

SAP Customer Success Story

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Arthur Bedrosian, President, Lannett Company



LANNETT COMPANY

A GENERIC DRUG MANUFACTURER SETS ITS SIGHTS ON EXPLOSIVE GROWTH WITH SAP® SOFTWARE

Founded in 1942, Lannett Company Inc. is the oldest generic drug manufacturer in the United States. During the past five years, the company has expanded substantially, growing from 70 to 170 employees and boosting annual revenues by more than 70%. This new growth is the result of an aggressive new stance adopted by the executive leadership at Lannett – one designed to capture increased market share and enhance the competitive position of the company.

Growth, however, is seldom without challenges. “As we increased sales and broadened our customer base, we quickly realized that we could not continue to operate on our legacy system,” says Arthur Bedrosian, president of Lannett. And that’s when SAP® software entered the picture.

Prior to implementing its new IT system, the company was burdened by governmental regulations that seemed to grow as fast as the company grew. As a pharmaceutical manufacturer, Lannett is regulated by both the Food and Drug Administration (FDA) and the Drug Enforcement Agency (DEA). And as a publicly traded company, the company must also comply with the regulations set forth by the Securities and Exchange Commission (SEC) and the Sarbanes-Oxley Act.

AT A GLANCE

Company Name

Lannett Company Inc.
United States
www.lannett.com

Industry

Pharmaceuticals

Key Challenges

- Inability to manage growth due to lack of adequate IT support
- Price pressures
- Lack of transparent information and process control
- Customer demand for value-added services
- Increased regulatory compliance requirements

Implementation Partners

- Quinnox
- Answerthink, an SAP partner (provided technical assistance during project)

Solution and Services

- mySAP™ ERP
- SAP® Solution Manager, a tool found in the SAP NetWeaver™ platform

Existing Environment

Legacy systems

Implementation Highlights

- Implemented solution on time and within budget
- Went live during year-end audit – without problems

Key Benefits

- Provided solid platform for growth
- Reduced reporting times
- Improved access to information
- Reduced cost of compliance through operational efficiencies

Hardware

Hewlett-Packard

Operating System

Microsoft Windows

According to chief financial officer (CFO) Larry Dalesandro, compliance requirements were adversely impacting productivity. “We need to have a very high degree of integrity regarding all information in our system,” says Dalesandro, “and we need tight controls to track batch numbers and document the ingredients that go into each product. Our old system wasn’t up to the task, so we spent a great deal of time intervening at a manual level to gather the required information. When the workload dramatically expanded, we simply couldn’t justify the expense of adding new staff to complete the required information-related tasks. That’s when we started looking for a new solution.”

COMING OUT ON TOP

When Lannett decided to take action, the SAP name came up from the very beginning. “We did quite a bit of due diligence,” says Bedrosian, “and we found again and again that other companies in our industry were moving toward SAP – even if they were already established on different systems. We put together a short list of competing vendors and SAP came out on top.”

But there was still another option on the table: upgrading the existing system. “Initially, I was in favor of upgrading,” says Dalesandro. “As CFO, I’m naturally more conservative and less risk-tolerant – and I played the role of ‘Doubting Thomas’ from the onset. We were looking at a major system conversion and that’s no small undertaking.”

Eventually, the CFO was convinced. According to Greg Liscio, the SAP project manager at Lannett, there was a clear recognition that SAP was the leader in the pharmaceutical industry: “SAP offered an in-depth understanding of what we do as a business and a firm understanding of pharmaceutical manufacturing best practices. And let’s be candid, we were facing tremendous competitive pressure to get a more suitable system: price pressure, customer

demand for value-added services, increased regulatory compliance requirements – you name it. What we needed was an integrated system designed to provide the capabilities and controls that our business demands. SAP software fit the bill.”

Answerthink, an SAP business partner, also contributed to the decision-making process by providing detailed information on SAP’s offerings and capabilities for the pharmaceutical industry. And because Answerthink also serves as an SAP technical support partner, it was available throughout the process to provide technical assistance and weigh in on system configuration issues being considered by Lannett. “In the end,” says Dalesandro, “the up-

grading option wasn’t going to cut it. Management made the case for going with SAP. Arthur convinced me that it was the right thing to do, and I’m glad we did it. It’s been a great success.”

AN ON-TIME, ON-BUDGET IMPLEMENTATION

Lannett’s implementation of software from the SAP for Life Sciences set of solutions – which included mySAP™ ERP – kicked off in the

second half of October 2003. The software included capabilities for financial controlling, materials management, production planning, and sales and distribution. Quinnox served as Lannett’s implementation partner, providing anywhere from 5 to 10 full-time consultants throughout the implementation depending on project demands.

Particularly valuable to Lannett was the best practices approach offered by SAP. “We didn’t really have time to sit down and discern all the best practices for ourselves,” says Bedrosian. “That’s why we went with a company that offered the best structure for the things we do. With SAP, we were able to take a single, integrated solution, lay it in, and move on from there.”

