



SAS FACILITATES LOGISTICS AT PHARMACEUTICAL WAREHOUSE

Keeping inventories at an optimal level is an extremely difficult exercise. Even more so when there are 8,000 pharmaceutical products involved, with each of them following a different demand pattern. Since adopting the SAS forecasting and inventory replenishment planning tool, a major Belgian pharmaceutical company is making much more precise forecasts. As a result, its costs for maintaining inventories have dropped significantly.

Industry

Pharmaceutical

Business Issue

Provide continuous high service levels while reducing inventory costs.

Solution

SAS® Forecast Server, SAS® Inventory Policy Optimization Server.

Benefits

1. Increased service quality through improved product availability.
2. Reduced cost of inventory through accurate definition of stock quantities and replenishment frequency.
3. Diminished working capital through increased stock rotation.
4. More appropriate decisions thanks to improved reporting of correlation between service level and inventory cost and of performance figures.

LOWER STOCK LEVELS, IMPROVED SERVICE QUALITY

8,000 pharmaceutical items, 200 suppliers

A renowned pharmaceutical company headquartered in the Ghent area in western Belgium owns 36 drugstores. These are supplied daily with pharmaceutical products from the Company's central warehouse. It is a warehouse that stores about 8,000 products that come from more than 200 suppliers.

"Optimizing the quantities and types of products kept in stock is a continuous challenge," says the CEO of the Company. "We were faced with the typical difficulties related to inventory management. We had excess stocks of certain products, while for others our levels were running too low.

In addition, our manual stock forecasting methods were taking up too much time. And our average storage costs per item were too high."

The Company decided to look for a demand forecasting tool that would allow it to more accurately determine required stock quantities and replenishment frequencies. It turned to SAS to see if they could suggest an appropriate solution.

Proof of concept highlights savings potential

The application had to be able to calculate an optimal stock level for each pharmaceutical product, and to indicate the service quality associated with a given stock level.

This service level is a key parameter: it indicates, for instance, what the chances are for a retail customer to be helped directly, given a specified inventory level. The higher the immediate availability of pharmaceutical items, the lower the risk that the retail customer will go to another drugstore. A key target of the Company is therefore to provide continuous high service levels, while reducing warehousing costs.

The first step was to thoroughly classify all pharmaceutical products according to the frequency with which they are requested by customers. SAS then developed a proof of concept of the forecasting application.

Using a product demo with real data, SAS showed that the new solution would be able to increase service levels while reducing stock levels significantly.

Using SAS, the Company was able to improve its service level considerably while at the same time reducing its storage costs significantly.

SAS forecasts the demand for 8,000 pharmaceutical products and suggests optimal inventory replenishment frequencies.

From raw data to stock forecasting

"Given these convincing figures, we decided to implement SAS immediately," says the Company's CEO. Today, the SAS application handles the entire forecasting process, from data collection to reporting. It puts together information from multiple sources, including sales information, stock levels, and product prices. The system forecasts demand on a weekly interval based on the historical sales figures of the products. It also suggests optimal stock levels, taking into account frequencies for product orders and corresponding service quality for every stock level.

Inventory Managers can analyze these suggestions in detail, and then decide whether or not to modify them. They can also make simulations, for instance to check the effect of less inventory on service levels. In this way, the optimal inventory levels are established for the entire network, taking into account central stocks as well as local stocks at drugstores. This was not possible with the previous forecasting system. The new solution also features a monitoring and alert system in case inventories fall below a specified level.

Statistical expertise generates high data precision

SAS went to great lengths in defining the ideal statistical parameters for the forecasting tool. Advanced statistical methods are used for both fast and slow moving items. The result is an application that generates great

precision in forecasted data. It also provides the flexibility to adapt statistical parameters according to market realities and changes in demand patterns.

Reports show performance and benchmarks

The system also features extensive reporting capabilities. Purchasing Managers at the warehouse have easy access to standard performance reports. These contain information on such elements as the service levels provided for each product, or the differences in local stock levels between drugstores. Top Management can also access reports to follow up on the correlation between service level evolution and inventory cost evolution. Or check that the monetary value of the total inventory remains within pre-defined limits.

The solution also compares the Company's performance figures to industry benchmarks and legal requirements regarding product availability. "The reporting feature is proving to be of great assistance in making more appropriate decisions, and in verifying where we stand in comparison with the rest of the sector," observes the CEO.

Investment pays off within the first year

The project was completed in just 60 man-days. Throughout the implementation, SAS held workshops with users to assess their

needs and to define the application's functions accordingly.

"Using the SAS inventory replenishment tool has resulted in multiple benefits for our company. Overall product availability has improved while inventory costs have gone down. Stock rotation has increased, which means the working capital has diminished. Staff efficiency has also improved, and our forecasting has gained in precision. Both our drugstores and our retail customers now enjoy improved service quality," concludes a happy CEO. "Our return on investment was actually reached within one year."

About the Company

This renowned Belgian company is active in the distribution and sales of pharmaceutical products. It operates a central warehouse, as well as 36 drugstores in the Ghent area. It sells about 8,000 pharmaceutical items, has an annual turnover of 30 million EUR and employs 150 people.



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POWER
TO KNOW.

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