

# Strategic Planning in the Pharmaceutical Distribution System

Stephen W. Birdwell<sup>1</sup>

*College of Pharmacy, The Ohio State University, 500 West 12th Avenue, Columbus OH 43210-1291*

## PROLOGUE

With many of the uncertainties facing the distribution and provision of pharmacy and other health care services, future managers must understand the importance of conducting the strategic planning process. The purpose of this article is to provide an overview of strategic planning and the steps of the strategic planning process for organizations in the pharmaceutical distribution system. Each step of the process is described with examples related to the various organizations in the distribution system, including pharmaceutical manufacturers, wholesalers, community and institutional pharmacies. The process discussed can be applied to any organization in the system, regardless of the type or size of organization.

## INTRODUCTION

Strategic planning has become imperative for all organizations in the pharmaceutical distribution system. Current changes in reimbursement mechanisms and the unknowns associated with health care reform have forced managers of pharmaceutical manufacturers, wholesalers, and community and institutional pharmacies to strategically plan for the future. Government agencies and third party payers expect the provision of pharmaceutical products and services to be cost-effective, keeping costs to a minimum and demanding excellence in patient care.

## BACKGROUND

In the early discussions of strategy, the term referred to statements, plans or actions, and their components, as well as the process leading to their formation. One of the first

definitions of strategy, provided by Chandler (1), actually described a process and gave little indication of the content of strategies. He defined strategy as:

“the determination of the basic long-term goals and objectives of an enterprise, and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals.”

While many of the early definitions of strategy referred to a process, recent authors have termed the process “strategic planning”. Ginter and White (2) define strategic planning as “the process by which decisions are made that are intended to guide the long-range behaviors of the organization.” The process has also been conceptualized to a greater extent by specifying a chronological sequence of steps an organization should follow. Table I provides the steps involved in this process, as offered by four authors(3-6) Although each sequence of steps is different, many of the specific steps are similar and one step in some models may include more than one of the steps in another model.

Birdwell(7) identified six steps commonly associated with the design and implementation of the strategic planning process: (i) specification of goals and objectives; (ii) identification of threats/opportunities and strengths/weaknesses; (iii) generation of strategy alternatives; (iv) evaluation of strategy alternatives; (v) strategy selection and implementation; and (vi) monitoring and feedback. It must also be noted that not all planning can be considered strategic planning and differences have been described between stra-

---

<sup>1</sup> Associate Professor of Pharmacy Administration.

**Table I. Suggested steps of the strategic planning process**

Schendel and Hofer <sup>a</sup>	Armstrong <sup>b</sup>	Pathak <sup>c</sup>	Nutt and Backoff <sup>d</sup>
Goal formation	Specify objectives	Specify objectives	Historical context
Environmental analysis	Generate strategies	Strategic fit identification	Situational analysis
Strategy formulation	Evaluate strategies	Search for strategies	Strategic issue agenda
Strategy implementation	Monitor results	Strategy selection	Strategic options
Strategic control		Marketing plan and proper design	Feasibility assessment
		Annual planning and budgeting	Implementation

<sup>a</sup>See ref 3.

<sup>b</sup>See ref 4

<sup>c</sup>See ref 5.

<sup>d</sup>See ref 6.

tegitic planning, policy planning and project planning(8). The remainder of this article describes the process by which organizations in the pharmaceutical distribution system can strategically plan to enhance their performance.

#### SPECIFICATION OF GOALS AND OBJECTIVES

The first step in the strategic planning process involves defining the organization's mission and then specifying the goals and objectives that management would like to achieve. The mission of the organization should be stated in terms of meeting a need rather than the producing or supplying a product or service. Managers should ask the question "What business are we in?" and then identify their consumer group, consumer needs, and the technological dimensions required to meet these needs(5). Organizational goal statements define consumer and market needs more specifically at both the corporate and departmental levels, while objectives are even more specific, being measurable, realistic, and time-oriented. The mission, goals and objectives should be written, documented and explicit. Table II provides an example of a mission, goal and objective for a hospital pharmacy department. (Similar examples for other organizations can be developed for use as classroom examples.)

Also included in this first step, as indicated earlier, is an analysis of the consumers, or stakeholders, of the organization. Stakeholders are those individuals that may be affected by the results of the strategic planning process. For example, the stakeholders of a pharmaceutical manufacturer may include patients (actual consumers of the drug), physicians (decision-makers), pharmacies, wholesalers, third party payer, and stockholders. Understanding who the stakeholders are allows for a much better determination of the mission, goals, and objectives of the organization.

#### INTERNAL AND EXTERNAL ASSESSMENT

The second step in the strategic planning process, the assessment of the internal and external environments, has also been termed environmental or situational analysis. This step involves identifying the strengths and weaknesses of the organization and threats and opportunities facing the organization. Murray(9) suggests that while a firm may

**Table II. Example of a mission, goal and objective for a hospital pharmacy department**

**Mission Statement** To provide the appropriate mix of pharmaceutical services that are of the highest quality and cost-effective.

**Goal Statement**

To monitor drug use by patients, assuring appropriate and rational drug therapy.

