

Pharmaceutical Logistics in Eastern Europe

Improving Your Distribution Network

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Addressing the challenges
of improving service levels
in Eastern Europe

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Many companies are considering expanding their distribution network to include operations into Eastern Europe

Eastern Europe is an emerging market for many pharmaceutical companies. Regulatory requirements are changing and customers are becoming more demanding. To help improve customer service levels and reduce customer delivery times many organizations are focusing on enhancing their distribution network.

There are, however, many obstacles to successfully establishing an efficient and effective distribution network in Eastern Europe. While the methodology for distribution center (DC) site selection may be the same as used for the analysis in Western Europe, there are different factors to be considered and these factors will have a different relative importance.

For your overall distribution strategy, a balance must be reached between maintaining high levels of customer satisfaction and the overall cost of the distribution network.

Current Situation

Sales opportunities in central and southeastern Europe are growing for many pharmaceutical companies. As this market is evolving, customer expectations are evolving as well. Customers are expecting higher customer service levels and increased supply flexibility. Regulatory conditions are also becoming more demanding and market sizes do not always justify the implementation of a local warehouse. Many pharmaceutical companies have developed a Direct to Pharmacy Delivery model to optimize traceability of their products and maintain product margins. Of course the challenge of this model is dealing with long customer lead times.

A large number of companies are evaluating and establishing regional warehouses to increase flexibility to satisfy customer orders, reduce customer order lead times, and reduce the risk of Out of Stock situations. In addition, the challenge of warehouse site selection can be a complex process in Western Europe. Some of the factors considered may include cost of distribution from the warehouse, volume of distribution, site costs and transportation costs. When considering a site location in Eastern Europe, there are additional factors involved and the factors involved will have increased criticality. For example, the critical factors may be the political/economic stability, availability of skilled resources, availability of existing facilities, and the quality of the transportation infrastructure.



Challenges

A client of ours recently enlisted our help when faced with the business challenge of expanding their distribution network in Eastern Europe. The goal of our project was to help them determine the relative importance of 25 factors regarding the location of the warehouse, research each of these factors and make recommendations for the location. We surveyed and interviewed the management team and the most critical factors were determined to be political climate, employment, wages and labor force and overall transportation and logistics. We determined there were 3 countries that it made business sense to consider as part of our solution for their particular situation: Bulgaria, Hungary and Romania.

For each of the potential solutions, we considered the following:

- Economic and political stability of the country
 - Investment Fitness
 - Competitiveness
- Activity of Transportation and Logistics
 - Road / Rail Infrastructure
 - Border Crossing Conditions
 - Possible Government Incentives for Infrastructure Development
- Employment, Wages and Labor Force
 - Employment / Unemployment Ratio
 - Labor Force Availability and Dynamics
 - Wages

The results of our analysis are summarized below.

Hungary	
Political / Economic Situation	<ul style="list-style-type: none"> ▪ Relevant improvements in terms of stability and maturity ▪ Presents multiple advantages versus a limited risk level ▪ The country is close to reaching West European standards
Staffing	<ul style="list-style-type: none"> ▪ No major problems with staffing quality today and in the future ▪ Costs and staff availability could be considered as minor issue
Warehousing	<ul style="list-style-type: none"> ▪ Warehouse parks still under development ▪ No major issue with warehousing space and quality ▪ Regional capacities are still developing
Traffic	<ul style="list-style-type: none"> ▪ Most of the issues are on Budapest ring ▪ High traffic density from North West to Budapest ▪ Not considered to be a major obstacle to logistics strategy
3 PL Maturity	<ul style="list-style-type: none"> ▪ Most of the major 3PLs have a presence in Hungary and especially in the Budapest area ▪ The regions surrounding Debrecen and Miskolc are also developing

Romania

Political / Economic Situation

- A variety of opportunities are available as the economy of Romania is currently growing
- The political and economic system is more stable and mature than those of Hungary and Bulgaria
- Will require some time and investments to balance opportunities with risks

Staffing

- Staffing quality is not 100% optimal and requires efforts to improve
- Main issue is workers availability
- The quality and availability of able resources in Romania is on the rise
Soon this will not be a downfall, as compared to Hungary and Bulgaria

Warehousing

- Warehouses capacities are limited compared to Hungary
- Older warehouse space available
- Many warehouses do not meet the quality standards for a pharmaceutical distribution center
- High risk of insufficient capacity in new warehouses

Traffic

- Hectic traffic conditions
- Bucharest traffic is a critical obstacle
- Passing some cities can also be an obstacle

3 PL Maturity

- Most of the big 3PLs have operations in Romania. The most developed region is Bucharest but the major 3PLs also have a presence in the cities of Timisoara and Constanta Cluj-Napoca
- Most Pharmaceutical distribution is currently managed by local wholesaler organizations, not 3 PL
- 3PLs are more heavily focused on industrial /automotive goods and have limited pharmaceutical experience
- Potentially interested in investing in infrastructure to support Pharmaceutical distribution



