Whelan pharmacy essay

Executive Summary In today's business world, production cost was an increasing concern for companies working to stay competitive in the global marketplace. The top management must search for a global solution to drive down costs and reduce difficult activities associate with inventory management and production management. Global sourcing aimed to exploit global efficiencies in the delivery of services and goods across geopolitical boundaries, including low cost skilled labor, low cost raw materials, tax benefits, and price breaks.

Whelan Pharmaceutical was the best example to illustrate how the company chose the best manufacturing site for global sourcing from different perspectives. Whelan was an American multinational pharmaceutical corporation, headquartered in Maryland. The main goal of the case was to examine and analyze potential manufacturing sites for Whelan's new product Varex®, which were Maryland, Puerto Rico, Ireland, and continental European. Varex® was a cardiovascular drug and was estimated to be the blockbuster when it hit the market, generating a satisfactory profit and increasing company's global expansion.

While the benefits of sourcing have proven to produce some initial cost saving, there were numerous pitfalls and challenges that could arise. It had been approved that Whelan located all manufacturing stages at one site where products could be directly distributed domestically and internationally because this plan matched the corporate long-term strategies and provided economies of scale. The process of global site selection for sourcing was complicated.

Tax used to be the key factor in sourcing decision-making process, however, with the development of globalization, several other factors had been increasing important, including marketing strategies, manufacturing strategies, government regulation, customs and duties. It was crucial for Whelan to analyze and calculate the trade-off among these factors in global site selection process. The process of site selection was complicated and time consuming. Whelan's in site meeting was held by a group of executives from functional departments across the organization.

Most of the important decisions were made by a cross-functional team in which people was able to provide well-defined background information and supportive evidences for potential solutions. John Neal, vice president for manufacturing and engineering, took charge of three meetings; the other two members were Stefan Bischel, vice president for worldwide marketing and international planning, and Linda Gonzalez, executive director of taxes. Advantages and disadvantages of each site were addressed and analyzed in their first meeting.

After two weeks, during their second meeting, they eliminated two sites, Maryland and Puerto Rico, from the list; at the same time, they had a further review of the remaining two sites. Another two weeks later, the last meeting was held for final discussion and decision-making. Even though they went through a detailed examination of all related factors and trade-offs, it was difficult for them to reach a consensus conclusion. Stefan favored continental European, while Linda strongly supported Ireland; the difference opinions and preferences resulted from the differences in their assumptions.

The challenge they had to overcome was to choose a best site where could maximize profit margin and minimize production cost, otherwise, Whelan had to take responsibility if they made a wrong choice. Problem Statement The mission of Whelan Pharmaceutical was to select the appropriate manufacturing site to efficiently distribute the new product Varex® and existing products domestically and internationally so that the company could take advantage of tax breaks and price breaks as well as expanding foreign market, maximizing operational profit margin.

The company was able to stay more competitive, more profitable, and more productive in the pharmaceutical industry. In order for company to make strategic choice, the top executives needed to have knowledge of the importance of all aspects associated with each site from a cross-functional team. However, differences in their recommendations resulted from differences in assumptions and functional backgrounds. Without an effective and interactive approach to help Whelan Pharmaceutical achieve its goal, the challenge would continue to escalate.

An integrated approach was needed to effectively combine tax factors and nontax factors that could assist the company to choose the best site that could perform as a strong competitive advantage of the supply chain. Recommendation The Recommendation proposed here presented a global location selection reference tool for identifying key competences for potential sites and suggested how these competences can be used effectively and strategically in ompany’s supply chain. Additionally, the recommendation was addressed based on the assumption of locating all manufacturing stages at one site for worldwide distribution. Based on the summary and comparison of each potential site (Table 1), Whelan Pharmaceutical was recommended to choose continental European as a manufacturing location because of highly skilled workforce and pro-business environment.

Continental European would become the strategic site for Whelan Pharmaceutical because the manufacturing operations are knowledge, capital and skills intensive. The reasons for choosing continental European as a global location for Whelan Pharmaceutical as follows: * Providing a combination of experience, skills and infrastructure * Highly productive employees with excellent technical and managerial customer service skills * Sophisticated and demanding customers * Having critical mass of local suppliers Matching goals and objectives with company’s strategies * Providing aggressively international expansion opportunities * A stable political environment and respected regulatory * A reputation for flexibility, responsiveness, and innovation * Clusters of global leaders in key high tech industries, for example pharmaceuticals * Strong government support Continental European provided a competitive high value manufacturing location for foreign companies enabled by the pragmatic, pro-business approach of the European government. Supportive Analysis

In pharmaceutical industry, gross margins were extremely high as operating risk was high. Patents expired shortly after products were introduced. Most costs had been incurred and expensed in research and development stage before it went to manufacturing stage. Success in a pharmaceutical company depended on its ability to invent effective new drugs and market them to generate profit before their patents expired. Tax factors and nontax factors

Tax factors and nontax factors must be considered and compared by top management when making location and sourcing decisions.

