Making a Case for Title Model

How a manufacturer's changing supply chain changed its operations for the better.

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A seasoned 3PL veteran, Albert has over 12 years experience working with pharmaceutical manufacturers to help them optimize commercialization and distribution strategies. Since joining ICS in 2007, Albert manages all aspects of new client launches and oversees post-launch needs including training, special distribution projects and distribution supporting operations.

Say you're a pharmaceutical manufacturer (and if you're reading this you very well might be), and you've been conducting order-to-cash business with your third-party logistics (3PL) partner for over a decade. Through that course of time, your processes and operations naturally start to shift due to internal and external pressures. Then one day, your 3PL comes to you and says they have a better way — one that will significantly improve your supply chain efficiency, streamline ordering protocols, improve inventory management and reduce the need for A/R resources. If you're like most, you might respond with something like, "And what do we call this elusive unicorn?" That was the sentiment conveyed by an ICS client three years ago. Our response, "We call it Title Model."

Title Model is a distribution solution that allows a 3PL provider to take title of product on behalf of the manufacturer, allowing the manufacturer to leverage the 3PL's title licensing to handle distribution management. This case study illustrates why it was the right choice for our longtime client, how it was implemented and what the outcomes were. Equally important, it strives to answer a question manufacturers have begun asking more and more as the market embraces this unique distribution model: What would my supply chain look like in a Title Model?

Lesson 1: Get out of your own way.

Our client and primary subject in this story manufactures high-dollar value products, shipping to large specialty pharmacies. Like most manufacturers, the company had to contend with many challenges from complex licensing and regulatory requirements to revenue predictability and accounts receivables risk. However, it also had a wholly unique challenge: A distribution and order fulfillment policy that required the CFO to approve all orders exceeding a certain value. This created a lengthy process that began impacting the manufacturer's ability to ship orders in a timely manner. Turnaround time could be up to nine days — a staggering number when compared to the industry standard of less than two days. Subsequently, vendor frustration was mounting. Specialty pharmacies reported critically low inventory levels and feared stock-outs. In an attempt to alleviate concerns, ICS extensively monitored and coordinated orders, but the unpredictability and even the holidays proved to magnify challenges. In short, standard business quickly turned into emergency business.

To complicate matters, over time these specialty pharmacies began increasing their stocking levels, fearing a delay in shipments. If 10 units were needed, they would keep 20 on hand. That meant the manufacturer was having to put additional inventories out in the market, creating a very inefficient supply chain.

As a publicly traded company tightly regulated by its international headquarters, the manufacturer resisted our previous suggestions to transition into a Title Model, perceiving a lack of financial control and higher cost. Mounting concerns over delayed shipments and related vendor behavior, combined with a 2014 holiday season that could have been far more successful in a Title Model, helped open leadership up to the possibility. We had their attention. Now we just had to prove we were right.

Lesson 2: Complete the value equation.

When you're a manufacturer taking orders worth roughly $12 to $30 million, having a vendor delay a purchase can be devastating to your bottom line. But, that's exactly what was happening to our manufacturer client. Its pharmacy customers were putting orders on hold at quarter end, inviting financial instability for both the manufacturer and its investors. Title Model would provide revenue predictability, removing the possibility of delayed quarterly or monthly orders. As significant as this single benefit was, the manufacturer only saw Title Model's higher price tag. It was up to ICS to demonstrate the complete value equation.

Equally important, we needed to illustrate to our client's leadership they wouldn't be giving up control — they would be controlling ICS as the single distributor, inventory manager and payer. This would offer a treasure trove of value throughout the organization by way of eliminating or significantly reducing costs and resources, including:

- Reducing time and resources applied to accounts receivables and revenue forecasting
- Foregoing all fees on the 3PL contract except for storage
- Eliminating shipment risk, related costs and resources
- Reducing state licensing requirements, thus minimizing costs and related administrative burdens

In addition, the manufacturer would continue to own its vendor relationships, retaining all communication with pharmacies outside of distribution. Further support of the manufacturer-to-vendor relationship came through Title Model branding, showcasing the manufacturer's name, not ICS.

There were equally enticing gains to be made through Title Model, including possible tax savings and inventory holding cost advantages related to moving large orders weekly rather than small, ad hoc orders every few days.

The cash flow management component of Title Model was now crystal clear to the manufacturer's leadership. Discussions quickly shifted from what to how.

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Lesson 3: Process makes perfect.

To help the manufacturer realize the full value of Title Model, we first needed to get its fulfillment and distribution process more aligned with industry standards. That meant revising the company's order approval workflow, among other things.

- We proposed raising credit limits, which would now be set by ICS
- ICS would structure its purchasing guidelines around the manufacturer's guidelines, limiting purchase orders by product, by day, to meet management criteria and stay within authorized limits
- The approval process would be modified so the manufacturer only had to approve a limited amount of orders
- The manufacturer would only need to monitor inventory levels at ICS instead of at the specialty pharmacy level

After careful and comprehensive vetting by both its internal and external audit teams, our manufacturer client was on board. Now it came time to develop a strategy for implementation — a key component was getting the specialty pharmacies on board. In collaboration with the manufacturer, ICS created amendable contract terms to meet the needs of the manufacturer's large specialty pharmacy customers. We would continue to provide Electronic Data Interchange (EDI) ordering capabilities along with website ordering. And because ICS manages Title Model out of a separate Enterprise Resource Planning (ERP) system, segregating manufacturer-owned inventory from sold inventory now owned by ICS was easy. Our team took great care in developing the infrastructure and IT environment, working with each specialty pharmacy to put business applications in place that would ensure alignment on payment terms and conditions.

All this front-end effort would pay off when we were ready to transition the manufacturer to Title Model.

Lesson 4: Title Model works.

While the industry average for transitioning to Title Model is 90 to 140 days, our transition of this manufacturer client took less than 90 days. More importantly, it was without a single disruption.

30 days post go-live: The manufacturer went from a nine-day order turnaround to under two days with 90 percent of the orders shipping in less than 24 hours. Streamlined ordering protocols and added simplicity in managing accounts receivables translated into more internal resources for other projects within the organization.

60 days post go-live: The manufacturer realized a more efficient supply chain as specialty pharmacies began reducing inventory holdings and leveling out ordering behavior. It's important to note that because we did not expect the pharmacies' ordering behavior to change overnight, ICS worked very closely with the manufacturer to ensure inventories were kept lean at the beginning, preventing large fluctuations in revenue month over month. And as it turned out, the pharmacies did continue to overstock for the first few months. But once they realized they would in fact get shipments without delay, ordering became more predictable and remains consistent today. Because we built inventory levels at ICS while the pharmacies' inventory levels dropped, no notable inventory variance was realized by the manufacturer.

After six months: The manufacturer realized revenue recognition in a more streamlined fashion with order management going from roughly nine times a week to once a week. Risk of delayed vendor orders was effectively eliminated.

The manufacturer quickly deemed Title Model a success and remains committed to managing all of its existing and even new products through this model, having launched two new products within the first year.

All of these benefits stated, one of the most powerful results came to fruition at the beginning of 2016, as the manufacturer realized how tremendously successful its 2015 holiday season was — the results of which would never have been realized without Title Model.

About ICS

ICS, a business unit of AmerisourceBergen, partners with pharmaceutical manufacturers to deliver third-party logistics services that improve the quality and efficiency of their supply chains. Since pioneering the market in 1997, ICS has helped bring hundreds of specialty pharmaceutical products to market and served as an integral component in their growth.

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