



COMPLEXITY MASTERS: ENDO PHARMA

Young Pharmaceuticals Offshoot Breaks the Mold With Outsourcing

Endo trusts an outsider to manage its supply chain for the distribution of prescription pain relievers, complete with regulatory complexities.

You might say that the business of Endo Pharmaceuticals Inc. is a specialty within a specialty. The supply chain requirements of any prescription drug maker are onerous enough. But Endo occupies a sub-universe—the world of pain medication—that bears additional complexities.

Unlike many of the old-line pharma giants, Endo's history is a brief one. It was born in 1997, the product of a management buyout from DuPont Merck. Perhaps that's why the company hasn't felt obligated to follow traditional supply chain practices of its industry.

The spin-off from DuPont Merck left the company "immediately homeless, with no way of getting product to market," says Dan Carbery, senior vice president of operations. "We ended up with a company with 35 people and a bunch of intellectual property." In fact, Wall Street referred to Endo at the time as a "virtual company," Carbery says.

That intellectual property, however, turned out to be the basis for solid growth.

In 1999, Endo won approval from the U.S. Food & Drug Administration for Lidoderm, a skin patch for post-shingles pain. Expectations were that the drug would sell to a market of around 200,000 people suffering from that specific condition. But it ended up being used for a variety of ailments, including back pain and carpal tunnel syndrome. Sales of Lidoderm are expected to be in the range of \$650m to \$675m in the coming year, says Carbery.

Other major brands sold by Endo include the pain-relief tablets Percocet, Percodan and Opana, the anesthetic patch Synera, and the migraine treatment Frova. All are big sellers. Endo's total revenues next year are expected to top \$1bn for the first time.

Success brought with it the challenge of maintaining a smoothly operating supply chain, while hewing to strict government rules on manufacturing, storage and sale of prescription pain drugs. Traditionally, drug makers have operated vertical supply chains, owning most of the means of production as well as distribution. Not so with

Endo. It decided to outsource key parts of the chain, despite the issues of control that go along with such a strategy.

With headquarters in Chadds Ford, Pa., Endo has two distribution centers, in Memphis, Tenn. and Newark, Del. It sources from manufacturing plants in Japan, Europe and the U.S. All of those operations are run by outside parties. Says Carbery: "We're sort of the Dell of the pharmaceutical business."

In the case of distribution and supply chain management, the provider is Atlanta-based UPS Supply Chain Solutions. The multi-industry vendor is no specialist in the pharmaceutical business. But it had the range of services and flexibility that Endo needed to avoid the obstacles associated with rapid growth, Carbery says.

Staying in Control

Despite its decision to outsource, Endo had no intention of throwing its responsibilities over the fence. The company asserts an unusual amount of control over all supply chain processes. "We integrate

very deeply into UPS and our manufacturers,” Carbery says. “You’d be hard-pressed to know who is UPS and who is Endo in one of our facilities.”

Both distribution centers are in fact run by UPS SCS. At Memphis, the vendor maintains exclusively for Endo the largest concrete “vault” in the U.S., with capacity for 1,650 pallets. It performs full pick-pack and shipping services, both for inbound and outbound product. The Newark facility has room for 300 pallets.

UPS SCS offers Endo a modular approach to supply chain management, expanding or contracting in line with the needs of the moment. The two sides call it a “sandbox,” referring to the dedicated space in which the customer’s orders are fulfilled; products are picked, packed and labeled, and documents are recorded.

All handling complies with the regulations of the Drug Enforcement Administration. Endo worked with UPS for seven years to create the secure environment in which its products are stored today.

The whole operation is controlled by some 15 detailed performance metrics which were developed by the two sides in a series of business reviews. The content and priorities of those metrics can be changed to reflect Endo’s current requirements. Among the processes measured are cycle time, call volume, inventory accuracy and chargebacks. The rules allow for precious little deviation from the customer’s standards. Says Carbery: “UPS is the Marine Corps of distribution.”

“Inventory accuracy has to be extremely high on our list,” says Bill Hook, vice president of global healthcare logistics with UPS SCS. “The way we’ve set it up is much more stringent because of the nature of Endo’s products.”

