Podcast Episode 17: Bob Cantow on Why ERP is Necessary, But Not Sufficient



Key Takeaways

- The pharma supply chain is getting more complex and, as a result, it now takes more than enterprise resource planning (ERP) systems to deliver the supply chain capabilities patients require.
- It’s important to build agility into your strategic thinking and to create a roadmap for incorporating new technologies into your supply chain operations.
- A good first step toward achieving agility is developing the ability to rapidly sense and respond to supply chain disruptions.

In this episode of The Agile Supply Chain Podcast, McKinsey & Company Senior Expert Robert Cantow explains why optimizing patient outcomes requires much more than just an ERP system. He also explains why it’s important to develop a technology road map and what you can do to avoid the dangers of “pilot purgatory.”

Transcript:

TraceLink's Roddy Martin talks with McKinsey & Company Senior Expert Robert

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Cantow about how to build agility into your strategic thinking and why ERP is no longer enough in this episode of The Agile Supply Chain Podcast.

Roddy Martin: Welcome to Bob Cantow. Bob, I'm so pleased to have you on TraceLink's supply chain thought leadership series. Our goal is to interview people and respected leaders I've worked with over the last 20 years and who have something very pertinent to say about supply chain.

This is not a general supply chain discussion. This is a group of people, almost like chapters in a book, that have very specific comments and learnings that they want to share.

It's a privilege for us to have you as one of that team. I'm not going to try and introduce you. You and I go back to Boston Scientific, Biogen and many other places. Welcome. I'm going to let you introduce yourself. Over to you, Bob.

Robert Cantow: First of all, thank you for inviting me to join you today. I always enjoy our conversations.

My name is Bob Cantow. I've been in life science industry for 30 years. Part of that was spent in the pharma, part in med device, and part in biologics. More recently, I have transitioned into consulting as a senior expert in the supply chain space. That's where I am today.

What we wanted to talk about today was agility, and how do you think about agility and introduce that capability into your supply chain.

During my time at the various companies, I have understood and been part of several transformations. Some of those transformations included an ERP implementation. What I've seen as the industry has evolved is that I think about ERP now as kind of digital 1.0.

It was very capable of doing initial integration among the trading partners, but as

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the supply chain has become much more complex, with much more outsourcing, while it's a necessary part of the supply chain, I don't believe it's necessarily sufficient to deliver the kinds of capabilities that the patients require.

Roddy: I think that's a very good point. ERP is not the bad guy in this equation.

In actual fact, there's a very good reason why ERP was "invented" by Gartner as a term many years back, and that was because all of the modules you find in ERP today, like finance and procurement, and even HR, MRP, were all separate systems in many companies.

You needed to put them together to at least to integrate the back-office data of the business. I think to your point, and not to just repeat what you said, but they're absolutely necessary, but they're not sufficient for trading in this demand-facing network where variability is the order of the day.

In terms of agility, Bob, we've had some real fun times getting input from many people inside of TraceLink and outside in the industry on The Agile Supply Chain Credo. The credo is a very simple thought. There's nothing revolutionary about it.

It's just that how do we crystallize what are the key, North Star guiding principles of transformation blueprint in real simple language?

In a technology-agnostic way, in a vendor-agnostic way, how do we crystallize something so that a leader who has a nominal understanding of healthcare could say, “All of these points make absolute sense," but it's all on one sheet, and we can think about what's important. What pops out at you in the credo?

Robert: I think the first point around, make sure that your supply chain is patient-centric is key. If there's a single North Star in terms of how do you always think about tradeoffs when you're making supply chain design decisions, that should be your guiding principle.

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I think if you start there, you're on a good course to make sure that your supply chain is going to be designed in a manner that's effective in making sure that patient outcomes are optimized.

Roddy: I think that's a great point. No names, no pack-drill, but I can remember working with a very senior executive who said when I approached, "Shouldn't we approach this supply chain redesign as patient-centric?" He was like, "Yeah, but let's not confuse the business at this stage."

