



# UPS 2010 Pain in the (Supply) Chain Survey

## Overview

UPS, a leading provider of healthcare logistics and transportation services, launched its third annual “Pain in the (Supply) Chain” survey. Taken by healthcare supply chain executives, the survey measures concerns about business and supply chain issues in the wake of healthcare reform and other industry changes. Findings show the industry’s greatest pain points and reveal companies’ plans for the year ahead and beyond.

Conducted by Harris Interactive on behalf of UPS, the survey consisted of blind, in-depth telephone interviews with senior-level decision makers at nearly 150 pharmaceutical, biotech and medical and surgical device companies. Qualified respondents were responsible for supply chain and logistics at their company.

## 2010 Key Findings

Key findings are organized around the following trend areas:

- Healthcare reform impacts
- Environmental policies and plans
- Global expansion plans
- Regulatory pressures
- Security concerns
- Changes in distribution channel strategies
- Outsourcing trends
- Managing supply chain costs

## “Greening” the supply chain

### Strong industry progress

- 57% of companies are implementing initiatives to increase energy efficiency, with another 19% actively considering initiatives in this area
- 52% are using environmentally- friendly packaging, and another 20% are actively considering plans to do so

### More work ahead

- Only 32% of companies report having reduced their carbon footprints, although an additional 22% are actively considering carbon reduction initiatives
- Only 22% say they have taken steps to reduce their suppliers’ carbon footprints, however another 62% say this is not a priority

## Healthcare Reform: The Logistics of Change

Reform will have significant impacts on healthcare supply chains that are critical for bringing new drugs and devices to market and delivering on the promise of greater healthcare access for more consumers. As healthcare companies prepare to navigate the logistics of change, it’s clear that a supply chain road map is needed.

### Healthcare companies uncertain about reform’s impacts

This year’s UPS “Pain in the (Supply) Chain” survey reveals mixed reactions around the future impacts of reform on supply chain planning and business as a whole. Factors such as expanding business globally and changing distribution channels are creating new challenges for the supply chain.

Findings show that slightly more than half (55%) of healthcare companies surveyed rank healthcare reform as a top business concern.

- 22% believe they don’t have the current infrastructure in place to support changes from healthcare reform
- 20% feel they won’t be able to afford to operate in the new environment
- 26% have concerns about reform hampering their R&D programs and initiatives

At the same time...

- 18% of decision makers believe reform will open up new markets for their business
- 15% expect it to create new customer opportunities

## Global Expansion Plans

Despite the uncertainties surrounding healthcare reform and its impact on business, survey results show that companies are forging ahead with global expansion plans. Nearly half of companies surveyed (47%) are planning to expand into emerging countries in the next 18 months, signaling a desire to tap into these fast-growing opportunity markets.

To gain a deeper picture of the current global healthcare market, where companies are going in the future and the challenges they face along the way, this year's UPS Pain in the (Supply) Chain survey asked healthcare decision makers to reveal specifics about their current strategies and future plans.

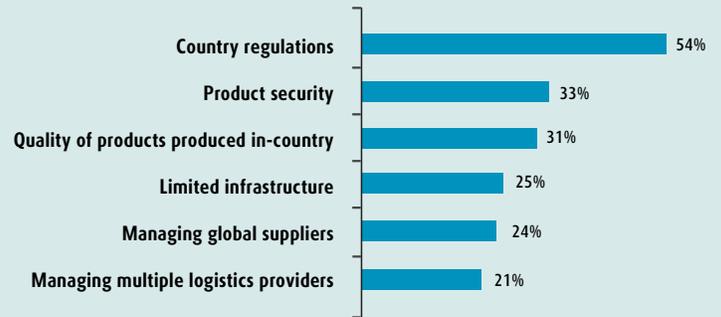
### Challenges and issues

- Two in five (40%) respondents report being “very” or “extremely” concerned about accessing global or emerging markets
- There is a 22% increase in the level of concern from last year to this year around companies' ability to access global or emerging markets
- Only one in three (32%) of those concerned about accessing global markets claim success in doing so
- The largest barrier to global expansion is country regulations, cited by 54% of respondents

### Current practices and future plans

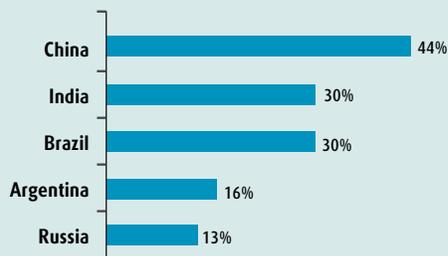
- Four in five companies in the healthcare industry (79%) currently do business with at least one country outside the United States
- Respondents cite most of their emerging market business is currently happening in China, India and Brazil
- Argentina, China, India and Brazil are the top emerging markets companies will be expanding to in the next 18 months
- Almost three-fourths (70%) of companies sell products outside the United States, topping the list of global market activities, followed by:
  - 51% manufacture and source outside the United States
  - 24% of respondents conduct clinical trials outside the United States
  - 21% of companies don't do any of these activities outside the United States

### Barriers to Global Expansion | Rated 6 or 7



Question: Thinking about the possible barriers to global expansion, please indicate the extent to which each of the following is a barrier. Please use a scale from 1 to 7, where 1 means No barrier at all and 7 means an Extreme barrier.

