



Commodity versus Product: Lessons from the Food Sector

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Ian Machan founded Machan Consulting in 2001, combining 18 years of food and pharmaceutical operating experience gained after graduating from Imperial College. With engineering and process improvement skills developed at HJ Heinz, his transfer to big pharma at 3M Healthcare as the UK engineering manager provided wide ranging experience in equipment procurement and factory build, in addition to further process enhancement. As well as some academic publishing, his recent clients have included East European pharmaceutical companies.

Is your product turning into a commodity? As generic competition climbs and health budgets tighten, do you find that your company is competing on a new playing field? If these questions align with key issues on your business agenda then the time has arrived for you to glance across into a different industry sector to help compete. Particularly in the UK, with the increased market presence of supermarkets in the pharmacy sector, pharmaceutical companies are being forced to fight in ways that the food processing industry has long ago had to take to heart. They know that the cost of their products and the consistency of their supply are now key competitive issues that require active leadership on the part of operations directors.

When the research and development (R&D) cost of a product is essentially a historical investment, or even largely financed by the original patent holder, the forward controllable cost structures of many products are determined by the cost of materials, distribution and labour. This knowledge should drive a revisit to the fundamental operating costs of your products.

Material costs benefit from a focussed purchasing function that sources from global vendors. With active pharmaceutical ingredients (APIs) comprising a significant fraction of raw material costs, it is essential that the most cost-effective and suitable supplier be identified.

However, the levels of waste inside your operation can erode any positive variance gained. Waste includes process losses, batch write-offs and mismatched product structures. Food companies learnt in the past to track waste levels against absolute yields, rather than the planned bill of material yields (which can create false ceilings of aspiration). Investigating teams are created to identify the levels of loss, introduce revised working practices and put in place longer-term controls. In a good manufacturing practice (GMP) environment, this requires careful management and the re-education of your workforce.

Labour costs are frequently a lesser expense, but are now coming under significant pressure. With the European Union (EU) expansion bringing East European and other low-wage-rate

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countries under the umbrella of European competition, every person in the operations division must provide value to the organization. If you have a skilled, experienced workforce, well versed in GMP, then you have the resources to compete in the market place, and your advantage of such a work force should be leveraged to compete against the low-wage-rate countries.

The increasing importance of consistent supply in the market has never been greater. On top of the ethical considerations of maintaining a patients' medical supply comes the requirement to keep your place on the shelf of the supermarkets. Food companies that have fought this battle know that failing to supply a customer, so leaving a gaping hole on their shelf, means a loss of revenue for the retailer and your own product being delisted. Timely and comprehensive results, of the highest order, are essential for long-term growth. This has to be accomplished without stacking up inventory in the pipeline, but by effective sales and operational planning processes. This challenges changeover times, cycle times, release testing and, in fact, every part of the process.

A national marketing manager for a major food product once confided in me during a shared taxi ride that his job was making sure that the consumers did not realize his product was already a commodity, with cost and service underpinning the branded profit levels. On top of your own brand marketing, such fundamentals are key to delivering a profitable range. ■