



GLOBAL LOGISTICS & SUPPLY CHAIN STRATEGIES

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COMPLEXITY MASTERS: DR. REDDY'S

Generic-Drug Manufacturer's Supply Chain Ills



Triple-digit growth rates, regulatory issues and the highly competitive nature of the generic drug market posed complexity issues for this India-based pharmaceutical company. UPS Supply Chain Solutions helped Dr. Reddy's sort it all out.

Dr. Reddy's is not a name you will see on the bottle of prescription pills you pick up at your local pharmacy, but if you are taking a generic drug, the pills in that bottle may well have been manufactured by Dr. Reddy's Laboratories. The supply chain that brings these lower-cost, generic medicines to your local drugstore or mail-order pharmacy stretches all the way back to Dr. Reddy's manufacturing facilities in India, the home country of this rapidly growing enterprise.

Founded just 20 years ago by Anji Reddy, a young chemical scientist, Dr. Reddy's is one of India's emerging industrial stars. For the company's fiscal year 2007, which ended March 31, the company posted sales revenue of \$1.5bn, a 168-percent increase over FY2006, pushing it to the leading position

among pharmaceutical companies in India in terms of revenue and profitability. Also last year, Dr. Reddy's was ranked tenth on a list of the best companies to work for in India by a leading business magazine and was named the top stock pick of the year by at least one market analyst.

Dr. Reddy's has not only grown in size, but also in scope. "In 2003, we were only a two-product company, shipping 5,000 cases a month," says Jeannie Dunk, vice president for North American sales operations, based in Charlotte, N.C. "Things have changed drastically since then." The company originally produced only active pharmaceutical ingredients (APIs), but today it is a global, vertically integrated pharmaceutical company, producing APIs and biological products as well as approved generics in dosage form. Moreover, the company

recently has started producing and selling a number of over-the-counter drugs for private label retailers and it has built a robust research and development infrastructure aimed at discovering and introducing new drugs to the market. "Today we are shipping more than 80,000 cases per month," says Dunk.

Keeping up with that pace of growth is a constant challenge, especially in the highly competitive generic drug market, she says. "We are growing so fast and getting into so many things that it scares me a little because from an execution standpoint that level of growth certainly has its challenges. But it definitely is a good place to be."

Dunk is responsible for managing the logistics of the North American generics business, which represented about a third of the company's revenue last year. Dr. Reddy's does

business in more than 100 countries, with Europe, Russia and India also accounting for significant revenue. The company currently makes 25 generic prescription drugs, which are packaged into 119 SKUs, she says. In mid-2007, the company launched its over-the-counter (OTC) generics business, which makes four formulas that are packaged under private labels for chain drugstores and mass merchandisers. "Our OTC business is still very much in the start-up phase, but already we have secured contracts for about 106 SKUs for these four products," says Dunk.

Dr. Reddy's OTC and generic drug businesses both are poised for continued strong growth, thanks in part to the large number of prescription drugs due to come off patent protection in the U.S. over the next few years. Currently, the company has around 70 abbreviated new drug applications on file with the U.S. Food and Drug Administration for the production of generic products.

The constant introduction of new products presents particular supply chain challenges. New generic drugs cannot be released to the market until a final letter of approval is received from the FDA, and that typically does not come until the day the patent protection expires, Dunk explains. "We may get that letter early in the morning or not until late afternoon, but as soon as it is in our hands we have to immediately start getting shipments out the door." Sales and marketing line up customer commitments for the generic products well in advance of the release date and product is manufactured and quarantined until the letter is received—then operations have to go from 0 to 100 in very short order.

The ability to rapidly respond to this type of situation is one key reason that Dr. Reddy's chose UPS Supply Chain Solutions to manage its warehousing and outbound distribution. "It takes a full-blown blitz to drop those orders and get them shipped out the same day," says Dunk. "That's the service our customers expect for a new launch because of the cost savings involved in moving from a brand to a generic drug." UPS has done a "fantastic job on that," she says.

Dr. Reddy's also needed a partner that could handle the company's enormous growth, she says. "We previously worked with another company, but we mutually agreed that they could not move forward with us at the tremendous growth rate we are experiencing."

Another consideration in selecting a partner was domain expertise. "It was extremely important for us to find a partner that had that pharma experience," she says. One reason for this is because of the stringent requirements for traceability that these companies must meet. "All products must have a lot number that can be traced all the way through the supply chain," she says. While this function primarily is handled by Dr. Reddy's SAP enterprise sys-



tem, it is important that supply chain applications be able to interface with SAP and easily exchange information, she says.

Having been in the pharmaceutical industry for 19 years, Dunk had a good idea of the major 3PLs that met these criteria. "We did a site visit to three or four providers and conducted a detailed evaluation of the capabilities of each," she says. "UPS was a clear choice for us."

Dr. Reddy's uses the large UPS distribution center in Louisville, Ky., as its central hub. Another transportation partner manages the movement of product from plants in India to Dr. Reddy's Customs clearance center in Charlotte, generally by air. Once Customs releases the goods, this same carrier trucks them to the Louisville DC.

Lead times from India to Louisville are anywhere from five to eight days. "Because we manufacture in India our lead times are longer than those of many of our competitors so we have to carry a little more safety stock," says Dunk. "Our business is dynamic and it is important to be able to flex with changes in the marketplace," she says. The generic market is also extremely price competitive, "so we always are looking for ways to reduce our costs," she says.

UPS delivered on this goal as well, says Dunk. "We actually saved quite a bit on the front end when we moved to UPS. Our average freight costs definitely are down from what they were with our previous partner. Also, as we have grown and increased our volumes our rates have improved."

Order turnaround times also have improved with UPS. "Faster order turn times was another of the improvements we saw when we moved to UPS," Dunk says. "With our prior partner, it took two to three days from the time the order was dropped until it left the distribution center," she says. "UPS has done a fantastic job of get-

ting those orders out the same day as long as it is in by a certain time. Most ground orders have a two- to three-day transit time to anywhere in the U.S., so a customer knows that if they submit an order on Monday, they will see it at their DCs by Wednesday or Thursday. It's this kind of service and delivery consistency that our customers want."

UPS also is working with Dr. Reddy's on an RFID e-pedigree initiative, to help the company be ready for item-level tracking requirements due to go into effect in California in January 2009. "We are looking to set up pilots to test our ability to comply with these requirements," says Dunk. "We are in the process of working through the details with a UPS team and we are trying to figure out the best approach for us to take as an organization."

Dr. Reddy's also is implementing SAP's APO supply chain software to enhance the company's forecasting capabilities, Dunk says. "This is a global project going on throughout the enterprise," she notes.

The company has no plans to alter its strategy of outsourcing logistics, Dunk says. "We don't have the necessary infrastructure to even think about doing this in-house, nor is this a core competency that we want to develop at this point," she says.

"UPS has been an excellent partner in supporting our business and giving us the service levels that we expect," she adds. "Ultimately we have learned that you get out of any partnership what you put into it. We work together as a team to be successful."

Resource Link

Dr. Reddy's, www.drreddys.com

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UPS Supply Chain Solutions,
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