

Survival Of The Fittest In The Scarcity Era: Has Your CMO's Supply Chain Strategy Evolved?

By **Xavier Basseda**, *Esteve Quimica*



While people tend to think worldwide supply chain issues or supply conflicts impacting specific markets affect all companies in a distressed field equally, regardless of efforts to mitigate the negative occurrence's impact, this simply is not true. Anticipatory planning and established supply disruption mitigation plans often enable market access before competitors – in advance of suffocating demand – while mitigating or eliminating concomitant supply chain problems like cost or timeline overruns, as well as lapses in material quality or security of supply.

Surviving the Economy of Scale Skill

Supply chain strategy has been perceived in the past as an economy of scale: find a reliable source of materials and regularly buy up and secure huge quantities. While scale remains an important sourcing capability, modern global operation in healthcare requires a more targeted approach, driven by skill operating across different volumes, market distribution, and with diverse identified strategic partners.

A popular adage states, "always have the frying pan by the handle." In short, always maintain control. This general rule applies to procurement, but during shortage periods, that control is lost. In fact, large companies with a big supply spend can be the first to experience disruption during tough times because despite having contracts with well-known suppliers, a force majeure can invalidate most contracts in place. Thus, organizations of all sizes need to employ numerous skillsets

to understand a particular product's dependencies and levers (upstream and downstream) relevant to a specific supply chain.

Esteve Quimica's global procurement structure operates with presence across three continents, allowing for nimble anticipation of issues, identification of risks, and deployment of mitigation processes across all operating regions. With fully direct access to, and a presence strategy for, complex markets and sources such as China and India since the 1970s, we, as pioneers, gained well-established but also continuously developing procurement systems and processes, achieving expertise from initial source development through commercial supply of raw materials and contract manufacturing materials.

Through heavy investment in commercial alliances and strategic partners over the years, we have striven to preserve security of supply. As an example of the latter, we invested in some facilities identified as critical to one or more of our supply chains, allowing Esteve to manage some of the decision-making within those sites. In terms of commercial alliances, we have identified various global partners to develop, manufacture, and/or supply packages of products for us. In turn, those suppliers prioritize our supply chain versus others because the aforementioned packages could represent a large part of their sales, making Esteve a critical client, rather than a small segment of their business. By staying engaged in official institutions and networking workshops, we are able to determine specific affected supply chains as well as identify, provide, and promote access to alternative supply routes, goods, and services.

Again, nowadays, skill outweighs scale. The market tendency now is to diversify to distribute risk, but that diversification must be limited by design and must generate a balance. If you diversify too much, then your business is insignificant to all your suppliers — not just for negotiation purposes, but also for prior-

itizing your supply. A few secondary sources make sense, but overextending diminishes your organization's importance with every supplier. So, we generate alliances, but evaluation of those alliances is dynamic, steered by adaptable guides that consider various scenarios, rather than a hard-and-fast policy. This enables Esteve's procurement team to benefit from a structured flexibility, guiding how to benefit from backup sources.

Just in Time + Just in Case

Just-in-time procurement remains a valid strategy when supply chain security is abundant. However, just-in-case strategies have become a requirement, versus a comfort, to ensure production continues during supply chain disruptions. These strategies include numerous risk-mitigation approaches — maintaining certain minimum security stocks, maintaining alternative active vendors, utilizing proximity principles, etc. — and internal mechanisms to ensure each approach is well executed.

Our contract manufacturing business model (at Esteve Quimica) is based on complete transparency with our customers, and materials costing is no exception.

Unlike other CMOs, Esteve does not make any profits from the purchase of materials. So why would we strive to negotiate the best combination of low-price, high-quality materials and service on raw materials for a client?

Easy — so the client's project is more competitive and secure throughout Esteve's supply chain than it would be through any other CMO. The client must know Esteve is always advocating on their behalf, protecting their interests, and reducing aggravations that involve potential supply chain disruptions.

At the end, full transparency is a key success factor of Esteve's supply chain strategy, leading to a more collaborative environment between the customer and the CMO, including anticipating potential supply chain issues.

At Esteve, a Procurement Governance & Compliance team ensures procurement policies, processes, systems, and tools are aligned with internal and external controls and regulations. These elements make up the “three lines of defense”: a procurement team devising and implementing acquisition processes and systems; a governance team guiding and validating procurement processes in-house; and a compliance team executing internal audits to confirm policies, systems, and processes established for procuring a specific category of products to satisfy relevant regulators.

