



## UPS 2009 Pain in the Healthcare (Supply) Chain Survey

### Overview

UPS, a leading provider of healthcare logistics and transportation services, has launched its second annual “Pain in the (Supply) Chain” survey to measure healthcare industry experts’ concerns about specific supply chain issues. Findings show the greatest pain points and insights as reported by decision-makers in the pharmaceutical, biotech and medical and surgical device industry segments.

The survey was a two-part study. The first phase included a blind, in-depth phone survey conducted by Harris Interactive on behalf of UPS of more than 300 primarily small- to mid-size healthcare companies. The second phase included a targeted online survey comprised of large healthcare companies from the same sectors with annual revenues of \$1 billion and higher. Qualified respondents were supply chain decision makers.

### 2009 key findings

Key findings are organized around the following trend areas:

- Regulatory pressures and landscape
- Serialization requirements
- Go-to-market strategies
- Outsourcing trends
- Managing supply chain costs
- Supply chain spending plans

### Healthcare supply chain leaders’ priorities for the new administration

#### Healthcare priorities

- Small to mid-sized healthcare companies believe that ensuring product safety and security (ranked first by 33%) and simplifying regulatory requirements (ranked first by 31%) should be the top two spending priorities for the new administration
- More than half (52%) of large healthcare companies rank simplifying regulatory requirements as the top spending priority for the new administration, followed by ensuring product safety and security (33% ranked as first priority)

### Healthcare supply chains feel impact of the economy

Healthcare companies certainly have not been immune to economic challenges, as seen by the many companies making alterations to business and supply chain plans and a continued focus on managing supply chain costs.

This year’s UPS “Pain in the (Supply)Chain” survey tracked some key differences in how companies are planning go-to-market strategies versus a year ago, with the greatest changes being seen among smaller and mid-size healthcare companies.

#### Changing strategies and impact

- In 2008, 90% of small- and mid-size company respondents planned to make changes to their distribution strategies in the near future, whereas only 48% reported plans to do so in 2009
- Last year, 61% of small- to mid-size survey respondents planned to alter their supply chain distribution models to go direct-to-consumer; in 2009, 27% of these smaller companies plan to go direct-to-hospitals, pharmacies or retailers and 18% plan to go direct-to-consumers (patients or physicians)
- While planning fewer changes than last year, 52% of large healthcare companies surveyed in 2009 have near-term plans to go direct to consumers (patients or physicians)
- Nearly one-third of small- and mid-size medical device companies reported that they were highly concerned about tightening credit markets as a business issue

## Regulatory pressures and landscape

Survey results show that companies large and small feel pressures from the tightening regulatory market. Numerous industry factors are likely driving this growing focus on regulations, including heightening concerns over security and patient safety, increased cross-border controls and an increase in temperature-sensitive products coming into the marketplace.

### Industry concern

- More than half (56%) of large healthcare companies report that they are highly concerned about increasing regulations, ranking this their top business concern
- Nearly one-third (30%) of small- and mid-size survey respondents ranked increasing regulations as their top business concern that could impact their business in the future
- Both large and smaller healthcare companies surveyed believe that simplifying regulatory requirements should be one of the top spending priorities of the new administration

