



Supply Chain Together !

**Merck Serono Supply Chain integration
and role of S&OP**

Christian Borel

London, 2nd April 2009



Merck Serono Integration

Key messages



Business continuity first: No stock-outs !

- ❖ Keep biotech and pharma SC operations separated (1st phase).
- ❖ Measure performance as of Day 1.
- ❖ Maintain and develop S&OP process.

Define a clear integration plan

- ❖ Define and communicate Supply Chain Vision + Organization ASAP
- ❖ Define a program that links people, process and technology
- ❖ Take the best of the 2 worlds.

Share BSC with Affiliates, Manufacturing and Global Supply Chain

- ❖ No stock-out, Sales Forecasts Accuracy, Inventory



Christian Borel
Head of Supply Chain Integration Desk
Christian.borel@merckserono.net
+41 79 409 17 44

Agenda



❖ Merck Serono, a division of Merck KGaA

- ❖ Phase 1: Understanding each other (Jan. - Feb. 2007)
- ❖ Phase 2: Business Continuity (March 2007 →)
- ❖ Phase 3: Supply Chain Together program (May 2007 →)
- ❖ Best Pharma, Best Supply Chain

Merck Group



Merck Group

Business sectors

Pharmaceuticals

Chemicals

Merck Serono

Liquid Crystals

Consumer Health Care

Performance &
Life Science Chemicals

Divisions

Cross-divisional functions / Central functions

In this presentation, "Merck Serono" refers to the division of Merck KGaA, Darmstadt (Germany), which united the former Merck Ethicals division with the activities of Merck Serono S.A.

Acquisition of Serono

A transforming combination



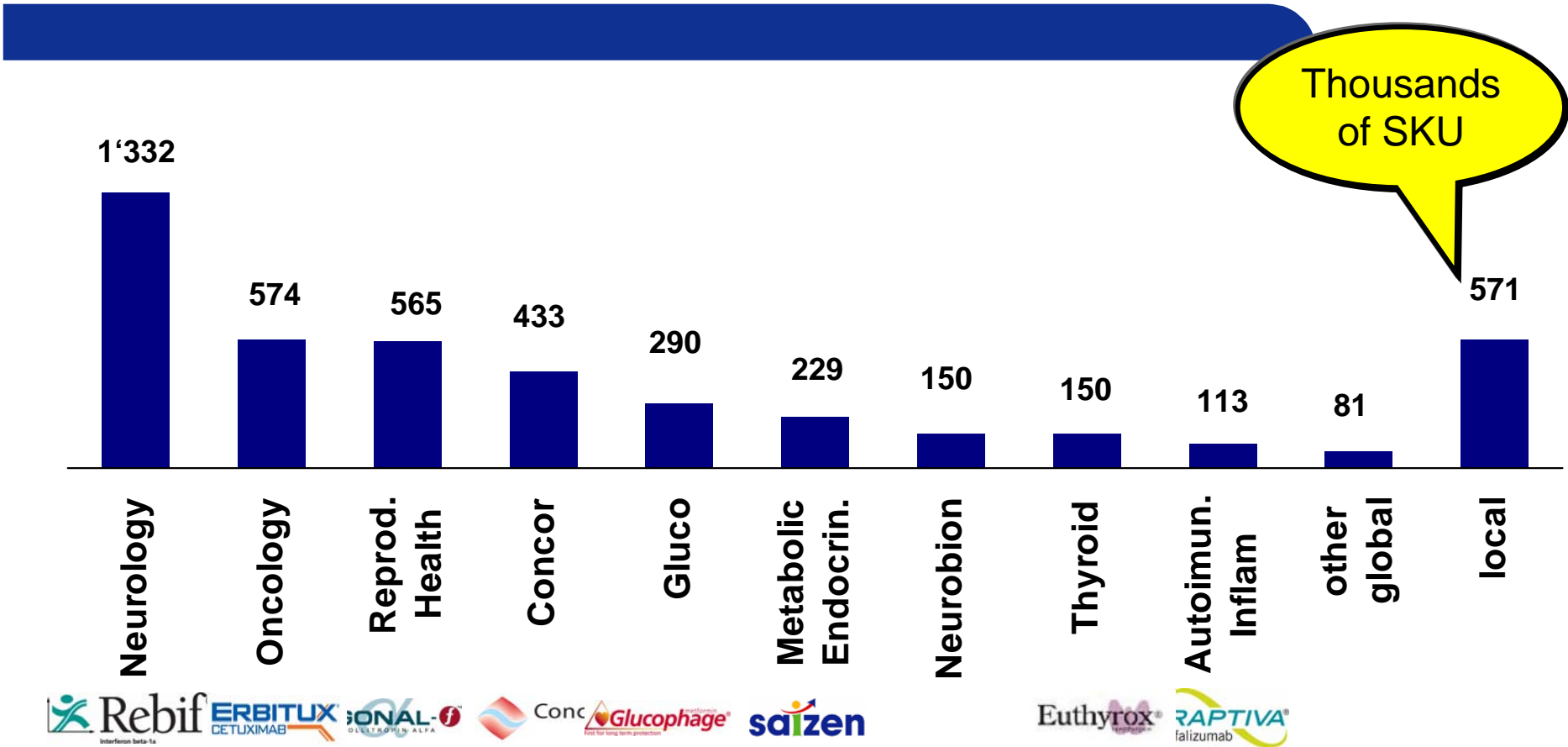
- ❖ Following the acquisition of Serono by Merck KGaA and the integration of the business of the former Merck Ethicals division, foundation of the new Merck Serono division within the Pharmaceuticals division on January 5, 2007
- ❖ Focus on innovative, prescription drugs of chemical and biological origin
- ❖ The new division is headquartered in Geneva, Switzerland
- ❖ **Merck :**
Revenues 2008 of **7.6 bio €**
- ❖ **Merck Serono :**
Revenues 2008 of **4.9 bio €**
- ❖ In US Merck Serono is called EMD Serono (Merck & Co independant since World War 1)



