioning the



organisation's behaviours in a sustainable way, particularly when the old world is so historically entrenched throughout such a large organisation. Genuine behavioural change requires dedication, discipline, patience and passion. When implementing a new system you're really implementing a new and improved way of doing business, and it should be treated as an on-going change process versus a point-in-time technical project. **Simon Coates is general manager, supply and logistics at Symbion Pharmacy Services. GRA is the sole distributor of GAINS for Australasia. Contact GRA on (03) 9421 4611 or visit www.gra.net.au.** ■

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