

Global
EconomyConcerns
by Region

Regulations

Product
SecurityCost
ManagementGlobal
Expansion

Technology

Channel
Strategies

Asia

Western
EuropeLatin
America

5-Year Report

UPS 2012

PAIN IN THE (SUPPLY) CHAIN SURVEY

Caution Remains in Healthcare Industry

Plus

5-Year Report: State of the Healthcare Logistics Industry

Executive Summary Report

UPS's 2012 Pain in the (Supply) Chain survey, now in its fifth year, reveals the latest data on healthcare executives' views on the state of the healthcare industry. The survey also explores global healthcare decision makers' top business and supply chain concerns and probes priorities and plans around upcoming supply chain investments over the next three to five years.

This study was conducted by TNS in March and April 2012.

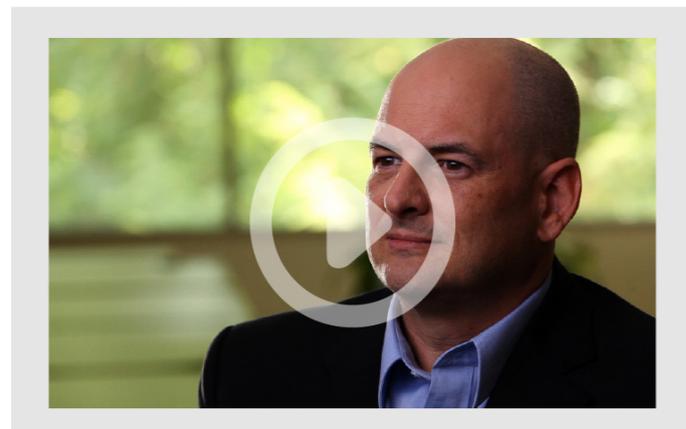
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- Global Economy
- Concerns by Region
- Regulations
- Product Security
- Cost Management
- Global Expansion
- Technology
- Channel Strategies
- Asia
- Western Europe
- Latin America
- 5-Year Report

HEALTHCARE EXECUTIVES SEE SOME ECONOMIC IMPROVEMENTS

Healthcare decision makers were beginning, at the time of the survey, to see glimmers of improvement, suggesting hope for economic recovery in Western Europe.



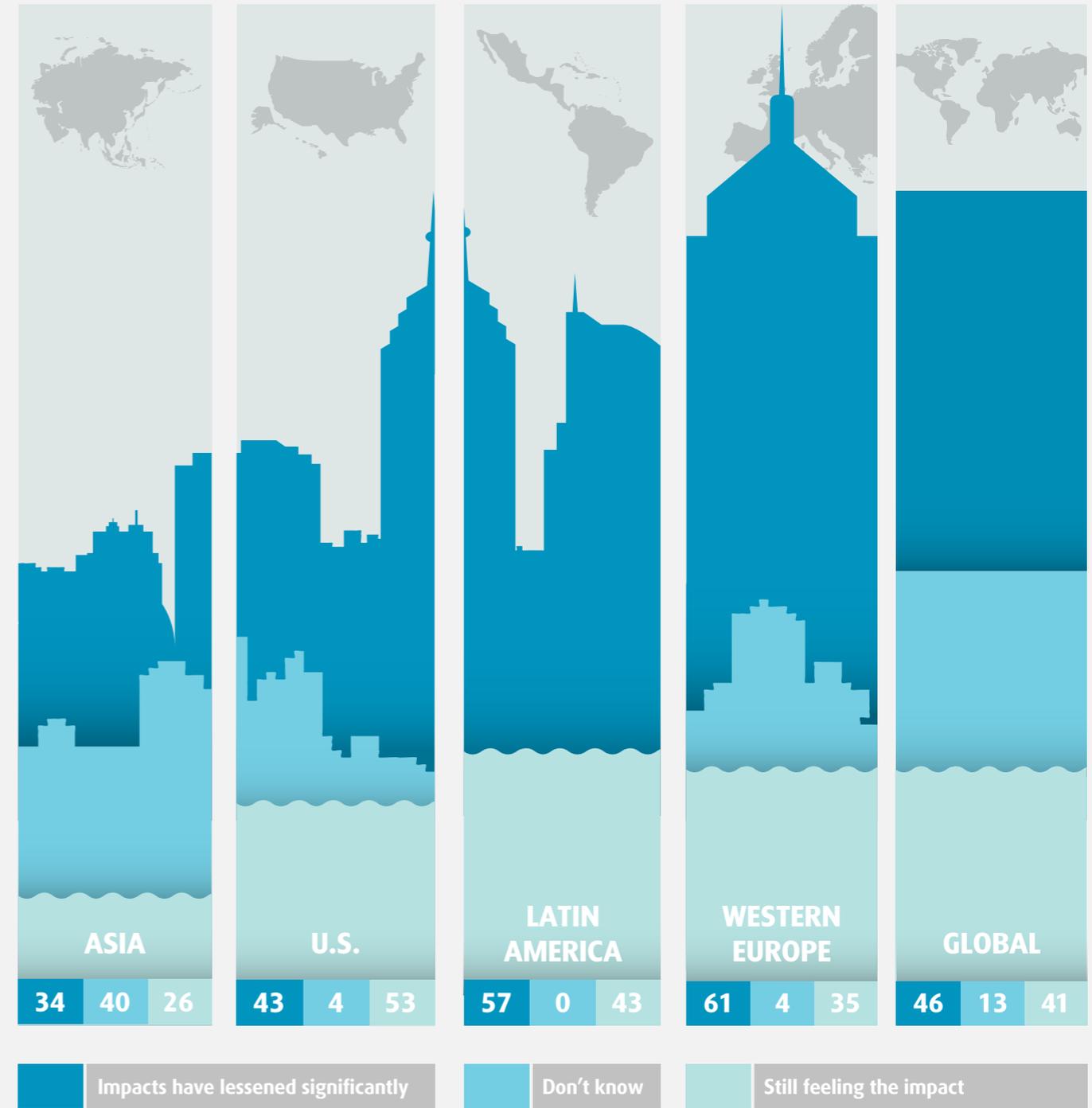
Lingering Effects of the Economic Downturn

Scott Szwast, Marketing Director, Healthcare, UPS, discusses the economic downturn and the challenges it brought, which continue today. Hear how the global recovery remains a tenuous prospect for industry decision makers, and why as a result effective healthcare product supply chain management is more important.

Video issues? Download the latest version of Adobe Flash Player to view video content.

Q

How is the recent economic downturn still impacting your company in terms of tightened spending, and other reductions and cut-backs?



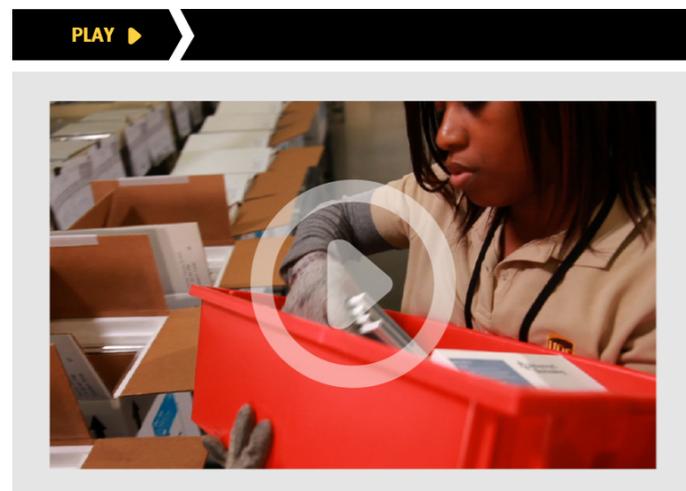


Global Economy	Concerns by Region	Regulations	Product Security	Cost Management	Global Expansion	Technology	Channel Strategies	Asia	Western Europe	Latin America	5-Year Report
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U.S. HEALTHCARE EXECUTIVES CAUTIOUS ON INDUSTRY

U.S. healthcare executives express caution about the state of the healthcare industry at the time of the survey.

Uncertainty about the future centers on the economy and on complex dynamics emerging within the healthcare landscape. Executives are recognizing upcoming challenges and seeing a need to develop strategies in response.

