

When is a CMO not a CMO?

If CMOs in Asia want to succeed, it is perhaps time for them to dissociate themselves from the 'CMO' label, and change their traditional mindsets to succeed in the region and grasp their market share

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CMOs, particularly in Asia, are facing some interesting times and challenges. In their own countries, they are looking at how to respond to growth, different buying practices in China, and an ageing and maturing market. In the West, they have to satisfy growing complexity and an increasingly complicated demand model that is looking for much faster delivery, smaller batch sizes, and customer centricity.

So far, they have operated just as suppliers in traditional buying/selling relationships, which are completely cost-driven and transactional. They have worked in their own silos by optimising their own manufacturing. However, in order to compete successfully in this very different pharmaceutical world and to address these challenges, the CMOs will have to learn how to play a different game. They will have to learn to strike much closer relationships within an end-to-end value chain model, where their customer is the same as their customers' customer, and where they have to be much more agile and smart. They will have to learn what it means to be one value-added step in a whole supply chain and also what changes in behaviour this must drive in their businesses.

For those of you who have been working in the supply chain industry as long as I have (before we called it supply chain), none of this will come as a surprise. Why do I say that? Retailers have learned, sometimes the hard way, that they cannot afford to pass responsibility for the supply chain to their suppliers and just demand service and cost. Instead, leading manufacturers now regard themselves as leading supply chain companies, where some are even able



to synchronise the activities of the entire supply chain to the demand of the customer. Most importantly, end-to-end supply chain and internal and external collaboration are no longer new projects in leading pharma companies.

If you want further evidence of the changes in the world of contract manufacturing, take a look at the electronics and high-tech industry, where companies such as Foxconn and Flex have completely transformed themselves from being contract manufacturers to being technological solutions providers, helping their customers design, make, and deliver high-quality products, as well as offering insights on trends and future

requirements. They are not alone. What does all this mean for the CMOs in the pharma industry, and what about those that are based in Asia?

Of course, they are not completely responsible for the way they behave today. Most of their customers are still waking up to the fact that they, too, need to change; customers need to start working, thinking, and behaving in an end-to-end supply chain way, so it is not just a problem for the CMOs to solve. On the other hand, CMOs can't afford to sit around and wait for their customers to approach them and ask them to work in a different way. Life is moving far too fast for that, and those CMOs who do wait will struggle to compete with CMOs who

have already taken the lead. Therefore, time is of the essence. What lies ahead for the CMOs? What are the challenges they need to face?

Firstly, let's look at all the CMOs who operate in Asia. Interestingly, many of them serve their domestic and regional markets, as well as Western markets, so they already face some interesting questions. It is widely accepted that the health market is more mature in the West than in Asia, so the awareness and demands of the end customer (the patient) in the West are currently quite different from the patient in Asia. This is also true for the rate of growth, with the developing understanding and awareness of Asian patients generating real growth for pharmaceuticals, which, in turn, means real growth for CMOs.

On the other hand, this is good news for the Asian market as it means more sales, but on the other, what they are beginning to experience as the market starts to mature is the natural movement towards cost reduction, particularly with volume. Profitability is now under pressure.

The Chinese government launched a whole new policy for purchasing pharmaceutical products, called '4+7'. It was designed to use economies of scale to drive down the cost of the products it was buying to satisfy its health requirements. It worked successfully for them, but some supplier companies ended up selling their products at a loss just to gain the volume. Growth means volume, which gives power to the buyer, who uses it to drive cost down. Volume and growth, or profit? These are the first challenges for these businesses.

Then, of course, there is growing complexity. We recognise it here in the West; we want everything, we want it personalised, and we want it now. As the Asian market matures, the producers of pharmaceuticals will hear the same thing. This is not at all like mass-production in a volume-driven market; it is not even mass-customisation. It is the batch of one, delivered whenever and wherever the customer wants it, with a

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high-quality product and service while remaining cost conscious. Therefore, the second challenge for these CMOs is how to balance one market that is currently volume-driven, but will increasingly become more complex against a market that is already mature and already complex. Where volume is not the driving factor, cost is an influencer, but responsiveness and service are key.