### Global Business | Currently doing business



Question: In which, if any, emerging markets are you currently doing business?

### Global Expansion | Plans to expand within 18 months



Question: In which additional emerging markets are you planning to expand in the next 18 months?

## Regulatory pressure and compliance concerns

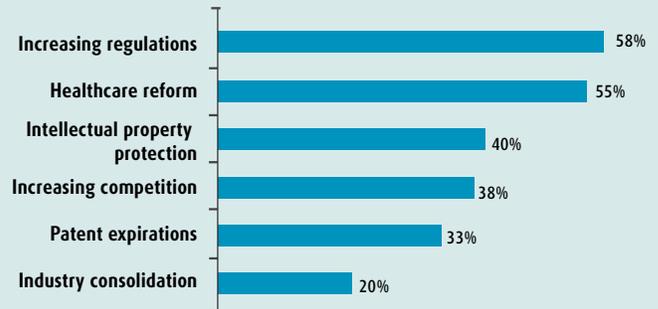
For the third year in a row, regulatory issues remain top-of-mind with supply chain decision makers. Factors such as the introduction of more specialized products to the market and the challenges of expanding globally make regulatory hurdles that much more complex. Specifically, country by country regulations, increased regulatory oversight and the challenges with storing and transporting temperature-sensitive products, likely play a role in driving concern.

As the top general business concern (“increasing regulations”) and second largest supply chain concern (“regulatory compliance”), industry regulations are a critical focus area for healthcare companies.

### Industry concern

- Regulatory challenges top the list of general business concerns for healthcare companies, with 58% reporting that they are “very” or “extremely” concerned with increasing regulations
- Increasing regulations outranks healthcare reform, intellectual property protection, increasing competition, patent expirations and industry consolidation as a business issue
- Three in five companies (60%) are “very” or “extremely” concerned with regulatory compliance as a top supply chain issue
- More than half (54%) of companies report that keeping up with regulatory compliance laws is a challenge in serving global markets

#### General Business Concerns | Rated 6 or 7



*Question: I'm going to read some general business issues which may or may not impact your business in the future. As I read each item, please rate your level of concern from 1 to 7, where 1 is Not at all concerned and 7 is Extremely concerned.*

## Product security challenges

Product security was another area around which healthcare decision makers expressed concern. There is much current industry attention, with a rise in incidents of theft, concerns with counterfeiting, pending drug serialization legislation and the TSA's 100 percent cargo screening requirements, which will be fully implemented by August of 2010.

- Two-fifths (40%) of the industry are highly concerned about product security; when asked for specific challenges, this group reports the following specifics:
  - 69% cite attempts to counterfeit products
  - 60% name product theft as a top challenge
  - 53% worry about product diversion
  - 50% name theft in transit as a key challenge
- Tied with “access to global or emerging markets,” product security ranks as the third largest supply chain issue, following managing costs and regulatory compliance
- “Product security” also ranks as the second largest barrier to global expansion

## Go-to-market strategies

With the promise of increased access for more consumers, healthcare reform will likely have a significant impact on companies' go-to-market plans and strategies in the coming years. Healthcare companies are seeing the value of multi-channel distribution strategies in reaching customers in the most efficient and cost-effective ways. Survey findings show that channel shifts are expected to occur in the next 18 months.

### Current practices

Healthcare companies currently leverage numerous distribution channels to get products to market:

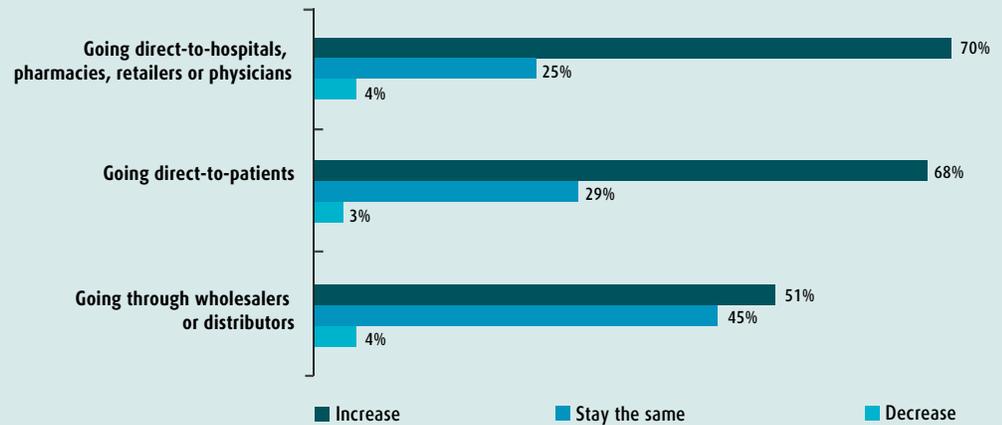
- 69% go through wholesalers or distributors
- 61% go direct to hospitals, pharmacies, retailers or physicians
- 26% go direct to patients

