

# Supply Chain Management – Hemas Pharmaceuticals

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## 1.0 Introduction

Supply Chain Management (SCM) is an integrated function with primary responsibility for link main business activities and business processes within the company and across the suppliers and customers. Logistic management activities and manufacturing operation are mainly included to supply chain management (Russel and Taylor, 2014). Hemas Pharmaceuticals is one of subsidiary of Hemas Holding PLC which is market leader of Sri Lankan pharmaceutical industry. Hemas Pharmaceuticals is Sri Lankan agent for 44 main international pharmaceutical companies. According to Sri Lankan law, international pharmaceutical companies need to distribute their drugs and surgical equipment through locally registered third party agent. Therefore local agents such as Hemas Pharmaceuticals play key role in pharmaceutical company in Sri Lanka. This study will comprehensively analysis the supply chain management of Hemas Pharmaceuticals.

## 2.0 Supply chain management

### 2.1 Importance of effective supply chain management in achieving organizational objectives

Last few years were a challenging period for Sri Lankan pharmaceutical distribution companies mainly due to introduction of price control for 48 molecules. This mainly affected to high quality pharmaceutical companies such as Hemas Pharmaceuticals. However, Hemas Pharmaceuticals revenue has increased slightly compared to the previous year. Therefore this year financial objective of the company is to increase the revenue by 10% within the year. Further, company expects to increase its market share to 25% from 22%. Hemas's mission is to passionately provide outstanding products and services by enriching the lives of the customers by maximizing shareholder wealth. To achieve these objectives, company should have an effective supply chain management mechanism.

The company's island-wide coverage can be identified as one of their strong core competencies. Further, Hemas has their own warehouses including all the facilities. In addition to that company has systems which can provide quick service to customers. Therefore effective supply chain helps the company to reduce the lead time and to increase the reliability of supply to the customers. Moreover in pharmaceutical sector, customers highly concern quality. Direct customers of Hemas Pharmaceuticals are main government and private hospitals. Further company provides drugs to pharmacies through distributors. Instead of quality suppliers, suitable warehouses and transport facilities need to be there to provide better quality products.

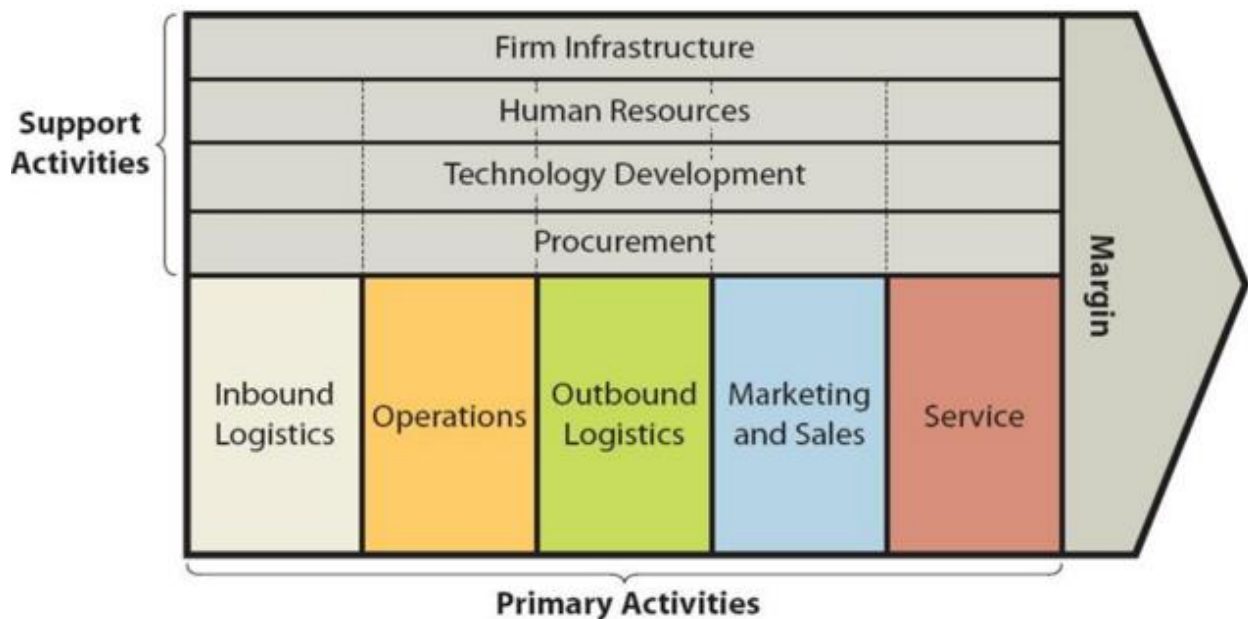
### 2.2 Link between supply chain management and business functions

The arising requirement of connection and collaboration of suppliers, customers and the company will be strengthened through organisational innovation (Kanji, 1995). According to Diasz (2017), supply chain management highly concerns about the advantage of the product innovation. In Hemas pharmaceuticals, main business functions are tendering, importing, storing, distributing

and selling. These functions are directly linked to the supply chain management. Effective contribution of all these functions helps to provide better products and services to customers.