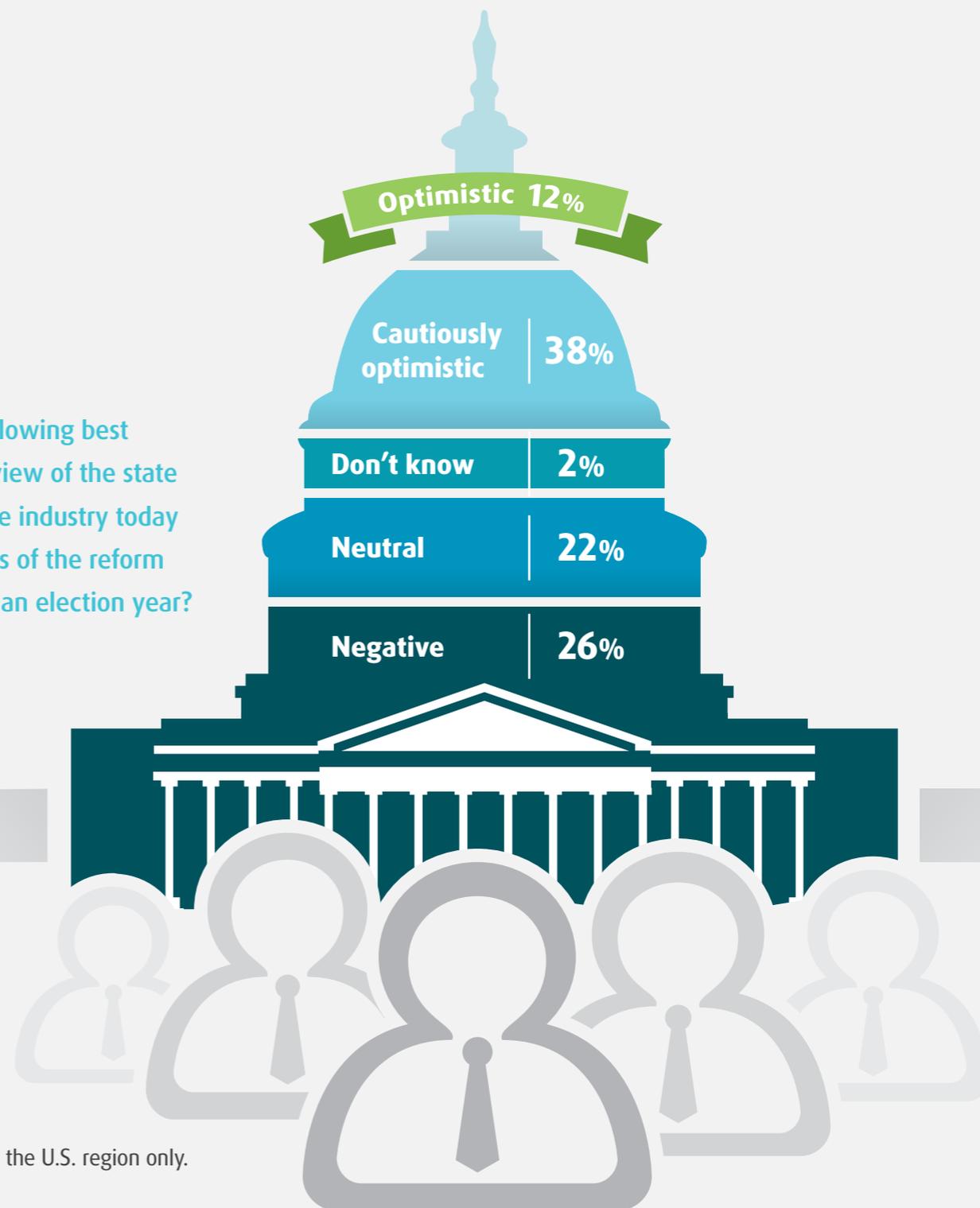


Caution Remains in the Industry

The healthcare industry is expressing cautious optimism that the market will grow due to healthcare reform and increased access to health insurance.

Q

Which of the following best describes your view of the state of the healthcare industry today against the goals of the reform bill leading into an election year?



*Graphic represents the U.S. region only.

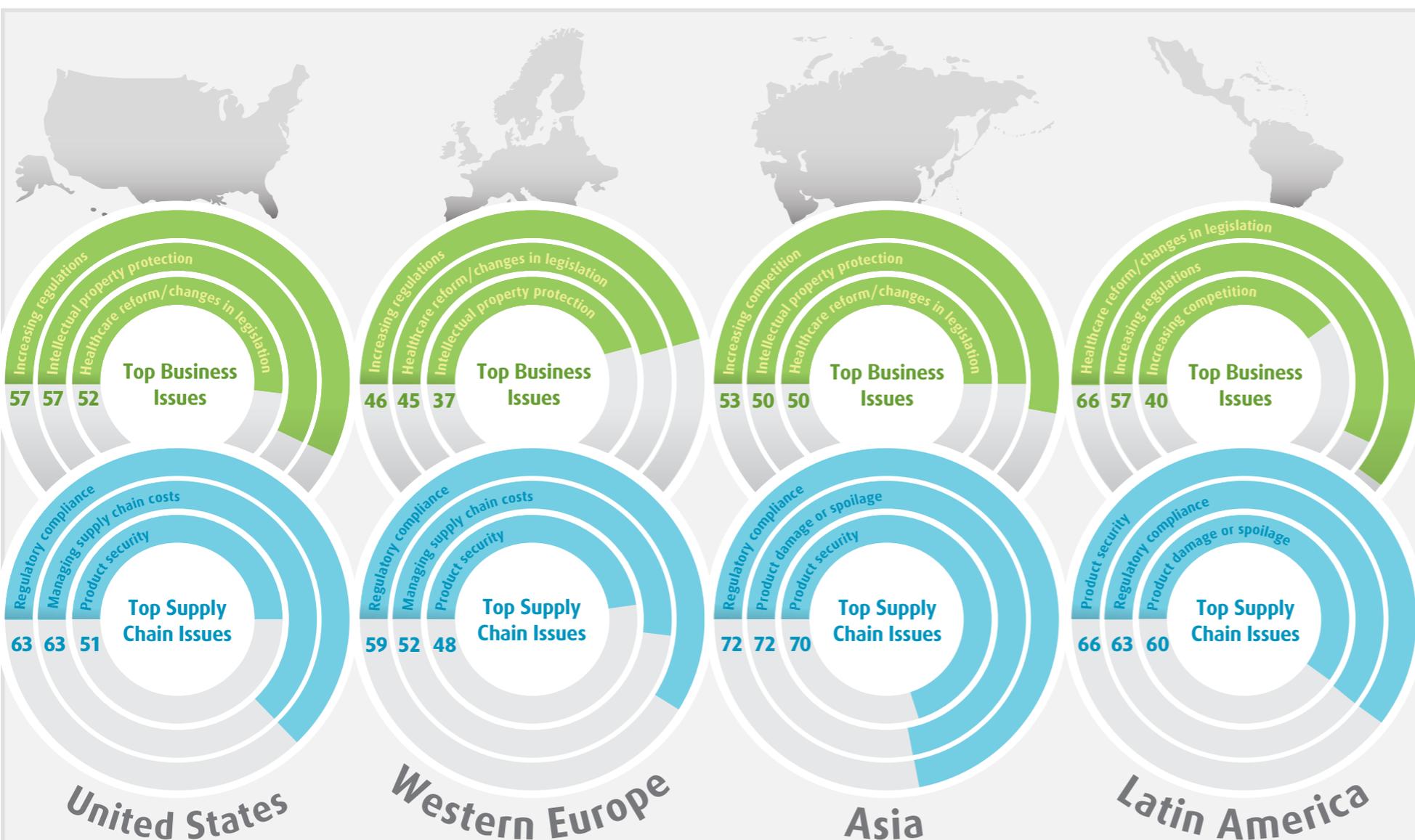


- Global Economy
- Concerns by Region
- Regulations
- Product Security
- Cost Management
- Global Expansion
- Technology
- Channel Strategies
- Asia
- Western Europe
- Latin America
- 5-Year Report

CONCERNS BY REGION

Worldwide, increasing regulations and compliance comprise most healthcare decision makers' top concerns.

With slight regional variations, the pressure of regulatory compliance is driving a need for increased product protection while still managing the costs of complex global supply chains. Executives must now look to balance these two key areas, finding more cost effective ways to ensure product security and prevent spoilage.



PLAY ▶

Global Differences in Industry Perceptions

There are different perceptions of the healthcare market in different regions of the world. Hear how some of the fastest growth in the healthcare market is in the developing world where there were previously limited healthcare markets.

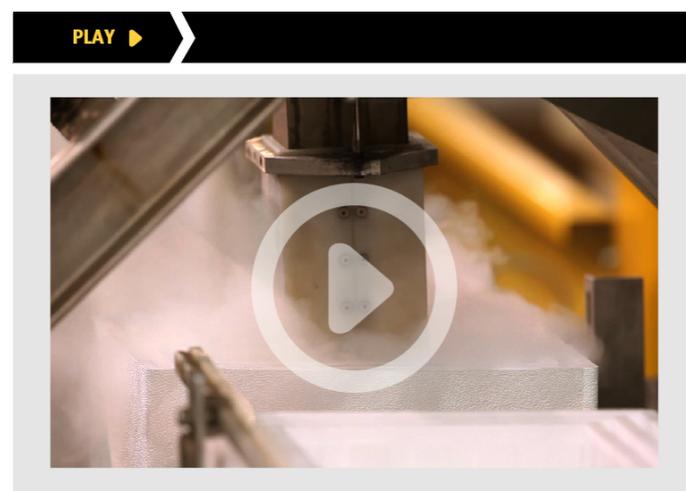


- Global Economy
- Concerns by Region
- Regulations
- Product Security
- Cost Management
- Global Expansion
- Technology
- Channel Strategies
- Asia
- Western Europe
- Latin America
- 5-Year Report

REGULATIONS, REFORM AND LEGISLATION

Regulations, reform and legislation are top concerns. These have topped the list of business issues for several years, particularly with the passing of the Patient Protection and Affordable Health Care Act in 2010.

Increasing government involvement in healthcare continues to fuel tighter regulation in developed markets and emerging markets, such as Brazil and China. As the bar is raised on product safety, executives increasingly are seeking solutions from third-party providers to help them maintain competitiveness and profitability in the face of increasingly complex supply chain challenges.

