Achieving Bottom Line Continuous Improvement Value

As the U.S. pharmaceutical and biotechnology markets ebb and flow, one truth cannot be argued: sustainability is the provenance of companies that can adapt to the new marketplace and deliver on business performance.

BY BIKASH CHATTERJEE, PRESIDENT AND CTO, PHARMATECH ASSOCIATES

FEB 22, 2010

Share Print Related RSS

Business performance will be a function of corporate health, shareholder value and the exploitation of market opportunities, as less capable or non-forward-thinking competitors stumble. This, I believe, applies to both established and emerging market competitors. Whether an organizations' core competency is innovation or low-cost production, the ability to realize the advantage of these strengths will dictate your business' long-term health. While few can debate that the techniques and philosophies of Operational Excellence, Six Sigma* or Lean Manufacturing are effective in catalyzing project performance, the question remains: can the organization realize the true benefit of such improvement? Part of the dilemma, I believe, stems from how we deploy these programs.

As we have historically been a siloed organizational structure in which communication between departments is limited and efficiency and performance are subsumed in lack of measurement and accountability, we have embraced these new philosophies as catalysts for change. And they are. If you have ever participated in a Lean Kaizen blitz or worked on a complex Six Sigma troubleshooting project, there is no denying the rush one feels from successfully meeting or exceeding the project's objectives. While these projects always focus on tangible success metrics as they align with overall business strategy, at some level, it is fair to question if we are really getting enough bang for our buck. Many improvement initiatives include both hard- and soft- cost savings as part of the entitlement calculation for the project. These costs represent savings estimates, typically blessed by finance and therefore endorsed as appropriate for an improvement initiative. But are we capturing the real opportunity from the continuous improvement exercise? The challenge is to move beyond project-based improvement initiatives and elevate the efforts toward business improvement.

As with all improvement initiatives, metrics are a large part of the story. In the 1970s and 80s the mantra was MBO, management by objective. Within the MBO philosophy we focused on the achievement of the objective as opposed to the process of achieving improvement. The result was a lot of specialty projects that reflected improvement within the small sphere of influence of each individual manager or director. People pushed themselves to meet their goal: the end justified the means! We all know the profound effect that metrics have on the culture and behavior of an organization.

Realizing this, we need to look at what metrics will illicit the right behavior from our organization. One metric we have used for years when evaluating improvement initiatives has been Return on Investment (ROI). Many projects are measured solely upon their ROI as the basis for determining whether to move forward or not. If you were to ask most employees how they participate in the ROI of a project, they would be at a loss for words. Most perceive it to be a simple mathematical calculation that measures the cost benefit against the effort and expenditure to achieve the benefit over time. The reality is ROI goes well beyond this when assessing the value to the company. It reflects an organization's process efficiency, which in turn reflects the practices and metrics accepted by all individuals throughout the organization.

So how do we move closer to metrics that are meaningful? If we are to be successful we need to change the way we measure improvement. We can begin by transforming our financial management framework

Most Popular

#1 Reporting Failures and Process Deviations: A Closed-Loop Approach

#2 A Case for Stage 3 Continued Process Verification

#3 Funny Pharm: You Write the Caption & Win: December 2014

#4 Georgia's New Peach: Baxter's Covington Plasma Products Facility

#5 QbD for Better Method Validation and Transfer

away from cost accounting to cost management. Cost accounting looks only at the numbers involved in the improvement initiative, and numbers do not tell the whole story. Cost accounting is akin to the cynic described by Oscar Wilde: the person who knows the cost of everything but the value of nothing! On the other hand, cost management seeks to control the expenditure of the business as a whole.

Classical cost accountants often struggle with this concept, saying cost accounting is essential as it helps us set the market price for our products, drive down standard costs and manage our inventories. The reality is that, in today's world, with the "pharmerging" markets and biosimilars entering the scene, the selling price is now established by the market, not us. And shareholder pressure is making sure our focus on cost reduction does not wane. As to inventory management, as future Lean organizations, we are striving to maximize inventory turns and move to a just-in-time model. Whether you agree or not with these arguments, the key difference between the two financial philosophies is this: cost management looks at the whole product lifecycle, not just the execution piece. This means we should start looking at the discovery and development piece of the business. Time-to-Market becomes a key metric in terms of managing investment versus return, but only if it includes the Cost of Poor Quality at the execution phase.

Today, the industry is beginning to look closely at how we develop our products. How do we identify molecules that may have therapeutic effectiveness more efficiently and kill programs that do not hold promise sooner? Both are required if we are to become nimble and remain competitive against lower cost development centers across the globe. While Pharma's Big Ten and biotechnology companies have accepted this reality, few generics, which comprise over 53% of all drugs approved in the marketplace, have recognized its strategic and competitive value.

If you were to distill the key business performance metrics down to just two, you could define the health of an organization; Customer satisfaction and inventory turns. Customer satisfaction includes supplier capability and performance, manufacturing efficiency, sales performance and schedule and forecast accuracy. The inventory turns metric reflects the efficiency between your sales, planning, manufacturing and distribution systems. In order to do these two metrics—well, you have to be good!

This does not mean we should throw away our performance dashboards. They provide valuable insight into where we are in our journey to becoming a competitive business performer. However, to derive the full benefit of continuous improvement offered by Lean Manufacturing and Six Sigma, we must look at total business performance. A 95% reduction in changeover time in a process means nothing if our laboratory testing queue time is six weeks. Our manufacturing yield improvement will actually work against us if our market forecast accuracy is less than fifty percent. The brass ring is within our grasp, if we choose to grab it, but to do so will require us to look at our entire organization within the context of continuous improvement, not just against the performance goals of isolated improvement initiatives.

---

* Six Sigma is a trademark of the Motorola Corporation

Share   Print   Reprints   Permissions

What are your comments?

Join the discussion today. Login Here.

Comments

No one has commented on this page yet.

RSS feed for comments on this page | RSS feed for all comments