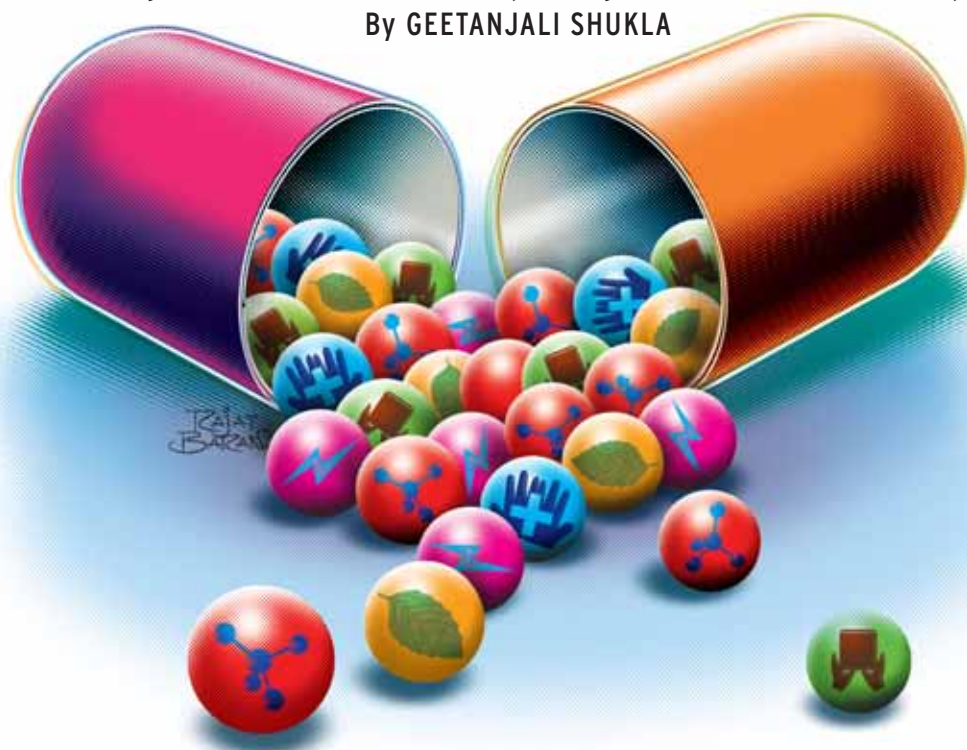


STRONG COMBINATION PILL

Six pharma majors, rivals in the marketplace, join hands to beat cost pressures.

By GEETANJALI SHUKLA



Unity is strength. Six leading pharmaceutical companies are discovering the truth of this old adage all over again. Though they compete fiercely, Lupin Pharmaceuticals, Aurobindo Pharma, Zydus Cadila, Orchid Chemicals and

Pharmaceuticals and Ranbaxy Laboratories – each one a giant, with annual revenues of nearly \$8 billion among them – came together in July 2010 to share their best practices, in a bid to improve efficiency and bring down rising operating costs. They called their alliance LAZOR – each letter representing a participating

company's name. In July 2011 Dr Reddy's Laboratories also joined them, changing the alliance's acronym to LAZORR.

What has their unity brought them so far? To start with, lower power costs. As they compared notes, they found that one of them, Ranbaxy, had been able to cut the power bill at its plant in Toansa,

Win-win Situation

Percentage costs of the six companies in the five key areas in which they are cooperating

Punjab – near Chandigarh – by buying power from Power Exchange India. It had obtained a no-objection certificate from the Punjab State Electricity Board to do so. This enabled it to get power at less than ₹2 per unit, which had enabled it to save nearly ₹5 crore.

Similarly, when representatives of Lupin, Aurobindo, Zydus Cadila, and Ranbaxy visited one of Orchid Chemicals' manufacturing facilities, they found Orchid's boilers using a condensate recovery system which reduced the loss of steam and thereby cut down water usage. The other four companies – before Dr Reddy's had joined – promptly followed suit. Again from Ranbaxy, the remaining four learnt to use power-operated pumps instead of steam-operated ones, once more improving efficiency and cutting down on the use of water. The five companies claim that by such sharing of information, they had been able to reduce their combined water usage by 200 million litres till last June. When LAZORR was formed, the five had estimated their association would bring down their combined energy bill by ₹10 crore a year. They now expect it to fall by ₹15 crore in the current financial year.

