# UPS Pain in the Healthcare (Supply) Chain Survey

## Overview

UPS, a leading provider of healthcare logistics and transportation services, has launched its first "Pain in the (Supply) Chain" survey to measure health-care industry experts' concerns about specific supply chain issues. Summary data shows the greatest pain points and insights as reported by experts in the pharmaceutical, bio-tech, 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-market 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.

## 2008 key findings

Key findings are organized around the following trend areas:

- Global market access
- Industry competition
- Managing supply chain costs
- Supply chain spending
- Changing distribution models
- Increasing regulations

> "Trends such as increasing globalization, new industry competition and evolving distribution models are driving the need for changes in healthcare supply chains. It's crucial that companies have the supply chain flexibility to capture new market opportunities and gain a competitive advantage in this changing industry landscape."
>
> Bill Hook – UPS Vice President, Global Strategy, Healthcare Logistics

## Healthcare companies seek to address global market access

Lower-cost sourcing and growth of markets for products outside the U.S. have made global market access critical for healthcare companies, yet there are many challenges associated with operating in new and emerging markets. Companies must successfully manage variable regulations across countries and have access to costly physical infrastructure and IT systems. Companies must also grasp the unique political, social and cultural practices governing new markets. How can companies overcome the myriad challenges to access emerging markets around the globe? Healthcare leaders rate their levels of concern and success, or lack of success, in addressing global market access.

**Levels of concern**

- 26% of industry leaders are extremely or very concerned
- 45% of bio-tech experts are extremely or very concerned
- 54% of large company decision makers are extremely or very concerned

**Success in addressing global market access**

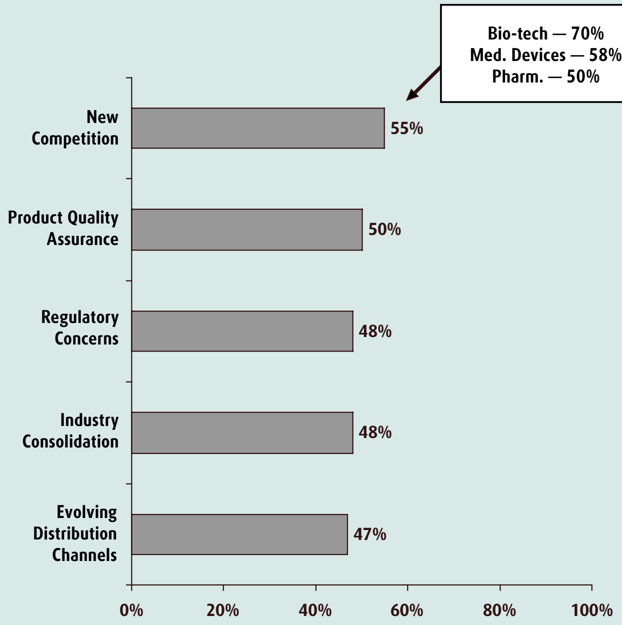
- One in five industry experts have been least successful
- More than one in four bio-tech experts have been least successful

## Industry competition

With the increase of generic drugs and other lower-cost products, U.S. healthcare companies are feeling pressure to cut costs while simultaneously driving innovation. As a result, a majority of industry decision makers report being concerned about competition.

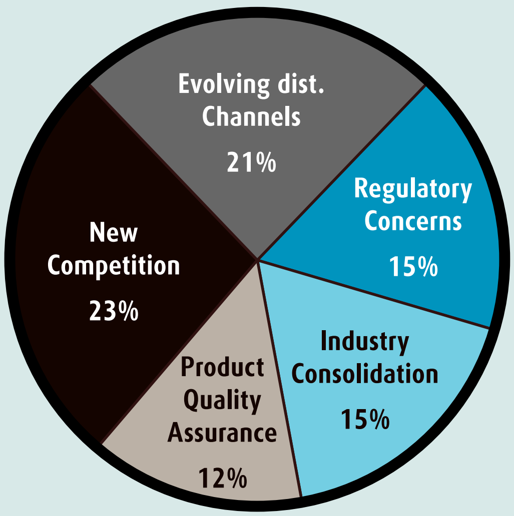
- More than half of the respondents reported concern that competition will negatively impact their business
- Two-fifths of respondents think generic drugs have significantly impacted U.S. drug discovery
- 58% of large companies report concerns over competition