Engel-Apotheke ("Angel Pharmacy")
Darmstadt/Germany -1668

Merck Serono Supply Chains

Total Merck Serono : 4.987 Billion €(2008)

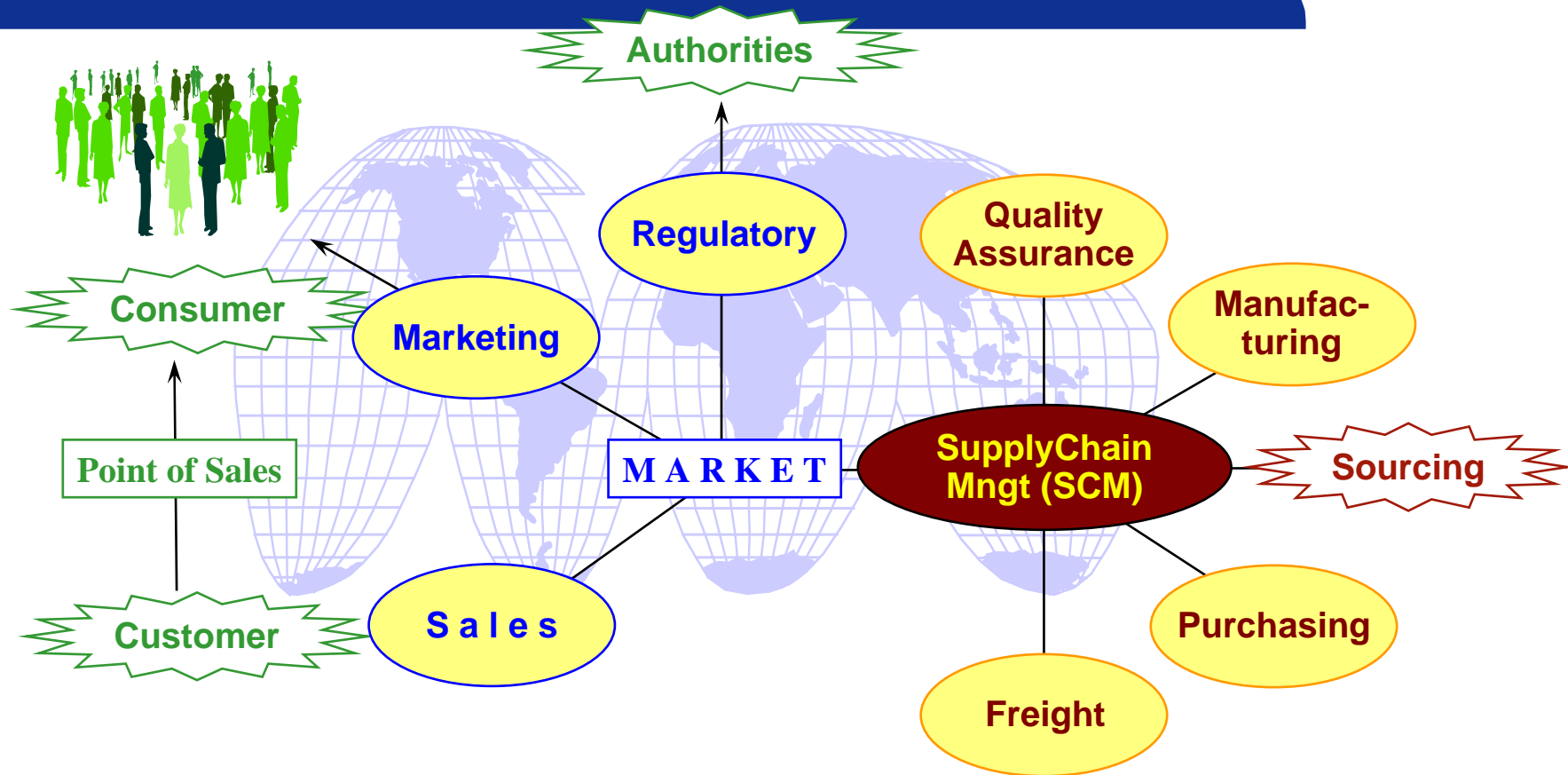


Agenda



- ❖ **Merck Serono, a division of Merck KGaA**
- ❖ **Phase 1: Understanding each other (Jan. - Feb. 2007)**
- ❖ **Phase 2: Business Continuity (March 2007 →)**
- ❖ **Phase 3: Supply Chain Together program (May 2007 →)**
- ❖ **Best Pharma, Best Supply Chain**

Scope of Merck and Serono supply chains integration



>100 countries >50 affiliates 9 global, 8 regional and 4 dev. mfg sites
1 pharma supply chain - 1 biotech supply chain
>200 associates at all levels of Supply Chain

