



Guest Column | February 27, 2023

Strategic Procurement For Emerging Pharmas & Biotechs

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Given limited capital and staff resources, emerging pharmaceutical and biotechnology companies depend significantly on suppliers for drug development success from initial discovery to first in human clinical trials and regulatory approval. As a result, the sourcing and procurement function requires a strategic mindset aligned with business goals to drive an efficient purchasing process throughout the entire supply chain, from initial raw materials to patient delivery. This mindset and process transformation are essential in helping emerging companies gain a competitive edge in therapeutic development, market approval, and return on investment.

Most emerging companies operate with a lean staff focused on research, clinical development, and intellectual property protection while outsourcing a significant portion of both their clinical trials execution and manufacturing development. As a result, the financial impact from suppliers and spend for processes like preclinical research, clinical trials, manufacturing development, market research, regulatory affairs, and IT services will be significant and often measured in hundreds of millions of dollars for new molecular entities.

Product development from early phase through regulatory submissions and marketing authorization will require significant investments with suppliers — often representing north of 60% of total costs over a multiyear period. Demand to spend more on clinical trials as well as professional and technology services to meet development timelines becomes extremely challenging during rapid growth in the number of employees, research & development projects, and regulatory filings. Consequently, supply-driven costs and risks significantly impact a company's P&L statements, cash burn rates, and investors' appetite for additional capital.

Shifting Perceptions Of Procurement From Cost Savings To Value Creation

Given the need for significant investment to complete clinical trials and secure FDA market authorization, it can be tempting for finance and procurement to focus on cost savings rather than long-term value creation with suppliers. Taking a department-by-department budget cost-cutting approach without consideration of the complex interdependencies between the company and suppliers will likely cause more problems than it would solve. Further, without a long-term strategy focused on product development and stable supply, such a cost-cutting approach may hinder future growth or even become a deterrent to the quality needed to achieve regulatory approvals.

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Rather, in a rapid growth environment, by starting with a focus on supporting growth and anticipating future needs a company can build strategic sourcing and procurement functions that align processes, policies, systems, and organizational responsibilities supportive of the long-term value creation.

By recognizing that its role within the business is to support the corporate vision, patients, caregivers, and treatment development, a procurement team can shift the perception from a cost-only focus toward value creation supportive of corporate strategy. This approach creates collaboration and trust needed to uncover important details around issues such as supplier risks and market shifts impacting operations. Creation of strong relationships across the company and supply base builds to a point where the broader organization understands how to manage supply costs, risks, and growth.

Procurement Operating Model: Alignment With Business Strategy

The structure of a procurement operating model is typically broken down into three main steps: sourcing decisions, buying activities, and payment processing. Supporting these three steps are structural levers such as processes, policies, organizational responsibilities, systems, and metrics. While the procurement operating model is easy to document, how the structural levers are

deployed and aligned to support a business strategy determines the sourcing and procurement function's ability to support their company's goals and objectives.

Consider, while the deployment of a standard CDMO sourcing process can yield several benefits to support company growth, risk management, and cost control, if the sourcing process is not aligned with technical experts from manufacturing and clinical operations teams, the ability to efficiently leverage a sourcing process will be suboptimal. Unfortunately, some rapidly growing companies, in the push to start clinical trials, can overlook important responsibilities, requirements, and other factors that have a significant impact on contract terms, supplier performance, and costs.

By aligning organizational responsibilities, performance requirements, drug development timelines, and budgets, a procurement operating model will be much more efficient. Alignment supports collaboration with stakeholders and suppliers to support critical drug development timelines and cost objectives.

Scaling Procurement For Company Growth

Transformation of the procurement function for emerging companies can evolve and align with their organization's growth and does not require significant up-front investment. Consider that an early-stage company may only need a few buying catalogs, a contract management system, and simple purchasing policies to complement its limited supplier needs. However, recognizing that growth is imminent in terms of programs, supplier spend, and employees, a procurement leader can start planning how processes, responsibilities, and systems will need to change. This multiyear procurement road map allows a company to evaluate investment options and benefits in comparison with other corporate needs.

Given your emerging pharma or biotech company's dependence on suppliers, you need to develop a strategic purchasing function. Without this strategic view, in a matter of a few years your company may be overwhelmed by supplier costs and poor performance adversely impacting your development timelines and ability to secure timely therapeutic approval.



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