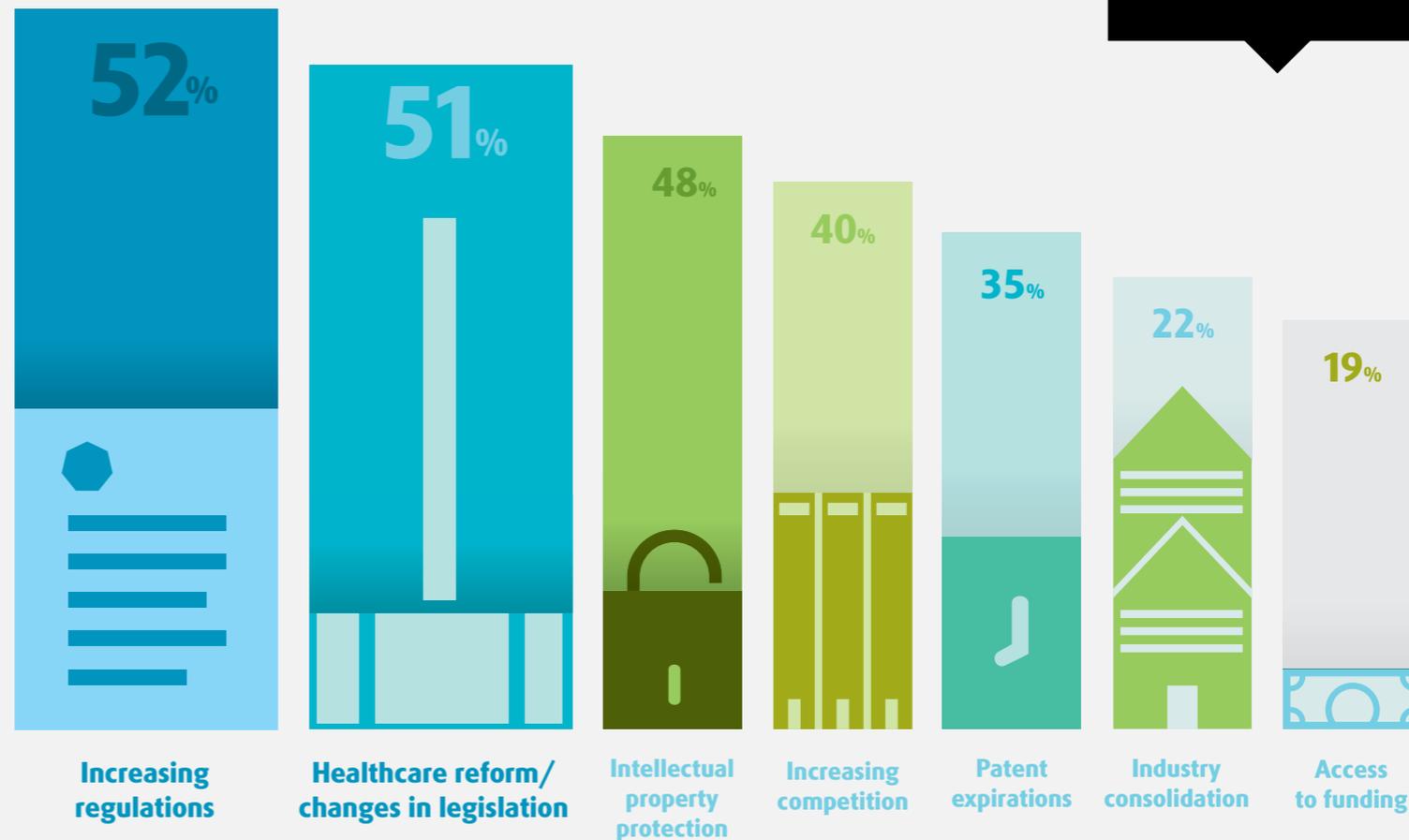


Managing Regulatory Compliance

Learn how regulatory compliance is a top business concern in part because of the pace of legislative change in healthcare. Companies have to find ways to comply with increasingly complex regulations.



Please rate the following general business issues which may impact your business in the future.



Additional data

65% rank regulatory compliance as a top supply chain concern, making it the number-one supply chain concern as well as the top business concern.

Country regulations are the top barrier to global expansion, cited by 46% of respondents.

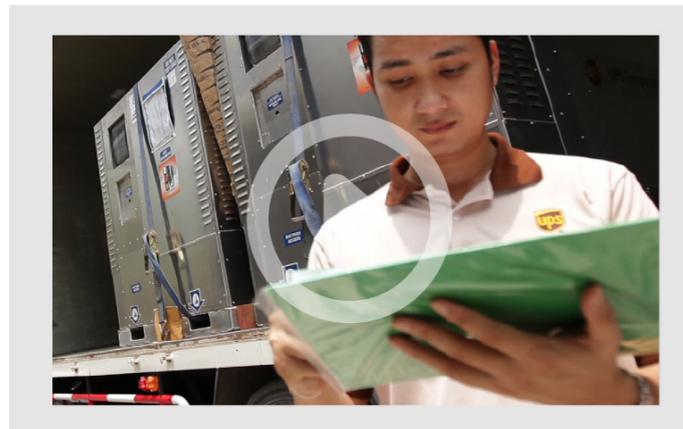


Global Economy	Concerns by Region	Regulations	Product Security	Cost Management	Global Expansion	Technology	Channel Strategies	Asia	Western Europe	Latin America	5-Year Report
----------------	--------------------	-------------	------------------	-----------------	------------------	------------	--------------------	------	----------------	---------------	---------------

PRODUCT SECURITY AND PRODUCT SPOILAGE

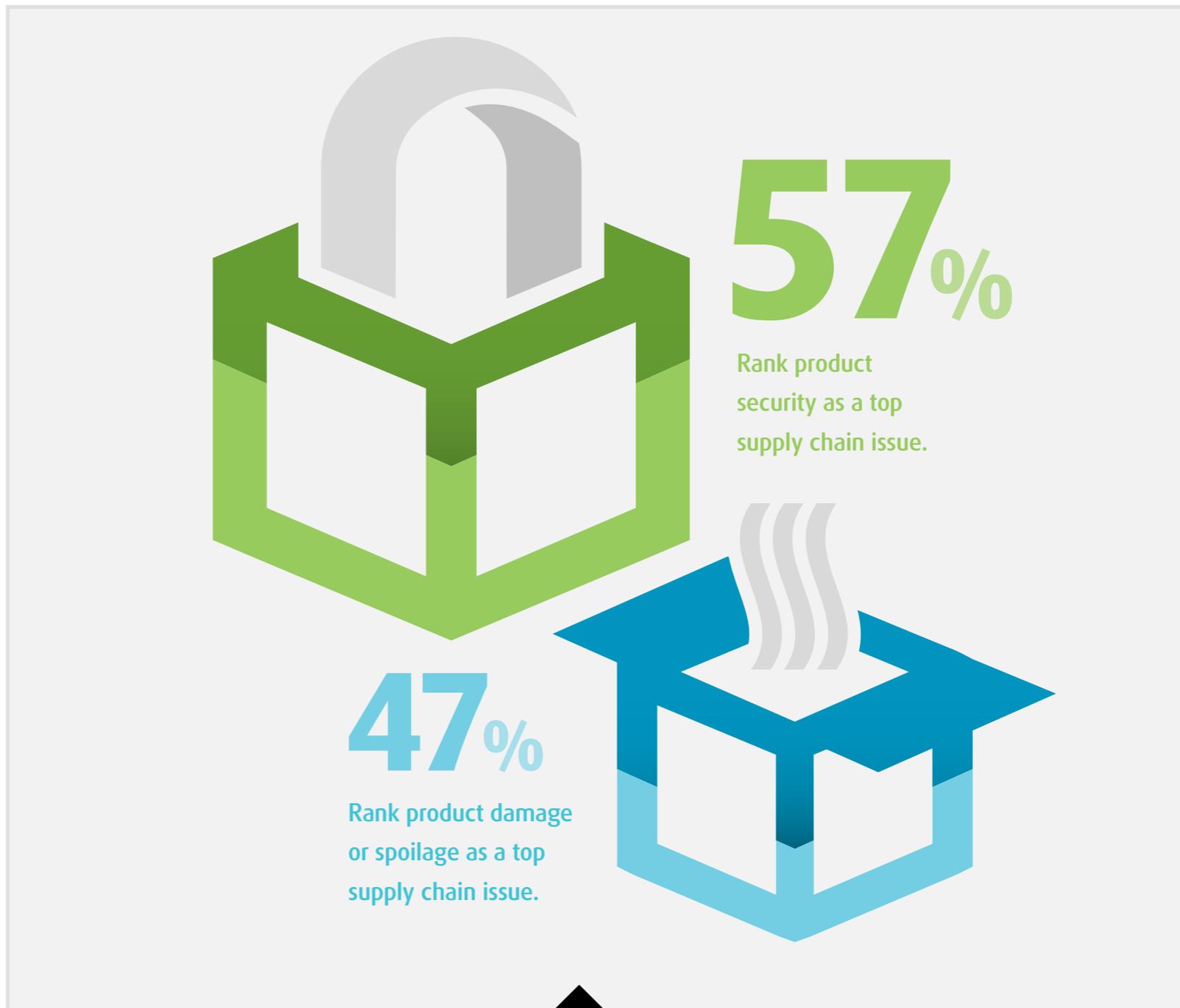
Protection of high-value, sensitive healthcare products is a major concern in the healthcare industry as global expansion continues at a rapid pace.

As globalization creates longer supply chains, opportunities for product spoilage increase. Consequently the need for solutions, such as temperature-sensitive shipping, to address product spoilage is growing rapidly. Executives are realizing that they cannot manage such logistical complexity without outside expertise.



The Growing Importance of Product Protection

Understand why protecting healthcare products as they move through the supply chain has become increasingly important. That includes ensuring the integrity of sensitive products as well as the protection of products from theft.



Additional data

72% of respondents in Asia are concerned about product damage and spoilage as a top supply chain issue.

53% of healthcare executives are planning to invest in security-specific technologies in the next five years.

Product security is among the top three supply chain issues after regulatory compliance and managing supply chain costs.



- Global Economy
- Concerns by Region
- Regulations
- Product Security
- Cost Management
- Global Expansion
- Technology
- Channel Strategies
- Asia
- Western Europe
- Latin America
- 5-Year Report**

COST MANAGEMENT

Managing supply chain costs has been a leading issue for healthcare decision makers for the past five years. Each year, however, fewer than half the companies surveyed report success in addressing this concern.

Though executives in Asia have had more success than most, the challenge is underscored by the large proportion of healthcare executives still struggling with costs. Their concerns are driving the development of creative new supply chain models and fresh perspectives on value creation.