**Objective Statement**

To implement a drug use review program within the next six months.

choose a strategy to address current industry situations, the viability of a chosen strategy will be determined by the dynamics of industry characteristics. Therefore, an exhaustive examination of the environment is crucial in the design, selection and implementation of appropriate strategies.

The identification of the strengths and weaknesses of an organization (internal assessment) includes an evaluation of: (i) the current level of services or product lines; (ii) strengths and weaknesses of current personnel and any discrepancies in current personnel and what is needed; (iii) financial resources and budgetary constraints; and (iv) current physical facilities and technology. The strengths and weaknesses of organizations in the pharmaceutical distribution system are varied, depending on the type of organization (e.g., community vs. hospital pharmacies) and differ among organizations of the same type. However, strengths of the pharmaceutical distribution system, in general, include the research, development and distribution of cost-effective therapies and the provision of these products and associated services by individuals with the expertise needed to assure the appropriate use of the products.

The external assessment, or identification of threats and opportunities facing the organization, includes an evaluation of consumers, the competitive environment, and the macroenvironment. Assessment of consumers involves determining the current market that consists of all persons that have an actual or potential interest in, or impact on, the organization. Trends associated with the current market of consumers must also be addressed including changing demographics and the changing needs of the stakeholders of the organization. One example of the changing consumer groups involves both pharmaceutical manufacturers and wholesalers. Typically, the consumer groups of these organizations have been community and hospital pharmacies. However, this is changing with the advent of alternative delivery systems, including managed health care organizations and mail order pharmacies.

The competitive environmental analysis involves the consideration of current or future alternatives in the development and distribution of pharmaceutical products or services by competitors. Determination of these competitors is important, as these competitors may not be those organizations commonly considered. For example, as new biotechnological products enter the marketplace, other health care professionals may perceive the distribution of these products in their realm of service, rather than being provided by pharmacists. Other examples include the increased use of automation and robotics by competitors, changing pricing policies, and the formation of purchasing groups.

The most uncontrollable forces facing organizations in the pharmaceutical distribution system are associated with the macroenvironment. These forces include government regulation and intervention, as well as economic factors. Economic factors include current inflation and interest rates, which must be considered in any evaluation and selection of strategies, especially those strategies surrounding new ventures and investments. Government intervention is increasing, including regulation regarding reimbursement to distributors of pharmaceutical products, possible pricing controls and mandatory rebates, patient counseling, and utilization review programs.

## GENERATION OF STRATEGY ALTERNATIVES

Once the internal and external assessment is complete, the next step is to generate strategy alternatives. A strategy may include opportunities, objectives, values, obligations, resource deployments, constraints, and policies and procedures. The organization should consider all possible alternatives, not only the most feasible. Consideration of alternatives that are not feasible helps in the identification of strengths in those alternatives that are feasible. This generation of strategies should also include current strategies and maintaining the status quo.

The trends facing the pharmaceutical distribution system discussed earlier help to identify possible strategies for the organizations in the system. Pharmaceutical manufacturers may generate strategies based on research and development of medical breakthroughs, new marketing techniques to improve quality of care, and formation of collaborative programs with managed health care organizations. Wholesalers may consider offering more services to current customers, negotiation of prime vendor contracts and increased distribution of generic pharmaceutical and over-the-counter products. Possible strategies for both community and hospital pharmacies include improved documentation of pharmaceutical services in an effort to justify reimbursement by third party payers, increased use of technology (computerization, automation, robotics) and public relations programs to educate the public regarding the mission of pharmacy practice.

## EVALUATION OF STRATEGY ALTERNATIVES

After all possible strategy alternatives have been generated, the organization then must thoroughly evaluate each alternative. Evaluation of the strategies includes making sure an alternative "meshes" with the environmental constraints, both internal and external, as well as the mission, goals and objectives identified in the first step of the strategic planning process. Much of the success of the strategic planning process depends on the extent of the evaluation of each alternative. Again, it is tempting to choose only the most feasible alternatives, but evaluation of alternatives that are not feasible may provide valuable insight into those alternatives that will produce improved performance and success.

## STRATEGY SELECTION AND IMPLEMENTATION

The next step in the strategic planning process following the evaluation of all alternatives is the selection and implementation of appropriate strategies. The activities involved in this step may actually be termed "program" or "project" planning. The organization chooses those strategies that hopefully will lead to success and improved performance,

and then decisions are made as to how the strategy will be implemented. One useful model that can be used for implementation of new products or services is the four "P's" of marketing: product/service, price, promotion, and place(10).

Using this model the organization must first determine what product or service will be offered. This includes the quality and associated features of the product or service. Examples include any warranties, labeling, and brand marks for specific pharmaceutical products and guarantees regarding the quality of specific services. The price of the product/service must also be determined. This decision should include an evaluation the costs to the organization to produce the product or provide the service and then a price calculated which will be the charge to consumers (if there will be any charge). It is also important to consider promotional and educational activities to inform all stakeholders of the organization of any new products and services. Finally, the last "P", place, involves decisions surrounding the actual delivery of the product or service to the consumer, including personnel involved and all supplies or other inventory needed.

