

GAINING OPTIMAL ROI FOR SURPLUS LABORATORY AND MANUFACTURING ASSETS

→ BY **MATT HICKS**, FEDERAL EQUIPMENT COMPANY

Major trends in the pharmaceutical and biotechnology manufacturing industries are driving significant shifts in the management of laboratory and processing equipment inventory. Product pipeline changes, mergers and acquisitions, price pressures, and the increased reliance on contract research, manufacturing, and packaging service providers are a few of the trends impacting manufacturers' equipment needs. At the same time, manufacturers and contract service providers are striving to keep costs down, manage their floor space, and ensure supply of products to the market.

As a result of these trends, manufacturers are looking for cost-effective, efficient solutions to manage surplus and idle equipment inventories without interrupting current development and manufacturing programs. This aspect of manufacturing equipment inventory management has become far more complex and challenging than in the past. Past strategies included storing idled equipment or, in many cases, leaving it in place on the manufacturing floor. That investment in capital equipment then leads to storage costs or consumption of valuable manufacturing space. In order to keep up with the major trends, these pharmaceutical manufacturers must make an effort to find effective ways to dispose of surplus equipment to reduce costs and make effective use of their resources.

IMPACTING MANUFACTURERS' EQUIPMENT SURPLUS

With the rising pace of mergers and acquisitions, companies are aiming to reduce costs through synergies, access to new therapeutic classes, and the consolidation of infrastructure and equipment. For larger companies, this has resulted in redundant

manufacturing facilities and idled equipment. As these facilities are closed or consolidated, there is the issue of what to do with complete manufacturing plants full of equipment.

New products and processes require different types of equipment. Accelerated growth of specialty drugs, biopharmaceuticals, and biosimilars, and the increased market for generic drugs have led many companies to change their manufacturing mix, which requires a different mix of equipment. Every pharmaceutical manufacturing company has a process for scoping, purchasing, installing, and commissioning new manufacturing equipment. Those capital projects rarely spend time on what happens to the equipment already in that space.

Pharmaceutical manufacturing space is expensive. The costs and time associated with building good manufacturing practice (GMP)-compliant manufacturing space has grown significantly. In many cases, the price to build GMP space is much more than the price of the arriving equipment. With GMP space at a premium, manufacturers cannot afford to have idled or surplus equipment stack up in those spaces. Additionally, raw material and finished goods warehouse space is usually not the best place to store idled equipment.

The used-equipment market has experienced strong growth due to the increased awareness in the marketplace of the viability and quality of used equipment. There are a variety of strategies and disposal methods, as well as a host of service providers (including brokers, dealers, auctioneers, and demolition companies) who all claim to have the best solution for surplus and idle industrial equipment.

As a result of these trends, managing manufacturing equipment inventory for a pharmaceutical company can be a daunting process. There are several strategies to start the process.

STRATEGIES FOR MANAGING EQUIPMENT SURPLUS

Manufacturers and service providers can manage surplus equipment through different strategies. Broadly, these strategies are:

- + Case-by-Case, Project-by-Project
- + A Dedicated Investment or Resource Recovery Team
- + Outsourced Services

CASE-BY-CASE, PROJECT-BY-PROJECT

Many companies elect to evaluate surplus equipment strategies on a case-by-case basis with an individual, such as a project manager or a project team. This is the most common approach and can be very effective with a large project, such as a plant shutdown. This strategy usually revolves around the size of the project, the project type, and the method of sale.

If the project is large enough, there is usually a team of individuals from various functions within the organization, such as manufacturing operations, engineering, and purchasing. Generally someone identifies

the equipment available for sale and creates a list. The list is then used as part of a bidding or request for quote process. If the project involves demolition contractors, they will include a dollar amount for the equipment as either a stand-alone equipment credit or as part of their scrap credit. If the equipment is being bid separately, there may be several different sale methods proposed.

This can be anything from auctions and liquidations to piece-by-piece offers. This largely depends on whether there has been a method of sale pre-determined or whether the owner is willing to evaluate piece-by-piece offers.



