

WHITE PAPER:

Strategies for Effective Resource Recovery

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Abstract

Merger and acquisition activity in the pharmaceutical industry has been on the upswing, and many consolidated firms hope to achieve cost savings through the sale of redundant facilities and equipment. Maximizing resource recovery can be a challenge, though. Strategies for achieving higher returns on surplus equipment are discussed.

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***Federal Equipment** is a trusted partner with extensive market knowledge managing pharmaceutical equipment needs and providing a full range of resource recovery services. We offer an extensive inventory of used pharmaceutical manufacturing and packaging equipment for sale in climate-controlled, pharma-dedicated storage warehouses as well as investment recovery services including complete, fast accurately appraised liquidations.*



White paper text

One of the biggest trends in the pharmaceutical industry today is the heightened level of merger and acquisition activity. Pharmaceutical manufacturers are looking to not only expand their product pipelines, but also increase their technical and scientific knowledge and capabilities while achieving cost savings through synergies. The sale of redundant facilities and equipment plays a major role in their efforts to achieve cost savings. However, maximizing investment recovery can be challenging, particularly for companies that do not have previous experience, have limited communication between different plant and R&D sites, or simply lack the personnel and resources to implement an efficient recovery program.

Fortunately, there are steps companies can take to ensure that their resource recovery efforts lead to the maximum possible return on surplus facilities and equipment.

First, a suitable strategy for managing resource recovery efforts must be selected. Some companies may have the storage space and personnel with the necessary expertise to allow for complete in-house management of investment recovery projects. Firms should realize, however, that for an in-house program to be successful, the pharmaceutical manufacturer must not only have appropriate storage space and experienced personnel, but inventory and sales management systems and an advertising program.

Companies with limited experience selling surplus equipment and/or limited resources often turn to used equipment dealers to facilitate the process. Knowledgeable and reputable dealers can accurately appraise the equipment and facilities and have clean storage space, established networks of buyers and extensive marketing programs in place. They are also familiar with the various regulatory requirements that govern the sale of used pharmaceutical manufacturing equipment.

Selection of a used equipment dealer should be done with care. A successful investment recovery program requires a strong relationship between the pharmaceutical company and the service provider, who should be a true partner in each project. The equipment dealer should act as an extension of the pharmaceutical company and be committed to obtaining the optimum value for their unneeded equipment while understanding the regulatory complexities of the pharmaceutical industry.

The third option is a hybrid of the first two, and generally involves an in-house program manager responsible for the company's investment recovery efforts who is supported to varying degrees by one or more used equipment service providers.

Outsourcing shifts most of the burdens to the service provider, but someone must take responsibility for overseeing the selection of the provider and for ongoing management of the program at each of the company's locations. In addition, regardless of the chosen strategy, it is very important for pharmaceutical companies to realize that the investment recovery team needs to have a clear understanding of the program goals including the expected level of return.

In fact, the second step in implementing an effective resource recovery program is to establish clear goals and expectations so that the team can appropriately evaluate each individual project against those expectations while weighing all of the relevant factors important to an individual project, such as the physical property to be sold, the project location, timeframe for sale, and removal costs and procedures. If this step is performed properly, the result should be a customized plan for that project which can meet or exceed those project goals.

Knowing which factors are relevant is also crucial to achieving a successful resource recovery program, and different issues must be considered for facilities and equipment.

For facilities, important questions to ask include:

1. How quickly does the company need to sell the facility and equipment?
2. Is it better to try and sell the facility as a whole or sell individual pieces of equipment and the physical site separately?
3. Is the equipment saleable and if so, what is the best sales method for the timeframe and desired returns?
4. If the equipment is to be sold separately, is it best to leave it on site or move it to a storage location?
5. Will the removal costs be reasonable?

Many of the questions that should be asked when selling equipment are the same:

1. How much equipment is there?
2. What is the status of the equipment (e.g. still installed and in operation, decommissioned, de-installed) and what is the condition of the equipment (e.g. well used, like new, unused)?
3. Can the equipment be removed at a reasonable cost?
4. Is the equipment general in nature or highly specialized?
5. What sales channels fit the type of equipment available?
6. Should the equipment be moved to storage?

In order to answer these questions, the recovery team must have an understanding of the current demand for the specific type of facility and/or equipment involved. Access to a reliable appraiser with experience in the pharmaceutical industry that will consider all aspects of the project, including equipment condition, removal costs and demand level, is crucial.

In all cases, recovery teams should also be sure to not look only for external sales opportunities, but consider internal redeployment. Unfortunately, in many companies, not just pharmaceutical companies, individual sites do not communicate with one another, and therefore equipment needs are not shared. For manufacturers that do not have enterprise-wide tracking of equipment, a used equipment service provider can facilitate that communication and help clients avoid unnecessary capital expenditures.

If done properly, the evaluation of a company's resource recovery needs should lead to the generation of a customized plan - whether for a facility auction or the sale of a single item of equipment - that will help the company maximize the opportunity to reclaim some of the initial investment. In many cases, leveraging the services of a used equipment dealer that is committed to being a true partner can help ensure that an effective plan is developed and implemented.