

## Healthcare

Healthcare is a sector that air freight carriers and forwarders have been focusing on in recent years, because of its relatively good yields and growth prospects, even during weaker economic times. But healthcare shippers looking to outsource are increasingly wanting integrated solutions, according to Bill Hook (pictured), UPS's VP for healthcare logistics.

Changing patterns of global production and consumption have been adding to the complexity of the healthcare supply chain, bringing additional opportunities for freight and logistics companies. Important trends include an increase in regulatory oversight and an increasingly older population requiring healthcare products, as well as the growth in biotechnology products that require temperature-sensitive transport.

But shippers and logistics providers are also trying to take advantage of opportunities to supply consumers in emerging markets and make use of new production bases in regions such as eastern Europe and Asia, supplementing locations such as Ireland, Puerto Rico and Singapore, where production has traditionally been concentrated.

"Until last year, North America and Europe accounted for 70% of healthcare demand," says Hook. "But that is changing and other markets are growing much more quickly. Around 25% of growth now comes from emerging economies."

## Outsourcing

Supply chain outsourcing in other sectors, such as hi-tech, began some time ago, but has come relatively recently to the healthcare sector, says Hook. This is, in part, because shippers believed logistics companies were unable to comply with the strict regulatory requirements of the sector, and because the geographical demands on their supply chains were not so great.

"We are getting a lot of companies looking at moving products into emerging markets and establishing infrastructure that they can share," says Hook.

These factors have also combined with increasing cost pressures on healthcare companies, although the sector is less affected by weaker economic conditions than mainstream consumer sectors.

"In a shared-user environment, companies can expand or contract their

# A sector not for the faint-hearted

Supply chain complexity and regulatory requirements mean that healthcare is an area for specialists, UPS VP Bill Hook tells Will Waters

businesses to respond to ebbs and flows, without having the capital commitment," says Hook. "We have a lot of mid-sized companies that have chosen to outsource their supply chains and warehousing needs so they can focus on research and development and marketing. There is a significant trend there, and the credit crunch has added to it."

But because of increasing supply chain complexity, regulatory requirements and the need often for an unbroken and audited supply chain, shippers are looking more and more for a single supplier to manage shipments.

"There is a much higher interest among healthcare companies to have a more integrated solution," says Hook. "This has developed more recently, where [healthcare] companies are looking to establish a relationship that adheres to the quality metrics [needed in a healthcare supply chain]."

In the more mature markets of North America and western Europe, logistics services for the medical sector are growing at around 7% a year, and pharma below that, says Hook.

"UPS is continuing to see growth in the mid-teens, so we are clearly growing at a faster rate than the market, and what has been driving that is the relationship where we are providing this integrated approach.

"That is why we have been providing more door-to-door services, where we move the product from the manufacturing site to local markets."

UPS has also been investing in distribution facilities designed for the sector, such as the 20,000sq metre multi-client distribution centre in Roermond in the Netherlands, scheduled to open in the first quarter of 2009.

As well as providing better visibility, he says an integrated chain also reduces transit times



**Although healthcare is more insulated than some sectors to economic pressures, the drive to find more cost-effective solutions has intensified, says Hook, and some products are being switched into ocean from air.**

**"In some cases companies are evaluating this product by product," he says. "This may result in separating less time-sensitive parts of their international shipments or moving a portion of certain shipments by air and the remainder by ocean. This is particularly true for medical device companies."**

transport, we know where the truck is and it can flow into our air network in a more fluid fashion. It is more efficient to be doing it ourselves, and customs clearances are easier."

That is still possible if UPS uses commercial carriers as well as its own "brown tail" fleet. "In fact, commercial carriers are very important in supporting the growth we are experiencing and we see this continuing," he says.

Customers use both passive and active shipping methods – including Envirotainers – meaning it is possible to use commercial carriers that have specialist healthcare products

and costs.

He says the way to do this is by taking steps out of the supply chain, not squeezing rates, "which is a more sustainable way of managing costs", he says.

Hook cites two examples of where providing an integrated solution from Europe to the US

reduced transit times from an average of five days to 48 hours, while also reducing costs. This was achieved by integrating the shipments into UPS's network, and using the benefits of critical mass, while retaining the key elements of a specialist healthcare product.

"If we are controlling the

and those that do not.

With the prospect of recession in several major economies, some have suggested that the recent focus by forwarding and logistics companies on certain previously high-yield sectors may give way to a more generalist approach. But Hook says this is not advisable in the healthcare sector.

"There is no question, from my perspective, that specialisation is essential. The only way we are going to be able to truly drive value for companies in healthcare is by understanding their challenges and unique requirements. In doing so, we can take cost out of their systems.

"There are always companies trying to leverage volumes and put pressure on providers, but at a certain point there are diminishing returns. Then the way is to make fundamental changes, and it is only people who really understand the markets that are able to do this.

"We are sitting down with customers and talking about how we can do things differently, but you cannot do that as a generalist. If you are talking with an orthopaedic company, that is very different to a vaccine company."

## More competition

With other sectors of the economy suffering, does he expect a wave of new competition from forwarding and logistics companies looking to take advantage of the ever-green healthcare sector?

"I would say that the highs are not as high and the lows are not as low as in other parts of the economy," he says. "There is an economic impact [on healthcare] in a downturn, but not as significant as on consumer markets. But there is a significant barrier to entry into healthcare, because of the necessary investment in compliance and specialisation. So, to a certain extent, it is attractive and competitive, but it is not for the faint of heart." ●

## Cost the main concern as global supply chains expand

UPS recently commissioned a survey of top supply chain decision makers in the pharmaceutical, medical and surgical device and biotech industries, conducted by Harris Interactive.

Global market access emerged as the area companies needing the most help addressing, as healthcare firms seek to take advantage of lower-cost sourcing opportunities and penetrate fast-growing, emerging consumer markets.

Evolving compliance legislation also emerged as a key concern in an increasingly global marketplace, in

which companies must navigate regulatory compliance laws across new territories.

When asked about supply chain-specific concerns, companies ranked managing and containing supply chain costs as the number one concern. Sixty percent reported they were "very concerned" or "extremely concerned" about the potential impact of supply chain costs on their business, although 25% selected managing supply chain costs as the issue they have been most successful at addressing.

Another trend is an expected increase in supply chain spending. In the next 18 months, 60% expect supply chain spending as a percentage of total sales to increase by 23%.

"Managing supply chain costs will only become more critical as healthcare supply chains continue to expand and evolve," says Hook. "It's a balancing act for companies to take advantage of new opportunities amid market pressures, an increasingly complex regulatory environment and elongated supply chains."