Configuring Supply Chains for New Challenges

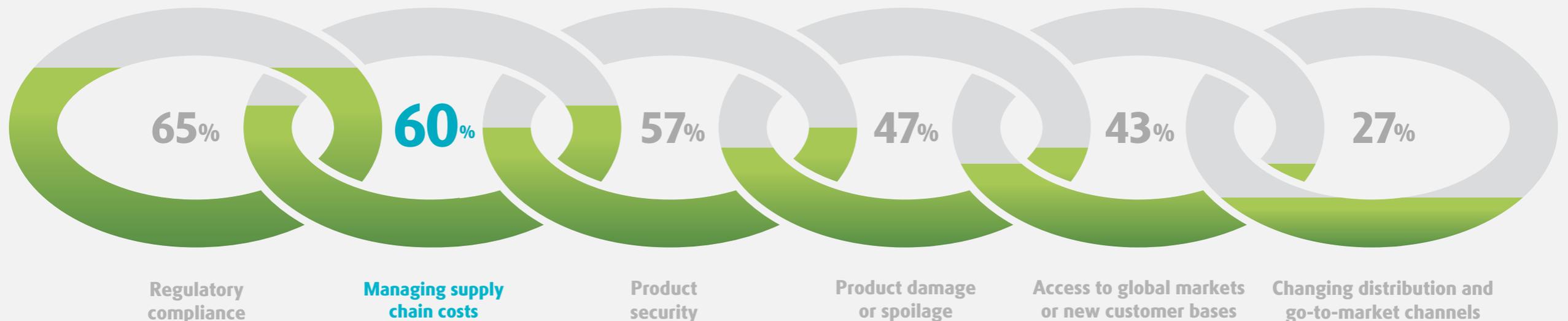
Healthcare companies must optimize their supply chains for today's larger market and to transport increasingly sensitive products. Companies are turning to third-party logistics providers to meet changing market needs.

Q Please rate the following supply chain issues which may impact your business in the future.

Additional data

Managing costs is the second top supply chain issue for healthcare decision makers.

Only 41% of respondents report success in addressing cost management.





- Global Economy
- Concerns by Region
- Regulations
- Product Security
- Cost Management
- Global Expansion
- Technology
- Channel Strategies
- Asia
- Western Europe
- Latin America
- 5-Year Report

GLOBAL MARKET EXPANSION

Tapping into new global markets ties with technology investment as the top strategy that U.S. companies plan to employ over the next three to five years, cited by 83% of respondents. At the same time, barriers to global expansion remain, including intellectual property protection, a key concern of almost half the respondents.

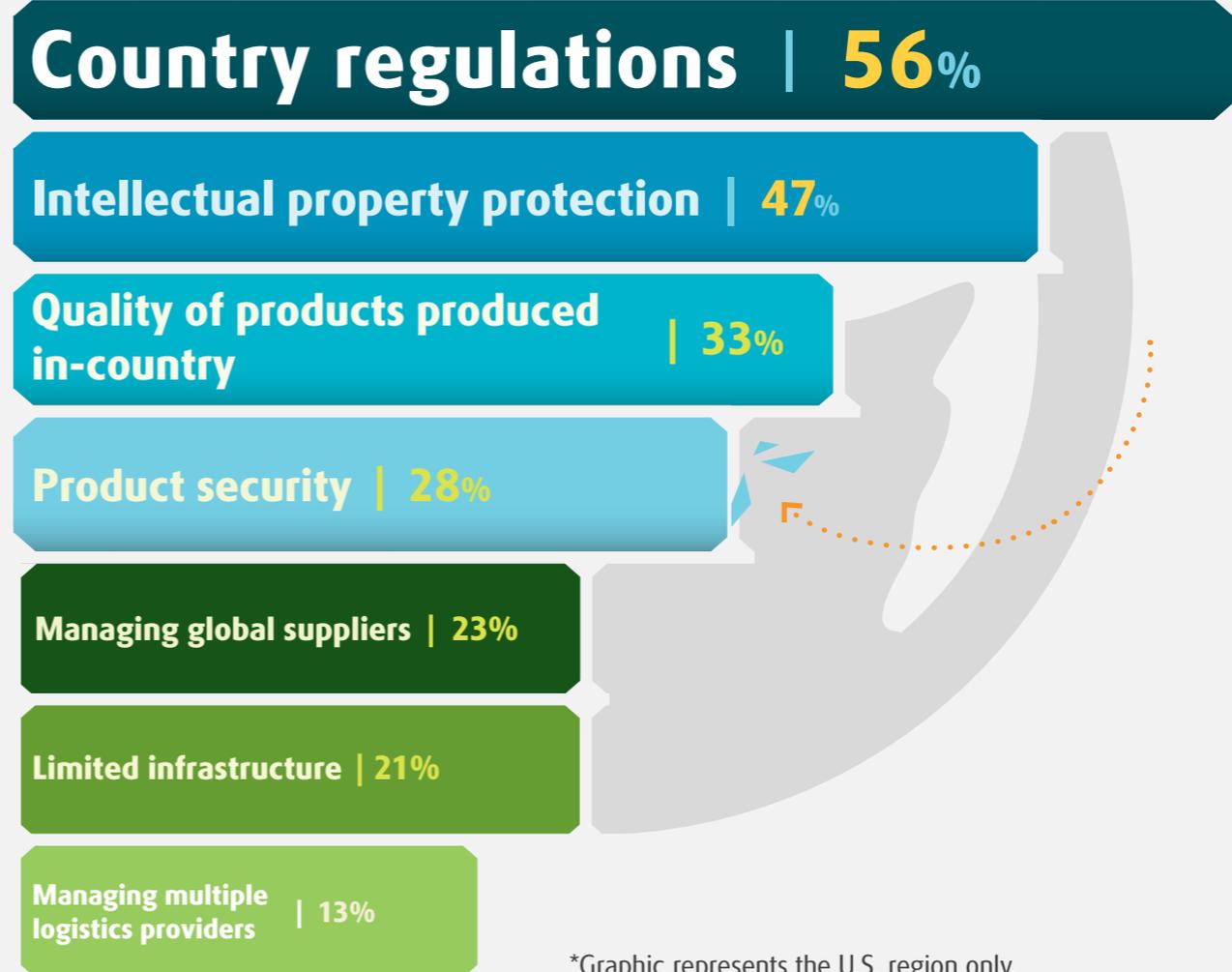
Effective and profitable expansion demands expertise in complex areas, such as country regulations. Third-party logistics providers can provide value in areas, such as this where constantly elongating supply chains meet with constantly evolving regulatory demands.



Market Growth Strategies

A large number of companies are focusing on global expansion and increasing the number of markets they serve. Hear how many of those companies are targeting specific markets and international growth opportunities.

Q Thinking about possible barriers to global expansion, please indicate the extent to which each of the following is a barrier.



Additional data
 77% have tapped into new global markets over the past 18 months.
 48% rank intellectual property protection as a top general business issue.

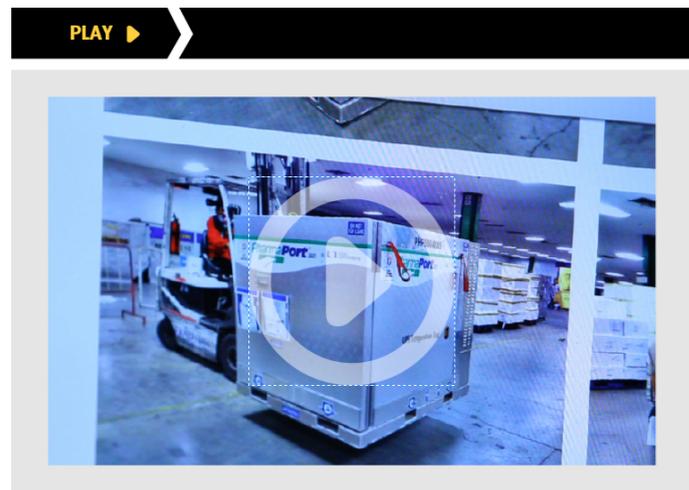
*Graphic represents the U.S. region only.



TECHNOLOGY INVESTMENT

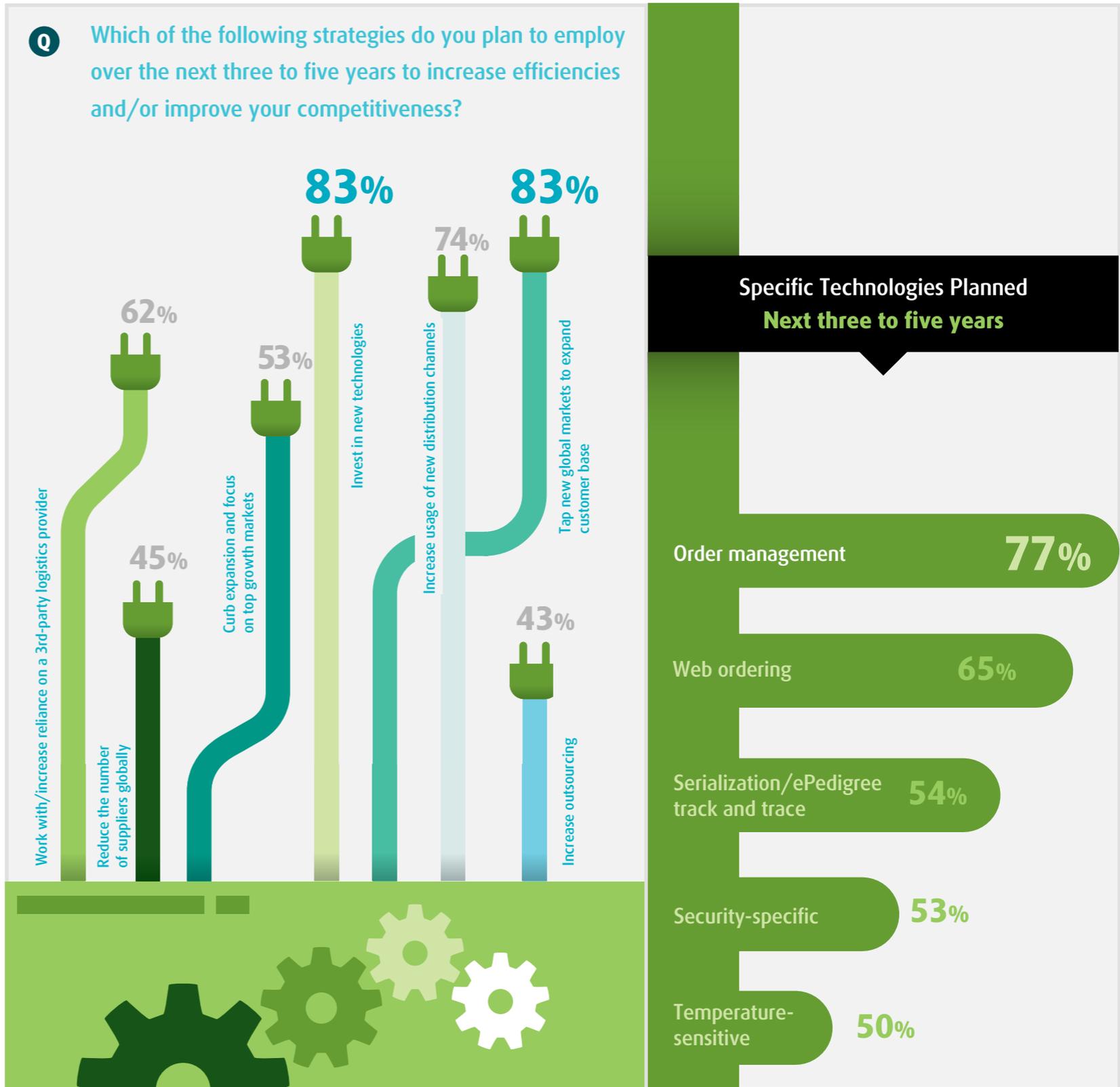
Investing in new technologies ties with tapping into new global markets as the top strategy that healthcare decision makers will employ in the next three to five years to increase competitiveness and efficiency. Technology investment is also the number-one strategy they have employed over the past 18 months.