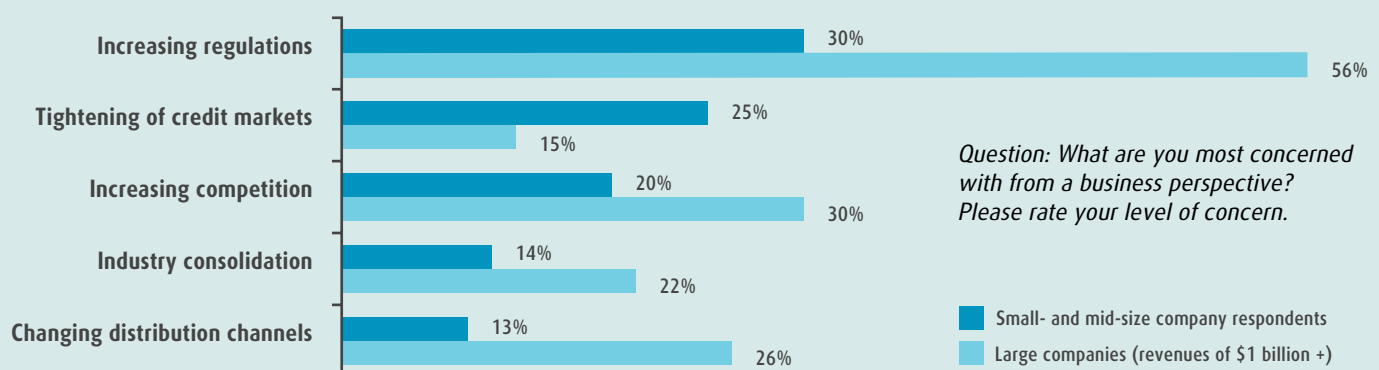
### Challenges

- More than half (52%) of large companies report that keeping up with regulatory compliance laws is a challenge in serving global and emerging markets
- The majority of large companies (74%) cite temperature-sensitive concerns as the top regulatory challenge from a supply chain standpoint
- For small- and mid-size companies, the top three regulatory challenges from a supply chain perspective were:
  - changing regulations in the U.S. and abroad (50% say it's a challenge)
  - cost of compliance (50% say it's a challenge)
  - training employees on regulatory requirements (47% say it's a challenge)

### Serialization requirements

- No large pharmaceutical companies (0%) are ready with everything in place to meet serialization requirements
- Less than half (48%) of large pharmaceutical companies are either planning for or taking any action to prepare to meet requirements
- When asked about challenges related to product tampering and counterfeiting, supply chain visibility ranks as the top challenge for both small- and mid-size respondents (47%) and large company respondents (70%); large companies also cite changing regulations (67%) as a major challenge

### Business Concerns | % Highly Concerned

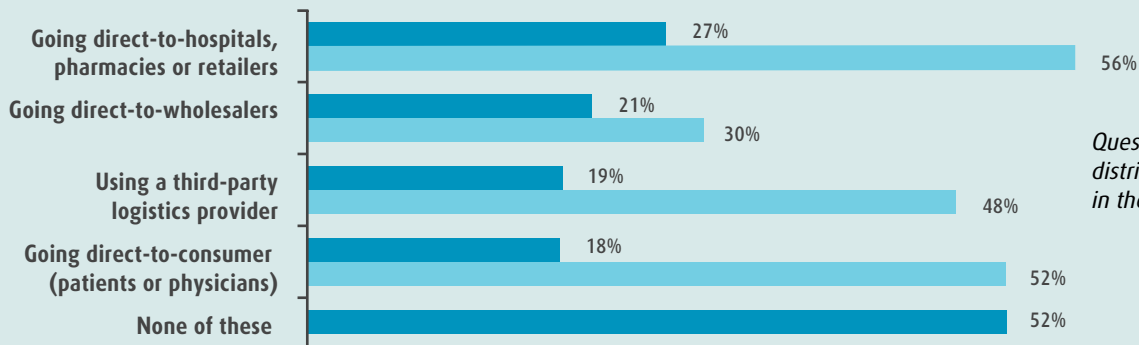


## Go-to-market strategies

As shown on page one, some of the greatest differences between 2008 and 2009 survey findings relate to how companies plan to alter their distribution models in the coming years. While significantly fewer small- and mid-sized companies are planning changes this year, large healthcare companies will make significant changes in their go-to-market strategies.

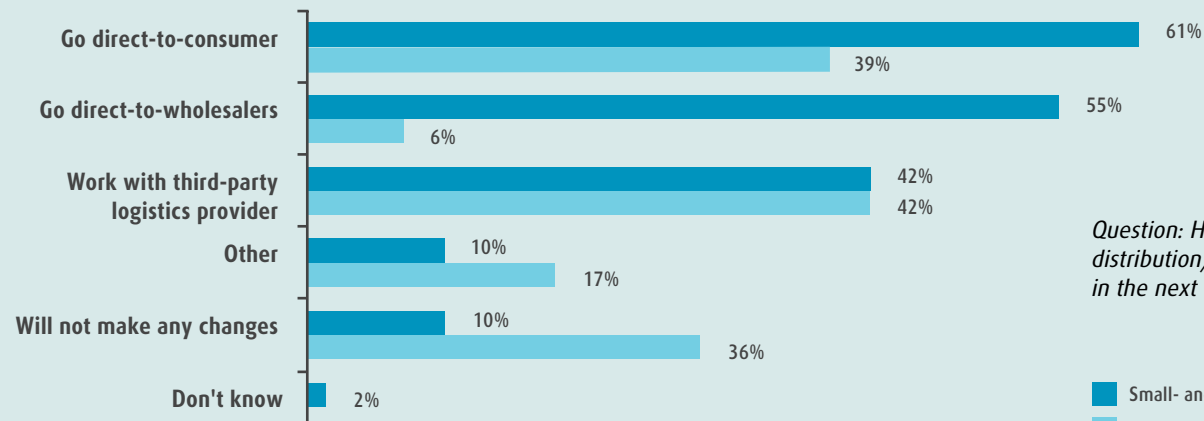
- More large healthcare companies are planning distribution model changes, with:
  - 56% planning to go direct-to-hospitals, pharmacies or retailers
  - 30% planning to go direct-to-wholesalers
  - 48% planning to work with a third-party logistics provider
  - 52% planning to go direct-to-consumers (patients or physicians)
- More than half (52%) of small- and mid-size companies are not planning to make any changes to their distribution models in the near future
- Approximately one in four (27%) small- and mid-size company respondents plan to change their distribution models to go direct-to-hospitals, pharmacies or retailers in the near future
- Twenty one percent of small- and mid-size company survey respondents are planning to go direct-to-wholesalers in the near future

