

Interview: Rob De Roock - Director CL Healthcare, UPS Europe, The Netherlands



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Rob de Roock, Director CL Healthcare for UPS Europe, gives us a brief outline of the current market dynamics impacting the booming European healthcare logistics industry and explains how UPS offers the best way to transform client's supply chain into a strong competitive advantage thanks to compliance expertise and tailored-made transportation services, and Roermond's position at the core of UPS Healthcare's European distribution system.

Healthcare was probably one of the last sectors to follow the outsourcing trend in logistics, but increasing cost-pressures, extensive regulation and increasing demand from emerging markets has created an estimated USD 70 billion market for healthcare logistics globally. What are the current market dynamics in Europe for healthcare logistics?

Indeed, increasing cost-pressure on pharmaceutical products and extensive regulations are two very powerful trends impacting the life sciences industry that explain the current increase of outsourcing in regard to healthcare logistics. Traditionally and historically, European supply chains in our industry were organized with a local structure in almost every country. Pharmaceutical companies had dozens of distribution hubs throughout the current 28 European member states, while a typical and rationalized logistic structure would normally have been based in a few regional distribution centers. This old-fashioned structure was mainly the result of constraining national

regulations in force for pharmaceutical distribution. However, the European healthcare system is currently following the distribution standard of other industries with a consolidation of the supply chain management and a centralization of the distribution chain, with sometimes a unique and only hub for the whole continent.

Healthcare has been identified as one of the most promising niches for logistics companies, with growth rates at double digits. How has UPS Healthcare been performing since you took over?

In Europe, the growth is particularly fast and robust. Healthcare companies are strengthening their partnerships with distribution specialists. In 2009, we built our first distribution center fully dedicated to healthcare products outside of the US in Roermond. Despite its size of 20000 m², we were running out of capacity in only two years! As we couldn't wait for another two years to build a new facility, we then decided in 2011 to rent an available warehouse in the area and customize it to make it fully compatible with healthcare product management. We are now again facing a capacity problem and building a third 21000 m² distribution center nearby, which will be completed at the end of 2015. This incredibly rapid increase of our capacity needs clearly demonstrates to what extent healthcare activities have been booming for UPS.

In 2010, UPS announced its healthcare strategy for Europe, and stated that we wanted to create a leading network of distribution centers and transportation services all over the continent. We operate 15 healthcare-dedicated warehouses all over Europe, including the Netherlands of course but also the UK, Spain, Italy and Eastern Europe. This geographical expansion in such a short timeline was achieved either by organic growth (as in the Netherlands with the construction of our third distribution center in Roermond) or thanks to the acquisition of local distribution companies, as we did in Italy, Poland or in Hungary recently.

What is the significance of the Dutch healthcare hub in Roermond among other European UPS healthcare centers?

Firstly, there is a difference in terms of positioning within the supply chain. Looking at UPS distribution centers in Italy, Poland or Spain, they are mainly oriented towards their domestic markets. On the other hand, even if the Dutch center is obviously also related to the Benelux and German markets, it above all serves as the European platform and gateway that links Europe with the rest of the world. Products come to Roermond from all over the world and are then redirected to the other European centers or directly to the customers.

Many of the customers that moved into our Dutch facility wanted to truly optimize and redesign their supply chain by basically closing their old local and national in-house facilities and then centralizing everything. For instance, one of our current partners using our Dutch distribution hub recently decided to relocate its production facility from the US to the Netherlands, and in the meantime close its regional distribution center in the US. This company now fully operates from the Roermond center and delivers its products to hospitals, universities and research centers all around the world.

If the favorable Dutch tax climate and the proximity with the UPS Air Hub at Cologne/Bonn airport may have counted towards the decision, what other key elements attracted you to the area?

Obviously, the Netherlands has historically always been a trading nation, and Venlo and Roermond (where the distribution centers are located) are two traditional trading cities and international logistics hubs, particularly because of their proximity to Germany, Rotterdam and Amsterdam. Most of the people in this area of the Netherlands are also able to speak English and have a very high level of education. Furthermore, our location in Southern Netherlands is in the middle of the European Blue Banana (or Manchester-Milan axis), which covers one of the world's highest concentrations of people, money and industry.

The tax climate has indeed been a strong competitive advantage of the Netherlands, particularly in regards to the favorable VAT deferment system for non-resident importers the Dutch share with the Belgians, but which is, so far, non-existent in neighboring Germany. Nevertheless, this fiscal advantage has been clearly decreasing and other European countries are also increasing their tax incentives for logistics companies.

