

BUSINESS BENEFITS SERIES

BUSINESS BENEFITS SERIES HIGHLIGHTS

- Realized 23% net ROI over five years
- Projected US\$2.8 million net benefits through 2010
- Improved materials usage by 7%
- Expanded manufacturing capacity by 5%
- Consolidated 13 databases into one

COMPANY PROFILE



Polpharma SA Pharmaceutical Works
Starogard Gdanski, Poland
www.polpharma.pl

Established more than 70 years ago, Polpharma is a market leader in the Polish domestic medical drug market. The company produces a wide range of active pharmaceutical ingredients and generics, and also provides contract manufacturing services.

Industry
Pharmaceuticals

Chief Executive
Jacek Glinka

Employees
2,300

Polpharma Drives Global Expansion, Boosts Margins with Integrated Financial and Manufacturing Platform

EXECUTIVE SUMMARY

Founded more than 70 years ago, Polpharma has grown to become Poland's top manufacturer of generic drugs and a leading supplier of pharmaceutical chemicals and services to customers worldwide. Through its Pharma division, the company operates a 25,000-square-meter plant in Starogard Gdanski that manufactures up to 6 billion units (tablets, coated and sugar coated tablets, capsules, effervescent tablets) annually. It also produces liquid drug formulations in other state-of-the-art facilities. The company's Fine Chemicals division develops, manufactures and markets a range of active ingredients for making pharmaceutical products.

After operating under government control, Polpharma was privatized in 2000—a move that opened up opportunities for growth and investment in new markets across Europe and North America. To compete in these markets, however, the company realized it would need modern business processes and systems for managing its financial, manufacturing and logistical operations. Until recently, these functions remained largely manual and paper-based, and the company's divisions were constrained by limited access to production data. Polpharma would also need to bring its compliance capabilities up to world standards if it planned to compete successfully in strictly regulated markets like the U.S. and Western Europe.

To achieve these objectives, in 2002 Polpharma invested in a large-scale enterprise resource planning (ERP) and supply chain solution based on Oracle E-Business Suite applications, completing the rollout in late 2004. In a recent study, Mainstay Partners assessed the costs and benefits of Polpharma's investment. It found that Polpharma should realize approximately \$6.3 million in total (gross) benefits from its Oracle solution through 2010, and achieve a 23% net return on investment.

Substantial savings come from the introduction of formal financial processes that vastly improved the company's outstanding receivables position. Other benefits quantified in the study include labor savings and related efficiency improvements from new automated financial and accounting processes; a significant capacity increase at the Starogard Gdanski factory, which postponed the need for capital outlays; and other labor savings stemming from new manufacturing planning and scheduling capabilities.

More broadly, the Oracle investment laid the technology groundwork that will help Polpharma grow profit margins and execute its global expansion strategy. In particular, new capabilities such as real-time financial analysis, flexible manufacturing scheduling, and automated compliance systems have given Polpharma the means for realizing these ambitions in a cost-conscious global business environment.

ORACLE PRODUCTS AND SERVICES

- Oracle Financials
- Oracle Assets
- Oracle Financial Analyzer
- Oracle Discoverer
- Oracle Cash Management
- Oracle Process Manufacturing
- Oracle Quality
- Oracle Manufacturing Scheduling
- Oracle Supply Chain Management
- Oracle Purchasing
- Oracle Order Management
- Oracle Inventory Control
- Oracle Warehouse Management
- Oracle Mobile Supply Chain
- Oracle Advanced Supply Chain Planning
- Oracle Demand Planning

PROJECT BACKGROUND

After privatization in 2000, Polpharma intensified efforts aimed at boosting sales and profit margins while retaining domestic market leadership in generics. The company's growth strategy combines a systematic push into international markets—including Central and Eastern Europe and the Commonwealth of Independent States—along with the development of new consumer-focused products. To help it tap into international markets, Polpharma established a trade office in Warsaw 2001.

The new global strategy forced executives to reevaluate the company's information and manufacturing systems. Their conclusion: To compete profitably in global markets and attract investors, Polpharma needed to broadly modernize its operations, which had suffered from years of underinvestment in enabling information technology.

Indeed, managers ran most of Polpharma's business using paper-based procedures and desktop spreadsheets that prevented easy access to operating and financial data. The company's lack of modern integrated business systems created barriers to growth, especially in demanding international markets. The barriers included:

- Lack of timely production and financial data needed for daily business decision-making
- Difficulty in handling increases in business volume and integrating acquisitions
- Prolonged monthly financial closing process
- Lack of audit trails to comply with regulatory requirements (a pre-requisite to gain access to International markets, executives said)

ORACLE IMPLEMENTATION

The company began looking for an enterprise system in early 2000 and selected Oracle in September 2002. The company divided the project into two phases, starting with the implementation of Oracle applications for finance and accounting, order management, purchasing, and inventory control. In the second phase, it rolled out new Oracle-based systems for managing capacity planning, production scheduling, and quality control.