The six have begun working together on procurement, too. Every month, the purchase department heads of all the companies discuss prices of raw material, especially crude oil, and from where they are buying it. "Procurement calls are being taken on the basis of our discussions and collective understanding of the market," says H.T. Patel of Zydus Cadila, who heads LAZORR's purchase and procurement platform. The areas of collaboration are now procurement, solvents, energy, safety and water, with each platform having a separate head drawn from one of the six companies. With Dr Reddy's in its fold, the alliance will bring formulations and material handling under its



PROCUREMENT
45%

TARGET: Adopt best purchase practices

ACHIEVEMENT: Got discounts on solvent purchases, shared vendor databases



SOLVENTS
15%

TARGET: Adopt the best solvent recovery practices

ACHIEVEMENT: Learnt from other sectors like chemicals, fertilisers



ENERGY
4%

TARGET: Cut energy bill by ₹10 crore

ACHIEVEMENT: Energy bill to come down by ₹15 crore



SAFETY
2%

TARGET: Zero accidents

ACHIEVEMENT: Safety reviews with top management, sharing of investigation reports



ENVIRONMENT
0.01%

TARGET: To save one billion litres of water by March 2012

ACHIEVEMENT: 200 million litres saved till June 2011

umbrella as well by March. In their quest for economy and efficiency, the companies are also looking beyond the pharmaceutical industry to see if there is anything to learn from the chemicals, steel, cement and automobile sectors. They have visited the Gujarat Narmada Fertilizers and Laxmi Organic Industries and will soon be going to one of Dow Chemicals' units in the United States.

There are plans to set up captive power plants in regions where more than one LAZORR member has a manufacturing unit, from which others can draw electricity. "Both Zydus Cadila and we have plants in Vadodara," says Rajendra Chunodkar, Executive Vice President, Technical, Lupin Pharmaceuticals, who also heads LAZORR's energy platform. "In Aurangabad, we have a plant and so does Orchid. It makes sense to share." They may even have a joint vendor approval process, saving time and money. "We are looking at a system where a third party can conduct vendor audits and all of us have access to it," says Zydus Cadila's Patel.

The man who initiated the process was Satish Khanna, who retired from Lupin last October and now provides consultation services to the pharma major. As Lupin's then Group President of Active Pharmaceutical Ingredients, or API, Khanna wrote to six CEOs of pharmaceutical companies in June 2010, pointing out the need for a common platform to enhance learning and sharing of "non-classified information and experience". Most responded with alacrity and within a month the alliance had taken shape. "Dr Reddy's had been keen to join right from the start, but could not do so because of some organisational restructuring issues," says Khanna. A man who delights in wordplay, Khanna calls the tie-up 'coopetition', cooperation alongside competition.

The coopetition is at three levels. At the top – or Tier I – are the six



Satish Khanna (extreme right), Founder & Moderator, LAZORR

"If one of the companies is underperforming, my job is to step in and step up"

CEOs, who meet once in three months. In Tier II are the area heads, called "captains", from each company, who meet either monthly or bi-monthly. Khanna moderates both the Tier I and Tier II meetings. "If one of the companies is underperforming, my job is to step in and step up," he says. Tier III comprises the field officers of the companies.

Of course there have been minor hiccups since the six got together. Procurement proved a particularly tricky area. "People on the commercial side are not as willing to be transparent as those on the technical side," says Khanna. "It took time to bring transparency into procurement." Initially LAZORR members shared the purchase strategy and details of only a few items. But, since then, they have even bid for solvents together and secured discounts. "The top management was clear that we should share," says Patel, who heads the procurement platform. "That helped break the ice."

But Patel is keen to emphasise that LAZORR is not a cartel. "We don't

want to exploit the vendors," he says. "They also benefit when we standardise our requirements. They know in advance the combined requirement of all the companies."

Some members maintain the gains so far have been sporadic and it is too early to tell if LAZORR is a success. "The sparks are there, but we are not a consistent flame yet," says Arun Dhir, Director, API-Manufacturing, Ranbaxy, who heads the water platform. But the CEOs are committed to the alliance. "We've tasted enough success to ensure that we want to continue the alliance in the long term," says Nilesh Gupta, Group President and Executive Director, Lupin.

Such alliances are not unknown overseas. Glaxo-SmithKline and Pfizer joined hands in 2009 to combat HIV with a joint venture called ViiV Healthcare; other global pharmaceutical companies are also trying to develop drugs together. But it is a first for India, and very dif-

ferent from the usual associations that every sector, including pharmaceuticals, has. "It is a good start," says Sujay Shetty, Executive Director, India, PricewaterhouseCoopers. "These are big companies which have to ensure their bottom lines are healthy. They have to constantly keep an eye on costs." Both Khanna and Shetty believe the initiative will also help Indian pharmaceutical companies meet the challenge from their Chinese counterparts. "Anecdotally, we know it is much easier for lower

and intermediate generic companies to source in China than in India," says Shetty. If Indian companies can bring down their costs – as initiatives like LAZORR will help them do – they will be

able to compete better.

Most of all, LAZORR's success is underlined by the fact that more companies want to join it. "I have Glenn Saldanha of Glenmark asking me where G can be added to LAZORR," says Khanna proudly. ♦



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