Better technology provides improved visibility, which enables superior supply chain planning, measurement and control. Executives can find it advantageous to align their operations with logistics providers that invest heavily in technology, eliminating the need for healthcare companies to invest, themselves.



New Technologies Offer New Solutions

Learn how one of the major strategies of healthcare companies in the next three to five years is investment in technologies designed to help the right product reach the right patient in the right condition.



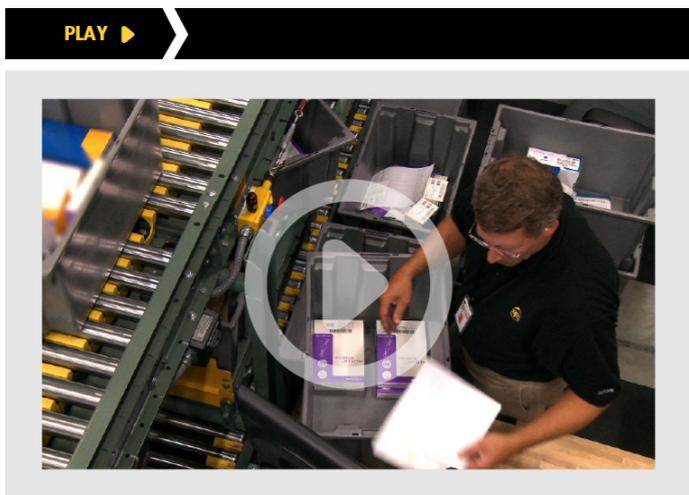


- Global Economy
- Concerns by Region
- Regulations
- Product Security
- Cost Management
- Global Expansion
- Technology
- Channel Strategies
- Asia
- Western Europe
- Latin America
- 5-Year Report**

CHANNEL STRATEGIES

Innovation in healthcare products is driving innovation in how those products are brought to market. As healthcare products evolve, companies are turning to new distribution and transportation solutions.

Consequently, the organization and management of supply chains must become flexible and agile enough to handle everything from new products to end-of-life cycle products.



New Distribution Channels Complement Tradition

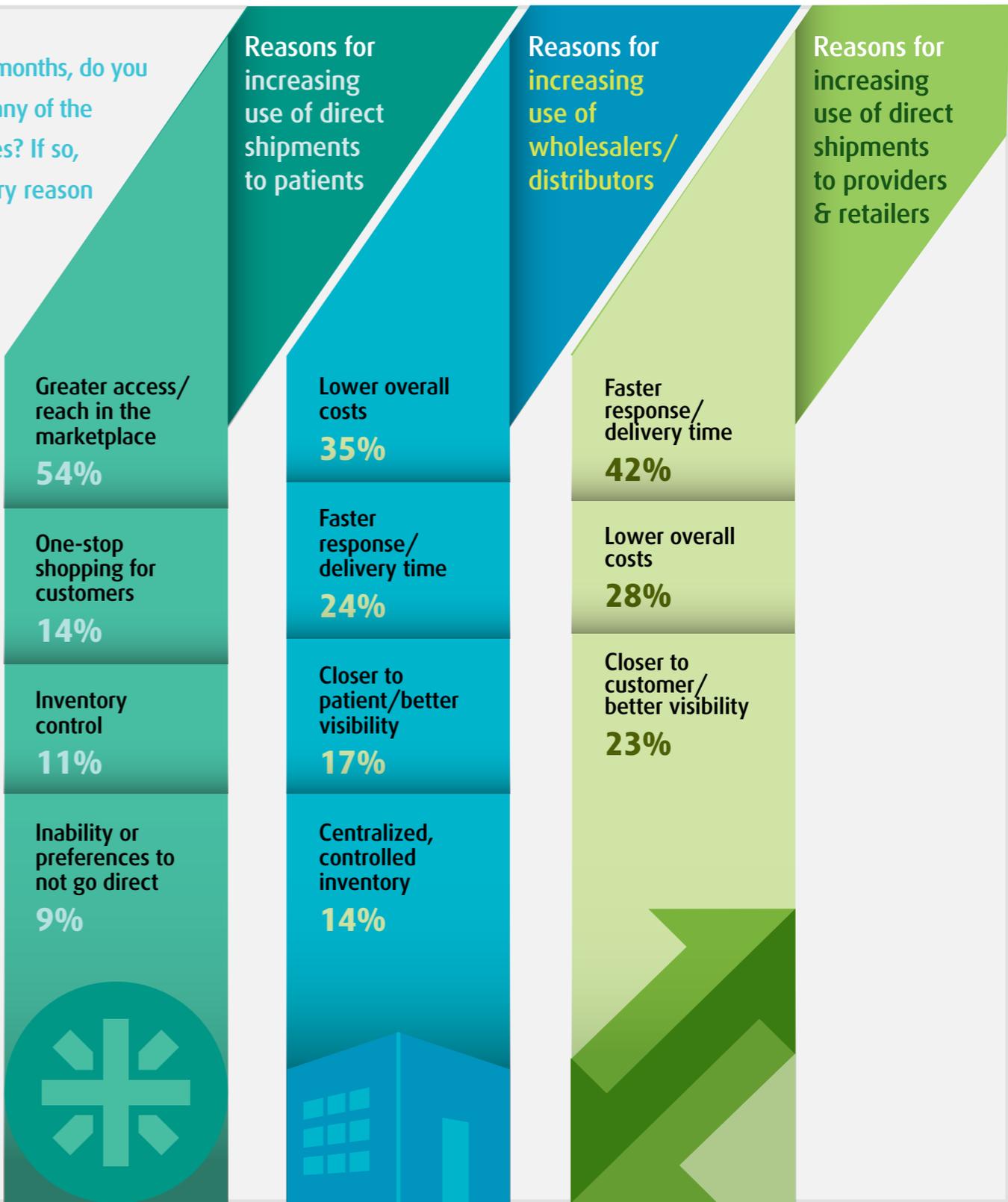
The number of ways that healthcare products are being brought to market is expanding. Traditional distribution models are now being complemented by new channels.

Additional data

57% of respondents have increased their use of new distribution channels over the past 18 months to increase their competitiveness and drive efficiencies.

Q Over the next 18 months, do you plan on changing any of the following strategies? If so, what is the primary reason for the change?

- Increase the use of direct shipments to patients **8%**
- Increase the use of wholesalers/distributors **15%**
- Increase the use of direct shipments to providers and retailers **20%**
- Plan to keep the current balance of these strategies the same **55%**





Global Economy	Concerns by Region	Regulations	Product Security	Cost Management	Global Expansion	Technology	Channel Strategies	Asia	Western Europe	Latin America	5-Year Report
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REGION SPOTLIGHT: ASIA

In Asia, the top business concern is increasing competition, and close to half of the respondents cite access to global markets or new customer bases as a concern.