Merck Serono Supply Chain Worldwide network



Manufacturing Sites Network: Key Destinations



Merck Serono Supply Chains

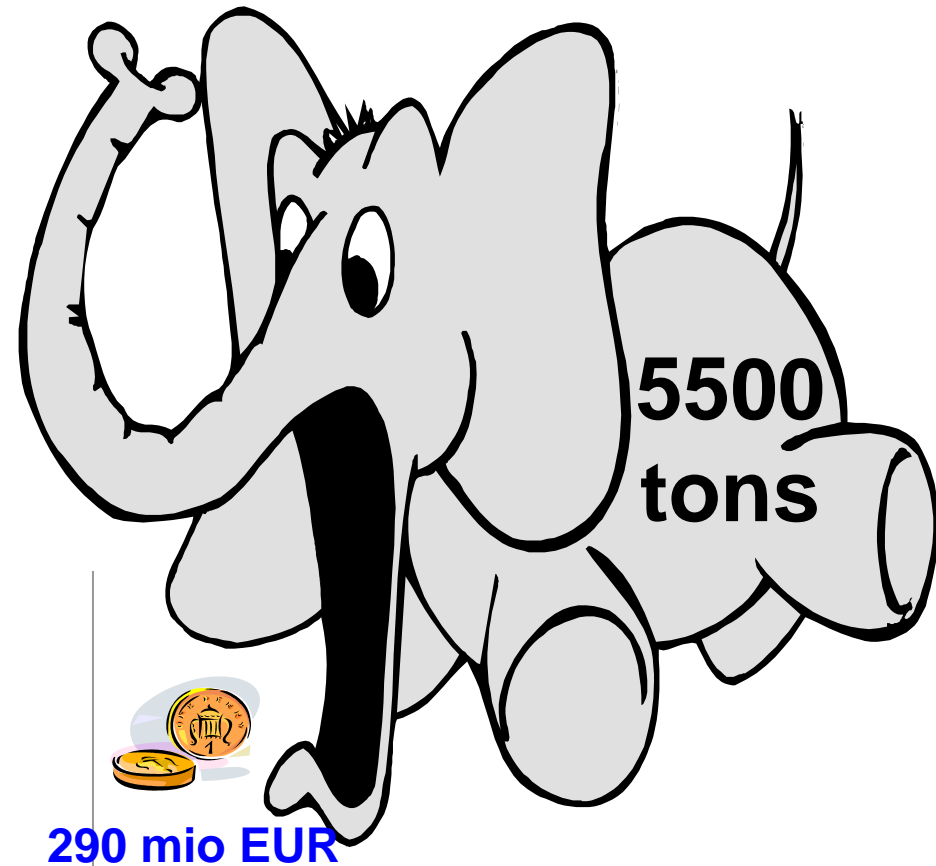
A logistics view on biotech and pharma



Mr Biotech product

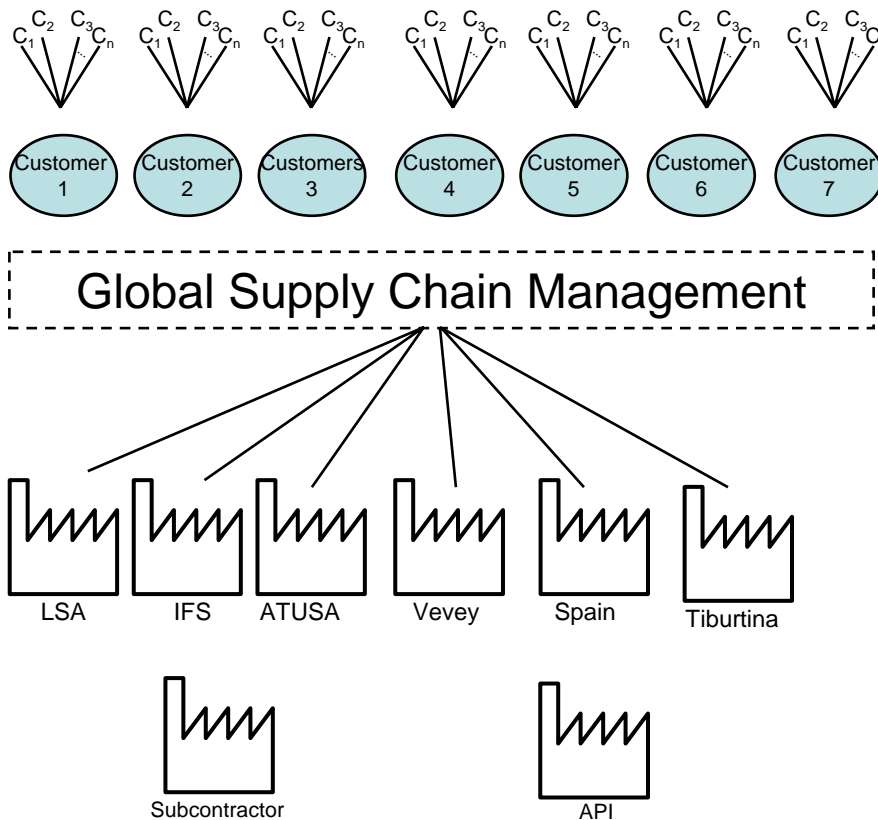


Mr Pharma product



Biotech Supply Chain model

Centralized site-related setup

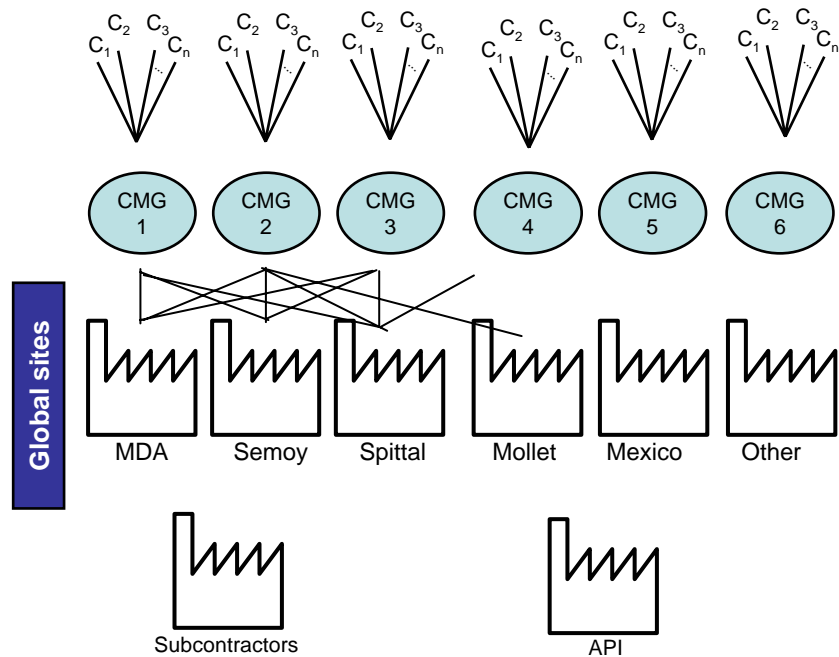


A central Supply Chain Management team between sites and customers displays:

