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## BUILDING SUPPLY CHAIN RESILIENCE AMID GEOPOLITICAL RISKS (A)

Having previously worked for various fast-moving goods manufacturers in Europe and the Middle East, Lukas Schmid knows that every industry works differently, and pharma was no exception. He joined his new employer, the Basel/Switzerland based pharmaceutical company Diatec last year as VP of Sales Europe and was now very much looking forward to attending the annual strategy retreat in the stunning Swiss Alps in Zermatt.

Diatec offers a mixed portfolio of prescription drugs; most of them for the treatment of diabetes with active pharmaceutical ingredients (APIs), such as metformin, insulin, or sulfonylureas. The company has a strong presence in the European market where it has increased its market share in certain categories to more than 25%. Diatec's current blockbuster product is an insulin pen that enables patients to apply the medication easily and as needed. Sales in other regions are developing well as the company has recently invested heavily into the US and Middle East markets.

Over the past six months, Lukas had spent a lot of time familiarizing himself with the European pharmaceutical markets. He focused on understanding the roles of healthcare professionals and institutions, the complex tender processes, and the long sales cycles. On the train ride from his headquarter in Basel to Zermatt, he sat next to the VP of Supply Chain, Christine Keller, a 25-year veteran of the company. Lukas had not had much opportunity to talk to Christina before, as he had spent most of his time in meetings with key account management, marketing, regulatory affairs, and R&D.

As he gazed from his seat at the picturesque valleys surrounded by snow-capped peaks and evergreen forests, Christine talked about Diatec's current supply chain setup. She explained to him that Diatec produces in Switzerland, France and Spain at various production facilities. Using the insulin pen as an example, she said: "We produce the API, vial filling, and pen assembly in-house. These all are core activities that we want to keep under our own control. We rely on external partners for the packaging, the components, and the autoinjector—a patented technology manufactured by the patent holder."

Christine also mentioned some of the current challenges she is facing. For example, finding suppliers that offer sufficient volumes in accordance with Diatec's strict regulatory requirements across different countries, optimizing inventory levels amidst fluctuating demand to preserve working capital, and integrating new planning technologies into the legacy software landscape. Listening carefully to Christine's explanations, Lukas was glad to have her in charge of these complex issues. It was reassuring for him to have such a competent colleague who enabled him to concentrate on sales and be sure that he received all the products he needed on time. Some of the issues that had recently occupied him in previous positions all related to supply chain management, and especially supply chain glitches. He thus asked Christine: "He asked Christine: "How did you manage supply chain disruptions in the early 2020s during the COVID-19 pandemic? I remember very well all the challenges my previous company had to face, which cost me hundreds of millions of Euros in revenue". – "We have been very lucky at Diatec. Of course, there have been the usual disruptions on the supply side with factory shutdowns, supplier quality issues, and transport delays. But we have overcome these problems without any real impact on customers."

Lukas was relieved as he had read a lot about stockouts in the pharma industry and their repercussions on patients: "Shortages or stockouts of critical drugs are really problematic. When a patient must switch from an unavailable drug to another, it is a complex process for them, but also for the doctors and nurses involved. Once the switch has been made and the patient has become accustomed to the new medication, it is unlikely that they will return to the old medication even if it is available again." Christine replied: "Exactly, and that is why product availability is my top priority. During the retreat we will have session where I will put you in my shoes and you will see a big challenge we are facing right now."

As Lukas nodded, he recalled two sessions on the agenda of the two-and-a-half-day strategy meeting called 'Breakouts: Supply chain topic for non-SC function/Sales topic for non-sales function'. Eager to know what it was all about, he asked Christine, who put him off with a smile: "I really cannot reveal much at the moment, but I can assure you that it will make you think about our supply chain." At their destination in Zermatt, they got off the train and took an electric minibus to the hotel. The team of fifteen top executives checked into a charming, upscale hotel, with rustic yet elegant décor that offered breathtaking views of the majestic mountains. Crisp winter air, cozy fireplaces, and warm hospitality created an welcoming working atmosphere.

The next day, the strategy retreat featured several sessions, including market analysis, innovation strategies, and cross-functional collaboration. The goal of these discussions was to align the team's vision, identify growth opportunities, and enhance synergies across departments. In the early evening before dinner, there was a first 45-minute slot for the breakouts. Lukas attended this session along with six other colleagues. The group included members from various non-SC functions: a marketing VP, a regulatory affairs manager, an R&D VP, the CFO, and a two other sales VPs.

The session was run by Michele Lacroix, the Head of Supply Chain Strategy and deputy to Christine Keller. Michele explained: "Today, we are running a little scenario to illustrate

Diatec's exposure to geopolitical risks." The group was immediately alarmed as many recalled the turbulences and uncertainty after Brexit in 2016 when it was suddenly unclear whether their products manufactured in Europe could still be sold in the UK. In addition, new healthcare laws in some European countries required Diatec to change its product range, and lucrative tenders had to be negotiated when governments changed. The attendees also mentioned the impact of new trade tariffs, which affect competitiveness in key markets, and changing patent laws which affect the exclusivity and pricing of pharmaceuticals and thus influence sales strategies and forecasts. All of this was often determined by the policies of new governments.