It was no doubt that firms could save money from tax benefits in foreign location. However, the relative importance of taxes in location planning and sourcing decision should depend on current industry background and business activities. In the Scholes and Wolfson framework, tax planning was regarded as a managerial objective to maximize firm value. In Whelan Pharmaceutical case scenario, the top management sometimes had to sacrifice tax benefits because of nontax consideration and advantages.

Nontax considerations were very important in manufacturing location decision making, including labor force, modes and quality of transportation, community government, climate, competition, infrastructure improvement. Tax factor was no longer the primary driver in location and sourcing decisions because the relative importance of various nontax considerations in decisions had dramatically increased. In addition, government kept amending and adjusting tax policies, decreasing tax benefits that firms could take advantage of.

Whelan Pharmaceutical aimed to develop and distribute new and existing drug in the new global location. It was necessary to consider the transportation of the products. If the products could be produced in efficiently in a low-tax country, for example, in Ireland, however, the entire supply chain might be costly. This non-value-added supply chain would not be beneficial to the company because it might increase the cost of production. If the nontax costs of operating exceed the tax benefit, the company should not locate activities in low-tax countries. Porter’s Diamond Model

In porter’s global strategy theory, the advantages of locating manufacturing site in continental European could be summarized into four following categories: 1. Factor (Input) Conditions Continental European had experienced plant engineering and construction expertise and skilled and experienced technical workforce. In addition, the countries in continental European had well-built physical and administrative infrastructures. They had state-of-art or advanced technologies and information system to help Whelan Pharmaceuticals achieve their mission and vision 2.

Context for Firm Strategy and Rivalry Continental European had advantages in productivity competition because of stable political environment and government price approval. Price approval was a particularly important aspect in location decisions because most government regulated drug prices. Whelan Pharmaceutical negotiated large price breaks from European government in exchange for local manufacturing. Continental European might shorten the time of regulatory approval to attract company to locate manufacturing site there.

At the same time, the state of chemicals and drugs needed to be considered for location decision making. Different counties might have different regulation based on the forms of drugs. As long as the products were produced in continental European, it was free to ship to any place in Europe. 3. Demand Conditions Continental European was one of Whelan Pharmaceuticals’ most important markets in the future. If the European market continued to grow faster than the United States market, the company would be able to generate larger profit margin because of growth of customers.

Currently, Whelan had a relatively weak market share in foreign market and below the industry average. Locating in continental European was a long-term strategy that matched with top management's focus of global expansion. 4. Related and Supporting Industries Continental European had experience in manufacturing of ingredients and finished product for pharmaceutical industry. There were a large amount of supplier offered high quality raw materials and chemicals. SWOT Analysis

A SWOT analysis identified and assessed the strengths, weaknesses, opportunities, and threats Whelan Pharmaceuticals faced if they located new manufacturing site in continental European. 1. Strengths The strengths of sourcing documented that the site provided core value, quality goods and service and overall excellence. The internal components included high advanced technologies, physical resources, high quality human capitals the site obtained. The strengths of locating manufacturing site in continental European were lower operating labor cost and overhead, high return on investment, and state-of-the-art laboratory equipments. . Weakness The weaknesses of the pharmaceutical industry sourcing were not providing significant added value to the supply chain. The new drugs development might be risky and time consuming. 3. Opportunities The opportunities of locating in continental European had a positive influence in business marketplace. There were an increasing number of customers outside of the

United States, expanding foreign market as well as an increasing demand for pharmaceutical products. 4. Threats

The external components that lowered profit margin were high corporate tax and lower tax benefit in continental European. There was a strict repatriation policy, which meant that company had to pay a large amount of withholding tax if the company needed to move money back to the United States. Based on Porte's Diamond Model and SWOT analysis of sourcing decision, it had proved that continental European would be the best sourcing location for Whelan Pharmaceuticals. For the company, nontax factors played a relatively important role in selecting the global manufacturing site.