### Future plans

In the next 18 months, companies will shift their use of current channels:

- 70% will go direct to hospitals, pharmacies, retailers or physicians with greater frequency
- 51% will increase the amount of work they do with wholesalers or distributors
- 68% will increase their direct-to-patient distribution activity

Expected Change in Current Distribution Channels | Next 18 months



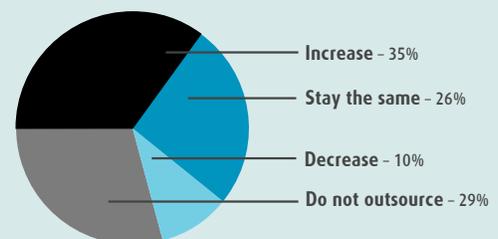
Question: Please tell me if you expect your use to increase, decrease, or stay the same over the next 18 months?

## Outsourcing

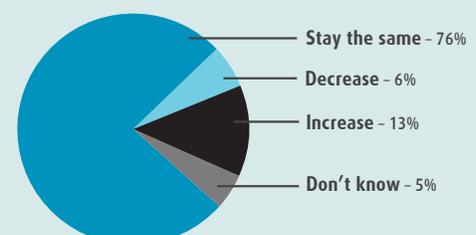
As reform and other industry factors drive healthcare companies to focus on increasing efficiencies, more companies are turning to outsourcing. In recent years, the healthcare industry has increasingly looked at supply chain functions as an attractive area for outsourcing, with some companies turning over their entire distribution functions to third parties and others leveraging outsourcing for more tactical functions. This year, more companies report plans to increase the amount of outsourcing they do in the future over last year's findings.

- More than one-third (35%) expect the amount of outsourcing to increase in the next two to three years, up from only 13% in 2009
- Another 26% plan to keep the same the amount of outsourcing they do over the next two to three years
- There remain opportunities for outsourcing growth in healthcare, with 29% of the industry having still not embarked on outsourcing

Expected Change in Outsourcing | 2010



Expected Change in Outsourcing | 2009



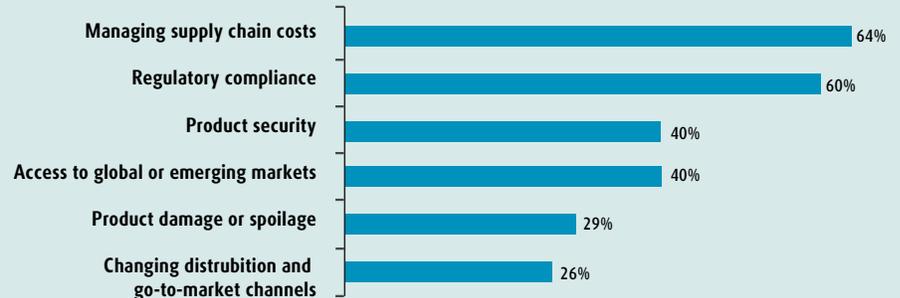
Question: In the next 2-3 years, will the amount you outsource increase, decrease or stay the same?

## Managing costs and spending plans

Managing costs reigns as the number one supply chain issue in the healthcare industry for three consecutive years. Coming on the heels of the recession and in the midst of healthcare reform, the UPS “Pain in the (Supply) Chain” survey tapped into healthcare company decision makers at a critical time for cost management concerns.

- Nearly two-thirds (64%) of respondents report being “very” or “extremely” concerned with managing supply chain costs, up from 55% in 2009
- Less than half (44%) report success in addressing the cost management issue
- Two-thirds of the industry (67%) expect to increase their supply chain spending in the next 18 months
- Among those expecting an increase in their supply chain spend, the average amount of expected increase is 18%

**Supply Chain Concerns | 2010**  
Level of Concern rated 6 or 7



*Question: I'm going to read some supply chain issues that may or may not currently impact your business. For each issue, again please rate your level of concern from 1 to 7, where 1 is Not at all concerned and 7 is Extremely concerned.*

**Supply Chain Concerns | 2009**

