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Digital Transformation: A Critical Component for CDMOs in the Pharmaceutical Industry

Sandeep Ramanamuni

Manager, Digital Supply Chain
sandeep.ramanamuni@gmail.com

Abstract:
This paper highlights how digital transformation is critical in developing a competitive edge and capabilities in Contract Development and Manufacturing Organizations within the pharmaceutical industry. The fact that there is increased international demand for innovative and personalized medicines puts CDMOs under pressure to provide quicker, more efficient, and more compliant services. Such research underscores how digitalization, via technologies such as ML, the IoT, digital twins, AI, and cloud-based systems, can help CDMOs streamline their operations and improve supply chain visibility and time to market. The paper further sheds light on a digital-first mindset, cybersecurity, solid data integration, and end-to-end transparency as the bases for value delivery and sustainable growth within the pharmaceutical landscape.

Keywords: digital transformation, pharmaceutical industry, CDMO, supply chain visibility, AI, IoT, digital technologies.

Introduction:

The pharmaceutical industry has witnessed tremendous growth over the past two decades. This accounts for an increase of $1.42 trillion in worldwide revenues. The total value of the global pharmaceutical contract manufacturing market is expected to reach $95.9 billion by the year 2025 (Statistica 2023). As there is a need for much research and targeted treatments for specific diseases such as genetic mutations, oncology, etc., there is a need for a more streamlined process to ensure faster speed to market. While large pharmaceutical companies can easily handle this pressure, small biotech companies may feel the pressure to show quick progression (Kong & Liu, 2023). Be it a large pharma company or a small biotech startup; both are turning to Contract Development and Manufacturing organizations to improve their innovative therapeutics delivery in the market.

The most pioneering CDMOs adopt digital transformation techniques to deliver pristine customer service by offering operational insights and efficiencies. Pharmaceutical companies that use advanced digital processes will be able to prove their leadership position and become globally competitive (Eller, Alford, Kallmunzer, & Peters, 2020). However, there is now a need for the industry as a whole to embrace digital transformation and become more data-driven, agile, and ready for the future. Digitalization in the pharmaceutical sector is now a must-have for CDMOs and their client partners, as it proves their stand in the market. Since 2020, a number of healthcare and life sciences pioneers have considered digital adoption as a way to attain a competitive advantage (Li, Su & Zhang, 2019). About 93% of healthcare executives state that they are innovating their pharma supply chains with a great sense of urgency

(Research and Markets, 2019). CDMOs should make the appropriate investments and coordinate strategically across their client-supplier base to remain competitive. CDMOs are best positioned to help the pharma and clinical innovators leverage digital technologies, which include integrating their systems with their partners and suppliers (Hull, 2023).

Supply chain challenges - overcoming resistance on the path of digitalization

There are four main hurdles for digitization that CDMOs should navigate when they operate in the pharmaceutical sector. Pharma and clinical providers resist the use of digital tools, as much of the industry focuses on paper and manual processes (Lecher, 2024). However, adopting digital transformation helps them with real-time insights into inventory data, product, and order management, and automating their day-to-day processes.

A second serious challenge in the pharmaceutical supply chain is delivering exceptional customer service at a time when healthcare organizations are racing for optimal patient experiences (Ivanov, 2021). CDMOs serving commercially led pharmaceutical companies struggle to be service-focused. This is because of the complexities of coordinating the ecosystem of CDMO, commercial or clinical providers, and supply chain partners.

Issues in the supply chain are a third hurdle, which was pronounced during the COVID-19 pandemic. When the COVID-19 vaccines were introduced on a mass scale, there were problems with cold storage during vaccine transit (Ardolino et al., 2022). The pharma industry is no exception to experiencing unprecedented shortages in the supply chain, which hinders its ability to market products quickly. More than half of the companies lack end-to-end supply chain visibility (Lecher, 2024).

Digital transformation - An imperative for futuristic CDMOs

Embracing the digital-first mindset will allow the CDMOs and the clients they serve to stand out from the rest of the competition, as they are able to leverage data for better insights (Rogerson and Parry, 2020). Such innovations will modernize the infrastructure to be more cyber-aware and anticipate and respond to the changing market dynamics quickly. Up-to-date, well-organized, and actionable data is enabled in the digital strategy in robust supply chains (Buyukozkan and Gocer, 2018). CDMOs who master this digitalization tactic will be able to outpace their peers from the standpoint of profitability and growth. Many pharmaceutical companies are now realizing the importance of digital strategy and considering it as a selection criterion for CDMOs (Hennelly et al., 2020). The best benefits of digital transformation for CDMOs are as follows.