Porter's value chain explains the link between business functions and supply chain management. According to Porter's value chain, all the primary and secondary activities directly or indirectly connect to the supply chain management (Ogilvie, 2009).

Figure 01 – Porter's value chain



### 2.3 Key drivers for achieving an integrated supply chain strategy

Hemas Pharmaceuticals works with leading pharmaceutical manufactures of the world. Following key drivers can be identified as main factors to build up integrated supply chain strategy.

#### Procurement process

Hemas Pharmaceuticals send the demand plan for next year to suppliers before six months. Company use various forecasting technique to analysis the future demand. Therefore company

can eliminate the excess or shortage of stocks within the year. Further, the company adjusts demand plans once a quarter to make them more accurate.

Close integration and collaboration with suppliers

The company has a strong relationship with all suppliers. There are local teams under country managers for each and every pharmaceutical supplier. Therefore, the company can easily communicate with the agents.

Customer service management process

The company shares real-time information with customers to provide better service to them. Further, the company supplies products to customers on time and maintains buffer stock to supply products in an emergency. Hemas Pharmaceuticals has smoothed the ordering process for the convenience of customers.

### 3.0 Supplier relationship

Having a good relationship with suppliers is an important way for any company to improve its performance. Among the suppliers base of Hemas Pharmaceuticals, there are different suppliers who cater to different customer needs. Some drugs need to be supplied continuously to customers for day-to-day use. However, there are certain drugs which need to be delivered at a time when speed of delivery is highly important. Some customers need bulk size supplies. Therefore, the company should have different strategies to manage different suppliers to fulfill customers' requirements. Therefore, Hemas has segmented products according to customers' needs and has developed different strategies according to different product segments. Further, the company always maintains an acceptable lead time when ordering products and eliminates multiple changes. There are documented agreements between Hemas and every agent on incentives and penalties.

#### 3.1 Supplier relationship and information technology

Due to price control of 48 drugs and many tax and regulations changes, improving efficiency through using information technology is the only option for pharmaceutical companies to reduce the cost. There are many information technologies which are used to develop the relationship between the company and suppliers.

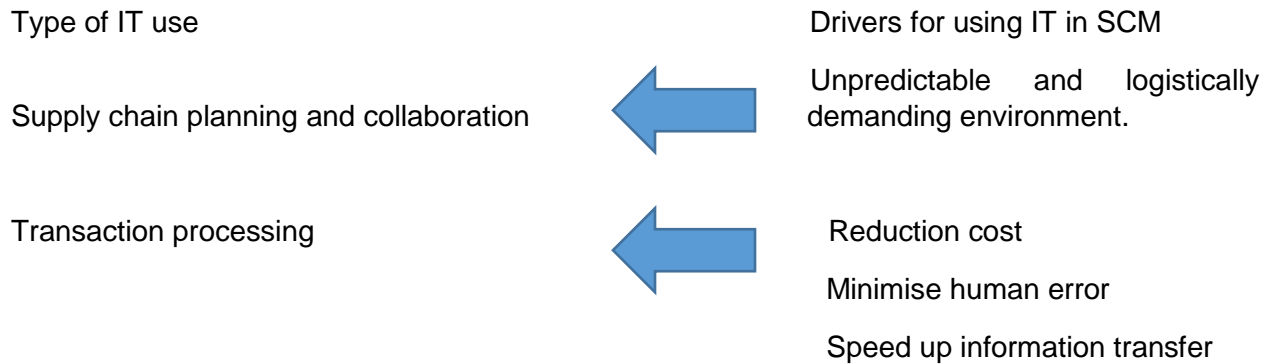
There are systems available to agents to analyze the real-time information about sales trends and orders. Further, now advanced analytics are used to predict the future sales trends. Hemas Pharmaceuticals use a supplier management system to enhance ordering and purchasing processes. Through this system, orders can be placed frequently and tracked and suppliers can issue invoices online. These technologies help the company and its suppliers develop their relationship.

On the other hand, Hemas Pharmaceuticals use many technologies to fully integrate the supply chain. Not only suppliers, customers are also provided systems to place orders online. Based on

the customers' orders, company can generate invoices automatically. This system has linked to the inventory management system which is included all the available drugs in the warehouse. Therefore this helps to minimise the reworks and adjustments of the invoices.

The shelf life of most of pharmaceutical products is 36 months. Therefore manufacturing date and expiry date of the drugs are key information in pharmaceutical industry. Earlier this is maintained through manual processes. However now these information can feed to inventory management system and system shows the shelf life of the available drugs. This help to improve the efficiency and reduce the wastage. Further new technology can use to simplify the tendering process. Currently Hemas use complicated manual process for tendering. However this time consuming process can completely eliminate by replacing tender management process.

