

IN LIFE SCIENCES AND HEALTHCARE, LOGISTICS OUTSOURCING HOLDS FRESH APPEAL

More LSH companies are outsourcing some activities for the first time; market dynamics make a compelling case for change

The life sciences and healthcare (LSH) industry is driven by a strict regulatory environment - everything LSH companies do has an impact on patients' health and well-being. To ensure regulatory compliance and the highest level of product and service quality across geographies, traditional thinking held that warehousing activities had to be managed in-house. Therefore, manufacturers typically built large, dedicated warehouse facilities to store their products before shipping to their customers.

Times are changing. Today, pharmaceutical manufacturers, medical device and equipment manufacturers, hospitals, and others are facing an array of challenges that include industry consolidation, increased pressure on margins and a shift in product mix – all of which add complexity to the supply chain.

In this context, manufacturers increasingly are outsourcing logistics and supply chain activities they had long managed in-house. These companies look to third party logistics providers (3PLs) to improve their supply chain efficiency and manage the complexity of global operations.



Different outsourcing models

In any supply chain outsourcing scenario, according to the consulting firm Accenture, the 3PL must have:

- functional knowledge, such as network dynamics and production optimization
- industry knowledge, such as customer demand patterns and product lifecycles
- internal company knowledge, such as company policies and legacy information systems¹.

All of that is especially important in first-time outsourcing (FTO), where a company gives responsibility for the management of logistics or supply chain activities it currently handles itself to a 3PL. In the LSH sector, FTO can handle individual activity areas (e.g., warehousing), or the full handover of logistics activities, says DHL Supply Chain's Paolo Rosanna, Vice President, Business Development and Account Management, Life Sciences and Healthcare, EMEA. FTO refers to the activities or functions that are being outsourced for the first time in a specific location; it doesn't necessarily mean that the LSH company is new to outsourcing.

FTO can involve on-site outsourcing, where a 3PL takes over and integrates the activities of a warehouse or distribution center that is currently directly managed by the customer. In this scenario, the 3PL usually is responsible for orchestrating the flow of product into, within, and out of the facility. It also may be responsible for such areas as quality control, order fulfillment, and value-added services such as labeling and packing.

Another FTO scenario involves the transfer of the activity to a new site, usually a multiuser facility. In this model, the 3PL is already operating a "center of excellence" that serves different LSH companies, all of which have customers in common. The 3PL enables its LSH customers to develop a more efficient, lower-risk supply chain by identifying and taking advantage of the expertise and synergies in the warehouse as well as in transportation and distribution services.

In either case, the 3PL uses its expertise to manage LSH supply chains in compliance with the applicable quality and regulatory requirements.

A significant and growing trend

At the highest level, Rosanna says, "The industry is facing transformation, and there are challenges that are relatively new for the players." This transformation is elevating the supply chain to a higher new strategic role, as a differentiator for the industry. "It creates a need to develop supply chain solutions that address the changing dynamics of the global LSH sector," he explains.

Indeed, increasing cost pressures are creating incentives to find different ways of serving both current and new markets, customers, and geographies. Accordingly, LSH companies have a growing need for flexible and agile supply chains. Through outsourcing they may gain access to resources and capabilities that are not available internally. And by outsourcing they can free up capital and human resources to focus on their core business: research, development, and production of medications, medical supplies, or medical equipment. "Outsourcing allows pharma and other LSH companies to grow strategically," Rosanna says.

¹ Carlos A. Alvarenga and Pancho Malmierca, Accenture, Core Competency 2.0: The Case For Outsourcing Supply Chain Management (http://www.accenture.com/sitecollectiondocuments/pdf/282accenture_core_competency_20_the_case_for_outsourcing_supply_chain_management.pdf)

In a first-time outsourcing environment, effective change management on the part of both the LSH customer and the 3PL are key to successfully making the shift to outsourcing. “If we take over management of a site, for example, there is a specific process for that,” but there is much more to the story, Rosanna says. The 3PL must consistently demonstrate strong process and change-management expertise as well as leadership skills. It must also thoroughly understand not just the LSH customer’s requirements, but also those of the industry and of the users of the products. It’s critical too to have the LSH company’s support for change, from the time the idea is first developed through to the final implementation.

What this all describes is a relationship of trust between the customer and the 3PL—a critical element in any LSH player’s decision to outsource. And part of that trust, says Rosanna, rests on the recognition by all involved that the 3PL plays an essential role in supporting the LSH company’s ability to serve the true end customer: the patient.