High End Laboratory Equipment Leasing: Problems and Trends

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In today's pharmaceutical market, latest developments in regard to innovation or increased production capacities are from technological advancements by large pharmaceutical suppliers. For laboratory This increases the pressure of a CEO level strategy that involves procurement of latest equipment and machinery from leading upstream suppliers and vendors. This calls for improved company sourcing strategies that do not affect the company's cash flow.

Changes in technology and prevention of obsolescence are some reasons companies constantly replace their equipment. But procurement of high end laboratory equipment is a capital intensive affair. For smaller companies, sourcing laboratory equipment can drastically increase the capital required for setting up a laboratory, and reducing funds for unforeseen opportunities or emergencies. This is why most companies (even larger ones), prefer leasing their high end laboratory equipment and minimising demands on capital, cash flow and bank lines of credit. This payment can be done out of future profit and not current working capital.

But high end laboratory equipment manufacturers do not lease any their equipment. For various reasons that reduce their turnover, these manufacturers are not in the leasing business. It is similar to a car manufacturer leasing their vehicles to customers; it would simply not be profitable.

Practised Leasing Strategies

There are two generally practised strategies to go about leasing high end equipment, which is preferred over purchasing the equipment from the local subsidiary or the local representative as direct purchase. The simplest way would be to lease equipment from a distributor company in a manner explained in the *Figure 1*.

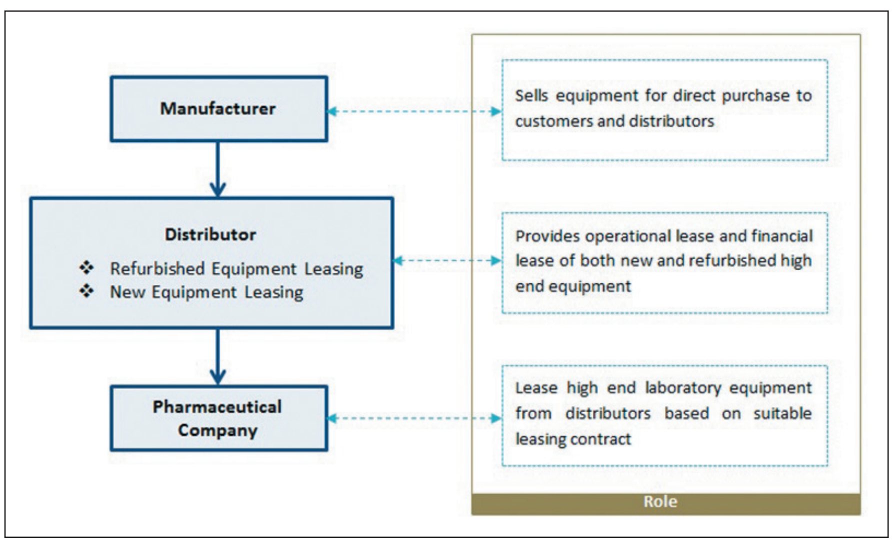

Figure 1. Leasing using distributors

Unavailability of Alternative Suppliers: There are not many international distributors who cater globally for high end laboratory leasing. Thus multinational pharmaceutical companies can face problems bundling their spend towards a single distributor, which is generally preferred. This also reduced the number of alternate distributors who can supply equipment for lease, which is a major concern for larger companies. In order to reduce the intensity of this problem, smaller global distributors partner with local distributors who represent them for a given region, which in turn increases their geographic capabilities.

Another way of leasing the equipment would be using equipment financing companies, instead of distributors. Approved financial service providers provide leasing agreements to customers who do not wish to purchase products.

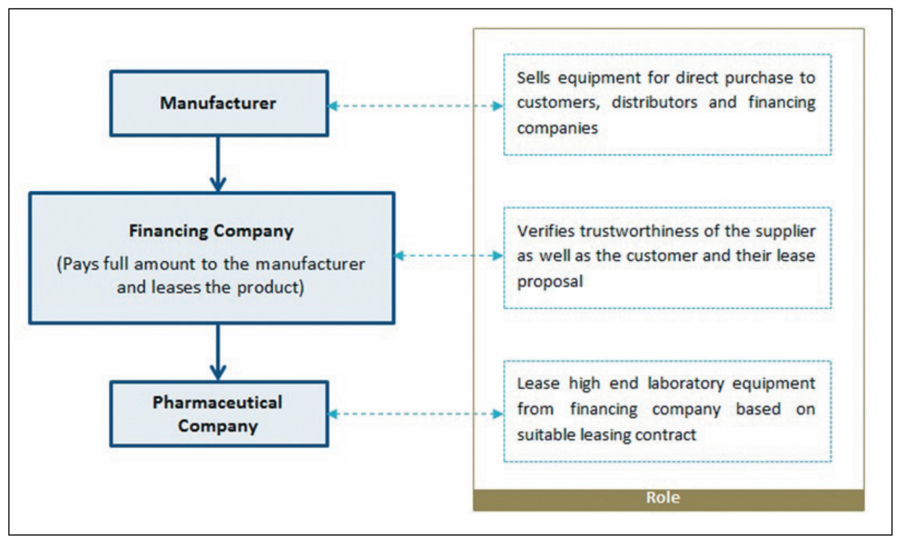

Figure 2. Leasing using equipment financing companies

Cons of the Approach: Approaching equipment financing companies requires more effort and time when compared to distributors, as it involves more paperwork and meetings between supplier, customer and the equipment financing company. These companies are usually open for any leasing proposal but will not go into agreement if their requirement and conditions are not met. This approach works better with smaller pharmaceutical companies when compared to larger ones.

Upcoming Trend: The growing demand by large multi-national pharmaceutical companies for distributors who can lease equipment has driven few manufacturers to consider establishing their own financial services department that can lease their equipment to customers. Thermo Fisher Scientific is one such company, and more are expected to follow in the coming years.

About the author

Anup Varghese is a research analyst at Beroe-Inc, a procurement intelligence company. He has been studying the laboratory equipment and services market in order to understand the current trends and developments so as to support fortune 500 companies in developing sourcing strategies.

Anup focuses on understanding the procurement trends and best practises across industries. Currently, he is focussing on Maintenance, Repair and Operation (MRO) industry trends while analysing the various developments in local and global markets by studying new technologies and trends, providing trade statistics, product lifecycle analysis, risk evaluation of a supply base, input cost models for commodities, long/short term price forecasts and identifying suppliers in low-cost/ high-low-cost/ high-quality sourcing destinations.

Anup is a graduate in the discipline of Manufacturing Engineering.