

Where are you in the pecking order?

The bird flu threat illustrates the power held by pharmaceutical firms. How do buyers deal with 'strong' suppliers?
Rebecca Ellinor and Anusha Bradley report

As the UK faces the possibility of a bird flu epidemic, the spotlight is now on the makers of the vaccine.

The Department of Health (DH) is inviting drug manufacturers to tender for a contract to supply 120 million doses in the event of an outbreak. The proposal to purchase in advance will ensure, it is hoped, that there is enough vaccine available in the UK for immediate use.

However, last week it was reported the pharmaceutical industry was threatening not to produce sufficient quantities unless the government agreed to buy more of its other products. Its members argue they do not have the existing capacity to produce enough of the drug in the time required and it is unreasonable of the government to expect them to build new plants just in case.

Many buyers would understand why firms fiercely protect their intellectual property - such drugs take years to produce and the majority fail at the development stages at huge cost to the supplier.

But this leaves procurement in a sticky situation and suppliers in a very strong position. Their product is in high demand and the negotiations for it are under scrutiny by the public and press. So what leverage do purchasers have to bargain with? And how do buyers facing similar dilemmas in other industries cope?

Developing an alternative supply is one option - assessing pharmaceutical companies across the globe including those that need help to speed up research, development or production. Contingency planning is also essential. An awareness of the capacity of suppliers to judge the veracity of what they are saying about their capabilities is also key. In some cases 'reverse engineering' (the process of taking something apart to see how it works with the intention of reproducing it) is a successful way to introduce new suppliers and increase competition. But that process requires a long-

term commitment and is not always easy to do.

When E numbers in food hit the headlines some years ago, there was a sudden demand for natural colours and flavours. Peter Smith, who was then purchasing manager for raw materials at Mars, and is now director of Procurement Excellence, said this caused a problem for buyers.

"There were only a few small, specialist suppliers of natural colours and flavourings. Suddenly big companies were descending upon them requiring huge amounts."

Smith said the small companies did not make enough of the product to satisfy the rise in requests. It was already about 10 times the price, which increased with demand.

"But supply security had to come before commercial considerations - we wouldn't have been thanked for stopping production." He said supplier relationships played a key role: "If the supplier has the upper hand it's a good thing if they like dealing with you and your company on a personal as well as business level." In cases where the supplier has limited stock, these relationships could make all the difference.

Maintaining a close relationship with a critical supplier is what Paul Lucas, group procurement director at Lloyds TSB, does when sourcing cheque books. In a highly-regulated market, his company needs to keep the supplier, Communis, on board to ensure business continuity.

He added: "Because Communis is a monopoly supplier there is the temptation to think it might exploit its position, but we have been able to keep costs under control."

While Mars was able to work with the manufacturers of artificial additives to help them produce a natural alternative, in Lloyds' case a declining cheque book market means there is little investment in new companies to promote competition for production. However, in many cases finding a second source is an option.

Jane Gibbs, CIPS president and supply chain director at Rok

Property Solutions, told SM: "Once you have an alternative product, telling the monopoly supplier you have a dual source is usually enough to bring them back to the table and for you to establish a better relationship and more equal power balance."

She adds that knowing your supplier also helps you understand the nature of the relationship and how important you might be to them. You may buy other items from them, which boosts your leverage, or you may be their only customer.

"It is always wise to stand in your supplier's shoes to try to understand its position and its resulting behaviour."

Taken from Supply Management Archived article News focus, 3 November 2005