Taking the supply chain pain out of healthcare mergers and acquisitions

by Peter Bromley  Director Healthcare Logistics, UPS Europe
Executive Summary

According to a study by the *Harvard Business Review*, 70-90% of mergers and acquisitions fail. It’s a disconcertingly high rate – particularly when you consider that the cause cited for most failures wasn’t technological, financial or product-related. It was due to the process of the integration itself. As the study notes, “The success or failure of an acquisition lies in the nuts and bolts of integration. To foresee how integration will play out, we must be able to describe exactly what we are buying.”

As we’ve seen time and again, when the rubber meets the road and a company is immersed in the realities of a large-scale restructuring, the mechanics of the integration and the integrity of the supply chain are seldom primary considerations. More often than not, they’re viewed as inevitable fall-outs of the restructuring.

It’s a phenomenon we see every day. Our core business involves helping companies manage change, so we’ve been in the trenches through a wide range of mergers, acquisitions and divestitures – in healthcare and non-healthcare sectors alike. And as a global company ourselves, UPS® acquired six companies in Europe in the last 3 years. So we appreciate the perils and pitfalls of the journey.

For companies in the healthcare sector, that process can be particularly fraught – given the nature of the products, the complexity of the supply chains and the stringent regulations involved.

Fortunately, there are practical, tactical strategies that can decisively impact the final outcome. What’s more, in our experience, a major restructuring is an opportunity to create transformational change that significantly enhances the NewCo’s long-term competitiveness and performance. In the following sections, we outline some very pragmatic, actionable strategies we’ve gleaned in our experience working in this sector.

“The success or failure of an acquisition lies in the nuts and bolts of integration.”

*The Big Idea: The New M&A Playbook*

Mergers versus divestitures

For companies involved in a major restructuring, the kinds of challenges faced will depend mostly on whether the parties are engaged in an M&A or a divestiture.

For a company involved in a merger or acquisition, the main challenge will be to integrate disparate companies, cultures and systems. This usually involves managing duplication, and creating a single high-functioning supply chain that serves the new enterprise. Time is seldom the main pressure, as each party can afford to gradually phase out their old supply chain as a new one is brought online.

For a company being divested, time is usually a primary concern - as the company strives to create a viable supply chain against a ticking clock.

In either case, and regardless of which health sub-sector, the greatest determinant to success will be the quality of the communication. That may seem counter-intuitive - particularly for such technologically-intensive industries. But the ability to communicate, share information and collaborate respectfully are defining traits of companies that successfully harmonise cultures and emerge the better for the undertaking.
Managing the realities of a merger or acquisition

According to industry statistics, the leading driver for a merger or acquisition is a desire to access new products, patents or technology. The second most common driver is access to new markets. Logistics is seldom a lead consideration.

In both cases, the greatest challenge will be duplication. To a greater or lesser extent, there will be two of everything and everyone – from people, buildings and cultures to supply chains, service agreements and end-users.

In our experience, there are some very actionable practices that can help alleviate much of the pain of the process.

From a human standpoint, managing duplication in the workforce can be difficult. Tales of personnel reapplying for their positions are common. The resulting job insecurity and workplace malaise will be disruptive at best, and disastrous at worst. Here, working with velocity and transparency produce the best outcome. Establishing and communicating a clear timeline and go-forward strategy is key.

From an asset and logistics standpoint, a great deal of long-term pain can be avoided with a comprehensive end-to-end audit of the entire supply chain of the merging entities. It’s a significant undertaking – but vital if an integration is to succeed.

Knowledge is power

As the Harvard Business Review study highlights and UPS experience confirms, it’s impossible to successfully integrate two companies without fully understanding what you actually have to work with.

For a logistics manager preparing for a major integration, a comprehensive audit is the first step to building a business case for a successful go-forward strategy.

To be of value, the audit must capture all production and distribution facilities, cold-chain capabilities and requirements, supplier agreements, human resources, tenures of employees, lease terms and termination costs.

Similarly, developing end-to-end process maps of all supply chain is recommended. These maps will provide a clear snapshot of existing resources and procedures – both internally and for counterparts in the other merging company tasked with overseeing the integration.

For a seasoned logistics manager, these are all common sense practices. But they require time and resources often in short supply during a corporate restructuring. That said, their value can’t be overstated – particularly given the exigent demands of sectors such as biopharma and in vitro diagnostics.

Reasons companies acquire

- **Access to new technology & products**: 70%
- **Access to new geographic markets**: 52%
- **Product synergies**: 38%
- **Production/labour cost pressures**: 15%
- **Access to new human resources**: 11%

Working with velocity and transparency

Pain is unavoidable, but suffering is optional - goes the familiar Buddhist saying. This could easily apply to a major integration. Duplication of personnel is best managed with thoughtfulness and speed. Given the disruptive nature of the process, companies that can avoid getting mired by indecision will typically perform better over the long run. From a tactical standpoint, that means establishing and adhering to a clear timetable for dealing with redundancies. Like pulling off a Band-Aid, the faster it’s done the sooner the healing can begin.