Right IT infrastructure capabilities provide competitive position in the industry due to speed of the delivery and convenience and quality of the service. Further it help to reduce the cost, reduce the paper work, increase the productivity, rapid flow of the information and gain many other benefits. The utilization of IT has been associated to huge supply chain efficiency improvement in many industries.



#### 4.0 Role of logistics and procurement in supply chain management

Logistic is main function responsible for all the movements and storage of the materials or products of its journey from suppliers to customers (Slack and Lewis, 2015). Hemas Pharmaceuticals need to import drugs through sea freight or air freight and need to transport to warehouse from port or airport. Further there should be special facilities to transport and storage some pharmaceutical products. Normally temperature of the warehouses should be less than 24 C and there some products need to be kept between 4-8 degree temperatures. Therefore there are cool room facility to keep those products. Currently hemas has 50,000 square feet storage facility. Further company have vehicles with refrigerator facilities to transport drugs from port to warehouse. Hemas use in-house transportation facilities to transport products port to warehouse. Further all the warehouses are belongs to Hemas Pharmaceuticals. Company has signed agreement with Hemas Logistics which is one of subsidiary of Hemas Holdings to store products

in their warehouses in an emergency. Hemas has distributors all over Sri Lanka and distributors arrive to warehouse to collect their orders.

Company need to comply with lot of rules and regulations of Customer Affair authority (CCA) and National Medical Regulation Authority (NMRA). That is the main reason that Hemas manage transportation and warehousing in-house. Further NMRA officers time to time visitors warehouse to check whether there are required level of standards. Therefore maintaining required standards is highly important. Further company need to advice its distributors to maintain required standards and need to conduct distributor visit to check it.

When it comes to procurement site, there is a procurement policy which Hemas Pharmaceuticals follow. Procurement concern on goods or services acquired from outside external sources (Burgess, 1998). Hemas Pharmaceuticals supply drugs from 44 principals therefore there is no significant changes in supplier selection. However initially Hemas evaluate the nature of the principal before sign the agreement. In this evaluation mainly concern the quality and the standards of the principals. Further suppliers should comply with rules and regulations of CAA and NMRA.

#### 4.1 Improve logistics and procurement practices

When consider the improvement of logistics mechanism, Hemas need to consider about the crisis management and disaster recovery plan. Currently, every year Sri Lanka face natural disasters such as flood. Therefore company should have a detailed disaster recovery plan to face this kind of crisis situation. Company needs to get prepared to minimise the loss in crisis situation and also quickly recover from the crisis. Company should have enough warehouse facilities to transfer product in crisis situation. Further, there should be proper evacuation plan and it has to be tested several times. Company further needs to prepare for other kind of disasters such as fire and other man-made disasters. Fire detection system needs to be further strengthened. On the other hand, company needs to develop relationship with principals to supply emergency stock in crisis situation.

Further, Hemas needs to develop process to supply the internal customers. Hemas Pharmaceuticals supply drugs and surgical equipment to Hemas Hospitals. However Hemas Hospitals also follow same process same as other customers. Therefore Hemas Pharmaceuticals need to facilitate to internal customers by simplifying the processes.

### 5.0 Strategy to improve an organization's supply chain

Process standardization is key to the success of any supply chain strategy. Therefore company needs to use standardized ERP system. ERP system will increase the efficiency and further reduce the time and cost. Further this will also lead to implement automatic purchasing. ERP system help to both company and principals to simplify their processes (Ogilvie, 2009). Human errors and frauds can be eliminated by using right ERP system. One of biggest issue of currently available inventory management system is time to time system stock balance need to reconcile with physical balance due to various reason. These kind of issues can be eliminated by using fully integrated ERP system. Decision making for company supply chain strategy highly depends on

timely and accurate data and information. ERP system allows to management to access all the data to help make critical decisions.

Further instead of European principals, Hemas need to supply drugs from some Asian suppliers too due to reduce the cost. This is mainly due to pharmaceuticals companies which supply drugs from Europe highly are highly affected from introduction of price control. Some drugs supplies are completely terminated due to make losses.

The main challenge that company face when implement new supply chain strategy is employees' reluctant. Some employees could be afraid about their job security. Therefore management need to properly communicate all the employees about the purpose about the new supply chain strategy. Further, it is difficult to get some of higher management support to crisis management and disaster recovery plan due to implementation of process is costly.

On the other hand, company needs to highly consider on quality factor when commence new agreement with Asian principals. Therefore, company should carefully review certificates and standards of the principals.

## 6.0 Conclusion

According to this study, it is revealed that currently Hemas Pharmaceuticals have effective supply chain management process. However, there are enough room for further improvements. Implementing Disaster recovery plan and ERP system can be identified as main changes that need to be executed within the supply chain strategy. Further, Hemas needs to expand its supplier portfolio. Now speed of delivery has become key competitive advantage of the market. Therefore company needs to invest in improving the speed of delivery to sustain their competitive position in the market.

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