

A N A L Y S T C O N N E C T I O N



Eric Newmark
Program Director, Life Science Business Systems Strategies

Pharmaceutical Manufacturers Look to Workforce Management Software to Counter Industry Challenges

November 2011

Pharmaceutical manufacturers continue to endure considerable top-line and bottom-line pressure as the industry grapples with widespread patent expirations, shrinking product pipelines, increasing generic competition, growing regulatory oversight, rising compliance costs, and an uncertain economy. As a result, the pharmaceutical industry is working hard to reduce costs, expand product margins, and increase employee productivity. While adjustments are needed across all areas of the business, the manufacturing and sales and marketing environments are receiving extensive attention due to the significant reformation that both settings are currently experiencing. In response, pharmaceutical companies are increasing their utilization of workforce management solutions to help counter these broad industry challenges.

The following questions were posed by Kronos Incorporated to Eric Newmark, program director of Life Science Business Systems Strategies research for IDC Health Insights, on behalf of Kronos' pharmaceutical customers.

Q. Pharmaceutical manufacturers face growing demand to cut manufacturing costs without negatively affecting output. How are companies approaching this dilemma?

A. Cost reduction efforts in the pharmaceutical industry have been a core focus for several years now. Patent expirations began hitting the industry with excessive force approximately five years ago, and the patent cliff has yet to subside. Since 2006, roughly 20% of all branded drug revenue has come off patent, with many drugs quickly losing up to 80% of their revenue during their first year without protection. It is not hard to imagine the sizable stress that these companies are under to offset those losses. Many pharmas have increased their use of contract manufacturing based in lower-cost regions of the globe, but outsourcing does not solve all problems, as it can introduce its own portfolio of challenges around logistics and quality. One of the primary ways that manufacturing plants have cut costs is through flattening of the organization, specifically on the plant floor. Overlapping layers of management have been eliminated, and most plant floor supervision has been significantly reduced. The resulting lack of employee oversight has generated a strong need for better workforce management software across the industry.

Q. Can you cite a specific example of a company struggling with plant floor labor management?

A. We recently spoke to a large manufacturer that was dealing with this exact predicament. The company runs a 24 x 7 manufacturing plant with over 300 machine operators, technicians, and sorters who are on the clock during each of their three daily shifts. Onsite management has been reduced to a single supervisor, making it nearly impossible to monitor all resources and ensure people are coming and going as needed during the turnover of each shift. This company recently upgraded its workforce management system to improve its time management capabilities (the company uses biometrics finger scanning for time tracking) and enhance its paid time off (PTO) workflow and approval processing, which has helped alleviate some of the plant managers' daily responsibilities. This has afforded plant managers more time to focus on process monitoring and quality management, which are certainly much more vital to the company's bottom line. Examples of other pharmaceutical manufacturers facing similar challenges are extremely common these days.

Q. What strategies are pharmaceutical manufacturers employing to increase labor productivity, despite having fewer available resources?

A. Many companies are leaning on their workforce management software's analytical capabilities to track manufacturing plant employee productivity. This helps companies get a better understanding of their true cost of labor per product manufactured — by product line, by geography, and by plant — in order to improve intelligence around how plant resources ultimately impact gross margin. These findings are then used to help companies optimize their product pricing while also enabling manufacturers to lean out production and optimize how many workers should be staffed on each particular day and shift and for what length of time. This is helping companies to bring down manufacturing labor costs to an optimal level.

Some pharmaceutical companies are also using this data to measure each employee's individual performance, to identify less productive employees, and to potentially help identify which employees may need better training, potential disciplinary actions, or even replacement by more productive resources. Some companies are even extending this same analysis and resource optimization planning model to their industrial engineering groups.

Q. The future cost of pharmaceutical sales is likely to rise sharply or, at a minimum, require significant restructuring due to the impending reclassification of field sales employees. How should pharmas prepare for potential outcomes?

A. The pharmaceutical sales space is going through a major transitory phase due to several new regulations and compliance requirements. Not only have most soft-dollar promotional budgets been cut handsomely due to recently imposed gift ban laws, but the cumulative effect of state-level aggregate spend regulations, the updated PhRMA code, and the Physician Payment Sunshine Act have all added tremendous complexity to sales operations by implementing stricter reporting requirements. These are aimed at increasing the transparency of industry relationships with healthcare practitioners.

Today, ongoing legal disputes regarding the exemption status of pharmaceutical sales representatives (i.e., whether they qualify for hourly overtime compensation) threaten to create yet another major challenge for future pharmaceutical sales strategy. If the courts decide that pharma sales employees do indeed qualify for overtime compensation, the immediate effect will be either a large increase in sales force costs or, more likely, a large drop in sales force productivity because pharmas are unlikely to increase their payroll budgets to cover overtime compensation. Sales reps would then be forced to perform all

administrative data entry and training activities during the normal eight-hour workday rather than on nights and weekends, which is the standard practice in the industry today.

The change in exemption status (which looks increasingly likely) will force pharmas to swiftly implement next-generation workforce management solutions with strong capabilities surrounding mobile time keeping. Unlike a stationary workforce, sales employees spend their entire day traveling to visit multiple healthcare practitioners. Sales employees will need the ability to clock in and out each day over their mobile device. For pharmas to ensure payroll compliance, time stamps will need to execute without delay and employ strong security. Time must be captured from the server, not the device (which could be tampered with), and time stamping must execute within a few seconds so that fractional minutes are not lost. Though 30 seconds may seem trivial, across a sales force of thousands, it can quickly amount to millions of dollars lost (or saved, depending on your vantage point). To be prepared for this transition, pharmas should start evaluating now whether their current workforce management software supports these requirements, and, if not, they should begin evaluating potential replacement options.

ABOUT THIS ANALYST

Eric Newmark is a program director for IDC Health Insights' Life Science Business Systems Strategies service. In this position, he provides research-based advisory and consulting services, as well as market analysis on key topics within the commercial life science industry. Mr. Newmark's research expertise includes sales and marketing, channel management, and supply chain-related technologies and emerging market trends.

ABOUT THIS PUBLICATION

This publication was produced by IDC Health Insights Go-to-Market Services. The opinion, analysis, and research results presented herein are drawn from more detailed research and analysis independently conducted and published by IDC Health Insights, unless specific vendor sponsorship is noted. IDC Health Insights Go-to-Market Services makes IDC Health Insights content available in a wide range of formats for distribution by various companies. A license to distribute IDC Health Insights content does not imply endorsement of or opinion about the licensee.

COPYRIGHT AND RESTRICTIONS

Any IDC Health Insights information or reference to IDC Health Insights that is to be used in advertising, press releases, or promotional materials requires prior written approval from IDC Health Insights. For permission requests, contact the GMS information line at 508-988-7610 or gms@idc.com.

Translation and/or localization of this document requires an additional license from Health Insights.

For more information on IDC, visit www.idc.com. For more information on GMS, visit www.idc.com/gms.

Global Headquarters: 5 Speen Street Framingham, MA 01701 USA P.508.872.8200 F.508.935.4015 www.idc-hi.com