- one face to the customer
- manages the full planning complexity (including 3rd parties, API and subcontractors)

Pharma Supply Chain model

Decentralized site-related setup



- Lack of global visibility on sales forecasts and inventories
- Lack of standardized policies for SCM
- No common stock policies
- Supply planning step by step

Direct contact between sites and affiliates

Merck Serono Supply Chains

As Is (January 2007)



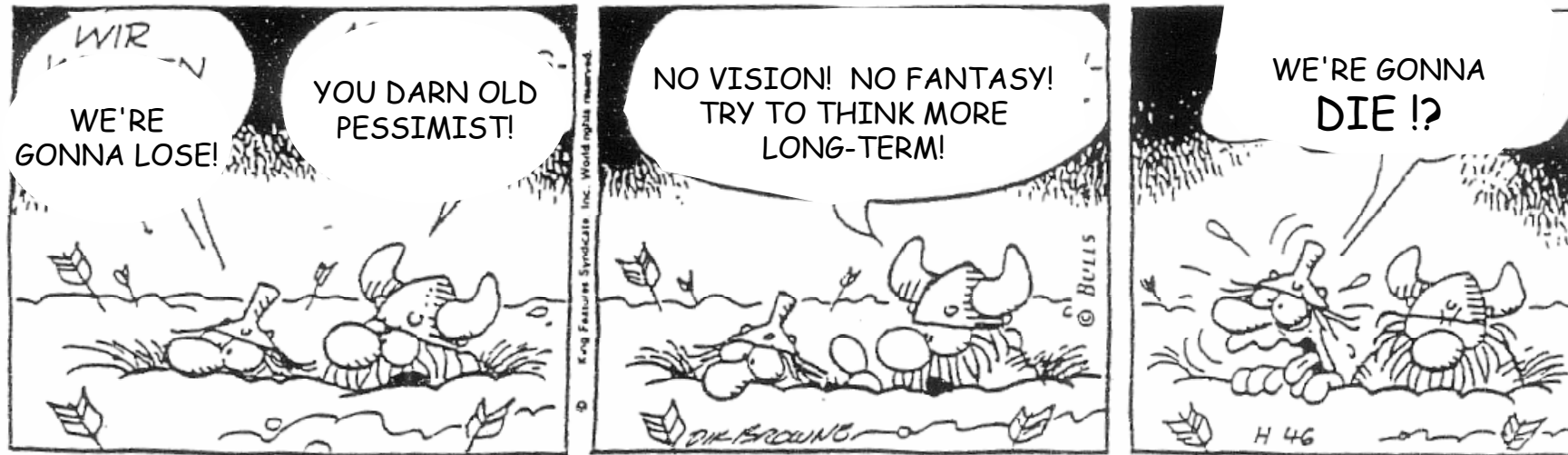
Characteristics	Pharma (w/o Erbitux)	Biotech
Information flow	<ul style="list-style-type: none"> ❖ « Pull », decentralized ❖ 1 to 1 relationship Selling-Manufacturing → no visibility on sales forecasts and inventory levels. 	<ul style="list-style-type: none"> ❖ « Push », centralized (tactical planning system in place). ❖ All Information flow via Supply Chain Department.
Product flow	<ul style="list-style-type: none"> ❖ National DC managed locally. 	<ul style="list-style-type: none"> ❖ Regional DC for Northern Europe, ASP and Latam.
Financial flow	<ul style="list-style-type: none"> ❖ Manufacturing sites invoices to selling CMGs. 	<ul style="list-style-type: none"> ❖ All transactions via Ares-Trading. ❖ Central currency exposure management.
Number of finished products (SKU's)	<ul style="list-style-type: none"> ❖ >5'000 finished products 	<ul style="list-style-type: none"> ❖ 1'532 finished products. ❖ Full visibility on SFOR and Inventory levels.
Organization	<ul style="list-style-type: none"> ❖ Supply Chain Department has no executional role. 	<ul style="list-style-type: none"> ❖ Strong central Supply Chain organization.

Agenda



- ❖ **Merck Serono, a division of Merck KGaA**
- ❖ **Phase 1: Understanding each other (Jan. - Feb. 2007)**
- ❖ **Phase 2: Business Continuity (March 2007 →)**
- ❖ **Phase 3: Supply Chain Together program (May 2007 →)**
- ❖ **Best Pharma, Best Supply Chain**

Business continuity: Necessity to have a long-term perspective



Business continuity

Challenges and key success factors

❖ **Maintain market supply**

- Projects and changes impact information, financial, physical, flows.
- Increased complexity at local level:

❖ **Bringing/keeping everybody on board**

- Management attention on supply chain.
- Local versus global mindset
- Level of knowledge and experience in supply chain..