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Greg Liscio, SAP Project Manager, Lannett Company

During the project, Quinnox and Lannett's internal implementation team leaned heavily on the capabilities of SAP Solution Manager, a tool found in the SAP NetWeaver™ platform. Greg Liscio explains: "SAP Solution Manager is a tool and a methodology for managing an implementation in a structured manner. SAP already understands what the plumbing looks like in pharmaceuticals manufacturing — what a bill of materials looks like, the components of a recipe. It also provides predefined roles and profiles. When you drive this through SAP Solution Manager, it saves a lot of time and effort that would have been spent doing interviews, building profiles, and dissecting the details of common transactions. It really speeds things along."

Data migration and augmentation was a major phase of the implementation effort — primarily due to the fact that the SAP solution would track information and transactions in greater detail than was possible with the legacy system. Here again, SAP Solution Manager proved beneficial. Using the tool, Lannett was able to transform existing data into a format that could provide greater value under the new system by enhancing information visibility and meeting the requirements of regulatory authorities.

"From my perspective, this was one of the most delicate parts of the implementation," says Dalesandro. "The stakes were particularly high because we went live at the same time we were conducting our year-end audit. People thought we were crazy to go live during an audit, but things went off without a hitch. The auditors had full access to the information they needed — as always. We had no problems. That bodes well."

To ensure end-user adoption, Lannett conducted training in parallel with the implementation. Online help was available through SAP, while live classes brought users up-to-date on the details of the new system. Everyone who attended training received a complete set of business process procedures (BPPs), which provided detailed instructions on how to process transactions, customized to particular job profiles.

This same documentation came in useful during the system validation phases as well. "The FDA requires pharmaceutical companies to have their systems validated," Bedrosian explains. "This is simply to confirm whether or not the system actually functions as it is meant to. The BPPs that we generated as a matter of course during the implementation actually documented the system in great detail. With this documentation in hand, our validation partner was able to do its job much more quickly. Without it, the validation process would have been extremely arduous."

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Arthur Bedrosian, President, Lannett Company

In the end, the entire implementation took just 26 weeks. "That's quite an accomplishment, especially when you consider that this project fundamentally transformed our IT landscape," says Liscio.

"We were on time and on budget," says Bedrosian. "We went live with all components exactly according to plan, and now we have a solid platform from which we can expand our operations and improve our competitive position."

ROOM TO GROW

Only a few short months after implementation, Lannett is already feeling the benefits of its new system. "Because we're such a regulated industry," says Liscio, "one of our major endeavors is to track and report on our processes, our raw materials, how our products are moving, and so on. In the past this was extremely labor intensive. But now the information is readily available. And that means that we can handle a greater workload without having to take on a proportionately larger workforce."

And that's a good thing for a company like Lannett. "Our industry is poised for explosive growth," explains Bedrosian. "And it's our intention to grow right along with it. SAP software helps us compete more effectively by giving us increased flexibility to respond quickly to market opportunities, to provide value-added services to our customers, and to change course where necessary."

Lannett's new SAP software infrastructure also helps alleviate some of the regulatory burden that might impede growth in environments characterized by disaggregated systems and inaccessible data. Sarbanes-Oxley provides a ready example. According to the Sarbanes-Oxley legislation, companies need to document internal controls and provide an internal audit function to ensure they make regular reports to audit committees, boards of directors, and external shareholders. "Under our previous system, this sort of reporting took forever," says Dalesandro. "But with SAP software in place, we're now in a position to take advantage of the significant automation it offers. By recognizing the reporting requirements we face as a unique industry, mySAP ERP helps us do our job faster and less expensively. And as regulations proliferate — as surely they will — SAP will help us meet those challenges moving forward."

PLANS FOR THE FUTURE

Based on its experience with SAP software thus far, Lannett is already moving forward with a phase-two implementation project that will incorporate workflow, business warehousing, and bar-coding capabilities into the system. In fact, SAP is already helping the company meet standards for current good manufacturing practices (cGMPs). "But the bar-coding capability in particular will take it to the next level while increasing efficiency and reducing costs at the same time," explains Bedrosian.

With bar coding in place, Lannett will be better able to track materials from the moment they enter the manufacturing facilities to the moment the final product is shipped. "It will also improve our quality efforts by preventing mistakes," says Liscio. "If a human error is made, for example, there is a high degree of probability that the software will help us uncover the error and track the mistake back to its origins before the batch is released."

Any other plans for the future? Bedrosian sums it up in a word: growth. "This software allows us to grow without having to add additional infrastructure to the operation," he continues. "We can meet governmental regulations without difficulty, give our customers what they want, and take a more aggressive posture in the marketplace. It allows us to do, in fact, the very thing we have been doing for the past four or five years: capture more and more market share. Only now we can do it with greater ease, speed, and effectiveness."