“The implementation of the Oracle ERP solution was a catalyst to drive change in our business processes and provides a solid platform for future growth,” said Wlodzimierz Gryglewicz, vice president of finance for Polpharma.

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Włodzimierz Gryglewicz
Vice President of Finance
Polpharma

PRODUCTIVITY BOOST

Polpharma's new enterprise solution features an Oracle-based financial system that managers say has helped to improve cash flow, increase labor productivity, and improve the speed and accuracy of business decision-making. Polpharma's migration to Oracle was instrumental in setting formal credit and collections procedures essential to running a global enterprise. Among the most significant benefits were:

- *Accounts Receivables Savings.* Better credit-control procedures in particular—including automatic notifications when customers exceed credit limits—helped Polpharma reduce days sales outstanding (DSO) by an average of 45%. The resulting improvement in cash flow will save the company more than US\$3.0 million over the course of the investment, Mainstay estimated.
- *Automatic Invoice Matching.* Built-in system tools, such as automatic invoice matching, cut the total amount of labor required for processing receivables. Similar invoice automation led to increases in administrative labor productivity in the accounts payables department and helped the company eliminate duplicate payments and overpayments.
- *Faster Monthly Closes.* The integrated system helps Polpharma close its monthly books faster. The company said the closing process is about 65% more efficient with Oracle, is more consistent from month to month, and offers more capabilities for account analysis than before, managers said.
- *Faster Budgeting and Forecasting.* The automated financial system enabled the company to prepare budgets and forecasts significantly faster, allowing managers to quickly adjust forecasts to respond to changing business cycles and product launches. The automation reduced resource needs within the finance planning by about 70%, the study found, saving the equivalent of five full-time equivalent (FTEs) employees.
- *Support for International Transactions.* Polpharma's move into global markets requires the company to transact more business across complex tax, legal and currency zones. The system's automated transfer pricing mechanism and multi-currency functions have been essential for supporting these critical financial flows.
- *IFRS Compliance.* The Oracle migration enabled Polpharma to properly document asset transfers between departments and locations, and model the impact of different tax and depreciation scenarios. Such reporting capabilities helps Polpharma comply with International Financial Reporting Standards (IFRS), resulting in more efficient use of finance resources.
- *Better Decisionmaking.* Polpharma's new financial management system boosted the speed and accuracy of financial performance data, and made it more accessible to senior management. This is enabling them to make more

// The Oracle solution was instrumental in providing executive management with real-time reporting data that has improved our strategic decision making process. //

Marek Skrzypczak
Manager of Controlling
Dept.
Polpharma

informed, proactive decisions. “Before Oracle it was very time consuming to construct performance reports,” said Marek Skrzypczak, manager of Polpharma's controlling department. “The Oracle solution was instrumental in providing executive management with real-time reporting data that has improved our strategic decision making process.”

TIGHTER SUPPLY CHAIN OPERATIONS

By introducing standard, transparent business processes, Polpharma established tighter control over its supply chain operations. For example, substantial performance and labor productivity gains were achieved in purchasing and inventory management as the automated system cut down on manual administration. The company now needs two fewer full-time equivalent (FTE) employees to handle purchase orders.

Other efficiencies come from the system's ability to create optimal order sizes based on current inventory levels, order forecasts, and material requirements. In the past, orders were calculated manually using less reliable data. In addition, the new purchase order system can accommodate multiple lines within a single order, a prerequisite for efficient order management.

Polpharma's inventory-management module gave the company more control over its stocks of pharmaceuticals and fine chemicals. Managers said the system's planning tools and modules will enable Polpharma to stock an optimal mix of products and reduce inventory levels overall. The system's unified data model was key to the improvement, managers said, ensuring a consistent view of inventory levels.

In Polpharma's previous environment, inventory data varied widely, in large part because the company's different departments had created separate databases—13 in total—with little integration between them. Moving to a single database helped improve data quality and speed. Moreover, the single database model will scale easily to support the increasing data volumes Polpharma expects to generate as it grows.

LEAN MANUFACTURING AT STAROGARD GDANSKI FACILITY

Following the implementation of Oracle manufacturing and production planning systems, Polpharma has seen a 5% increase in production capacity at the company's 25,000 square-metres manufacturing facility in Starogard Gdanski, among the most modern in Poland. Managers said the system's advanced production-scheduling module has been key to the improvement, helping managers optimize material and labor inputs and schedule production runs more efficiently.

// Since moving to a computer controlled environment, we've seen higher production quality, we've enhanced our analytical review capabilities, and we generate less waste. //

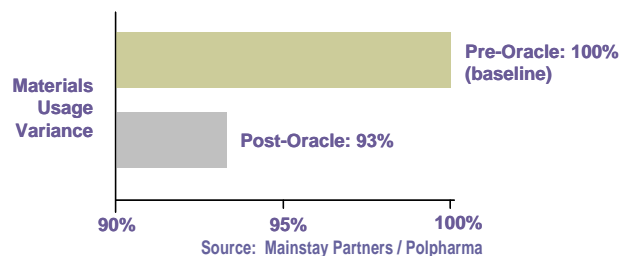
Tomasz Moys
Director of JB Pharma

While in the past it took days or even weeks to compile production-planning data, managers now receive daily reports detailing equipment and labor utilization rates, and related performance metrics. Rapidly generated production reports are enabling managers to pinpoint factors that affect yields and take corrective actions after each run to minimize waste and optimize output.