I think the point is not that you have to design a detailed patient view into every single process in the back office of the business, because that's just being stupid at this stage.

I think bearing in mind that everybody in every part of the healthcare system does whatever they do for the purposes of serving a patient is really the idea. If I do things in a certain way, I package things in a certain way, I ship things in a certain way, it's because I want the patient to get on time in full, to use supply chain language.

I loved the comment. I do want to compliment you. Of all the recorded webinars I've done, and we've done some pretty heavy hitters, I feel that you put the most thought into concretizing your perspective on ERP being enough but not really sufficient going forward.

That's how I know you, by the way. I always knew that I'd better prepare for a meeting with Bob because he’s not going to let you float around in the cloud. You're going to go down to the real detailed word.

I loved your comment you made about where do you start with agility? I wake up, I listen to this and I say, "You know, I love this discussion about agility, and I want to do something. I can see that it makes sense, and I can't go and buy it in a candy store." Where would you start?

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Robert: That's a great question. I think that's where a lot of people get stuck is, "Where do we go from here?" Some concrete ways that I think about I delineate into three buckets.

The first bucket is to have an ability to sense a disruption very quickly. I've seen more progressive companies use a control tower, for instance, capability where they have some digital connectivity amongst all the different trading partners, and they're able to quickly see that a shipment's going to be late. They can either notify the customer or make alternate routing, etc.

Having the ability to understand that there's a disruption happening, you can set tolerances, etc., but that's the first thing. Then would say, "How do I build in structural agility into my supply chain?"

I've seen more and more life science companies start to disaggregate how they bring products to market. You have one person that might make the drug substance. Another one that might make the drug product. Some supply chains are almost completely virtual. That now goes to a distributor.

How do get an orchestration amongst all those and agility in that orchestration? I would think about it from a structural standpoint.

Finally, from an operational standpoint. How do you actually introduce agility into your operations? There are things like cross-training labor, about introducing Lean concepts so you're taking out waste. Reducing your lead times. Being more responsive. Going from a push to a pull system. All those kinds of things in aggregate start to make your supply chain more agile.

Roddy: That's a very good point. I'm going to pick up on a few because I think in the context of the question where we said, "Hey, ERP was a way of integrating your inside and your back office of the business. You can't have separate systems doing all of that stuff. That's a showstopper on itself."

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Along came control towers, and a lot of companies said, "Wow. This is the chance I get to sense in real time events happening around the business that I could never see with my ERP system." It wasn't designed to do that in the first place.

Robert: Right.

Roddy: Let's not try and convince ourselves that ERP is a control tower. It was never meant to be control tower. I think we've learned that we need something else to be able to sense those events.

The second point you make is so important, and that is the structural response to manage, to implementing agility in these disruptions. I loved that. I don't know if you've had a chance to listen to the main panel that we did and also the LogiPharma panel where Paul McKenzie, who you probably know but is now the COO of CSL Behring, used to be the head of Tech Ops. You know him from Biogen anyway.

Paul made the point that, "I need some sort of a reliability meeting. As the COO, I go sit in those reliability meetings because I listen to those sense events and I decide whether this is a little wisp of smoke, a big puff of smoke, whether it's a raging fire, and how urgently do I need to do that."

To me, the ability to structuralize and operationalize those sensed events that you talk about, are so fundamental for agility. Just sensing the event doesn't make you agile.

I think the next point together which you made, which I'm going to ask you to make about a cross-functional team, is the most important. Because that's the response to the event and making sure that you deal with it in the future. Talk about that agile response to those events.

Robert: Exactly where I was going to go, Roddy. I think of having a war room type capability analogy I always think about is when you're ready to support an FDA

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audit. You have a cross-functional team already pre-assembled, they all know what their roles are, there is a very structured way in which you gather data, preview data, present data.