Bulgaria	
Political / Economic Situation	<ul style="list-style-type: none">▪ Similar situation to Romania with challenges in stability, transparency, maturity▪ Country development more advanced than Romania▪ The people and government seem to be more open minded, similar to Western Europe
Staffing	<ul style="list-style-type: none">▪ Situation is similar to Romania, with low availability of qualified workers▪ Primary issues are language barriers and lack of logistics experience▪ There is a net immigration out of Bulgaria
Warehousing	<ul style="list-style-type: none">▪ Warehouses capacities are limited compared to Hungary▪ Older warehouse space available▪ Many warehouses do not meet the quality standards for a pharmaceutical distribution center▪ High risk of insufficient capacity in new warehouses
Traffic	<ul style="list-style-type: none">▪ Current traffic conditions are ok▪ Only major traffic concerns are in the area of Sofia, the capital city
3 PL Maturity	<ul style="list-style-type: none">▪ Correct mix between big 3PLs and regional providers / Lower density than in Budapest or Bucharest▪ Most Pharmaceutical distribution is currently managed by local wholesaler organizations, not 3 PL▪ 3PLs are more heavily focused on industrial /automotive goods and have limited pharmaceutical experience▪ Potentially interested in investing in infrastructure to support Pharmaceutical distribution

Looking at the summaries listed above, some of the challenges to operating in these countries have been identified. For example, each of the countries had some challenges around the availability of qualified labor. If other resources are available, with time and the appropriate training, it is possible to overcome this challenge.

Lodestone Approach

For this particular situation, we were not considering Greenfield thinking as a potential solution to the business challenge. It was far more important that the solution makes business sense and is not based purely on a mathematically optimized model.

We determined it was best to take a phased approach to the project:

Project Phase	Phase Objectives
Project Startup	<ul style="list-style-type: none"> ▪ Mobilize the project: appoint project team and detailed project schedule ▪ Establish a common understanding of project requirements, business objectives, required service levels and strategic intentions ▪ Define potential scenarios and variants to evaluate ▪ Agree on the 3 target countries ▪ Determine relative importance of all factors for DC site selection ▪ Finalize data collection
Data Gathering / Develop Model	<ul style="list-style-type: none"> ▪ Develop a model to calculate transport distances ▪ Compare the distance/year (km/year) ▪ Define the main axes/lanes for each variant ▪ Confirm the required DC storage volumes
Assess Regional Capabilities	<ul style="list-style-type: none"> ▪ Determine the actual situation and evolution for 3 candidate countries for DC location ▪ Assess the impact of the location (s) selection on the overall distribution network ▪ Interview 3PLs and conduct site visits to determine experience and capacity
Reporting	<ul style="list-style-type: none"> ▪ Validate the recommendations ▪ Final reporting on the project, including data collected and methods used

While the project was based out of Western Europe, we were able to engage resources from our local offices in Romania to assist with the analysis during the Data Gathering Phase. The diversity of our team helped to ensure the data we were compiling reflected the local knowledge of the area. The site visits were very important in the assessment of the existing transportation infrastructure.

Through our phased approach we were able to determine which factors were most important to the business regarding a potential new distribution center; build a mathematical model for the potential solutions, address regional capabilities for each of the countries, and make a recommendation for the location of a new DC.




Conclusion



Within the Pharmaceutical industry, Eastern Europe is seen as an emerging market but still poses many questions regarding the best way to satisfy customer service requirements while minimizing fixed costs. Many companies are considering expanding their distribution network to include operations into Eastern Europe. Much of Eastern Europe is still a low cost area where there may be cost advantages to setting up warehousing operations. Industrial and manufacturing companies have already started to expand operations in these countries to realize cost advantages. While it may make sense for a pharmaceutical company to establish operations within these areas, care must be taken to ensure the most important factors are identified and considered for site selection.

The Eastern European market has grown quickly, in some cases forcing pharmaceutical companies to pick a 3PL as a reaction to this growth. Ideally, a 3PL would be able to use their local knowledge to maintain high levels of customer satisfaction until a time where it is appropriate to consider a potentially more cost effective means of distribution.

A more proactive approach would allow pharmaceutical companies to plan for the growth, make better decisions about the overall distribution strategy for the organization, and enable the impact of future challenges to be minimized. This thinking must be considered for other emerging markets, such as the Middle East and Africa and the Commonwealth of Independent States, where similar and more complex challenges exist, including; more complex economic and political conditions, increasing Ministry of Health requirements, major differences in cultural and commercial behavior, the logistics infrastructure and dealing with more government organizations as customers.





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Lodestone is a global management consultancy, committed to designing and delivering solutions that enable companies to thrive in today's complex business environment. Lodestone has significant experience working in Eastern Europe and has a proven track record in delivering solutions to global Life Sciences companies for this region.