## MONITORING AND FEEDBACK

The final step in the strategic planning process is the monitoring and feedback associated with the strategies that have been implemented. This step is similar to the second step, as it involves both an internal and external assessment of the environment. Evaluation of the internal environment includes monitoring of actual results of the strategy, differences between actual and expected results and any changes that have occurred in the organization's capabilities.

The external assessment includes an evaluation of changes in the macroenvironment, changes in competitors' capabilities, new actions by competitors and any changes in stakeholders. The information gained from the internal and external assessments can be used to make changes in the current operations of an organization, or may be used to begin a new strategic planning process.

## ORGANIZATION SIZE

The size of an organization may play an important role in determining the level of planning and the types of strategies adopted. Much of the research in the planning area does not consider size as a variable because the samples of these studies consist of only large organizations, e.g. Fortune 500 firms. Studies have shown that economies of scale may restrict the strategic options available to any organization and due to the size of the organization, larger firms are more able to engage in strategies of greater risk compared to smaller organizations(11). Planning by smaller firms may also be based on the perceptions, experiences and speculations of the owner. These individuals are usually faced with minimal time, resources and skills to engage in a sophisticated planning process(12). Prescriptive literature suggests that small firms should use management principles applicable to large organizations, only on a smaller scale(13, 14). However, studies in small business planning have, found that goal setting and decision-making involved with planning are the most difficult for managers of small businesses and most small organizations are not engaging in any planning process(15-17). While size and structure of the organizations in the pharmaceutical distribution system vary, it is important that all organizations in the system, regardless of size, con-

sider conducting the strategic planning process on a regular basis.

## CONCLUSION

The purpose of this article was to provide the reader with an understanding of each step involved in the strategic planning process and the importance of completing each step. These steps are described for the pharmaceutical distribution system, however, the same steps can be used for any organization, at the corporate or departmental levels. While several examples have been provided throughout the discussion, many other examples are also appropriate and could have been discussed. It was beyond the scope of this paper to describe all possible threats, opportunities and strategies for the organizations in the pharmaceutical distribution system. It is hoped that the reader has gained an appreciation for the time required to engage in, and complete, the entire strategic planning process. Appropriately conducting the strategic planning process may help to ensure future success and performance of the organizations in this system.

*Am. J. Pharm. Educ.*, 58, 193-196(1994); received 2/1/94, accepted 3/10/94.

## References

- (1) Chandler, A.D., *Strategy and Structure: Chapters in the History of the American Industrial Enterprise*, MIT Press, Cambridge MA (1962) p. 16.
- (2) Ginter, P.M. and White, D.D., "A social learning approach to strategic management: toward a theoretical foundation." *Acad. Manage. Rev.*, 7, 253-261(1982).
- (3) Schendel D.E. and Hofer, C.W., *Strategic Management: A New View of Business Policy and Planning*, Little, Brown and Co., Boston MA (1979) pp. 1-29.
- (4) Armstrong, J.S., "The value of formal planning for strategic decisions: Review of empirical research," *Strategic Manage. J.*, 3, 197-211(1982).
- (5) Pathak, D.S., "Integrating strategic planning and marketing for hospital pharmacy directors," *Topics Hosp. Pharm. Manage.*, 5, 8-24(1985).
- (6) Nutt, P.C. and Backoff, R.W., "A strategic management process for public and third-sector organizations." *Am. J. Planning*, 44-59 (Winter, 1987).
- (7) Birdwell, S.W., "The strategic planning process in hospital pharmacy: An exploratory study," PhD dissertation. The Ohio State University, Columbus OH (1987) p. 43.
- (8) Nutt, P.C., *Planning Methods for Health and Related Organizations*. John Wiley and Sons, New York NY (1984) pp. 523-565.
- (9) Murray, A.I., "A contingency view of Porter's generic strategies," *Acad. Manage. Rev.*, 13, 390-400(1988).
- (10) Kotler, P., *Marketing Management*, Prentice-Hall, Inc., Englewood Cliffs NJ (1980) p. 131.
- (11) Porter, M.E., "The structure within industries companies' performance," *Rev. Econ. Stat.*, 61, 214-227(1979).
- (12) Robinson, R., "Forecasting and small business: A study of the strategic planning process," *J. Small Bus. Manage.*, 1-9 (July, 1979).
- (13) Welsh, J.A. and White, J.F., "A small business is not a little big business," *Harvard Bus. Rev.* 18 (July-August, 1981).
- (14) Robinson, R. and Pearce, J.A., "Research thrusts in small firm strategic planning," *Acad. Manage. Rev.*, 9, 128-137(1984).
- (15) Myrick, F.L., "Successful small business managers," *J. Small Bus. Manage.*, 19-21 (July, 1977).
- (16) Rice, G. and Hamilton, R., "Decision theory and the small businessman," *Am. J. Small Bus.*, 1-9 (July, 1979).
- (17) Sexton, D.L. and Van Auken, P.M., "Prevalence of strategic planning in small business," *J. Small Bus. Manage.*, 20-26 (July, 1982).