

PHARMACEUTICAL GOMMERCE

Business Strategies for
Pharma/Bio Success

The Path to Relief: Outsourcing as a Competitive Tool

Pharmaceutical manufacturing and distribution have never been easy. Pharmaceutical products—from conception to actual use—can take as long as 15 years and cost upwards of \$500 million to produce. Even today, U.S. Food and Drug Administration (FDA) approval no longer signals the “pop the champagne” celebration it once did.

By Bill Hook, UPS

WHILE A DRUG PRODUCT MAY HAVE a post-approval patent life of 8 to 10 years, it also has less than a 30 percent chance of becoming a blockbuster product. It takes a company time to recoup its research and development investment. Various regulations, new market distribution models and the ever-increasing pressure to obtain bigger margins keep the bubbly in the bottle for longer periods of time.

Given the industry's intense competition, market channel diversification is a mantra for many. Traditional pharmaceutical and medical device companies, along with newer biotech and equipment enterprises, are increasingly working together to produce systems that link drugs with devices and diagnostics. Their products are sent to consumers through multiple distribution channels: traditional wholesale, direct to pharmacies, to retailers for sale over-the-counter and directly to consumers' homes.

These diversified channels can provide new revenue streams and new growth areas. However, manufacturers' focus can be lost and critical errors made, particularly in transportation and distribution, when dozens of participants are involved.

Outsourcing supply chain operations is increasing for companies to regain their focus and remain competitive despite new market challenges. A third-party logistics (3PL) provider can help streamline the process—particularly in post-manufacturing handling and distribution.

In fact, more than two-thirds of pharmaceutical, medical device and diagnostics manufacturers surveyed in recent years by consultants at PRTM (Newport Beach, CA) said

they use or plan to soon use a 3PL. By using a 3PL, products can be moved quickly from manufacturing site to store shelf or dispensary. Quick market introduction is enabled because the distribution channels are already in place.

Outsourcing: The key to smooth operations

Pharmaceutical companies face regulatory and quality control obligations that can include strict distribution and tight temperature control requirements. Other requirements such as meeting rigid deadlines create a separate host of challenges. Luckily, there are 3PL providers that can provide solutions to these challenges that would otherwise require a significant investment of time and money by the manufacturer. The reputable ones not only establish capabilities that are sensitive and responsive to government regulations and industry standards, but also confer in depth with customers to understand and manage customer expectations.

The demands and skill required to effectively manage orders and vendors, warehouse operations, inventory and transportation can distract manufacturers from the core business of creating and marketing innovative pharmaceutical products. Margins also can be enhanced when overhead can be removed for dedicated facilities.

What's paramount for healthcare is to maintain high standards and guarantee order inventory and delivery accuracy. Working with a knowledgeable third-party can provide a process to not only manage existing inventory, but also to document the lifecycle of the product.

continued on page 2 >

A reason to celebrate

Healthcare manufacturers have an opportunity to turn an outsourced supply chain into a competitive advantage in four key ways:

- Integrated 3PLs deliver enhanced economies of scale. Distribution costs can be reduced because the 3PL partner creates operational efficiencies and spreads its investment in equipment, facilities, labor and systems, as well as purchased transportation, across a broader customer base.
- Leveraging the breadth and scope of a 3PL provider's service portfolio puts smaller or newer industry entrants on competitive footing with their larger business rivals. They can tap into value-added combinations optimized to meet healthcare industry needs, but differentiated for product requirements, service responsiveness and coordinated channel flow.
- Outsourced service providers have turnkey shared-utility solutions that require minimal capital investment. The healthcare executive can then assign the balance of the financial resources to meet strategic business objectives. With a third-party logistics partner, the options expand.
- Beyond bottom-line efficiencies, outsourced logistics providers can also positively contribute to clients' top-line sales growth through high-quality, customer-focused service delivery. Leading corporations in all sectors of the global economy understand that product and price differentiation can contribute to marketplace success, but consistent customer service delivery drives it.

Better informed and more demanding consumers and channel partners make good customer service crucial to operating a profitable business. Pharmaceutical, medical and surgical product makers have learned from their peers in the high-tech and consumer electronics sectors that a properly configured supply chain allows for visibility and product use projections. A properly configured supply chain also enhances service delivery by being reliable and providing proactive communication.

As healthcare products become increasingly sophisticated and fragile it is all the more important for companies to look at a 3PL for specialized resources. A 3PL can handle expiration management, pedigree systems, climate and security controls. Using a 3PL can be cheaper in the

long run when a company lacks the requisite expertise, infrastructure, systems and skilled personnel in-house.

A 3PL may also provide customer-facing services to resolve issues and chargebacks on behalf of a manufacturer. When a pharmaceutical manufacturer allows a 3PL to handle customer issues and chargebacks they are not conceding control. Rather, they have accountability through performance measures.

3PLs improve new and old companies' operations

The methodology used to redesign a supply chain for well established healthcare companies can also benefit new companies. A 3PL can help both more efficiently enter new markets as they migrate from legacy systems and infrastructure to newer technology. Newer pharmaceutical companies can eliminate supply chain problems altogether by using an outsourced partner. By doing so, the company can focus on product development and marketing. And by using a 3PL that has multi-client facilities a company can benefit from sharing the costs of IT and distribution infrastructure.

When consistent performance on multiple levels is non-negotiable, outsourcing to a 3PL with the right resources is a path to relief. Careful partner selection helps pare distribution costs and maintain quality inventory management in the face of increased demands. **PC**

ABOUT THE AUTHOR

Bill Hook is vice president, Global Strategy/Healthcare Logistics for UPS. He is responsible for developing and executing UPS's strategy to serve the unique needs of pharmaceutical and bio-tech products, medical devices and equipment across solutions that leverage UPS networks, facilities and information for transportation, distribution, inventory management, visibility and regulatory compliance. He and his team interact with senior healthcare executives to improve performance through the alignment of the supply chain with business strategy. Hook has more than 20 years of leadership experience in the healthcare sector. He was president of Livingston Healthcare Services Inc., which UPS acquired in 2000, and also directed Medigas Inc., a division of Praxair. Prior to his current assignment, Hook was vice president, strategic accounts-healthcare based in Canada. His BA degree is from the Richard Ivey School of Business in London, Ontario.