For the Dutch market, what kind of healthcare companies have already decided to concentrate their efforts on their core competences and to outsource supply chain management?

We are mainly working with customers that operate on the whole continent or globally, and not in only in one specific European country. We are currently cooperating with pharmaceutical, biotech, diagnostics and medical devices companies. In countries like Italy, Poland or the UK, pharmaceutical companies represent almost 90% of our customers. However, in the Netherlands, the activity is almost equally split between pharmaceutical and medtech/diagnostic companies.

What are the key assets which you are currently focusing on to differentiate UPS from your competitors in the healthcare market?

Temperature management through all the supply chain is becoming absolutely crucial in the healthcare industry, as 80% of the healthcare products will require some forms of temperature control by 2016. Before the GDP European guidelines that have been in place for two years, temperature control efforts were mostly concentrated within the wholesale area, whereas transportation is now a key concern for logistic specialists. We are not only careful of products which need to be kept between +2°C and +8°C, but also products that need to be stored and transported in temperatures between +16°C and +25°C, which can also be quite a challenge in some geographies.

In this regard, our UPS Temperature True[®] service portfolio has been specifically designed to provide door-to-door transportation for vital products for the pharmaceutical industry. We also offer a specialized packaging consultation service and make available the Pharma Port[™] 360 container for our customers, which can be transported either by a plane or a truck and can conserve products at a temperature of 5°C during for up to 100 hours. Furthermore, it is equipped with a tracking system that allows us to know very precisely and 24/7 where the containers are in the world.

Bolstering these transportation services, UPS Healthcare's global presence is also a formidable asset, as we are able to serve and reach customers absolutely anywhere in the world. We can also rely on a cutting-edge IT and quality management system that has been conceived and designed on a global scale to allow seamless and faster supply chain management with the requested quality consistency.

Furthermore, compliance is probably our main competitive advantage. We literally "breathe" compliance! We have in-house regulatory affairs experts that operate both at global and local levels. We know all European markets' key specificities very well and this expertise has been particularly strengthened by our recent acquisitions locally. We don't only acquire warehouses and customers, but also the local knowledge developed by these national companies, which now conflate into our global UPS know-how.

How can your "In-Room Delivery" service help healthcare systems bring medicines directly to the patients?

High-value and temperature-sensitive products that should be delivered within huge centers like hospitals or academic centers can easily be lost if they aren't delivered as close as possible to the patients. In this vein, UPS Healthcare developed a dedicated service of "In-Room Delivery", where our employees are able to deliver the life-saving drugs to a specific room or patient within a hospital. This service tremendously increases product safety as well as eliminating the risk of delay

and high-temperature exposure.

Secondly, in some European markets like the UK for instance, we already deliver pharmaceutical products directly to the patient's home. Patients are thus no longer going to hospitals or pharmacies to get their medicines, but their medicines are now going to them. The drug is ultimately directly stored in patient's fridge, allowing a better coordination with the homecare providers. Even if not all European countries are ready yet to achieve such a transformation, we already see a strong interest from pharmaceutical companies.

How do you see the Healthcare logistics industry evolving in the future?

In terms of volume and revenues, it is undisputable that there will still be robust growth. We will witness an increasing consolidation within the healthcare logistic sector, in terms of distribution hubs but also regarding the overall number of logistics companies.

Furthermore, the remaining companies will also become more and more specialized and will increasingly differentiate their offering, following the healthcare companies' strategic specialization between for instance generics or innovators. The difference between high volume and high value products has indeed an enormous impact on how the supply chain is organized.

Thirdly, while healthcare companies are outsourcing their supply chain management more and more, we also see increasing demand and production from emerging markets, which will lead to the need to truly adopt a global and seamlessly integrated logistic chain.

Finally, like in other industries, healthcare logistics companies will probably provide more late-stage customization of products and secondary packaging, with non country-specific products arriving in the distribution center, where they will then be specifically packaged according to their final destinations.

Talking specifically about the Netherlands and UPS Healthcare and considering this expected increase of activity for Healthcare logistics, Roermond has the opportunity to reinforce its position as the core of our European distribution system.

What is your final message to healthcare executives on behalf of UPS Healthcare?

UPS is one of the world's largest package delivery companies and provider of supply chain management solutions that is truly specialized in healthcare solutions, with a special focus on temperature-sensitive products and an extremely high level of expertise in terms of compliance. UPS can help transform supply chains into a strong competitive and strategic advantage. It is

completely safe to outsource these activities, and our healthcare products always receive the uttermost attention they deserve, as is underscored by our slogan; “It’s a patient, not a package”.

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