❖ **Identify Interdependencies**

- Staffing
- Prioritization
- Decision taking process

❖ **Clear Vision for the future**

❖ **Interim Supply Chain Organization**

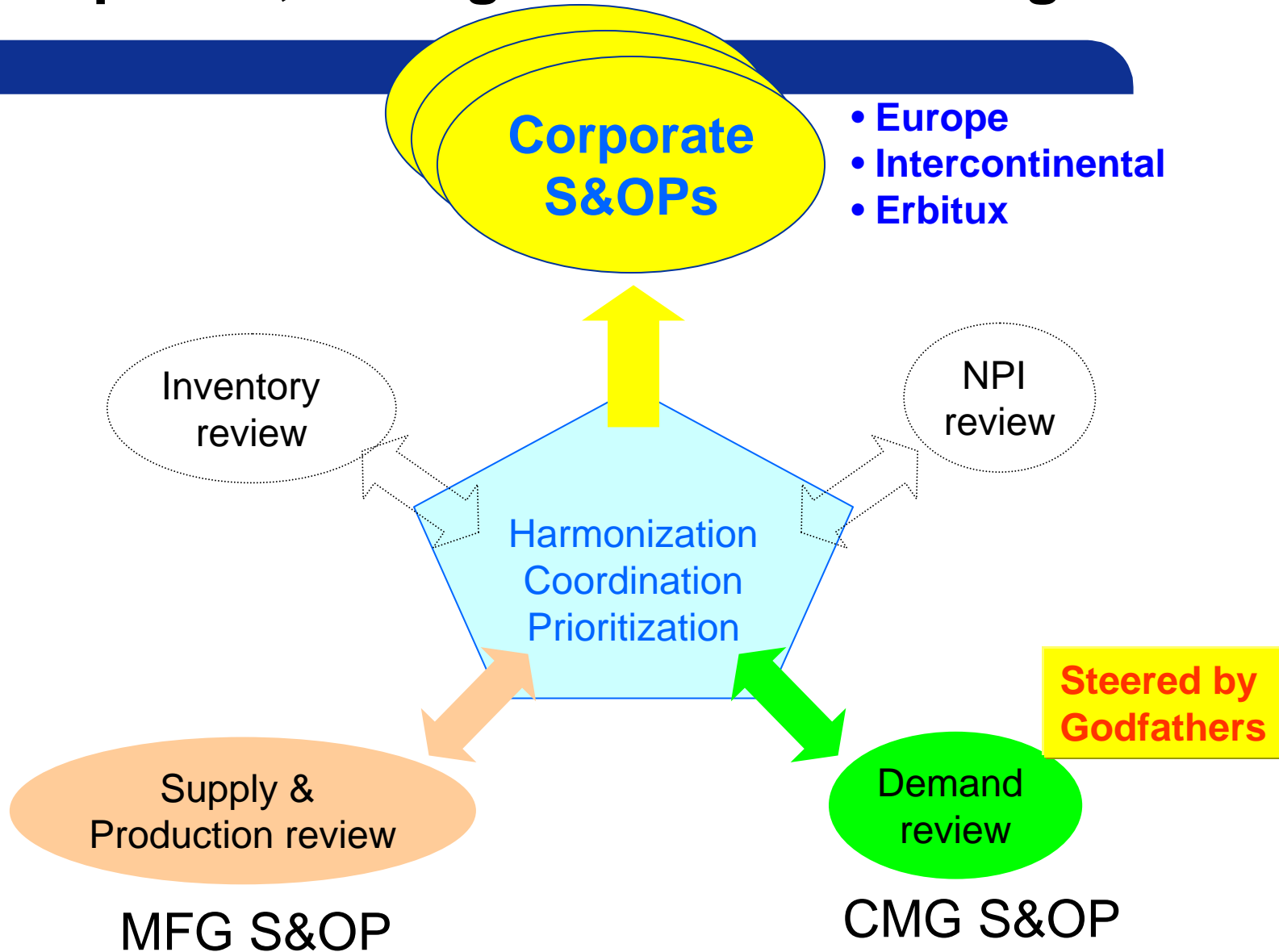
❖ **Objective risk analysis**

❖ **Detailed Supply Chain integration roadmap**

❖ **Close monitoring of performance**

❖ **Strong emphasis on S&OP**

Strong emphasis on S&OP Corporate, selling and manufacturing

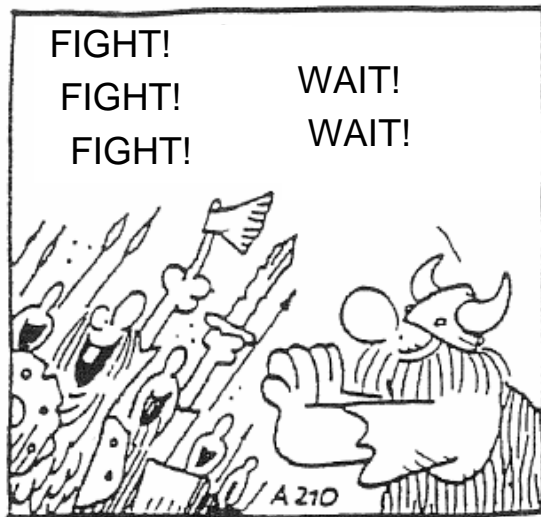


Agenda



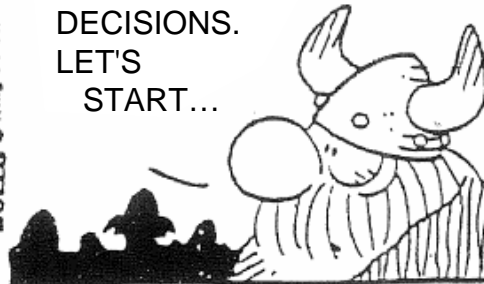
- ❖ **Merck Serono, a division of Merck KGaA**
- ❖ **Phase 1: Understanding each other (Jan. - Feb. 2007)**
- ❖ **Phase 2: Business Continuity (March 2007 →)**
- ❖ **Phase 3: Supply Chain Together program (May 2007 →)**
- ❖ **Best Pharma, Best Supply Chain**