This paradigm is also supported by more than 50 years’ experience in international commerce, handling directly and internally all import and logistics transactions, from local to overseas, from drums to bulk, from Inward Processing Relief to Custom Tariff Exemptions and Suspensions management, etc. Moreover, our knowledge is supported through efficient application of the appropriate technology, including sourcing tools (in-house and pay-per-use), as well as site and global aggregated planning tools linked with a global enterprise resource planning (ERP) software.

Procurement Philosophy and Commitment

Even in difficult operating environments, everything should be possible... since the impossible just may take a bit longer. Esteve works to take that positive outlook from theory to practice by involving its procurement team at all levels of the company, including the company’s senior leadership team, to gain a view of the horizon and, subsequently, to generate reaction time. This allows for global strategy visibility and operational alignment, in addition to permitting initial involvement in new projects, periodical cross-functional workshops, and client interactions.

This structure empowers Esteve to maintain efficient global planning and demand coordination over a two-year rolling forecast of production (based on the inputs we receive from clients) — clear visibility that allows us to prepare our suppliers without committing to specific quantities. Those suppliers then can anticipate potential

problems or shortages so we can readdress our supply. This system is in place for every facility with which we work, and we utilize a global planning system that aggregates all interconnected demand from the different plants — a unique and powerful tool.

Esteve also maintains a five-year strategic plan. While such long-range plans are imperfect and always include some level of speculation (i.e., Who could have predicted the COVID-19 pandemic?), it is foolhardy not to consider “What if?” — what if risks, what if opportunities, etc. — and attempt to quantify those positives and pitfalls.

Supported by this knowledge and vigilant in analyzing the impact of local and global events, our procurement team can operate with a business-oriented approach as an agile and flexible unit. Segregation of procurement duties and functions lets the procurement team perform its tasks independently, despite its alignment with the business. The procurement team is in charge of providing the requirements of the business and operations at the most efficient value in terms of quality, cost, and service. The procurement team also is tasked with challenging those requirements to adapt to the sourcing market and demand, a key aspect in maintaining a stable and secure supply.

These challenges can only be successfully overcome by a technical, focused team that includes chemists and biochemists adept in evaluating, challenging, and locating or developing a source for what is necessary to produce a client’s molecule.

Final Thoughts

No CMO can fix shortage or supply chain crises. The best a partner can do for its clients is to outperform its competitors, provide full transparency, and constantly work to implement systems and processes that mitigate or eliminate the risks associated with supply chain instability.

On top of all its established preemptive systems and strategies to combat such risk, Esteve also utilizes an internal

crisis committee. When a problem arises, the committee guides who is notified and clarifies the problem's impact (e.g., a specific campaign, the whole supply chain, the market, the end user/patient). Each member of this team knows how to handle a problem to generate a mitigation or a resolution, channelizing the crisis. While such committees are common in enterprises, procurement is not always included.

So, returning to the titular question, has your CMO's supply chain evolved to survive in the scarcity era? Does that partner not only have established risk- and crisis-mitigation strategies in place but is it continually exploring new ways to add value and ensure supply chain security? To learn more, contact the author and visit us at www.esteve.com. visit esteve.com.



About the Author

Xavier Basseda is the Global Procurement Director for Esteve Group. He graduated with a degree in Genetics Engineering and Chemistry from Western Kentucky University (KY, USA). He earned a MGEI in IQS (Master's Degree in Industrial Business Management, Barcelona, Spain). He has more than 22 years of API and pharma industry experience at Esteve.

In his current position, he is responsible for the procurement at both 1) the chemical business at Esteve Quimica (CDMO), which includes six state-of-the-art, fully compliant industrial sites on three different continents as well as 2) the pharma business at Esteve Pharmaceuticals (including commercial and industrial affiliates).

He joined Esteve Quimica in 2000 as Procurement technician and gained responsibility in the area throughout his career. In 2007, he was nominated as Deputy Procurement Director and in 2014 promoted to Global Procurement Director of the API Business.

In 2018 his responsibilities were extended to the Pharma Business as a Global Direct Procurement Director of Esteve Group, and in 2022 he was promoted to Global Procurement Director of the Group by incorporating into his responsibilities the procurement of assets and services (indirect procurement) of Esteve Group.