INVESTMENT AND EXPANSION

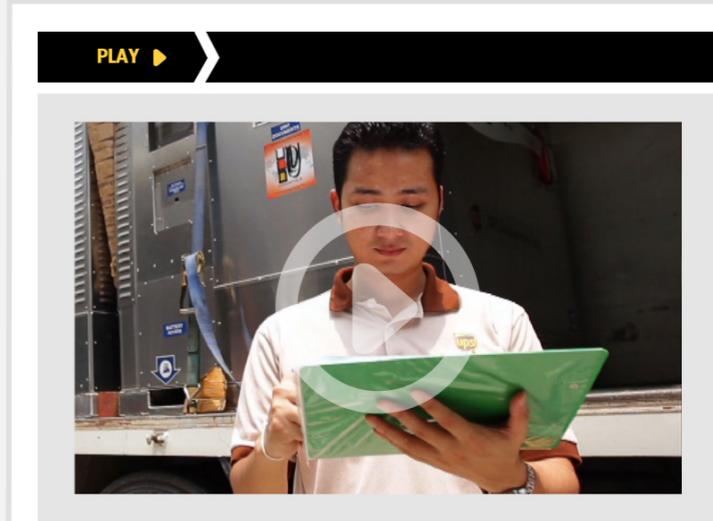
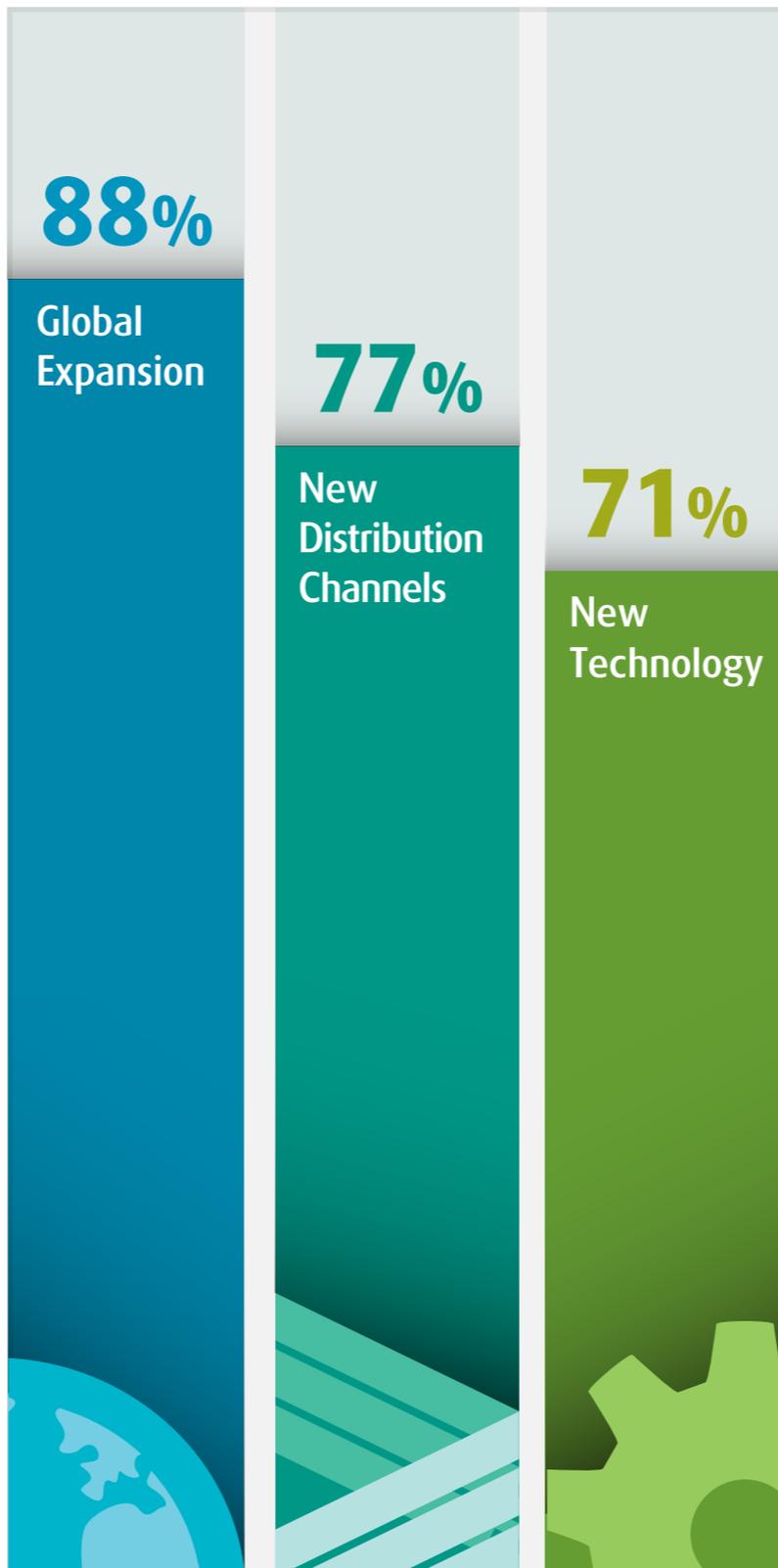
Decision makers in Asia are heavily focused on global expansion in the next three to five years (88%), while other top investment strategies include increasing usage of new distribution channels (77%) and new technologies (71%).

There is a significant jump in planned technology investments in Asia around web ordering systems, with 66% now planning to invest in the next three to six years, and e-pedigree/serialization technologies, with 59% planning to invest in the next three to five years.

SPOILAGE AND SECURITY

Product damage and spoilage is a much higher concern in Asia versus other regions. Product security is also a higher concern in Asia versus other regions.

Executives in Asia looking to markets in North America and Europe need durable supply chains, together with the technology and visibility to manage them. A strong supply chain infrastructure is the best defense against the top Asian concerns centered around product protection.



Supply Chain Concerns in Asia

Bee Lim Koong, Director Healthcare Logistics & Strategy, UPS Asia, discusses the top supply chain concerns in Asia, including innovation, globalization and rationalization.



Global Economy	Concerns by Region	Regulations	Product Security	Cost Management	Global Expansion	Technology	Channel Strategies	Asia	Western Europe	Latin America	5-Year Report
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REGION SPOTLIGHT: WESTERN EUROPE

In contrast to Asia, European healthcare executives' top strategies are investment in new technologies, global expansion and usage of new distribution channels.

Uncertain economic prospects in Europe are driving companies to find new ways to preserve and increase revenues. A key to success will be the selection of logistics partners with the capability and creativity to enable such transformative change.

COMPLIANCE AND SECURITY

Regulatory compliance is the top supply chain concern in Western Europe; the top barrier to global expansion is country regulations. Decision makers in Western Europe will increase their investment in security-specific technologies, with 44% investing in the next three to five years.





Global Economy	Concerns by Region	Regulations	Product Security	Cost Management	Global Expansion	Technology	Channel Strategies	Asia	Western Europe	Latin America	5-Year Report
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REGION SPOTLIGHT: LATIN AMERICA

In Latin America, most healthcare decision makers (57%) think that economic impacts have lessened, but many (43%) are still feeling economic pressures.

DISTRIBUTION AND TECHNOLOGY

The number-one investment strategy in Latin America is to increase usage of new distribution channels (66%). In addition, there is likely to be a significant jump in technology strategies: 63% plan to invest in new technologies over the next three to five years, followed by tapping into new global markets (57%). These strategies, which can be driven by logistics partners with existing investment in new distribution channels and technologies, will drive not only efficiencies, but also product differentiation in the healthcare market.

CONCERNS AND BARRIERS

Product security is the top supply chain concern in Latin America. Country regulations and product security are the top barriers to global expansion.





Changes

Constants

Conclusions

2012 Executive
Summary

Plus

5-YEAR REPORT

2008

2009

2010

2011

2012

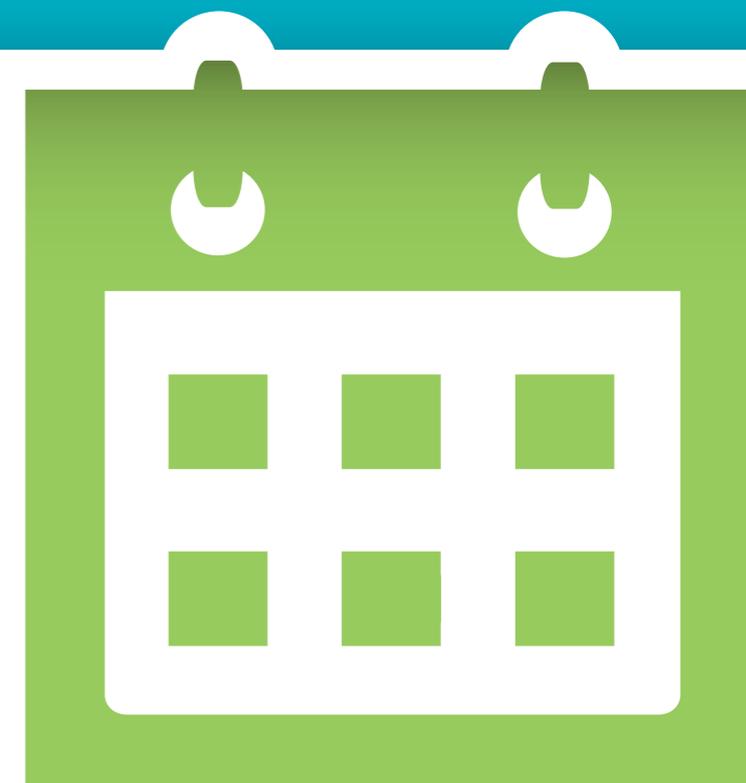
2013

State of the Healthcare Logistics Industry

With much change in the healthcare industry, from legislative and regulatory hurdles to rapid globalization and changing healthcare consumption patterns, UPS launched an annual survey five years ago to measure the impacts of industry changes over time on the healthcare supply chain and to gain insights into future drivers of growth and change. First launched in the U.S., the UPS “Pain in the (Supply) Chain” survey has expanded over time to include global healthcare supply chain decision makers from pharmaceutical, biotech and medical device companies based in the U.S., Western Europe, Asia and Latin America.

On the five-year anniversary of the survey, UPS is looking back at data from some of the most pivotal years in the healthcare industry to determine what factors have had the largest impact on healthcare supply chains. And we also look forward to see what lies ahead on the global healthcare logistics horizon.

Surveys referenced in this 5-year report were conducted by Harris Interactive in 2008, 2009 and 2010, and TNS in 2011 and 2012.

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Changes

Constants

Conclusions

2012 Executive Summary

THE IMPORTANCE OF HEALTHCARE LOGISTICS

Healthcare companies are under pressure to serve more customers in more locations while complying with a growing number of regulatory requirements—all while keeping costs down and demonstrating efficiencies across their business. The common denominator between all of these areas is companies’ logistics operations, which enable everything from flexibility around the globe to speed-to-market to customer service to operational efficiencies. Whether or not healthcare companies succeed in logistics can determine whether or not they will remain competitive in the global marketplace.

The healthcare supply chain impacts much more than healthcare manufacturers themselves. It affects healthcare retailers, distributors, providers and consumers around the world. The state of healthcare logistics therefore has a substantial impact on the state of healthcare delivery.

THE IMPORTANCE OF HEALTHCARE LOGISTICS

In examining the state of healthcare logistics today, we looked at the “three Cs” of changes, constants and conclusions based on five years of industry data.



CHANGES

What industry trends and factors are causing healthcare companies to alter business and supply chain strategies?



CONSTANTS

What business and supply chain issues and concerns remain top-of-mind for healthcare decision makers?