OVERALL BUSINESS CONCERNS




*Question: What are you most concerned about that could negatively impact your business in the future? Choose all that apply.*

PRIMARY BUSINESS CONCERNS



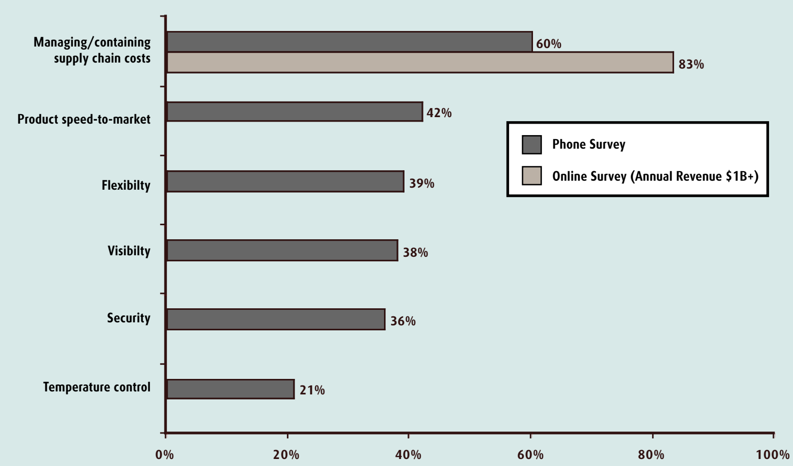

*Question: Which one business issue are you most concerned with?*

## Managing costs

Healthcare companies are increasingly scrutinizing their bottom lines as fuel costs escalate, economic conditions deteriorate and global competition continues to rise. At the same time, companies must invest in extending their supply chains and increasing investments in R&D to remain competitive.

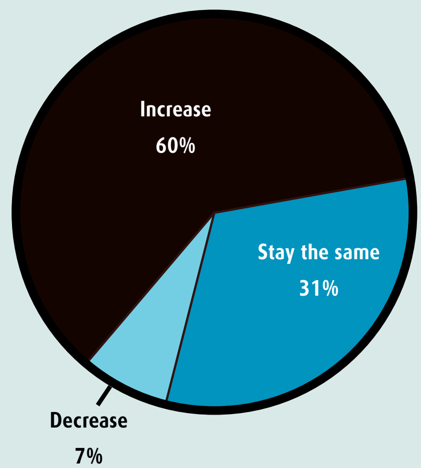
- 83% of respondents representing large companies indicated they are extremely or very concerned
- 60% of broad survey respondents are very or extremely concerned
- 36% of all industry experts and 46% in the pharmaceutical industry reported managing costs as one of their top three healthcare concerns
- One in five respondents indicated managing costs as the issue they've been least successful in addressing
- Nearly two-thirds of large company respondents indicated that product expirations, recalls or returns cost them anywhere from hundreds of thousands to millions of dollars per year in lost revenue

OVERALL SUPPLY CHAIN CONCERNS




*Question: Which supply chain issue are you most concerned with?*

CHANGE IN SUPPLY CHAIN SPENDING




*Question: Will your supply chain spending as a percentage of your total sales increase, decrease or remain the same in the next 18 months?*

## Supply chain spending

Managing supply chain costs is among the top supply chain concerns of healthcare companies. Despite the need to keep costs down, most companies plan to increase spending to drive operational efficiencies and competitive advantages that ultimately could mean higher payoffs to their bottom lines.

