

Used Equipment Dealers Offer Cost Savings to Pharmaceutical Manufacturers of all Sizes

The general understanding within the pharmaceutical industry is that loss of a patent for a branded pharmaceutical leads to opportunities for generic pharmaceutical manufacturers. Once a blockbuster drug reaches the end of its branded lifecycle, generic manufacturers will gear up to produce lower margin copies.

However, in the wake of lost market share and declining revenue due to lost patents, branded pharmaceutical manufacturers are frequently left with surplus manufacturing equipment. If the branded pharmaceutical manufacturer has a robust pipeline, this equipment must be removed to make way for the next new product. At the same time, generic manufacturers and contract manufacturing organizations (CMO) are looking for opportunities to lower their costs in order to win new business with competitive pricing. With a reputable used equipment dealer involved, the branded manufacturer, CMO's and generic manufacturers all have an opportunity for costs savings.

As the product mix at a pharmaceutical manufacturing facility changes over time, the equipment needs change as well. Long product development and approval timeframes as well as complex compounds and delivery methods do not allow for one-size-fits-all manufacturing. A branded drug available from only one source often requires customized equipment, dedicated facilities, and redundant capacities to support large scale manufacturing or packaging for just one product. New products may then require completely different manufacturing equipment and packaging lines to support the new processes and demand.

During the technology transfer process, a team of experts from the drug manufacturer, engineering firm and the selected equipment manufacturer meticulously specify and validate every aspect the equipment's requirements. Additionally, a branded drug owner will make sure that the equipment is robust enough to launch immediately upon approval and to maintain a constant supply of product. The end result is state-of the-art equipment with the highest quality construction and finish so that it meets current Good Manufacturing Practice (cGMP) standards required for regulatory approval.

With a blockbuster drug, the capital expenditure for equipment eventually becomes something less than a speed-bump along the revenue road. However, investment in new pharmaceutical equipment remains a large and complex commitment for any size manufacturing facility.

When a drug has reached the end of its branded lifecycle, the manufacturer can achieve cost savings and recover a portion of the capital investment in equipment. Once the branded product's market share begins to decline, the equipment purchased for that drug may be idled, redeployed, or removed to make way for the next product. A manufacturer's best use for these assets is to redeploy them within their existing facility or manufacturing network, but this option is not always available.

New projects rarely have time to consider redeployment options when equipment will be removed. The financial transfer process may be complex, careful and proper removal can be expensive, and storage options may lead to problems as well. Most manufacturers will generally want to use production space for production and warehouse space for raw material and finished good storage and not to store surplus, idled equipment. Project managers as well as cost center managers rarely budget expenses to store idled equipment at offsite warehouses. Additionally, once equipment has been removed to an external warehouse, it can be forgotten or damaged. Finally, transfers of fixed assets between subsidiaries may not be economically viable because of shipping and removal costs as well as internal finance and accounting rules.

In cases where internal redeployment is not planned, project managers can work with a used equipment dealer to evaluate and appraise the equipment. The dealer will be able to generate an offer to purchase the equipment outright or present consignment and redeployment programs. Cash generated from the sale of the equipment can be applied to the new project. The dealer may be able to offer cost savings options by removing the equipment with its own experienced staff or covering the up-front costs for removal and shipping and then recover those costs from the later sale of the equipment. A dealer with a redeployment program offers a way to market the equipment for sale to an external buyer while providing for the transfer of equipment among facilities within a network. A redeployment program will generally save on storage costs and eliminate the problem of having equipment forgotten in an offsite warehouse.

Once the equipment is with a dealer, CMO's and generic manufacturers have the opportunity to view and evaluate this equipment for their needs. Used equipment is generally priced at a fraction of the prices for new equipment and is generally available immediately. If a manufacturer has an equipment failure, a dealer with sufficient inventory on hand may be able to supply equipment to meet that urgent need. Additionally, when a manufacturer operates several units of the same equipment, the manufacturer can make strategic purchases to secure back-up equipment. CMO's can obtain the equipment they need to win new projects and meet contractual milestones. Generic manufacturers can secure equipment at lower costs for intense price competition or higher margins during any period of exclusivity. In any case, engaging a used equipment dealer provides the opportunity for significant cost savings and the ability to obtain high-quality equipment in a short period of time.

About the Author: Matt Hicks is the Chief Operating Officer at Federal Equipment Company. He has been with Federal Equipment for one year after more than a decade within the pharmaceutical industry.

About Federal Equipment Company: For more than 50 years, Federal Equipment Company has been a trusted name in the pharmaceutical, chemical and plastics industries. With

thousands of pieces of inventory in stock, Federal Equipment is dedicated to providing customers with quality, used equipment available immediately at competitive prices. Additionally, Federal Equipment offers a complete array of investment recovery and asset disposition services including appraisals, auctions & liquidations, equipment purchase and removal as well as consignment sales. Visit www.fedequip.com to learn more about what Federal Equipment has to offer.