Figure 1: Digital transformation in pharma industry

1. Early adopters of digitalization have shown commitment to strategic partnering and helped pharmaceutical companies build long-term relationships (Colombari et al., 2022).
2. It allows CDMOs to be in tune with the client's needs while driving more significant insights. In this way, they are able to take feedback from the customers to enhance their processes (Ageron et al., 2020).
3. Digital transformation helps automate day-to-day processes. It allows the CDMOs to put information in the hands of the front-line supply chain and operations staff to make decisions as they desire (Zhou et al., 2023).
4. Above all, digitization builds more data literacy and data integrity in commercial pharmaceutical or clinical research and development organizations. Pharma companies are exploring ways to expand the use of digitization tools beyond production and inventory management to include electronic document management to benefit from the complete capabilities of digitization (Lu and Weng, 2018).

CDMO digitalization - Best practices

Before embarking on the digital transformation path with the CDMO, the pharmaceutical companies should first make sure that their partner embraces these best practices.

1. Cybersecurity:

The CDMO should have made cybersecurity a part of its culture. Incorporating cybersecurity into the culture of the company, rather than just bolting it as part of its IT operations, is important. CDMOs with digital-first strategies will prioritize cyber awareness (Columbari et al., 2022). An IBM study has found that human error is the main cause of 95% of data breaches as of the year 2023. CDMOs that infuse cyber awareness into their culture will ensure that every member will be held responsible for safeguarding the portals and data. This ultimately helps protect the clients' data.

2. Electronic batch records:

Embracing electronic batch records in the pharma industry is indeed its physical asset. Converting from paper to digital is indeed a holy grail for the digitally focused CDMO (Truant et al., 2021). Though it takes time, a digitally driven CDMO will guide companies on the right path of adopting digitalization in their supply chains (Proksch et al., 2021).

3. End-to-end integration:

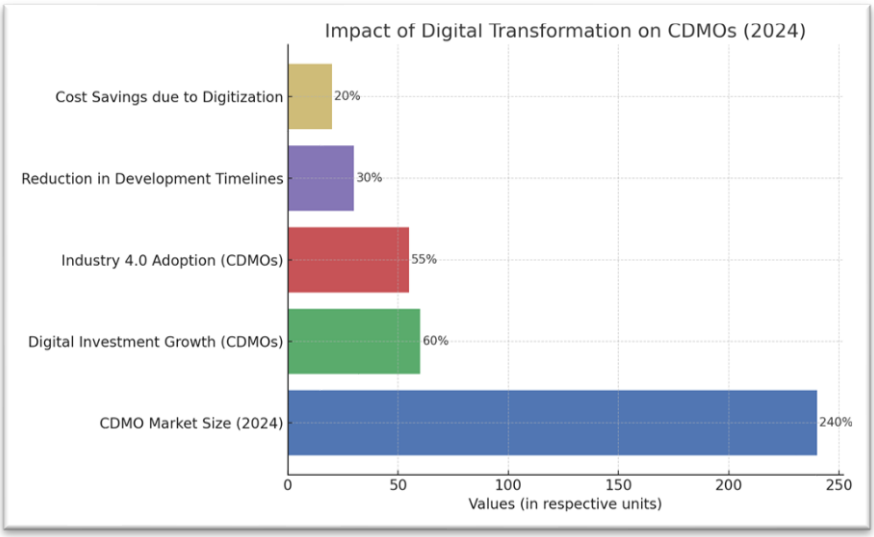
Information between the pharma partners, the CDMOs, and the end customer should be integrated. If there is a disconnect, then it might lead to operational inefficiencies and poor execution (Culot et al.,

2020). Digital transformation will eliminate such silos through integrations. Thus, users will be able to gain real-time access to the up-to-date operational data. Such visibility and data insights will enable the CDMOs and their partners to serve the end customers at a better level (Haseeb et al., 2019).

4. Blend traditional approaches with digital tools:

The drive to bring innovative medicines and therapies to the market and to keep the existing novel drugs on shelves has become more challenging. The complexity and the challenges in the supply chains and the push to render better customer service put pressure on pharmaceutical companies to embrace digitization (Zhang et al., 2022). The best way to accomplish this is to fuse the experienced personnel and the digital tools to have the best of both approaches to result in a different level of customer service (Papanagnou et al., 2022).