Highly motivated teams need guidance: Supply Chain Together Program

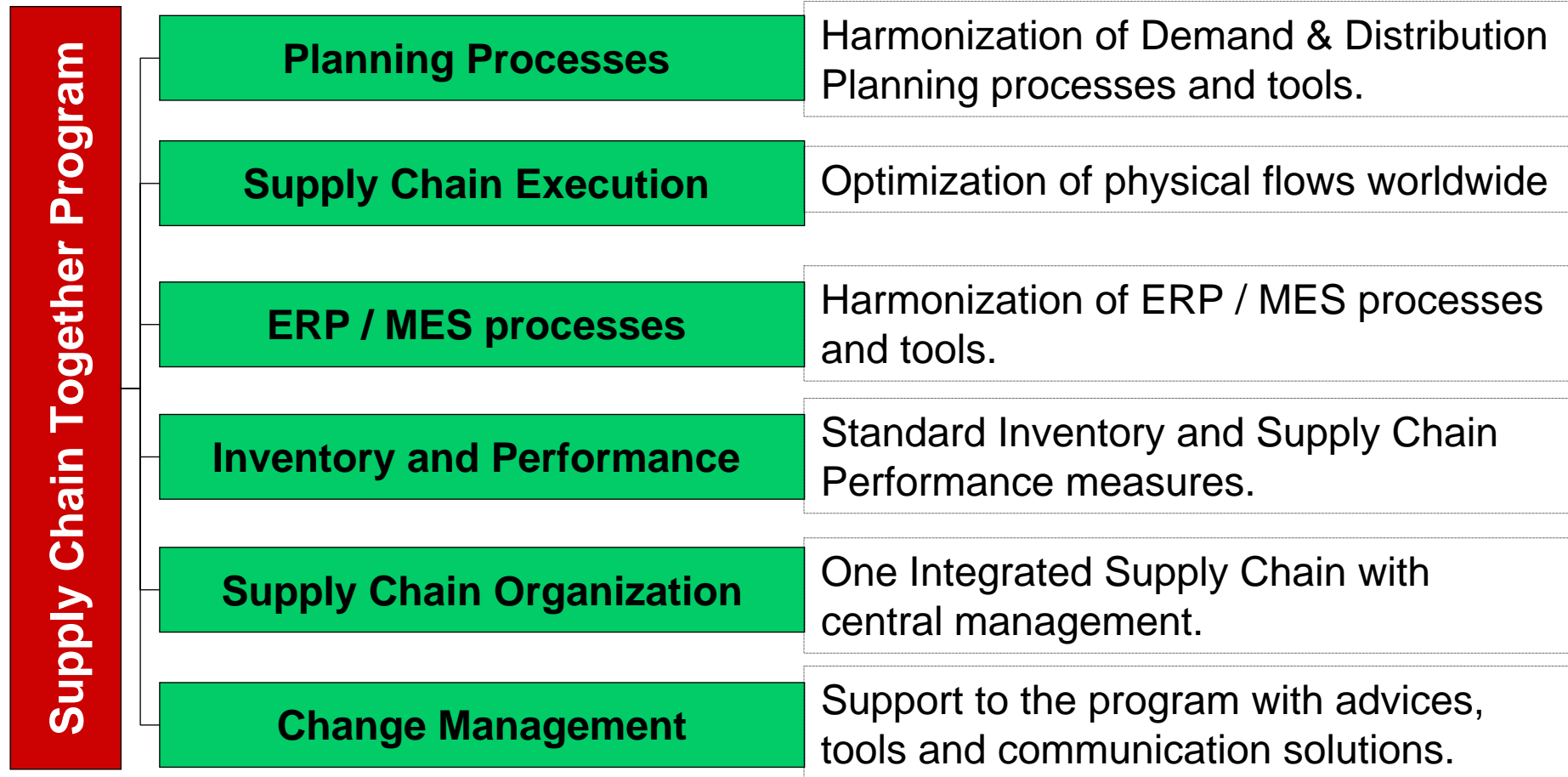


BULLS King Features Syndicate, Inc.

YOU CAN'T JUST DASH
AWAY ON A RANDOM
RAID... THIS IS SERIOUS
BUSINESS... AND
NEEDS SERIOUS
DECISIONS.
LET'S
START...

