

Collaborating on a Cure for Pharmaceutical Distribution Ills

By turning over two proprietary facilities to a third party provider, a major pharmaceutical manufacturer seeks to improve its distribution, flexibility and bottom line.



By Roger Morton

To gain insight into the current state of healthcare and transportation services, UPS did some basic research. It published findings for its first-ever study of the subject last September, the “UPS Pain in the Healthcare (Supply) Chain Survey.” The top business concerns uncovered in the survey are common to many industries. The first four are new competition, product quality assurance, regulatory concerns and industry consolidation. The fifth most important matter is evolving distribution channels.

While managing costs is of great concern, 60% of respondents indicated they expected to increase supply chain spending over the next 18 months, with the average gain to be 23%. Reasons for the increases are to drive operational efficiencies and derive competitive advantages to translate into a fatter bottom line.

In seeking to boost share of market and increase supply chain efficiency, survey respondents will make changes in distribution models, primarily in three ways. They have

plans for distribution direct-to-consumers, direct-to-wholesalers and by working with third party suppliers. Results indicate that 66% of larger manufacturers are planning to make distribution model changes with 46% of them planning to increase the amount to be outsourced.

One major manufacturer taking measures to change its distribution model is Merck & Co. In fact, it has taken a rare step in outsourcing because it has turned over two of its distribution centers entirely to a third-party supplier to manage movement of its sensitive products. In this instance the supplier is UPS.

Outsourcing is nothing new for Merck. It explains, “Historically we have employed a mixed model of internal and 3rd party providers for storage, picking and delivery. We’re continuing to use this mixed model.” What is happening in this instance, explains Merck, is that, “UPS is assuming responsibility for the storage and distribution of most of our pharmaceuticals and vaccines in the US.”

UPS has assumed control of the two Merck distribution centers (DCs) that handle the majority of the manufacturer’s pharmaceutical and vaccine product flow in the US. They are located in Atlanta and Reno. Merck explains that given its current product and customer profiles, these two facilities are in the right locations.

Bill Hook, vice president, global strategy for UPS Healthcare Logistics looks at the innovative aspects of the partnership. UPS has taken over the facilities, acquired the assets there and hired Merck's employees. For its part, UPS is reorganizing the DCs to create more capacity and make them into multi-client facilities.

As Hook explains, UPS can reconfigure the space where Merck couldn't do so to work with other suppliers. "We can provide a more cost effective solution and also create an environment where they can be much more flexible and nimble," he notes. "Ultimately we can move product to other facilities if that makes more sense for their customer and they're not stuck to a bricks and mortar scenario where they don't have the opportunity to change."

UPS sees the advantages for Merck in cost savings, not only because the manufacturer is handing the buildings, people and management off to someone else. As Merck's business changes it won't have to spend money to build new infrastructure. Further, if inventory turns improve, the manufacturer won't be stuck with fixed costs in the old model.

Hook points out that for the end user, the advantage is visibility. The carrier is already shipping to most of Merck's customers. "For them," he says, "there is continuity in having UPS trucks coming to the doors already. It's another package or skid arriving. With a broader employee base we can more quickly bring skilled labor to bear during peak times—like during the flu vaccine season."

As collaboration grows throughout the supply chain, even third parties use their own third parties. For example, Hook notes that, "In the vast majority of cases product movement is on our assets. But we also utilize one particular partner



Bill Hook, Vice President, UPS Healthcare Logistics

that has trailers for less than truckload movements. We will move Merck products on our brown package cars but we'll also leverage one outside vendor whose capabilities we have validated."

Obviously, the manufacturer has confidence in UPS, noting, "Procedures and processes used have not changed as a result of this agreement. UPS offers the healthcare logistics expertise needed to manage the distribution of our pharmaceuticals and vaccines in accordance with Merck's quality standards and security needs."

How the UPS Survey Was Conducted

Lumped together in the healthcare sector are providers of pharmaceuticals, bio-technology, medical and surgical devices. The survey was conducted in two phases.

First, Harris Interactive conducted blind, in-depth telephone interviews on behalf of UPS with more than 300 small-to-medium healthcare companies. Second, targeted on-line surveys were conducted with large healthcare companies having annual revenues of \$1 billion or more.

For Hook there are two major underlying reasons, among others, that give confidence to Merck in the ability of UPS to handle its products. "First, we've been able to integrate the various supply chain components through technology and our network in order to offer companies and providers an integrated solution in healthcare," he claims. "Secondly, internally we have taken a very segmented approach—whether high tech, healthcare or retail—and have acquired in-depth knowledge and expertise in these markets. So for compliance in healthcare, we are extremely knowledgeable in regulatory trends. We are at the very high end of compliance."

Merck agrees, saying that, "UPS offers the healthcare logistics expertise in shipping, warehousing, order fulfillment and storage—and an existing healthcare distribution network—to effectively and efficiently distribute our pharmaceuticals and vaccines in the US."

Hook observes that the trend to outsourcing in healthcare is growing. In fact, he notes that the economy is increasing the urgency for companies to look to engaging with a third party supplier. He does note, however, that, "It's

only been in recent years that some of the big pharmaceutical and biotech companies have begun to have confidence there are companies that can actually meet their quality standards. Another aspect is interest by companies to try to take out different touch points and breakages in the supply chain and try to integrate both from a visibility and cost standpoint, and in healthcare from the standpoint of continuity and compliance."