Figure 2: Impact of digital transformation on CDMOs



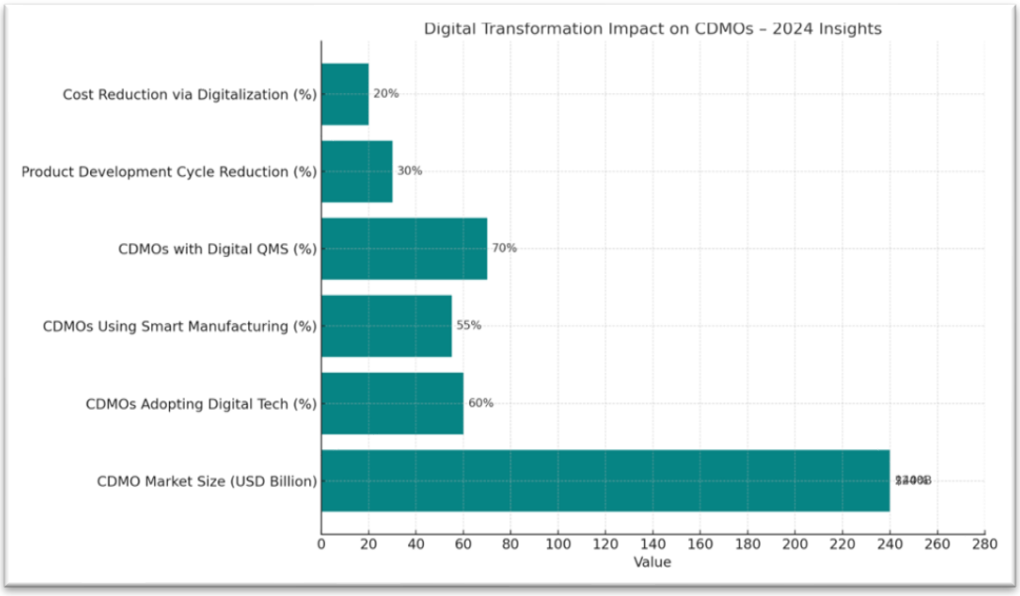
Market growth and data analytics of CDMOs in the Pharmaceutical Industry

The global CDMO market is projected to grow at a CAGR of 8% to 10%. It should reach $240 billion in the year 2024, given the increasing quantum of outsourcing trends. The rising complexities of drug manufacturing also influence the market (Grand View Research, 2023).

According to reports, more than 60% of the CDMOs have increased their investment in digital technologies. These technologies include the incorporation of digital twins, AI, ML, IoT, cloud- based MES, etc (PharmaTech 2024).

CDMOs are adopting industry 4.0 technologies, and more than 55% of them implement digital infrastructure. This includes real-time monitoring and predictive maintenance by 2024 (PwC, 2024). CDMOs have reported that digital transformation has enabled about 25% to 30% reduction in product development timelines. It has also resulted in up to 20% cost savings through better process controls. It also offers enhanced compliance due to the automation of quality systems.

Figure 3: Impact of digital transformation on CDMOs



Recommendations:

- Future research should involve investigating well-detailed metrics that assess the direct impacts of specific digital technologies (AI, IoT, digital twins, etc.) on performance indicators, such as efficiency, lead time, compliance rates, cost savings, etc.
- Another area for comparative research lies in the performance of digitally mature or progressive CDMOs against those that subscribe to minimal digital integration in terms of competitive advantage, level of customer satisfaction achieved, and operational agility.
- Research is required to understand the unique challenges faced by small-medium CDMOs in the adoption of this digital technology, which include funding constraints, lack of technical expertise, cultural resistance, etc., and come up with scalable digital solutions.
- Future research on how CDMOs and pharmaceutical companies can jointly synchronize their digital ecosystems to ensure seamless data flows, enhanced supply chain collaboration, and synchronized regulatory compliance will be appreciated.
- Research could look into how CDMOs plan to tackle the digital skills deficit through workforce upskilling while recruiting digital talent and the underlying organizational culture for successful digital adoption.

Conclusion:

The CDMOs are transforming the pharmaceutical industry through their digital transformation initiatives, strategic partnerships, and expansion into new ventures. As the industries continue to evolve, the CDMOs should prioritize their investment in digital technologies and capabilities to stay competitive and deliver high-quality solutions to their clients. They should also evaluate their key capabilities and differentiators to develop an overarching strategy and expand their portfolios to deliver optimized solutions. Such initiatives have led to the uptake of advanced digital manufacturing and analytical technologies that help to realize short development timelines and achieve secure and stable supply chains.

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