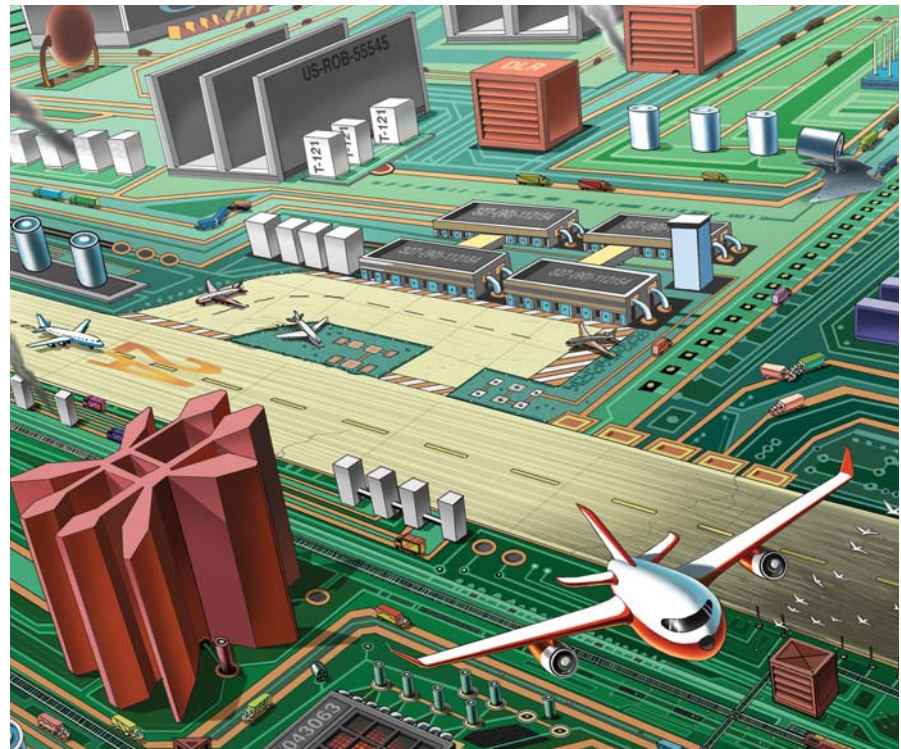
“My team runs under the ‘perfect order’ philosophy,” says Carbery, referring to the mantra of right product, right time and right place. The goal is to discover quickly the presence of any problems or quality issues. He says Endo strives to know what’s going on in the supply chain on a daily, even hourly, basis.

Unlike many companies, who only want to hear when something’s wrong, Endo demands ongoing status reports. Endo has two customer service representatives at Chadds Ford and two on site in Memphis, to keep tabs on the operation. “I want to know that it’s running right,”

Carbery says. In that way, the company can head off problems well before they emerge. “If something hits the wall,” he explains, “it probably hasn’t been running right for some time.”

Systems Are Shared

Endo also runs monthly performance checks within the distribution centers to monitor the progress of items from entrance to exit. The company’s access to critical data is enhanced by the fact that both Endo and UPS SCS use the same information systems. In fact, UPS SCS



works directly within Endo’s enterprise resource planning system, which generates customer orders. The vendor’s warehouse management software feeds data right into Endo’s ERP.

That’s an unusual setup, Carbery acknowledges, but it allows UPS SCS to oversee Endo’s entire order-to-cash system. And it gives Endo unprecedented visibility of its operations. “It allows them to almost have at their fingertips everything that is going on with their supply chain,” says Hook. “And it lets them look at and manage the business along with us.”

The relationship hasn’t been without its bumps, mostly related to the rapid expansion of Endo’s business over a short period. “There were times when our growth created chaos,” Carbery admits, noting that the distribution centers went from picking and

packing of individual pallets to shipping full truckloads.

A policy of open communications between partners helps to smooth out any problems that might arise. “We’re quite frank and direct with everyone at UPS and we expect them to be brutally frank with us, even if it’s not good feedback,” says Carbery. In addition to daily communications, the companies meet once or twice a year to talk about new initiatives, and Endo’s plans for further growth.

The tight relationship gives Endo the agility it needs to respond to changes in

the business. In a recent instance, Endo picked up a new drug through an acquisition. The company was able to start shipping the product under a new name, from its own warehouse, on the day the deal closed. Carbery likens the experience to “buying a house and bringing your moving van to the closing.”

Carbery says Endo could launch three new products over the next two years. When it does, it will consult with UPS SCS over such issues as the cost of importing, handling and storage.

“Is it going to get more complicated?” he asks. “We hope so.”

Resource Link

UPS Supply Chain Solutions,
www.ups-scs.com