CONCLUSIONS

What is the state of healthcare logistics today, and what can healthcare companies expect in the next five years in an evolving market landscape?



Changes	Constants	Conclusions	2012 Executive Summary
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CHANGES

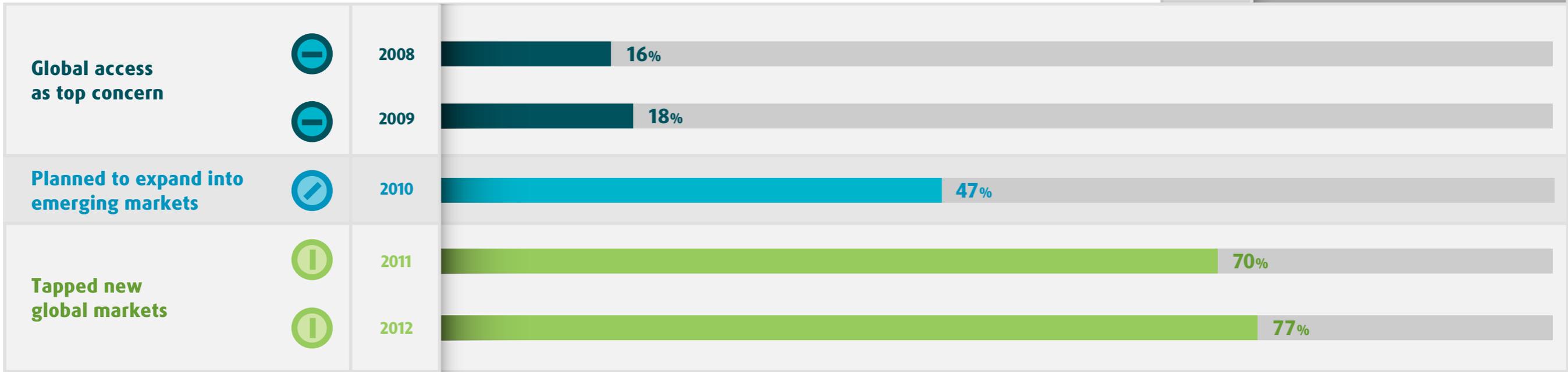
The healthcare logistics landscape looks very different today than it did just five years ago. One of the most significant impacts on the industry has been the drive for global growth and expansion amid increasing pressure to reduce costs and satisfy increased regulatory oversight. Many healthcare companies have found themselves caught in a balancing act between the two goals, which appear to be competing forces. Also as a result of these industry changes, healthcare companies today face a more highly competitive global environment, where intellectual property protection and product security have become critical to success. More than ever before, healthcare companies are seeking transformative change in their supply chains to drive additional value.

GLOBAL HEALTHCARE GROWTH EXPLODES 2008 - 2012

Global growth has been a focus area for supply chain decision makers since 2008. In that year, executives ranked access to global markets as their second highest supply chain concern. By 2011, 70% of respondents reported they had successfully accessed new global markets. In 2012, this number grew to 77% of industry decision makers. Even more, 83% report they intend to tap into global markets to improve their competitiveness in the next five years.

Data Key

- Some concern
- Increasing concern
- Significant concern





Changes	Constants	Conclusions	2012 Executive Summary
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CHANGES

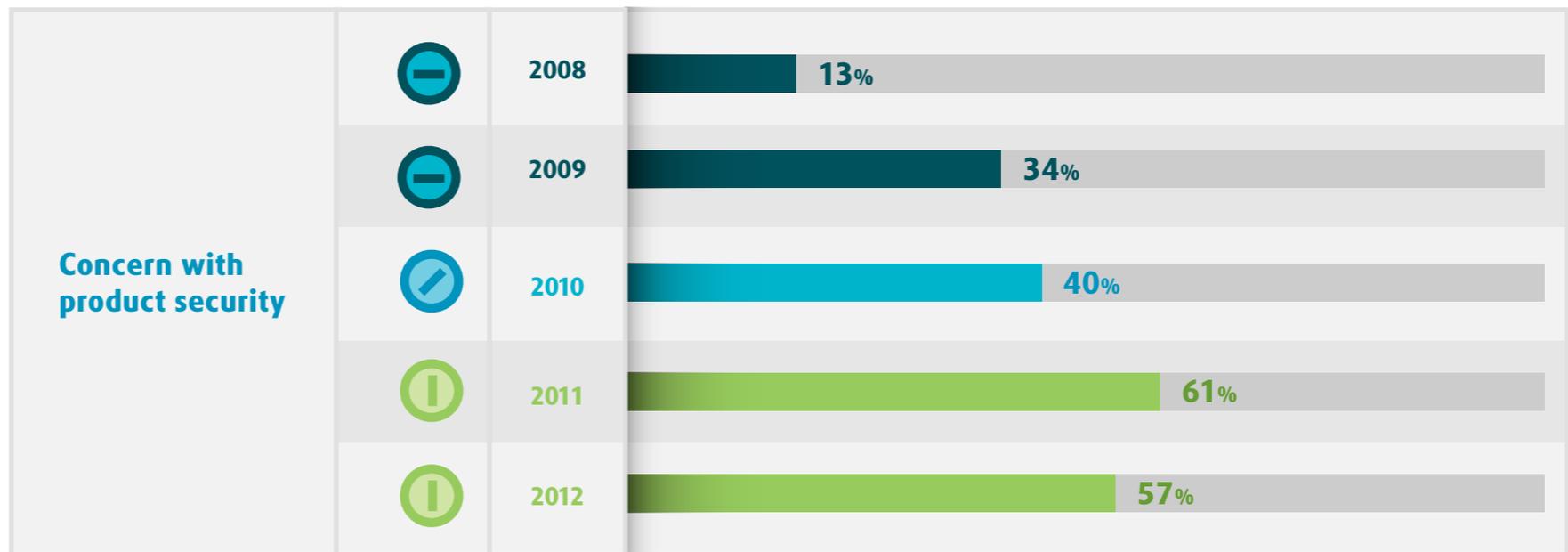
HEALTHCARE REFORM CONTINUES TO CHANGE THE INDUSTRY

Healthcare decision makers continue to grapple with the impacts of reform on their organizations and the industry in general. UPS began asking healthcare logistics decision makers about reform in 2010. Then, more than half (55%) ranked it as their number two business concern. After concern peaked in 2011 (60%), reform remains the second most important business concern in 2012, underscoring how pivotal issues and concerns around reform have been impacting the industry.



PRODUCT PROTECTION EMERGES AS A TOP SUPPLY CHAIN ISSUE AND CONCERN

In 2008, only 13% of healthcare decision makers named “security” as a supply chain issue. In 2012, 57% reported being highly concerned about product security. Innovative technology and supply chain solutions, and best practices have shown that meaningful progress in this area can be achieved.





Changes

Constants

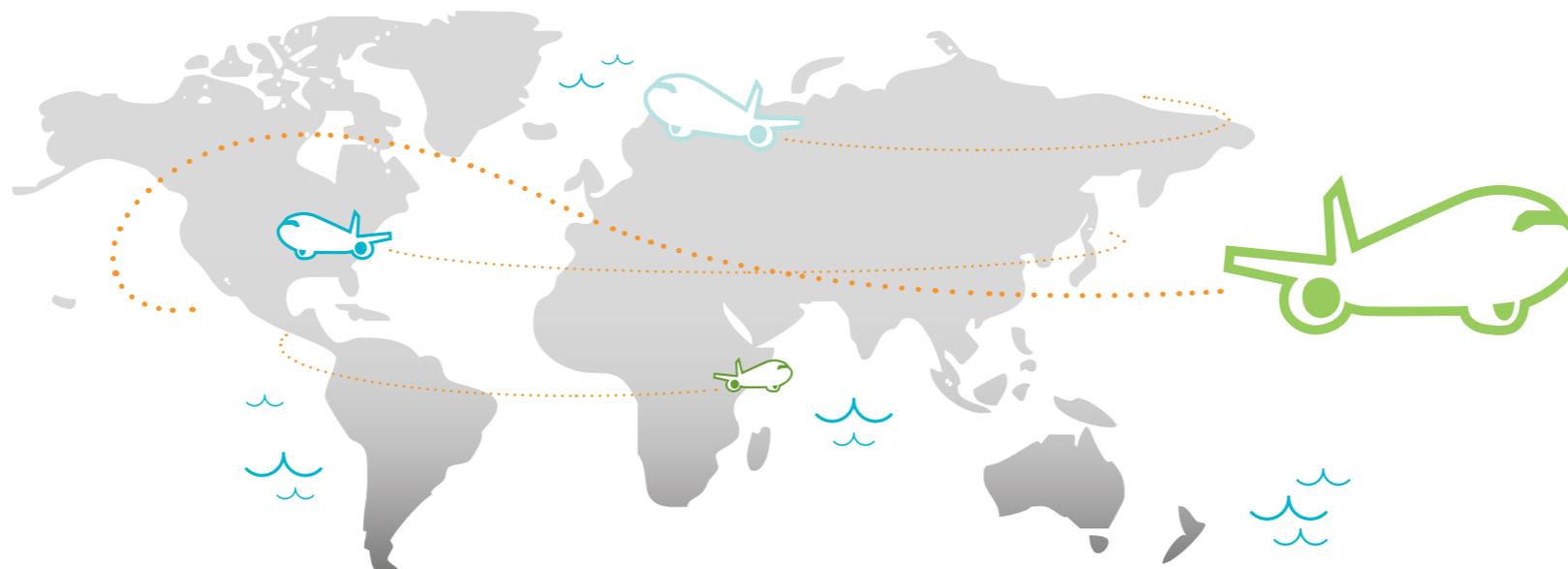
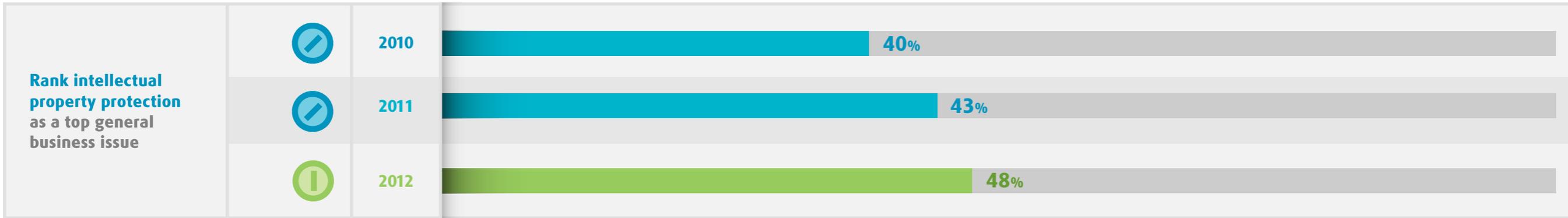
Conclusions

2012 Executive Summary

CHANGES

INTELLECTUAL PROPERTY PROTECTION CONCERNS RISE YEAR OVER YEAR

As healthcare companies continue international expansion at a rapid pace, intellectual property protection concerns have grown every year since 2010. Geographically, concerns were highest in Asia in 2011 (cited by 50% as a concern); however by 2012, U.S. decision makers were the most concerned about intellectual property protection (cited by 57%) compared to decision makers in other regions.