Using the Oracle system, Polpharma can precisely control the mix of raw material inputs. Consequently, the company's output forecasts are more consistently on target.

As shown in Figure 1, production efficiency—measured as the variance of materials used compared to a pre-Oracle baseline—improved by 7% since the Oracle implementation, reflecting an increase in production efficiency due in part to a decrease in the average amount of production materials consumed.

FIGURE 1. PRODUCTION MATERIALS USAGE EFFICIENCY IMPROVEMENT



By taking advantage of the system's sophisticated planning and scheduling capabilities, Polpharma can quickly shift production runs from one manufacturing line to another, in effect increasing the capacity of its Starogard Gdanski facility. Such flexibility will help Polpharma handle expected growth in production volumes and allow it to postpone purchases of new plants and equipment. The forward adjustment in Polpharma's investment schedule will save the company more than US\$3.0 million over eight years, Mainstay estimated.

In addition, more sophisticated bills of materials (BOMs) allow the company to create multiple BOMs for the same product, so it can switch ingredient lists depending on what is in stock. The enhancement has helped Polpharma cut materials waste by about 1%, resulting in estimated savings of US\$125,000 per year, according to Mainstay.

Other BOM-related improvements, such as better tracking of dates of receipt and use, drove engineering efficiencies that resulted in production time savings of approximately 15%. Better resource management and quality control has translated into faster production cycles overall, managers reported, reducing time to market by about half.

// Oracle's team in Poland proved to be really cooperative and customer-centric, which allowed Polpharma to work with them as a business partner rather than just a systems supplier. //

Slawomir Topczewski
Chief Information Officer
Polpharma

NEW COMPLIANCE SOLUTION OPENS GLOBAL MARKETSS

Exports are seen as the key to driving growth at Polpharma's Fine Chemicals unit, which produces fine-chemical feedstock used for drug manufacturing. In fact, nearly 50% of Fine Chemicals' sales are dedicated to export markets across Europe and North America. Stringent quality-control regulations in these countries, though, require suppliers like Polpharma to maintain extensive validation records so regulators can protect consumers by tracking each ingredient back to its source.

The Oracle implementation helped Fine Chemicals unit establish a comprehensive compliance and validation environment. Specifically, the system provided Polpharma with:

- Automated regulatory recordkeeping with auditable trails of information during all development and manufacturing phases
- Real-time reporting of demand requirements
- Access to pharmaceutical database and statistics
- Overall monitoring of compliance and batch-validation processes

With a systematic compliance and validation program in place, Fine Chemicals unit can move its products to market faster, hit quality targets consistently, and feel more confident approaching sales prospects, executives said. "We used to maintain a paper label based control system," said Tomasz Moys, director of JB Pharma. "Since moving to a computer controlled environment, we've seen higher production quality, we've enhanced our analytical review capabilities, and we generate less waste."

QUANTIFIED BENEFITS SUMMARY

According to Mainstay, Polpharma is on track to realize approximately US\$6.3 million in total (gross) benefits from its Oracle investment. Table 1 summarizes the estimated benefits generated by Polpharma's investment in the Oracle system from 2003 to 2010. Substantial savings, totally about US\$3.0 million, come from the introduction of formal financial processes that vastly improved the company's outstanding receivables position.

Other major benefits include labor savings (US\$1.7 million) and related efficiency improvements (US\$537,000) from new automated financial and accounting processes; a significant capacity increase at the Starogard Gdanski factory, which generated US\$720,000 in avoided capital costs; and other labor savings (US\$375,000) stemming from new manufacturing planning and scheduling capabilities.

ABOUT THE BUSINESS BENEFITS SERIES

This study is one of a series of investigations into the costs and business returns of IT investments, with a focus on Oracle technology and applications. It is intended to serve business executives and managers who are evaluating technology investment options.

Research and analysis for this study was conducted by Mainstay Partners, an independent consulting firm, and was based on interviews with executives at Polpharma, review of planning documents, and searches of industry literature. ROI calculations use industry standard assumptions regarding the time value of money.

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ORACLE

Table 1

Projected Benefits 2003-2010

| Category | Costs/Benefits in Euros |
|------------------------------------|-------------------------|
| Labor savings in finance division | 1,660,000 |
| Savings from receivables reduction | 3,017,000 |
| Increased financial efficiencies | 537,000 |
| Capacity increase in manufacturing | 720,000 |
| Labor savings in manufacturing | 375,000 |
| Total Benefits | 6,309,000 |

Source: Mainstay Partners / Polpharma

Mainstay estimates that Polpharma will break even in about four years and should realize a 23% net return on investment through 2010, equating to an internal rate of return of 26%