There's a very structured way on who makes decisions, what level of empowerment. To the degree all that's put in place ahead of time allows you to very quickly then engage in those types of alerts and say, to your point, "Is this a small issue and we can handle it at level X or is this a large issue and we need to go at a level Y?"

Having all of that preset makes you much more agile, makes you much quicker in your response and much more structured, and it can take some time to do that and get all that in place.

Making sure that not only do you have a control tower but you have the governance and structure in place to complement that is as important as understanding that there is an issue. Again, like with ERP, one is great, but it's not sufficient. You need both to complement one another for an effective agile response.

Roddy: One other point that I will make, which bolts nicely on, and you can maybe respond to this, there's always a side bit that Roddy, in some way, is going to talk about Procter and Gamble. There's always somebody who says, "Roddy's going to give a P&G example."

So, here is a P&G example, and is a very public one and it is, in my opinion, a real best practice, and that is, they know their processes so well. They know they're going to get it 95 percent right 95 percent of the time. But you know what, they're fast enough to see and they've codified the response so well that in that five percent where things were unplanned, they're probably still going to get it right.

To me, that is one of the real key elements of agility. That's kind of that factor X. The point I would tee up was, you made the point, investigate and analyze the

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causes of disruption, and I'm sort of, in some ways, a little disappointed. I get shocked that when I talk to a lot of supply chain people, they don't necessarily know the end-to-end process, starting at the patient and going all the way back to CMOs.

I worked with you on a big CMO project and that was the focus. Understand all the way from the patient, all the way back from the CMO, all the way to the patient. That understanding of the process, how common do you see it? How important do you think it is? Because that is how the business actually works.

Robert: It is. I'm ashamed to admit I'm probably guilty of that sin that you just talked about. I'll give you a real-life example. I was running a distribution and we thought it would be great for a hospital to aggregate their orders, send them a single invoice in a single shipment. We thought that would be Lean.

Why would you want five invoices versus one? Why would you want five shipments? A hospital called us up and said, "What are you guys doing?" We're saying, "We're trying to be a great partner to you." They explained to us that each of the labs places their own order because they have their own budgets.

"So, when you send us one invoice, we have to then break that down into five separate bills for our internal use. Then we have a very small loading dock, so we don't really have an ability to take a big package, break all that down, and subdivide it into what lab it needs to go to."

That was the epiphany of, "Oh, my gosh." When you talk about inside-out versus outside-in, we really need to get out and understand our customer better. I spent the better part of six months out with some big hospital organizations, learning about how we could help them more effectively be a partner and deliver value to their patients.

Roddy: You know what? That was such a good example because I think, to go back to the ERP case, ERP is built to codify the inside-out supply and full

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cost-driven processes of a business and integrate all the back-office functions.

Some companies will say, "I wanted all-as-one order," and others are going to say, "I absolutely don't want it as one order because I'm not set up to handle that order."

So, you need that flexibility in the downstream processes. Plus, I think what a lot of people forget, yes, consumer goods has got it well, and P&G has done great on the shelf, but life sciences is different. There's different channels, there's distributors, wholesalers, retail pharmacies, clinics, hospitals, and every one of them is not just nuancedly different, they're very different.

To be able to, in a sense, design those processes and configure those processes, you have to go out and understand every single client and how they are set up. The reality is they may change because they may say, "We'd set up for multiple parts of the business because we don't have the structure to consolidate." Year two, they say, "Oh, for scale, we now want everything in one."

Now you suddenly got to turn what you did on its head and completely re-engineer processes. This is the point. ERP wasn't made for that level of downstream flexibility. You have to complement ERP with other digital means.

I love the idea that you put forward that ERP's digital 1.0. It codifies the digitization of our business in many ways.

Let me ask one last question and we can tee up a conclusion on the Credo, and that is, what do you think the most difficult element is for companies and leaders to say, "You know what, I'm going to transform this business. I'm a X-billion-dollar company. I'm going to do it differently from here onwards." How do you think about that?