Changes

Constants

Conclusions

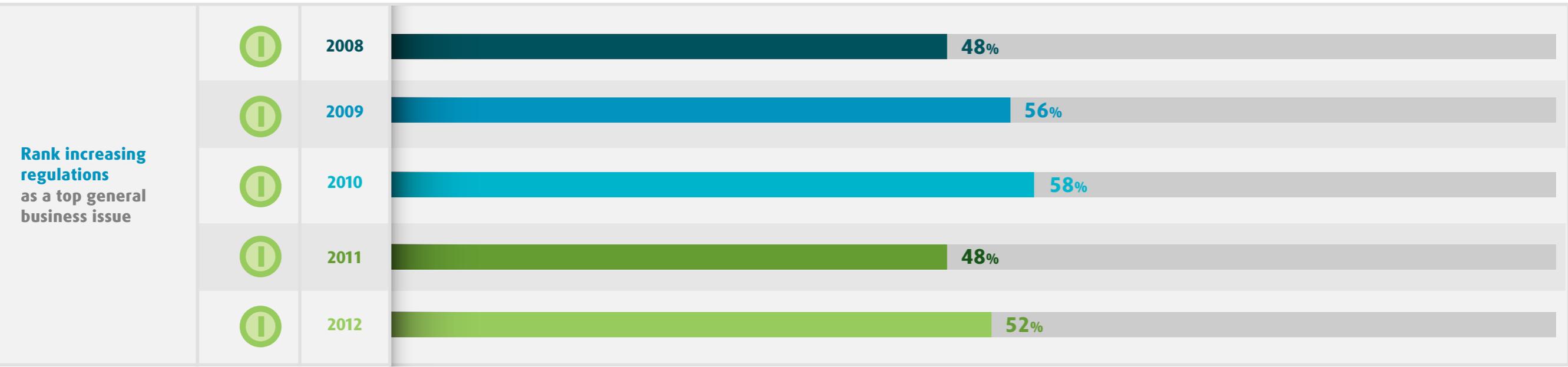
2012 Executive Summary

CONSTANTS

Amid much change and activity in the healthcare industry, two issues have remained a top-priority focus and a top concern for healthcare decision makers over the past five years: expensive regulatory compliance and cost management. Both top the list of business and supply chain concerns, and mastery of both is essential for supply chain and business success. Integrated supply chains can help provide this balance.

REGULATIONS A TOP BUSINESS AND SUPPLY CHAIN ISSUE

Not only are companies concerned about increasing regulations each year, regulatory hurdles have also proved an obstacle to global growth. In 2011, “country regulations” were cited as the top barrier to global expansion. In both 2011 and 2012, increasing regulations beat cost management as the top supply chain issue. As healthcare companies expand their operations, they have found keeping up with regulations in different countries to be a challenge.



Rank increasing regulations as a top general business issue



Changes

Constants

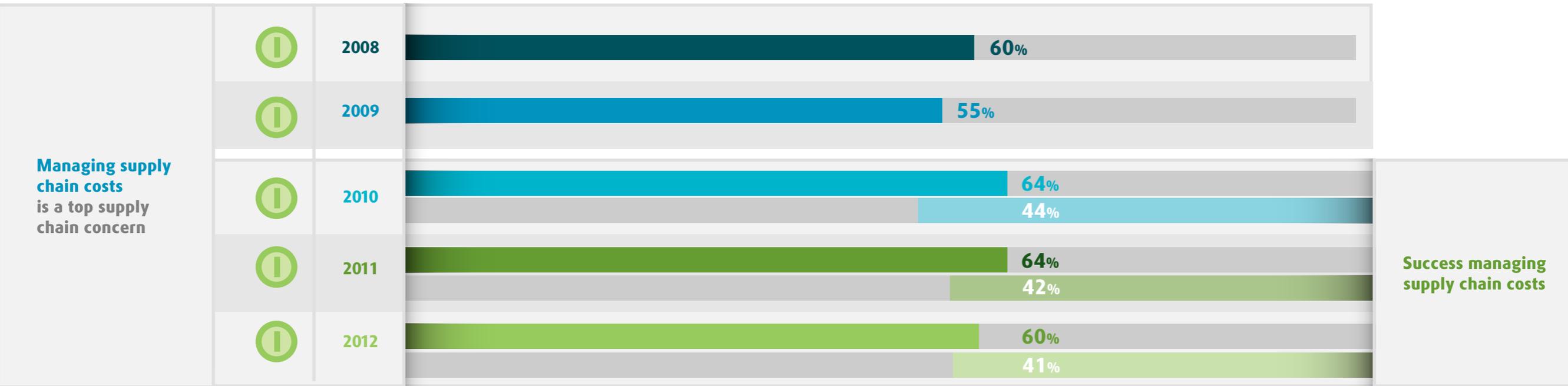
Conclusions

2012 Executive Summary

CONSTANTS

COST MANAGEMENT A CONSTANT CHALLENGE FOR HEALTHCARE COMPANIES

While healthcare decision makers have reported high levels of concern about managing and containing supply chain costs since 2008, companies do not appear to be making progress when it comes to addressing the issue, with only 42% and 41% reporting success around cost management in 2011 and 2012 respectively. Transformative change is required.





Changes

Constants

Conclusions

2012 Executive Summary

CONCLUSIONS

Logistics has become an increasingly essential part of healthcare companies' overall strategy, enabling a high degree of operational efficiency. This efficiency will remain a critical factor going forward in whether healthcare companies can succeed in areas such as operating amid reform changes, expanding into new global markets and achieving cost efficiencies. Following are five logistics indicators that healthcare companies can focus on to ensure that their supply chains are set up to drive future business.

NEW WAYS OF DOING BUSINESS CALL FOR NEW SUPPLY CHAIN MODELS.

Many healthcare companies have evolved their business models over the past few years to go direct to providers, including retailers, pharmacies, physicians—and even patients. These new business models have led to the development of new distribution channels, which impose unique demands on healthcare supply chains. Companies need to ensure that their supply chains have the flexibility to encompass different distribution models—both now and in the future—according to individual product needs. Increasingly, healthcare executives need to segment their markets by product to ensure the correct supply chain strategy for each group. Collaboration with a logistics provider may be a necessary part of the overall strategy—many companies can't "go it alone."

INCREASED FOCUS ON OPERATIONAL FLEXIBILITY REQUIRES A GLOBAL LOGISTICS BALANCING ACT.

Healthcare companies need a new level of flexibility in their supply chains and logistics operations today. Effective supply chain infrastructure should enable companies to quickly "turn up" or "turn down" logistics operations based on fluctuating demand. Companies cannot afford to get caught with too little or too much inventory at any given time or location, especially when considering the critical nature of healthcare products. Flexibility also applies to infrastructure and assets, such as warehouses and distribution centers. Many companies are moving to a variable cost structure in which they outsource core logistics functions and take advantage of existing third-party infrastructure, labor and technology to avoid or lessen fixed costs. This approach allows companies to enter new markets and expand globally while keeping costs down.



Changes

Constants

Conclusions

2012 Executive
Summary

CONCLUSIONS

COMPLEX PRODUCTS REQUIRE NEW LEVELS OF SUPPLY CHAIN PROTECTION.

With an influx of biologics in the marketplace, the transportation of healthcare products has become increasingly complex over the last several years. Many of these products are temperature-sensitive, requiring vigilance throughout the supply chain to ensure that they remain within their required temperature range to avoid costly product damage or loss. According to the Biopharma Cold Chain 2012 Sourcebook, by 2016 world sales of cold-chain drugs and biologics, such as vaccines and blood plasma products, will near \$240 billion. With continued growth in this area, companies must ensure that their supply chains are equipped to handle the influx. They also must ensure that these high-value products are protected in the supply chain.

ACCESSING TECHNOLOGY INVESTMENT AND PARTNERSHIP IS ESSENTIAL FOR GROWTH.

Investing in new technologies is a top strategy for healthcare companies looking to gain greater operational efficiencies and improve their competitive market positions. As healthcare products have become more complex, so have supply chain technology solutions. Companies must be able to monitor not only the location of their products, but also the condition of their products to ensure that they are stored and kept in optimal temperature ranges and that they have not been tampered with. Technology also can give critical visibility into inventory levels and enable strong customer service. It is also a key enabler for strategic success.

LOGISTICS CAN BE A COMPETITIVE ADVANTAGE FOR HEALTHCARE COMPANIES.

Healthcare challenges, such as increasing and evolving regulations and cost management, are not going away anytime soon. In fact, these challenges continue to grow. Healthcare supply chains must be built to navigate and overcome these challenges, but an effective supply chain can do much more than solve problems. Smart companies are investing in their supply chains to turn logistics into a competitive advantage to deliver on business priorities, such as expanding into new markets, serving new customer segments, speeding time to market and achieving operational flexibility.