

COST REDUCTION



Beyond Operational Excellence

Creating a Culture of Cost Improvement

A global pharmaceutical manufacturer, facing cost challenges at one of its plants, had an operational excellence program up and running. But the program had not produced cost improvements of the magnitude or with the speed that the company sought. Looking for transformation that would bring faster, sustainable improvement, the company then partnered with Tunnell.

The Result:

The company not only realized improvement on the scale and at the speed it needed, but also built a new culture of continuous improvement in costs...

Tunnell determined the dimensions of the challenge – and the opportunity.

Drawing on extensive industry experience, Tunnell compared the cost base of the plant to best-in-class plants in Europe and the Americas and to the company’s seven other plants. The results indicated that the cost-base at the troubled site was as much as double or triple that of the industry benchmarks. Working jointly with the client, the team conducted a detailed financial analysis to show clearly how each aspect of the plant’s operation stacked up against industry performance.

Using the results of that analysis, the joint team developed a top-down business case based on the company’s current spend to produce a certain volume of product. The team was then able to show the magnitude of cost savings that Tunnell’s cost reduction solution could achieve over three years – an eyebrow-raising and sustainable 20% per year, for a cumulative total of 45% reduction in site conversion costs in 36 months.

Client-led teams have empowered the company’s people.

Working with company and plant leadership, Tunnell’s pharmaceutical and change management experts identified more than 30 improvement opportunities. They then prioritized 14 of those opportunities by their potential for simultaneously meeting all three of the company’s challenges: cost savings/culture change, compliance, and customer service. To address each of the 14 priorities, client-led teams, which included the production staff, were chartered, populated, and assigned a sponsor from among plant leaders. (see below)

Implementation was structured in three waves of 22 weeks each. During the first wave, Tunnell trained the teams in continuous improvement techniques – creating a sense of urgency and enthusiasm – and coached those teams in the use of the improvement process as they implemented the first set of priorities. During the second wave, as the organization became more adept at improvement, Tunnell acted as mentors to the client-led and client-coached teams. And during the third wave, as the transfer of improvement competencies from Tunnell to the teams was completed, Tunnell acted as a sounding board, leaving the client with a sustainable capability in continuous improvement – permanently transforming both the cost-base and the culture of the site.

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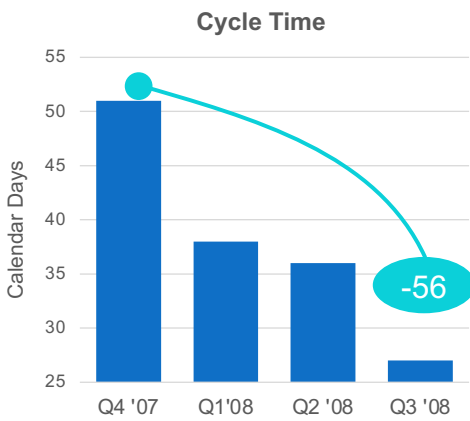


Teams have achieved remarkable results in all aspects of the operation

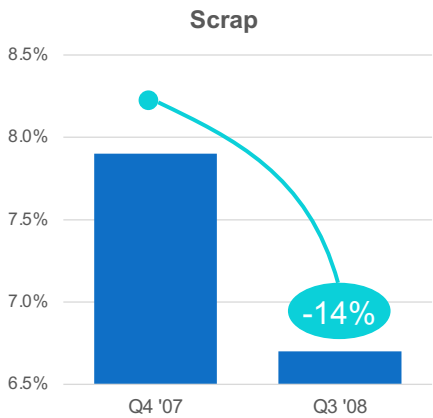
Each client-led team, drawing on its intimate knowledge of the operation, its increasing competence in continuous improvement, and the experience of Tunnell's pharmaceutical industry experts, has achieved remarkable results.

For example:

- The Manufacturing Execution Team shortened throughput time by 56%, reduced work-in-progress by 35%.



- The Yield Team reduced scrap-in-tablet compression by 14% resulting in more than \$1 million savings in raw material costs.
- The Packaging Changeover team



decreased changeover time by 19%.

- The Energy Conservation Team achieved a savings of \$288,000 annually.
- The Maintenance Team achieved \$800,000 in annual savings by renegotiating contracts and bringing more maintenance in-house without increasing headcount.
- The Human Resources team outsourced recruiting functions, freeing their people to concentrate on acting as business partners throughout the organization.

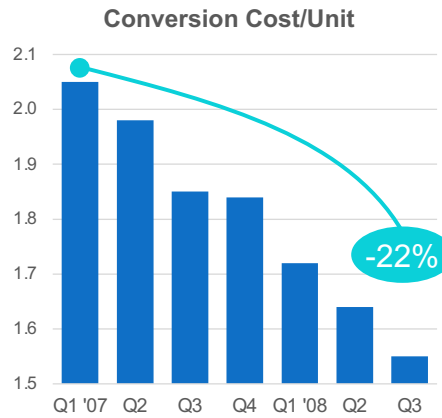
These successes won the allegiance of client personnel to continuous improvement and

ensure that this new way of working is driven deep into the organization, promising even greater gains after completion of the third wave of improvement and far beyond.

Overall results have met – and exceeded – already high expectations

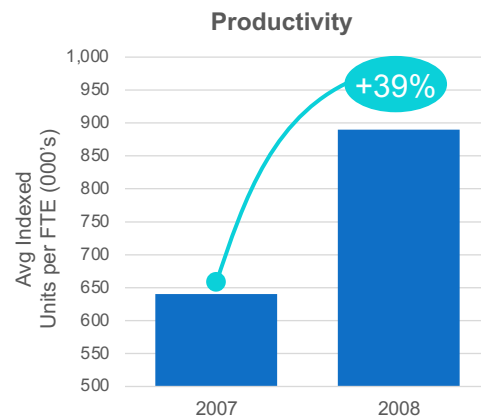
Despite the initial skepticism, the project has already met and exceeded its ambitious triple goals: compliance, service, and lower costs. With Tunnell's assistance, the manufacturing site has:

- Reduced the conversion cost per unit by



22%.

- Achieved ROI on the project in less than six months, and established a savings rate of more than five times the cost of the project.



- Increased direct labor productivity by almost 40%.
- Increased lab productivity by almost 30%.

Delighted with these results, the president of the site remarked during a progress report, "You've dropped our costs by 20% in just a year and a half." To which the CFO replied: "Actually, we did it in a year."

With a transformed culture and continually improving cost-base, the organization has taken two major steps forward – closing the cost gap and gaining ground on their competition.



Tunnell's experts identified more than 30 improvement opportunities and prioritized 14

of them on the basis of their potential for cost savings and culture change.



For over 60 years, Tunnell has provided both expert talent and consulting services to clients including Biopharmas, CDMOs, the US Government, incubators, investors and NGOs. We have experience across multiple platforms – including large molecule, vaccines, cell and gene therapy and small molecule – and our subject matter expertise focuses on regulatory, quality, GxP, pre-clinical/clinical, supply chain, manufacturing, CMC and product launch. To learn more, visit us online at <http://www.tunnellconsulting.com>.

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