The second critical component - one that’s often undervalued - is transparency. On a human level, job loss is always painful. But what’s worse is the long-term uncertainty that can precede it. It’s damaging to the people and disruptive to the environment, productivity and overall performance. Here, clearly communicating the go-forward strategy and timelines for managing workforce redundancies helps enormously. It signals a clear integration plan and allows people to prepare for the future and manage their own expectations.

Tactical solutions for a smooth integration

Over the years, we’ve observed several easily adoptable practices that greatly enhance the chance of a smooth transition. The first is to create an integration team tasked with coordinating the transition across all key areas of the business. Here, a weekly integration meeting with reviews tied to the integration task lists is key. These reviews provide a reliable structure for tracking progress and performance, confirming ownership of various tasks, and reviewing documentation procedures. Given the complexity of the supply chains in the healthcare sectors, these rituals can play a vital role. For companies in the business of manufacturing, transporting and warehousing hazardous and perishable biologics or reagents, they’re paramount.

The second practice we recommend is regular mapping sessions. These provide a simple, effective way of sharing information and best practices, and maintaining communication required to anticipate potential pain points. Ultimately, and as we noted at the outset, these all fall within the realm of good communication - and they make a measurable difference. Corporations with best-in-class freight and logistics competencies grow 7-26% above the industry average. How people share information and collaborate is reflected in the value chain - and the bottom line.
Building agility into a new supply chain

One of the unintended benefits of upheaval from a merger or acquisition is the opportunity it provides to build agility into your new supply chain. For healthcare companies in particular, a responsive supply chain enhances competitiveness – whether by allowing a company to quickly adapt to regulatory changes or to capitalize on new opportunities like the direct-to-patient market.

It may sound self-serving, but the best way for many companies to build agility into their supply chain is by partnering with an established third-party logistics provider (3PL). The rewards can be considerable.

The obvious benefits of partnering with a 3PL are time and efficiency. A global logistics provider can provide immediate technological and logistic solutions that would take most companies 6-12 months to implement. Logistics companies like UPS, can now deliver gold standard monitored cold-chain packaging and shipping. For companies in the midst of a major integration, 3PLs can deliver substantial gains in agility and reliability without the related capital expenditure.

For in vitro diagnostics companies in particular, this can make real sense. Devices are becoming more complicated, and are often subject to regulation that varies from territory to territory. Reagents and biologics can be hazardous, requiring additional infrastructure and procedures. And biologics typically have much higher SKUs – putting further burdens on a company whose core competencies lie in research, development and manufacturing – not supply chain optimization.

As a recent McKinsey & Company study noted, “Products, markets, regulators and patients are making new demands on pharmaceutical and medical device supply chains, from the factory floor to the bedside, and these demands are rising at an accelerating rate.” A global 3PL with the right capabilities can often help close this gap.

The second – and unintended – benefit of embracing a 3PL is that it forces the company to fully document and assess their own supply chain – often for the first time. In the words of Lord Kelvin, “You cannot improve what you do not measure.”

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McKinsey & Company
White Paper: Building New Strengths in the Healthcare Supply Chain
**Capitalizing on emerging trends**

The ability to embrace change is the difference between surviving and thriving - and nowhere more so than biopharma and IVD.

When we talk about emerging trends, there are two categories to consider. The first are advances in supply chain technology and optimisation. The second are health sector trends that place new demands on supply chains. Both merit a closer look when companies undertake a wholesale review of their supply chain.

With respect to advances in supply chain technology, a new generation of GPS and temperature monitoring systems now makes it possible to provide end-to-end cold-chain capabilities. These systems greatly reduce the risk of temperature excursions. Further, they have the capacity for security monitoring - a growing concern when working in many regions. As significantly, these technologies are making it possible for the shipper to intervene during transit - allowing companies to re-route packages and provide transit data to customers. This becomes particularly relevant as direct-to-patient services continue to flourish.

Another trend in supply chain optimisation which could benefit IVD companies in particular, is a shift towards more centralised supply chains. By relying on postponement and custom-labelling at centralised hubs, healthcare companies are better positioned to respond to product changes, and to offer direct-to-market shipping while retaining smaller inventories and paying less in warehousing costs.

