

## **CASE #4: Genexis and the Brazilian Pharmaceutical Industry**

### **Discussion questions**

1. Put yourself in the position of the Vice-president of Genexis and structure the debate on how to approach the primary issue he is facing, namely, how they are going to get cooperation from all the supply chain participants.

### Answers

Maybe the primary issue here is how to get cooperation from the distributors. The way Genexis designed the business model, they are getting information about retail sales not directly from the retailers (not many of the 55.000 drugstores have this level of automation), but from the distributors who send Genexis data daily related to their dispatch files. As drugstores are replenished daily, or sometimes twice or three times a day, data from the distributor's dispatch files represent a good approximation of the retail data. However one of the fears distributors have is "desintermediation", in other words, they are afraid that, if manufacturers have retail data they themselves could decide to gradually deliver straight to the drugstores. Well, evidently this does not appear to be a plausible hypothesis, because it would be virtually impossible that a drugstore received twice a day from 80 different manufacturers in downtown busy São Paulo. Some level of logistics consolidation will be necessary anyway, and this will probably be the main role of distributors, but as many people in the business, distributors sometimes do not quite understand the changes which the sector is undergoing – so they are prone to resist a new business model in which pharma companies managed their inventories. What Genexis could do (in reality what they actually did) is to trigger initiatives to show distributors the advantages they would have in a new model which included the automatic replenishment of their inventories. Genexis developed a computer simulation model in which they show that

distributors would get 60% reduction in average inventory levels with the new model with substantial increase in their nowadays modest contribution margins.

As per drugstores, nothing would change substantially because they are already being “continuously” by distributors and the pharma companies are actually regarding themselves as the major beneficiary of this system – nowadays, with the generic drugs available, they can not afford not to be present in the points of sale – so improving service levels in the supply chain at least for their products is a *sine qua non* condition.

2. Analyze the general supply chain management issue: do you think Genexis could manage to launch successful initiatives to perform in other market segments, such as the confectionery industry, which have a similar structure? What kind of problems do you foresee with the broadening of their services in this way?

Answer

In terms of supply chain structure, number of echelons, number and dispersion of points of sale, they are similar chains in Brazil. The huge difference is no doubt the level of information flow automation which the pharma supply chain achieved exactly because of the initial Genexis business model: selling sales maps. They spend a considerable amount of effort convincing distributors to send them data daily from their dispatch files and they also spent a considerable amount of resources to develop information interfaces between the literally hundreds of inventory management systems of the 400 distributors and their own systems. All this actually provided the basis for the new business model to be possible. In other supply chains all this effort still have to be put, hence the considerable higher level of difficulty Genexis can expect to find when they try to sell their products to other chains.

3. What major competencies should Genexis maintain and develop to grow in its current market? What strategic alliances, if any should Genexis create to establish its VAN or service supply network?

Answer

One extremely important competence Genexis should develop relates to, more than selling only “data”, to be able to sell “analysed data”. In other words, given the current level of the logistics analysts in the pharma companies, sometimes they do know what to do with all the data they have available. They end up running the risk of “data asphyxiation”. Genexis is developing competences to actually supply the pharma companies with, not only sales historical data, but with sales forecasts, intelligent projections and the like. The whole idea is that “customers do not buy drills; they buy holes”. Companies do not need “data” – they need the benefits they can get in their decision processes if they use data well.

In this same sense, they are developing competences to support pharma companies to actually design their supply chain models because they noticed that only with data available they might not be able to actually reengineer their processes on their own.

Another competence Genexis has developed is in “statistical data quality control”. They receive literally millions of transaction data daily, generated by hundreds of companies and their “imperfect” processes. They hired four statisticians who actually have developed state of the art methods to try to identify data patterns and therefore find out seemingly faulty data.