If you look at other industries, such as electronics and high-tech, where there are obvious comparisons to the pharma CMO, it is quite clear to see that the contract manufacturers are playing a very different role. The days of "I will give you an order to make my product, I will tell you how to make it, and then you make it and deliver it to me when I want it" are disappearing fast. However, that is, for the most part, exactly where the pharma industry is today.

For most companies, there is an entirely transactional relationship. In a surprisingly high number of companies who use CMOs, the knowledge of what the CMO does, how it does it, what else it does, how it could help, and so on, is sadly lacking. Customers place an order with their CMO in Asia and at some point it will be produced, so they pay them. There is little sophistication in control and monitoring, nor are the CMOs pushing their customers to behave differently. Nobody shares forecasts and plans, no one collaborates over new products or channels to market, nobody is working end-to-end, instead they just work in their own silos – all these things are what other people do, but not in this industry.

There is no doubt that the changes of which I speak are coming. They will be arriving faster than Western companies experienced because now

people know it can be done, and our expectations are quite different. Startup businesses are developing products faster than before, communication is instant today, and with all the advances that digital technology offers us, change is driving everything much faster. The biggest challenge for these CMOs is having the courage, the belief, and the conviction to drive change. Their customers are slower than them, so it will take more time to get them to change. Even for leading major pharma companies, this kind of transformation does not come easily. Like shipping tankers, these companies will take a long time to change course. It is up to the CMOs to behave differently and redefine their roles in the pharma industry.

What This Means for CMOs

The biggest step forward is a change of mindset, particularly within their leadership teams. They must fully embrace the idea that they can drive necessary change to their own advantage, whether that is profitability, growth, volume, market share, or all of these things. That means they have to give themselves time to understand what this change means at every level – to them as leaders, to the way their companies behave and move them from traditional, volume-based silo thinking, to being a flexible, innovative, responsive, and hugely important step in an end-to-end supply chain that is not in their control. They have to deliver this and deliver it quickly. The sooner they can do it, the more of their market they will capture.

I would say they have to lose their name of 'contract manufacturing organisations' if they want to succeed. They need their customers and suppliers to understand they are far more than that.

Technology's importance is growing, capabilities are expanding exponentially, and CMOs need to embrace the opportunities that today's technology is offering in order to drive the changes that are needed. Even within the pharma industry, the leading players are researching how to use new technology to do what humans have traditionally done, but faster and better – planning. Untouched by human hand, this is entirely possible today. CMOs need to accept what is possible, what is an old traditional approach to technology, and find ways to move fast.

Last but definitely not least, particularly if they look at how other industries have succeeded, they need to invest in their people. Skills and capabilities are now at the top of the agenda for leading companies, whether they are in pharma or not. I have mentioned the leaders already and their engagement is vital. However, in this new end-to-end world, making sure your people are technically competent is far from sufficient. Leaders at every level in the business need interpersonal skills, behavioural skills, collaborative and communication skills, management skills, and their own subject matter expertise.

The pharma world of contract manufacturing needs massive and fundamental change. If those CMOs in Asia, who currently supply growing but immature markets as well as complex mature markets, want to survive and prosper, they will have to become masters of their own destinies. They need to take up these challenges, think differently about what their future role is in the whole supply chain, and drive that change with suppliers and customers.

About the author



Hugh Williams joined EFESO Consulting in 2017 and has been working in end-to-end supply chain planning and optimisation for more than 30 years, focusing on SC specialised training and workshops through his own company, Hughenden. Hugh worked for six years with the guru of manufacturing and author of *The Goal*, Dr Eli Goldratt, introducing major corporations to new ways of thinking. The following years of his career have all been spent changing the way many global companies operate through performance behaviours and integrated work systems, including organisations such as Castrol, Kraft Heinz, Pernod Ricard, GSK, and Cargill. He now enjoys a global reputation as a lively and engaging speaker, conference chair, and facilitator.