Strategies for Managing Pharmaceutical Workforce and Site Reductions: Analysis of Legal, Productivity, and Quality Control Issues

Introduction

In 2007, due to the impending patent cliff and the consequent need to cut costs, big pharma began for the first time to outsource chemical API manufacturing to China and India. Prior to this, only generic drug companies had manufactured in the two countries. Since then, big pharma has been undergoing waves of layoffs that have been accelerated by the economic downturn, with manufacturing and sales being particularly affected, and outsourcing levels in R&D and manufacturing expected to increase further in the future. This report examines the different strategies available for managing the layoffs and site closures resulting from not only the outsourcing of R&D and manufacturing, but also the transition from small-molecules to biologics and the need to exploit new markets. The factors causing change and producing the need for workforce reductions are analysed, and the expected impact across the pharmaceutical workforce in the US is detailed. The consequences of layoffs and site closures in terms of legal compliance, maintenance of productivity, and safeguarding of quality control are discussed in depth. Case studies from the pharmaceutical industry are provided to highlight pitfalls and illustrate best practice. The report concludes with discussion of the long-term risks associated with over-dependence on expansion in nonmarket economies and suggests methods to lower these risks.

Key Features

• A single reference for comparing details on employment protection regulations in different countries, and, for the US, highlights of major differences in specific states with large pharma employment.
• Comprehensive coverage of the changes occurring in pharmaceutical industry employment in developed nations.
• Demonstration of how to achieve a cost-effective workforce reduction while maintaining R&D innovation and manufacturing quality.
• Case studies of issues resulting from workforce reductions and outsourcing of manufacturing and R&D, with numerous examples of pitfalls and best practice.

Scope

• Identify current and future trends in pharmaceutical industry employment and understand their causes.
• Assess inter-country (and within the US inter-state) differences in employment protection regulations.
• Gain insight into strategies that have been used for facility divestitures to achieve optimum returns.
• Appreciate the benefits of engaging with key local stakeholders during workforce reductions and site closures, and understand the sanctions which local governments may attempt to impose.
• Understand the important role of employee morale and identify measures to retain key staff.

Key Market Issues

• From 1996–2005, US pharma’s sales force nearly doubled to 100,000 to support a 26% increase in practicing physicians. However, a significant number of drugs will lose patent protection over the next four years, 2010–2014, representing roughly $60 billion in total, while the generic share of the drug market has increased from 49% to 74% of total sales in the US from 2000–2009.

• Different companies are adopting various approaches for R&D outsourcing; for example, Eli Lilly plans to outsource 50%, whereas Novartis is committed to a large internal R&D team.
• In 2007, global big pharma including AZ, Pfizer, GSK, and BMS, first announced its plans to outsource API manufacturing to China and India; in the same year, of the 1,154 generic drug applications to the US FDA, only 13% of the manufacturing plants were in the US, while 43% and 39% of the plants were abroad in China and India, respectively.

• Discovery R&D scientific jobs in the pharmaceutical industry require significant years of education and on the job training; in particular, the shift of chemistry jobs overseas will have long-term negative effects on the US pool of chemistry talent that will be difficult to reverse.

• Regional stakeholders, including local business and government leaders, are keenly interested in identifying solutions for the future of manufacturing sites and supplying assistance for the displaced employees.

Key Findings

• The projected growth from 2008–2018 for US pharmaceutical and medicine manufacturing employment lags behind the projected employment growth for all US industries, at 6% versus 11% respectively, due to generic competition and drug production moving overseas.

• OECD synthetic indicators measure the strictness of overall employment protection against dismissals of part- and full-time employees and restrictions on temporary hires, and are low for the US, Canada, and the UK; intermediate for Ireland, Japan, and Hungary; and high for Germany, China, India, and France.

• Companies that work closely with regional stakeholders will gain partners who assist with marketing and locating financial investment and potential buyers for the closed facility.

• The timing of workforce reduction announcements can be crucial to the reception both within the workforce and in the wider community. In some cases, poorly chosen timing
has significantly complicated the layoff process and has generated considerable bad press.

Key questions answered

• What are the employment protection regulations regarding a mass layoff or facility closure in key states in the US and countries in Europe and Asia?

• What happens to the government tax benefits and incentives when a company undergoes employment reduction?

• When and why do companies provide additional severance and displacement support?

• What two factors are key for a cost-efficient workforce reduction?

• How does a company most effectively and quickly recover from a workforce reduction?

• What is necessary to maintain an innovative R&D group after a workforce reduction?

• What are the long-term risks of outsourcing to China and India? How does a company minimize risk exposure to nonmarket economies?
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