However, the scenario Michele presented was quite different as it focused on another part of the world and did not consider a change of government. As she handed out a fictional newspaper cover page, she explained: "We find ourselves in a situation where China has imposed a quarantine on Taiwan, sealing off sea and air access to the country. All parties involved have a common interest in avoiding a military conflict, but at this stage we have to assume that the quarantine will last for 90 days and could be extended. This means that no goods will enter or leave the island".

Immersed in the scenario, Lukas remembered Taiwan's stunning landscapes that he had seen during a trip to the country three years ago. He remembered the lush mountains, tranquil beaches, and vibrant cities. The island's rich culture, delicious cuisine, and friendly people left a lasting impression on him, and made it a truly beautiful and memorable destination he wanted to return to. However, he also recalled the increasing tensions between the People's Republic of China and Taiwan in the past but felt that this quarantine scenario was quite unlikely at the moment. After skimming the front page of the newspaper, the VP Sales for America, Tom Bradely, spoke up first: "Well, that sounds like an easy case—as long as there is no war, and the US certainly is not interested in starting one—there is no real impact on Diatec. We do not sell our products in Asia and have no production in the region." The VP for R&D, Dr. Marta Rodriguez, chimed in: "Our research collaborations and clinical trials are mainly with European and American institutions. This scenario would not affect our ongoing projects or future plans." Erwin Steffler, responsible for regulatory affairs agreed: "I have always been interested in Asia, but so far we have very limited exposure over there. The European economy is stable, and our sales contracts usually run for several years. Therefore, our markets will not react so quickly to this kind of quarantine. Let's go and have an early drink before dinner."

While unrest arose and the first people wanted to leave, Lukas recalled his conversation with Christine on the train: "I am not sure if it is that simple. This exercise should be about understanding our supply chain—at least some part of it. In the remaining thirty minutes, perhaps we should discuss what is needed to better grasp the situation and what is required for an in-depth analysis. Remember, we have another session on this topic tomorrow, and we should be prepared." Michele took over the initiative: "Right, I want you to think about the potential impact of this geopolitical event on our supply chain and the data that need to be collected to develop a risk assessment and resilience strategies – and, I will provide you with all the necessary information tomorrow".



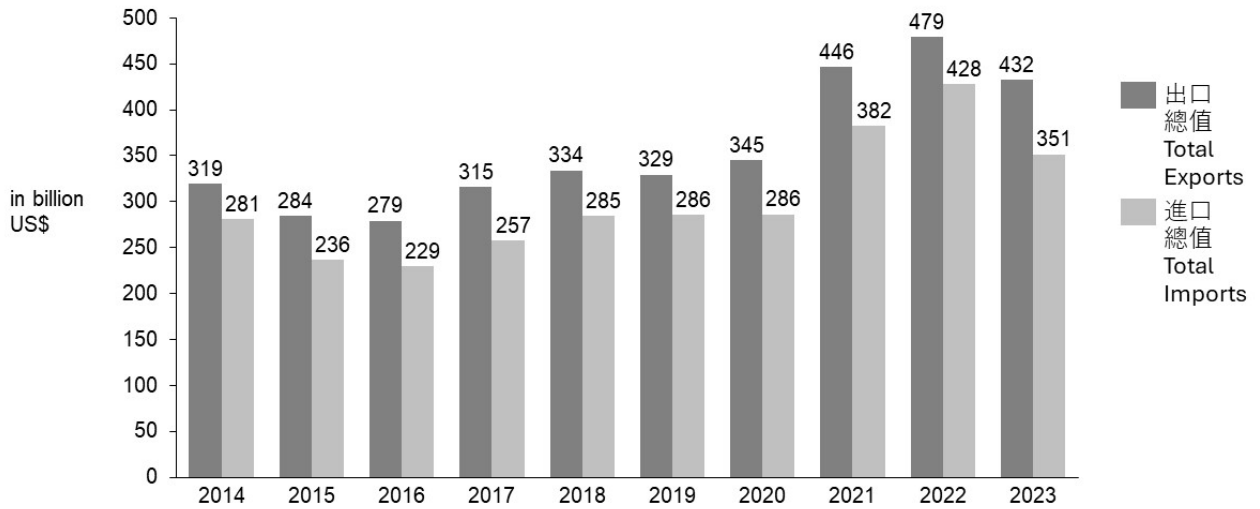
**Figure 1:** Picture of Diatec insulin pen.



**Figure 2:** Newspaper cover page (fictional).



**Figure 3:** Map of East Asia (Source: Encyclopædia Britannica).



**Figure 4:** Total annual imports and exports of Taiwan (Source: Taiwan Statistics Office)

**Questions:**

1. Discuss how geopolitics has affected global supply chains in the past!
2. Outline the potential challenges for Diatec in the Taiwan quarantine scenario!
3. Describe which data you would like to collect to develop Diatec's risk assessment and prepare resilience strategies! What are the challenges collecting the data?