

Optimizing Labor in the Life Sciences Industry

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Monday, 27 April 2009

Historically, the pharmaceutical and biotech industries have enjoyed high margins and operating income, with demand outstripping capacity. This allowed companies to focus on optimizing their scientific prowess while treating labor as a fixed cost. The assumption was that if they concentrated on scientific excellence, the rest would fall into place.

But no more. Global competition is on the rise, especially as proprietary drugs come off patent and generics get in the game. R&D costs are increasing at the same time that investment capital is shrinking. These economic realities are sending management scrambling to cut costs and increase margins. Many recognize the need to drive cost reduction through labor management and control.

A good first step is to take a hard look at which costs are deemed “fixed” and which ones are “variable.” Are these classifications correct?

Take, for example, a clinical research organization (CRO): the typical operating model is to treat labor, animals, and supplies as fixed costs of doing business. CROs tend to staff labor and stock animals and supplies based on a “worst-case” (highest anticipated volume) scenario. In the case of labor, this creates silos around different roles (e.g., scientists, pathologists, animal caretakers) that get in the way of resource sharing and cross-functional work. Since CROs operate like job shops, they try to schedule studies based on available labor resources. However, not all studies require the same amount of labor or supplies. An oral dose study in mice, for example, does not require the same amount of inputs as a primate study. While this staffing model may work in a full-capacity environment, a more flexible approach is required when business declines.

SSA & Company has helped many pharmaceutical and biotech companies optimize their labor costs. In our view, companies that acknowledge the shortcomings of the traditional labor model and move quickly toward a true “operations” focused model will be the survivors in this increasingly competitive market. Taking advantage of proven concepts like shared services – perhaps even including scientific expertise – can potentially lead to cost reductions in the 10-15% range, improved service levels, and a sharper focus on core competencies.