Used-Equipment Dealers Offer Cost Savings

The loss of a patent for a branded drug product leads to opportunities for generic-biopharmaceutical 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, many branded biopharmaceutical manufacturers are left with surplus manufacturing equipment. If a branded drug manufacturer has a robust pipeline, such 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 to win new business with competitive pricing. With a reputable used equipment dealer involved, all of these companies have an opportunity for costs savings.

Over time, a biopharmaceutical manufacturing facility will change, as will its equipment needs. Long product development and approval timelines and 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 a single product. New products may then require completely different manufacturing equipment and packaging lines to support new processes and demands.

During a technology transfer process, a team of experts from a drug manufacturer, engineering firm, and a selected equipment manufacturer meticulously specify and validate every aspect of an equipment's requirements. In addition, a branded-drug company will ensure that equipment is robust enough to launch product 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 that meet 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.

Redeployment Options

When a drug has reached the end of its branded lifecycle, its manufacturer can save costs and recover a portion of its 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 such assets is to redeploy them within its existing facility or manufacturing network, but that option is not always available.

New projects rarely allow 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. Most manufacturers will want to use production space for production and warehouse space for raw materials and finished goods storage. They are not likely to store surplus, idled equipment. Project managers and cost-center managers rarely budget expenses to store such equipment at off-site warehouses. And 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.

Working with a Dealer

When internal reuse 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 a new project.

A 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, which are recovered from the sale of the equipment. A dealer with a redeployment program offers a way to market 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 storage costs and eliminate the problem of forgotten equipment in an off-site warehouse.

Once the equipment is with a dealer, CMOs and generic manufacturers can view and evaluate that equipment for their needs. Used equipment is generally priced at a fraction of the cost of 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. Moreover, when a manufacturer operates several units of the same equipment, it can make strategic purchases to secure back-up equipment. CMOs can obtain the equipment they need to win new projects and meet contractual milestones. Generics 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.

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