### 2009 Changes to Distribution Channel Strategy



*Question: How will you change your distribution/go-to-market strategy in the next 1-2 years?*

### 2008 Changes to Distribution Channel Strategy



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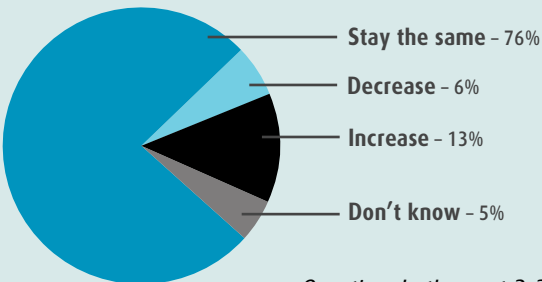
■ Small- and mid-size company respondents  
 ■ Large companies (revenues of \$1 billion +)

## Outsourcing trends

The healthcare industry is increasingly embracing outsourcing, especially large companies, who are turning to outsourcing as a means of driving efficiencies across the supply chain while allowing them to focus on their core business. Most small and mid-sized healthcare companies on the other hand have kept the majority of supply chain functions in-house.

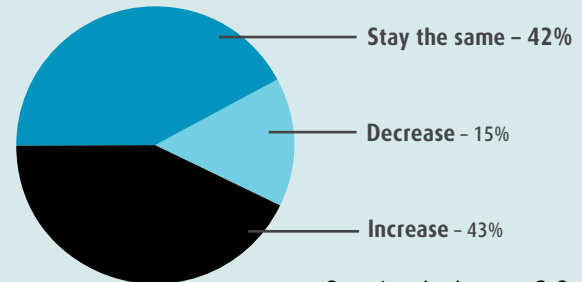
- More than half (59%) of large companies currently outsource distribution management and 44% outsource transportation management
- One in four (25%) large healthcare companies surveyed currently outsource order-taking/customer service
- Sixty five percent of small- and mid-size companies surveyed do not currently outsource supply chain functions related to any of the following areas: billing/accounts receivable; regulatory compliance; inventory management; order-taking/customer service; transportation management; distribution management
- The largest difference between the smaller and the larger healthcare companies surveyed are their outsourcing plans:
  - Forty three percent of large companies expect to increase the amount they outsource in the next two to three years
  - Of the two-thirds of small- and mid-size companies that do not currently outsource any supply chain functions, no more than 3% expect to outsource in the next one to two years

**Expected Change in Outsourcing**  
Small- to mid-size companies



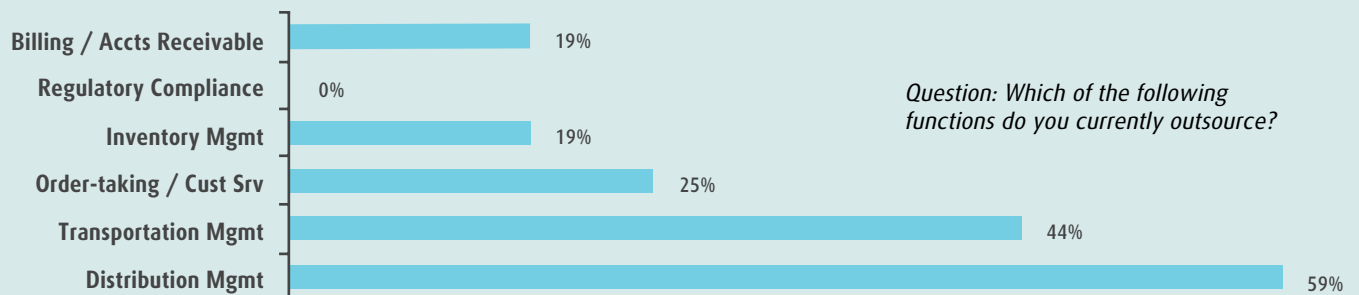
*Question: In the next 2-3 years, will the amount you outsource increase, decrease or stay the same?*