Secondly, with respect to emerging trends in the healthcare sector, we're seeing a move towards cross-pollination of industry expertise in the logistics sector. More and more, logistics experts from fast moving consumer goods, tech and the automotive industry are migrating into other sectors such as healthcare. It's a trend we've been quick to capitalise on at UPS. The influx of non-industry expertise has brought with it a new level of critical analysis and the introduction of efficiencies already commonplace in other industries. It's a migration that many companies in the healthcare sectors can benefit from as well - particularly those already in the midst of a structural reorganization brought about by a merger or acquisition.
The challenges of a divestiture

Divestitures and spin-offs have accelerated in recent years, with no sign of the trend abating.

For the company being divested, it can be a challenging period – with time being the main concern. Unlike a merger, where the companies can rely on their own supply chains while they phase in a new solution, divestiture seldom affords that luxury.

With a defined withdrawal period looming, the real decision becomes whether to replicate or redesign the supply chain. In many cases, combining the two approaches yields the best result. Typically, the spun-off company will duplicate the existing supply chain to buy time and ensure short-term stability. This allows time for the NewCo to create a supply chain that serves its long-term needs.

Regardless the approach, one of the top priorities from a logistics standpoint will be capturing tribal knowledge.

Divestitures - part of the landscape

‘Big Pharma stands to profit by cleaning out its medicine chests’
Thomson Reuters 2014

‘GSK plans to sell off older products’
PMLive.com 2014

‘Big drugmakers such as Novartis turn from expansion to divestment’
The Financial Times Ltd. 2014

‘Johnson & Johnson to seek buyer for Cordis Medical-Device Unit’
Wall Street Journal 2014

‘Major French pharmaceutical company Sanofi wants to sell a huge part of its drug portfolio’
Business Insider Inc. 2014

‘Baxeter plans to spin off biotech business in 2015’
Thomson Reuters 2014
The preservation of tribal knowledge

When the clock starts ticking for a divested company, capturing tribal knowledge becomes a priority. In our experience, most healthcare companies have well documented SOPs. That’s particularly true if they adhere to an ISO standard like 9001 or 13485. However, those SOPs typically account for about 10% of the knowledge required to run a supply chain. The vast majority of the required information – over 70% in our estimation – exists in the heads of the employees. This includes everything from how to process compliance documentation right down to customer-specific practices for building pallets, packing orders, labelling and processing paperwork.

That’s a terrifying statistic given the importance of that information on maintaining the existing supply chain, and then modelling a new one.

Indeed, the most challenging integrations can be with companies outsourcing for the first time. For exactly that reason, capturing and documenting that tribal knowledge is vital for a company looking down the barrel of a divestiture.

Leveraging partners and suppliers

Capitalising on the expertise of established partners and suppliers is good business practice under any circumstances. For a company in a divestiture, it can provide much needed stability and help ease the transition.

Here, as with mergers and acquisitions, companies that are able to communicate effectively, and adopt structures that support positive and respectful information exchange and collaboration tend to realise the most gains.

Having worked with customers on many such restructurings over the years, UPS’s expertise in automation, engineering and IT and business integration has been a pleasant surprise to many of the companies we serve. It does require a willingness to engage with suppliers as team members, and to work in a more collaborative way. But for a newly spun-off company with limited resources and a challenging timeframe, the rewards can be considerable.
Embracing restructures as a catalyst for change

Whether it’s a merger, acquisition or divestiture, a major corporate restructuring is a disruptive and perilous undertaking. For evidence of that, look no farther than the bleak Harvard Business Review statistics about 70-90% of mergers being unsuccessful. That said, it needn’t be a roll of the dice.

We’ve discussed several practical processes and protocols that can greatly influence the outcome of a transition. They can ease and accelerate the integration process, eliminate pain points and enable better knowledge retention. More broadly, they can lead to greater agility in the supply chain, and significantly bolster competitiveness and the bottom line.

Done right, a restructuring can be a catalyst for positive change.

In the rapidly evolving healthcare sector, an M&A or divestiture can compel companies to critically assess and overhaul legacy systems, embrace new technologies and efficiencies, and adopt practices and partners that are better suited to their next incarnation.

The pace of change is fierce. From automated instruments and point-of-care diagnostic solutions to the growing demand in emerging markets like China and India, the pressure is on producing faster, more precise and more affordable products for a breadth of diseases and conditions. A merger, acquisition or divestiture can be an opportunity to cast a fresh eye on a company’s supply chain, and to produce transformative change that impacts the value chain and long-term success.
About the author

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Peter has led UPS Europe’s expansion of the healthcare distribution network since 2005, working to support the continuous growth of UPS as a healthcare logistics provider. Peter joined UPS Canada in 1994 in the finance group. In 1998 he moved into operations as a contract logistics manager where he was responsible for providing storage and distribution solutions for high tech, healthcare and life science industry accounts. Before joining UPS, he worked for PricewaterhouseCoopers in Canada, where he managed audit and consulting engagements, which included multinational pharmaceutical and medical device companies. He is a chartered accountant and holds an MBA from the University of Western Ontario.

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