Accurate Supplier Data in Pharmaceutical Procurement

By Thomas Kase, Lead Analyst, Spend Matters

This study looks at a Fortune 100 pharmaceutical company – a global healthcare firm delivering health solutions, prescription medicines, and vaccines with over 90,000 employees worldwide and over $45B in revenue.

Here is an actual example of how the Shared Services function within a major pharmaceutical company's North American procurement organization and global procurement team – the example is primarily focused on order-to-cash, procure-to-pay, credit and collections – applied a defined exercise and solution implementation, and was able to discover:

- Excess risk exposure
- Lack of policy compliance
- Overpayments
- Other cost-driving issues

These challenges could all be traced back to weak or missing vendor data. Some of their vendor data was already under active management – e.g., their SAP system handled OFAC validation, and the Acuity module within SAP handles their ABA/routing verification. Vendor data points still requiring enhanced management included:

- Addresses – particularly remit-to addresses to ensure timely and accurate payments
- Parent-child links – to support spend aggregation
- Vendor duplicates – the company is merging two systems and duplicates create additional headaches and potentially overpayments
- Incomplete fields – typically TIN, email, and fax numbers. Their SAP invoicing process requires email messaging of rejected invoices and breaks down with bad data

For policy and compliance, they required better decision-making support around validation of already recovered funds, improving the process and documentation of returns, and provide full transparency to internal users. For example, since the company lets end-users manage supplier relationships, consistent policies are required to prevent seemingly innocent actions such as allowing current vendor credits to be applied to future invoices as this will not only pollute spend data, but also lead to overpayments.

Generally speaking, their goals were to drive compliance – risk avoidance – and to better identify and support engagement with preferred vendors.

Driving Automation and a Desired Outcome

After analyzing the situation and the solutions available in the marketplace to address them, this organization came to the conclusion that going with an external partner would be the only feasible approach. If the organization undertook these efforts internally, the benefits would not cost-justify building the same capability, suggesting the actual alternative would be leaving that money on the table by doing nothing. Not knowing the full extent of their challenges was a big part of the problem. Ultimately, even though they discovered a range of supplier data issues, the internal business case was focused on *credit recovery* – with a contingency-based component.

Several solution providers exist for this service and after a review of the leaders, they chose to work with Lavante. The organization opted to go with Lavante because of the company's "underlying technology and the portal" which "won them over." Other decision factors were the breadth of coverage of the proposed approach, which went beyond impacting just the top 10-20% of vendors.

Part of the change process required getting data quality through one common channel in order to ensure accurate books. For this reason, the new activity had to be integrated with their vendor outreach and registration process. This company defined the outreach through four components:

- Validation
- Updates
- Augmentation
- De-duplication – primarily to find duplicate payments

Changed Vendors

Changed #	Ratio	Contact	Contact Phone	Contact Fax	Email	TIN	Other
9,449	58%	7,715	6,136	6,254	4,450	2	5,200

Duplicate Vendors

Duplicates	Potential	Unresolved
By Phone, Fax & Name		
By Phone & Fax	689	86
By Phone	1,515	261
By Fax	1,234	227
By Contact Phone	1,851	483
By Contact Fax	2,107	599
By Email	905	214
By Tax Identification Number	537	146

The shared services team initially drove the efforts while working with and bringing visibility to the executive procurement committee. Initially, the charter focused only on SAP vendor credit recovery services, but was later expanded to their legacy ERP side.

Vendor	Phone	Fax	Contact Phone	Contact Fax	Email	TIN	Volume	Vendor ID	Parent ID	Statement Status
HEALTH RESEARCH INC #1032309 1 UNIVERSITY PL RENSSELAER, NY 12144-3424	(518) 431 1200	(518) 431 1234				16-1402155		1301327		
HEALTH RESEARCH INC #1046790 150 BROADWAY, STE 560 MENANDS, NY 12204-2726	(518) 431 1200	(518) 431 1234				16-1402155		1301330		
HEALTH RESEARCH INC EMPIRE STATION #462930 EMPIRE STATION PO BOX 2052 ALBANY, NY 00000	(518) 431 1200	(518) 431 1234						1326653		

Criteria :: Phone: (610) 358 3600, Fax: (610) 358 3636

Vendor	Phone	Fax	Contact Phone	Contact Fax	Email	TIN	Volume	Vendor ID	Parent ID	Statement Status
COMPLETE HEALTHCARE COMM INC #326146 ONE DICKINSON DRIVE CHADDS FORD, PA 19317	(610) 358 3600	(610) 358 3636	(610) 358 3600	(610) 358 3636	judi.parker@chcinc.com		$990,792.21	509679		
COMPLETE PUBLICATION SOLUTIONS LLC #441662 LLC 120 GIBRALTAR RD STE 200 HORSHAM, PA 19044	(610) 358 3600	(610) 358 3636	610 358 3600	(610) 358 3636	edna.richardson@chcinc.com		$863,792.93	509680		

The company was able to recover $5MM in credit opportunities based on a total spend of $10 billion. In order to have the same EPS impact, the organization would have needed to generate between $50MM and $100MM in new sales. "You have to be able to fully close the loop with the results," the head of Shared Services for the company suggests.

An underlying platform for credit recovery proved the key success factor as previous, largely manual consultant-led activities focused on only top vendors and their "statement reviews," which led to lower amounts recovered. In contrast, the Lavante platform cast a wider net, and this broader reach resulted in additional recovery opportunities. This was critical in this case, as the "top 10-20% of vendors" were already "over-farmed" and the next tier down was where the most significant potential was.

What advice does this particular organization have for others, besides leveraging a platform-approach and the right partner? For one, the head of Shared Services has instituted a policy where his name is on all outgoing communications – to drive home that this is an area that requires attention to both external and internal users. Another process suggestion is double-checking identified credits that surface to make sure they are not counted twice, or to utilize a third party service provider that can perform this function. Additionally, keep in mind that there will be a large number of smaller items – and not everything is worth pursuing. Even when going after the bulk of a vendor master for credit recovery opportunities, the 80/20 rule can apply to some degree.

Recommendations

Even though supplier data quality may not offer the aggregate potential returns as P2P and strategic sourcing spread across all spend categories, the hard dollar savings and soft cost improvement from investing in such initiatives and the ease with which programs can be implemented relative to other areas makes for a highly compelling business case to prioritize. Spend Matters recommends that companies factor into account the following considerations when it comes to pursuing supplier data quality initiatives.

- Focus on systematic efforts – not one-time initiatives – to greatly magnify the potential returns from pursuing supplier data quality

- Realize that spend analysis, P2P, ERP and related systems will not solve all key data challenge needs and that additional solution investments will be necessary

- Build a conservative business case and ROI model before embarking on any initiatives

- Focus on operating efficiency and effectiveness as well as hard-dollar credit recovery opportunities when looking to identify where the returns from programs will come from

- Tie supplier data quality programs to supplier management initiatives

- Invest in technology that can scale to address a range of data quality and vendor management needs

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