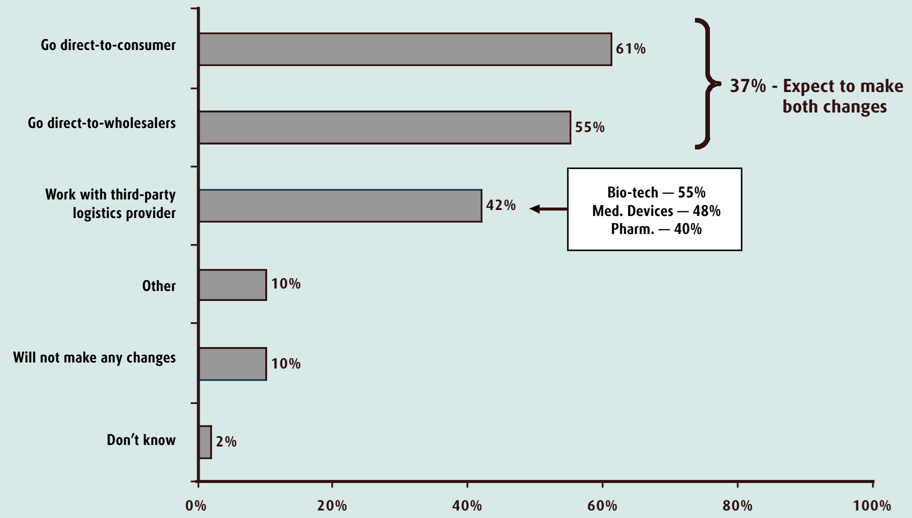
- Three-fifths of broad industry survey respondents, or 60%, expect their supply chain spending as a percentage of their total sales to increase in the next 18 months
- The average increase in spending is expected to be 23%
- Only three in 10 companies expect their spend to remain the same in the next 18 months
- Among the companies with $1 billion and higher revenues, nearly 46% planned to increase their supply chain spend in the next 18 months

## Changing distribution models

One of the ways companies can simultaneously increase marketshare and supply chain efficiency is to change the way they go to market. As more growth opportunities arise across new distribution channels, the vast majority of survey respondents plan to make changes to their supply chain models in the next 18 months. Changes include plans for direct-to-consumer distribution, direct-to-wholesaler distribution and outsourcing to third parties.

- Nine in 10 respondents expect to make changes in the next one to two years
- Two in five of industry experts and more than half of the pharma industry (55%) expect to change their distribution channels to work with third parties in the next one to two years
- A majority, 61% of broad survey respondents, plan to implement a direct-to-consumer channel strategy
- 55% are planning a direct-to-wholesaler strategy
- 37% expect to go both direct-to-consumer and direct-to-wholesaler
- Among companies with revenues of $1 billion and higher, 66% plan to make distribution model changes
- Nearly half (46%) of larger companies plan to increase the amount they outsource
- 46% of larger companies plan to work with third parties in the near future

### CHANGES TO DISTRIBUTION CHANNEL STRATEGY



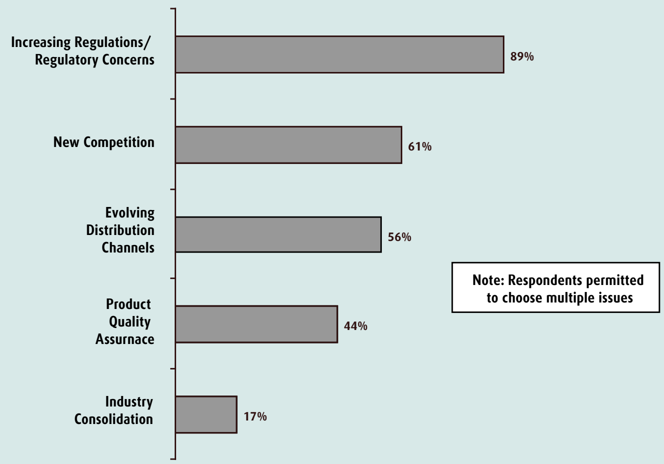

*Questions: How will you change your distribution channel/ go-to-market strategy in the next 1-2 years? In regards to outsourcing your supply chain, do you expect to increase the amount you outsource, keep it the same, or decrease it over the next 1-2 years?*

## Increasing regulations

Factors driving growing regulatory concerns include extended supply chains traversing multiple geographic boundaries with differing rules and regulations; likely new regulations to protect biologics and other high-value products; and spiraling costs for noncompliance.

- Most large company respondents (89%) believe increasing regulations and regulatory concerns will negatively impact their businesses in the future

ISSUES THAT COULD NEGATIVELY IMPACT YOUR BUSINESS (% OF RESPONDENTS)




*Question: What are you most concerned about that could negatively impact your business in the future?*

## ePedigree compliance

The importance of chain of custody for healthcare products is growing as more biologics and high-value, temperature-sensitive products enter the marketplace than ever before. Despite the delay of the California legislation requiring the implementation of ePedigree until January 2011, healthcare companies must prepare for more detailed compliance. Survey results show that most healthcare companies are far from achieving such ePedigree compliance.

- Only one in seven pharmaceutical companies are approaching full compliance
- Half of respondents are only between 1 and 25% compliant
- 33% of large pharmaceutical companies haven't estimated the cost of compliance but believe it will be significant