**Expected Change in Outsourcing**  
Companies with revenues of \$1 billion +



*Question: In the next 2-3 years, will the amount you outsource increase, decrease or stay the same?*

**Functions Currently Outsourced** | Companies with revenues of \$1 billion +



*Question: Which of the following functions do you currently outsource?*

## Managing supply chain costs

Despite a dramatic decline in fuel costs over the past year, the current economic situation and other industry pressures have made managing costs the top supply chain concern once again for healthcare companies in 2009. While ranking as a primary concern, few companies report success in managing costs.

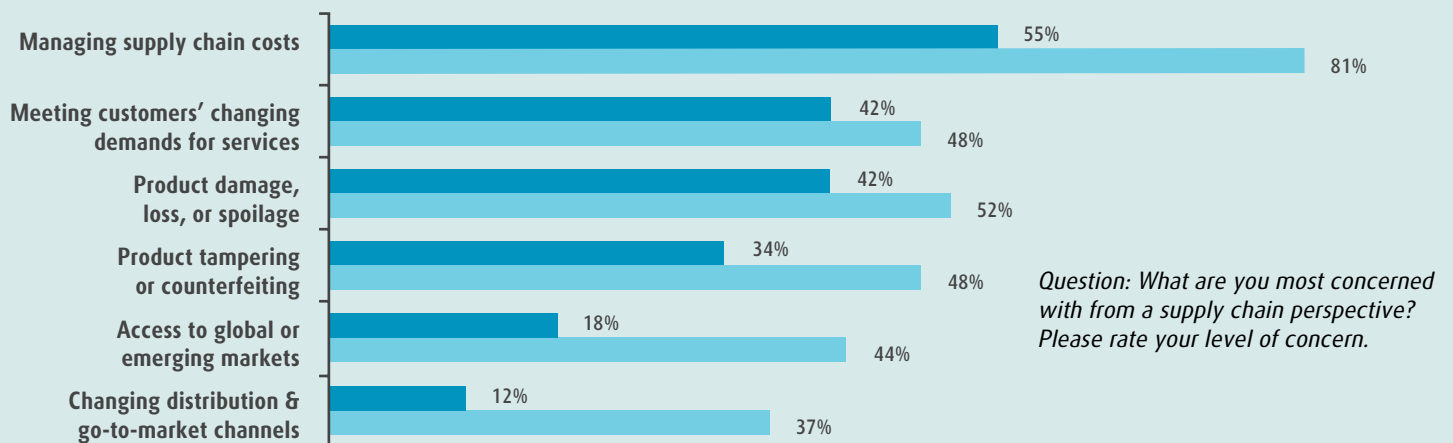
- Managing supply chain costs ranked as the biggest concern for smaller company respondents, with 55% reporting that they are “highly concerned” with managing costs
- Less than half (46%) of these companies report that they have been successful in managing supply chain costs, despite this ranking as the number one concern
- Among large healthcare companies, 81% are “highly concerned” about managing costs and only 41% report success in managing costs

## Supply chain spending plans

In 2008, 60% of respondents from small- and mid-size companies planned to increase their supply chain spending. Despite the economic slowdown, many companies still plan to increase spend in the supply chain, although to a lesser degree than before.

- Nearly half (45%) of smaller company respondents say that they will increase their supply chain spending over the next 18 months
- The average expected increase in supply chain spend is 18%, down from 23% in 2008
- Forty three percent of small- and mid-size companies will keep their spending the same over the next 18 months, and only 9% say they will decrease spending
- For those planning to increase spending, 51% cite a greater demand for their products and services as the reason
- Among large companies surveyed, 44% expect supply chain spending to increase, while approximately one-third expect to decrease spending over the next 18 months

### Supply Chain Concerns



### Expected Change in Supply Chain Spending