ACCELERATED GROWTH OF SPECIALTY DRUGS, BIOPHARMACEUTICALS, AND BIOSIMILARS, AND THE INCREASED MARKET FOR GENERIC DRUGS HAVE LED MANY COMPANIES TO CHANGE THEIR MANUFACTURING MIX.

COMPANY HIGHLIGHTS

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 and liquidations, equipment purchase and removal, as well as consignment sales.

A case-by-case approach with individual projects will usually result in single machines or production lines being either left in place, if nothing is moving into that space, or removed to “bone-yards.” The project manager’s focus is to either decommission the equipment or remove it and get new equipment installed and qualified. There is rarely room in the project for serious consideration of the sale proposition for existing equipment. If the equipment is removed, bone-yards can be expensive to maintain in an off-site warehouse, and may become an eyesore if left on site, accumulating behind the building or in storage trailers. Any bone-yard or other out-of-sight-out-of-mind storage can result in significant, rapid decreases in value over time. Also, in many cases, valuable equipment is not stored at all. It is scrapped or trashed to make way for new equipment, which can create additional costs.

A DEDICATED INVESTMENT RECOVERY TEAM

Many companies have adopted programs to minimize waste, including zero landfill policies. Dedicated investment recovery or resource recovery groups are usually key parts of these efforts and are used to sell goods in secondary markets whenever possible. The team is usually well-versed in investment recovery strategies and takes on this role for many different types of goods, including raw materials, waste materials, scrap metals, and other goods – in addition to equipment. This option requires investment in office space, staff, and systems required to track all of the information and

goods available for sale. There are additional overhead costs, because everything must be stored until sold, and the team requires the usual support from other business functions, including IT, Legal, HR, and Finance.

OUTSOURCED INVESTMENT RECOVERY SERVICES

Many firms use an approach combining case-by-case and an investment recovery team, along with outsourced services. The investment recovery approach is managed by a smaller in-house team with major service components, such as inventorying, evaluating, sales, and outsourcing marketing to firms experienced in the asset class. Often the in-house team is not dedicated to investment recovery, nor is it even their primary responsibility. When process and packaging equipment at pharmaceutical plants fall within this strategy, the client (equipment seller) establishes a relationship with an experienced equipment dealer that specializes in the pharmaceutical/biotechnology industry.

This strategy can manage the ongoing process and provide services for large projects, like facility shutdowns, as well as bone-yard liquidations and single machine cases. A reputable dealer can act as a trusted advisor to accurately and quickly appraise the equipment, evaluate removal costs, and recommend the best sales method, which will bring about the best financial return within the clients’ time frame. Additionally, the dealer can leverage its network to find the best partners for each case or project, from mechanical and

rigging contractors to remove the equipment, to partnering with the appropriate auctioneer for the job.

An experienced dealer brings industry experience, equipment expertise, and a network of equipment buyers, which the client can use to make timely and informed decisions about the best approach for each case of idle or surplus equipment. Some dealers will even help re-market the equipment for the clients’ internal use; for example, redeployment to an in-network manufacturing site, or to another facility where that equipment can best serve the needs of the company.

LOOKING AHEAD

Pharmaceutical manufacturers must be aware of the outlets for their surplus and idled equipment so that they do not lose opportunities to redeploy that equipment to another area of the business or sell it for cash. The pharmaceutical merger and acquisition pace show no signs of slowing. Idle equipment will not be allowed to sit on such valuable real estate, but the best place for that equipment may not be the scrap hopper or trash bin; excess equipment may be best utilized as cash-in-hand, or in a different area of your company’s network, where it can be used to generate income. ■

→ ABOUT THE AUTHOR



Matt Hicks

Chief Operating Officer,
Federal Equipment Company

Matt Hicks, Chief Operating Officer at Federal Equipment Company, is a pharmaceutical industry veteran with more than 15 years of experience helping companies get the most value and utility out of its manufacturing and process equipment assets.

LinkedIn www.linkedin.com/in/matthicks

Email matt.hicks@fedequip.com

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Company

WWW.FEDEQUIP.COM

+1 877 536 1538

For more information, email us at pharmaceutical@fedequip.com

Visit us at **Interphex**, Booth #3110