Robert: I think based on what I've seen, a lot of companies get stuck in what I call pilot purgatory. They want to try a little bit of a digital application here, a little bit

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there. I applaud them for wanting to take that initiative.

It needs to move from a tactical type of one-off to an integrated-strategic roadmap that talks about, "Here's what we're trying to solve for from a process and a patient standpoint. Then here are the technologies that will enable that."

The roadmap can change over time. There's nothing wrong with that. As we learn and get smarter, we can incorporate that and make it a closed-loop system.

I would encourage folks to start thinking about agility and using digital as a means to enhance that through the use of a roadmap and having a clear strategic sense of where you want to take the organization. That would be one.

Then two, it's about communicating to the organization, what that vision is, and preparing the organization to be part of that, and support that journey.

Roddy: Really good points. If we made recommendations, and we said, "Let's think about it, stop, start, and continue terms," is there any one particular...there's hundreds of things we need to stop doing. I think there are a couple of 80/20 that are really key. If there's one stop you would single out, what would it be?

Robert: I still see a lot of organizations use inventory as the single solution or Band-Aid, if you will, in lieu of risk management and building in agility. Life sciences enjoy generally high margins. They tend to say, "Inventory is something we can afford, so we will just solve all our challenges through inventory." That's a mentality I would encourage us to stop doing.

Roddy: That's a really good one. That's fundamentally embedded in the credo, moving from a supply-centric where inventory is safety factor to patient-centric. It doesn't go without its challenges because getting accurate demand forecast in a world where personalized information is dangerous at this point in time.

We haven't really figured out a really good way around it. If I said, "Look, the

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industry is not broken. People are still getting drugs," what is it that we do well? What do you think we need to continue doing, and we can build around as a good foundation to go forward?

Robert: If I had one thing it would be what we started with is make sure that you continue to use the customer, the patient outcomes as the guiding North Star for the decisions that you're making when you design the supply chain.

That's the one constants regardless of how things have changed over time regardless of the new methodologies to treat patients. That's the one thing that I think remains true and should continue to remain true for us as we continue to design supply chains for the future.

Roddy: That's good point. Continue is a flip side of stop. Maybe, you have a thought on what to start doing in contrast to the stop doing?

Robert: Sure. We touched on it. Start to do a couple of things. One, start to make sure that agility is built into your strategic thinking. That would then cascade down to making sure you're starting to build a roadmap for incorporating digital or new technologies into your supply chain.

Roddy: I love that. I love that because I think that in the way that you've just said that there are a couple of elements that I would fold them. I think, you imply this. First of all, make technology part of the business operating model strategy. It's not something different.

Gone are the days where you say to the CIO, "If you go for the next three years and call me when you finished your ERP implementation." It just doesn't work like that anymore. The second point is, one of the people that I had was Professor Omera Khan on supply chain risk management studied at Cranfield.

Her comment that she always makes is, "Why supply chain risk management something separate? Why do we develop a risk management strategy and put it in

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the bottom drawer? Then when there's a crisis, we all have that dusted off and say, 'Who?' Let's quickly see what we need to do now. Why is it not continuously tracked as part of the governance model?" I think that fits into your start.

The start becomes collect things like that are strategic capabilities like agility, supply chain risk management, the enabling technology and bring it all together in a way that doesn't confuse the business and that there's a practical and pragmatic roadmap. Those are excellent points.

Bob, thank you very much. I really appreciate the discussion. I certainly respect your ability to get down into the detail because in a supply chain, we can get so high in the clouds. It's people like you that keep me with my feet nailed to the ground because it's quite easy to go off into the atmosphere. For that, I thank you. It's an absolute pleasure to have you on this.

I look forward to continuing interacting with you. We've got your other consulting friends doing one of these together with us as well. I'm sure they're going to learn something from you as well. Thanks, Bob. It's been a pleasure having you.

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