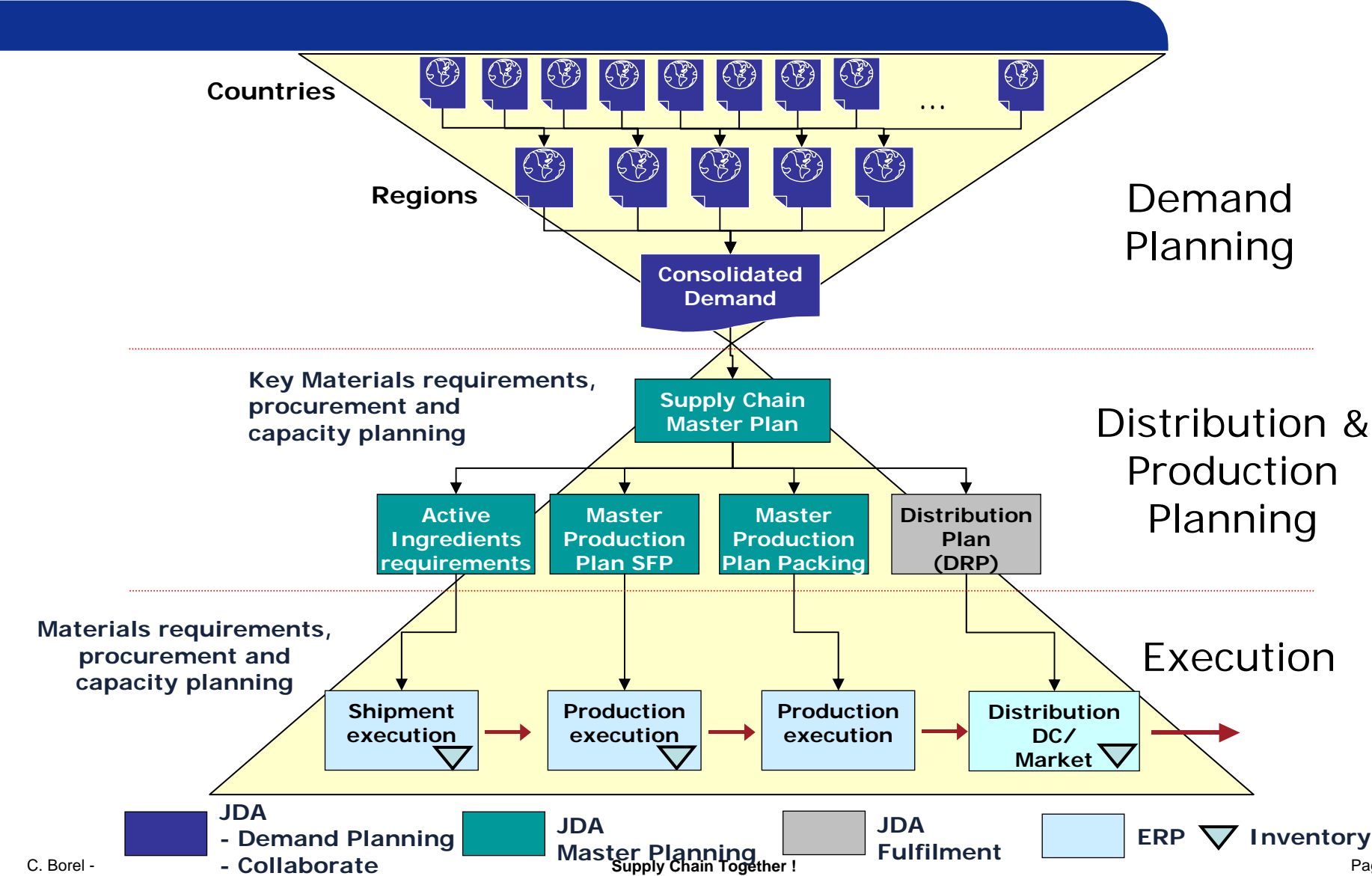


Supply Chain Together Program Overview



Tactical Planning project

Worldwide roll-out 2008-2009



Agenda



- ❖ **Merck Serono, a division of Merck KGaA**
- ❖ **Phase 1: Understanding each other (Jan. - Feb. 2007)**
- ❖ **Phase 2: Business Continuity (March 2007 →)**
- ❖ **Phase 3: Supply Chain Together program (May 2007 →)**
- ❖ **Best Pharma, Best Supply Chain**

Best Pharma, Best Supply Chain

3 key measures in Balance Score Card 2009



**No
stock-out
(TechOps)**

**Inventory
Levels
(TechOps
Affiliates)**

**Merck Serono
BSC
2009**

**Sales Forecasts
Accuracy
(Affiliates)**

S&OP 2009: Focus on Product Availability, Inventory optimization, COGS reduction and NPI



❖ Corporate S&OPs

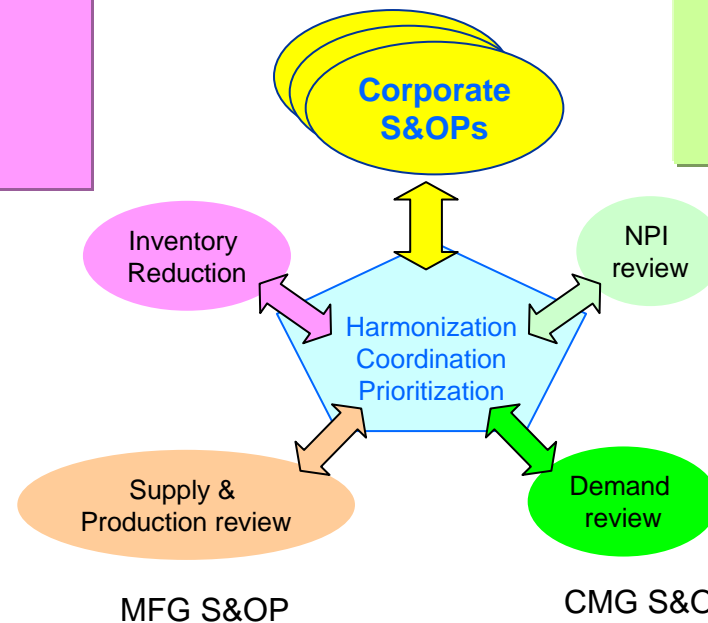
- More focus on mid-term
- Numbers in Finance / units

❖ Inventory

- Alignment with targets.
- Slow movers

❖ NPis

- Align Regulatory, Mfg, sales marketing
- Bring visibility



❖ Blue pentagone

- Transparency.
- .Info availability

❖ Manufacturing Sites S&OPs

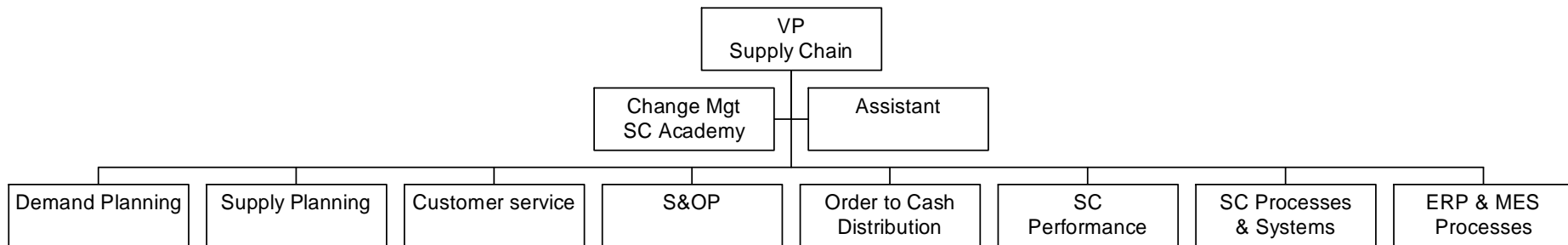
- Charge/capacity also in EUR.
- Trade-offs stock-out/costs.

❖ Selling CMGs S&OPs

- S&OP assessment initiative
- Management support
- Cross functional.
- SFOR accuracy + NPI

Supply Chain Management

New organization by process



❖ Clear ownership of main SC processes

- Cross-functional, cross-geography

❖ Focus on reliability and optimization

- Process optimization: Performance standards set by internal customers.
- Ensure right organization, today and tomorrow
- Encourage implementation of new tools.

❖ Sustainability

- Process description and documentation
- Training and succession plans.

Merck Serono Supply Chain 2009: The best of 2 worlds

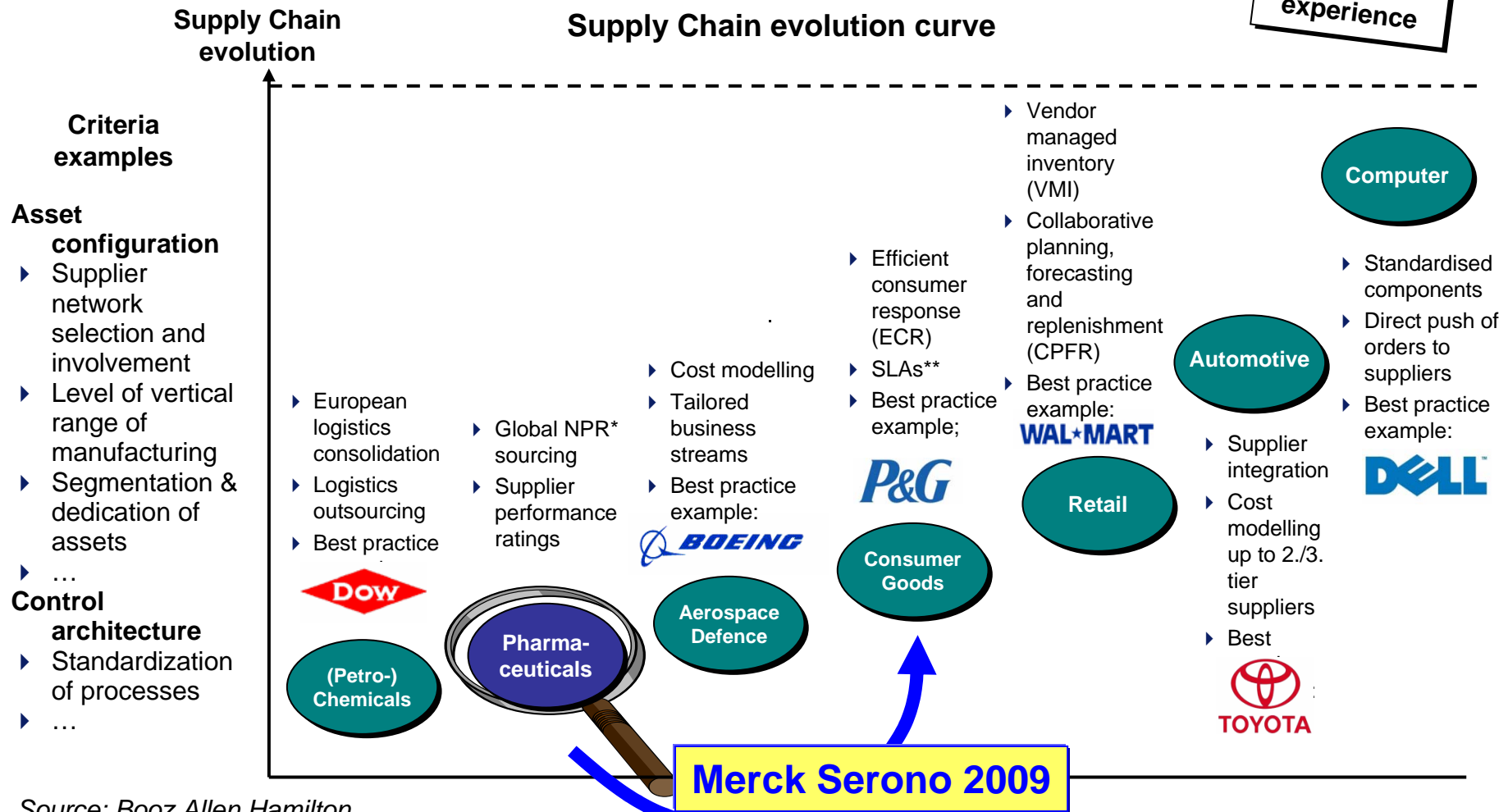


Characteristics	Pharma (w/o Erbitux)	Biotech
Information flow	<ul style="list-style-type: none"> ❖ « Pull », decentralized ❖ 1 to 1 relationship Selling-Manufacturing → no visibility on sales forecasts and inventory levels. 	<ul style="list-style-type: none"> ❖ « Push », centralized (tactical planning system in place). ❖ All Information flow via Supply Chain Department.
Product flow	<ul style="list-style-type: none"> ❖ National DC managed locally. 	<ul style="list-style-type: none"> ❖ Regional DC for Latam.
Financial flow	<ul style="list-style-type: none"> ❖ Manufacturing sites invoices to selling CMGs. 	<ul style="list-style-type: none"> ❖ All transactions via Ares-Trading. ❖ Central currency exposure management.
Number of finished products (Sku's)	<ul style="list-style-type: none"> ❖ >5'000 finished products 	<ul style="list-style-type: none"> ❖ Full visibility on SFOR and Inventory levels for all products.
Organization	<ul style="list-style-type: none"> ❖ Supply Chain Department has no executorial role. 	<ul style="list-style-type: none"> ❖ Strong central Supply Chain organization.

SCM improves competitiveness in terms of cost, quality and supply performance – but the pharmaceutical industry still has a long way to go to reach best practice



Booz Allen experience



Source: Booz Allen Hamilton
 *NPR = Non Product Related
 **SLA = Service Level Agreements

Supply Chain Together !

Q & A
?

