
Client:
Same Day Courier Company

New Verticals Evaluation

Lance Miller Sample Work



Outline

- Overview
- Vertical evaluations for selected verticals
- Vertical evaluation framework (in backup)
- Status on each target vertical

Verticals and Service Lines Considered

Current industry/new vertical

- **Healthcare**
 - Nuclear medicine*
 - Home IV*
 - Medical Supplies*
 - Blood banks
 - Veterinary*
 - Specialty pharmacy
- **Automotive**
 - OEM aftermarket
 - Tires
 - Transmissions
 - Truck/RV parts

Similar industry/new vertical

- **Industrial**
 - MRO parts
 - Appliance parts
 - Electronic parts
- **Other**
 - Documents
 - Office supply
 - Lottery*
 - Tropical fish*
- **Subcontracting***

Service Lines

- **Current participation***
 - Warehousing*
 - Cross-docking*
 - Last Mile Auto Parts*
- **Existing customer in core service line**
 - Pick & pack* (e.g. Pharmerica)
 - Warehouse to LTC pharmacy
 - Warehouse to DC (auto parts)

* Small or new Client presence



Verticals Investigated for Further Review

- Home Infusion
- Veterinary Labs
- Blood banks
- Nuclear medicine

Outline of Vertical Evaluations

- Market
- Operations
- Marketing/Sales
- GM/Value Proposition
- Approach and Status

Each selected vertical review covers each of these topics, with the overall framework outlined in backup

Verticals Evaluations

- Home Infusion
- Veterinary Labs
- Blood banks
- Nuclear medicine

Home Infusion – Market Overview

- Description of opportunity: Delivery prescriptions from specialty pharmacies to patients' homes
- Market size: ~\$70 million (courier business)
- Total market: \$9-11 billion
- Growth: 8.4% CAGR (with favorable trends as home health care is less expensive than inpatient care)
- Structure: Significant consolidation as major players complete acquisitions
- Initial segmentation: National, major regional, and small local companies
- Outsourcing: Known outsourced and in-house fleets, unknown as to degree

Major players (total revenue)

- Apria Healthcare (Corum): \$1.2 billion
- Walgreens: ~\$1.2 billion (40,000 cust/day)
- BioScrip: \$1.8 billion (incl specialty pharmacy)
- Lincare (Linde): \$489 million (total business)
- CarePoint Partners: Jack Collins suggestion
- Home Solutions: Jack Collins suggestion
- American Home Patient: \$98 million
- Pentech Health: \$75 million
- Community Surgical Infusion: \$54 million
- Critical Care Systems (Medco): \$40 million
- New England Life Care: \$26 million
- Others in Client markets: 9 companies \$5-20 million, 11 companies \$1-4 million

Source: Walgreens Analyst presentation Feb 2013, Apria Investor presentation Mar 2013, Home Healthcare Market Feb 2010, Data.com, discussion with Jack Collins

Home Infusion – Operations Overview

Detailed description of opportunity:

- Prescriptions called in throughout day to specialty pharmacy
- Deliveries are to patients home during limited time window (typically between 5:00 - 8:00 pm)
- Dispatch divides deliveries into geographic zones for drivers who self-route

Operational characteristics

- Routing: Unrouted
- Repeating: Same zones, different stops by day
- Routes length: From local to 100 miles furthest distance
- Driver availability: 4:00 – 9:00 pm

Fit with Client current model

- Costing: Requires estimating time and miles
- Pricing: Can use delivery, time, or driver-based pricing
- Routing: No use of Client routing
- IC Contracting: Limited hours (will require part-time drivers or drivers on other customers)
- IC Pay: Combination of stops and farthest stop pay
- Special requirements: none
- Management resources: Requires either strong customer dispatcher or Client employee

Source: Based on current experience with Walgreens Stratford (formerly Collins IV)

Home Infusion – Marketing/Sales Overview

Ability to make sale

- Market credibility: high (due to healthcare experience)
- Knowledge of market: High visibility of key players
- Key buying factors: Limited knowledge beyond basics
- Connections: several contacts with Walgreens
- Referrals: Potential for referrals from former Collins IV
- Identification of decision-makers: High likelihood through traditional sources

Resource related

- Number of potential customers: 4 national, 5 major regional
- Difficulty of sale: Similar to typical Client customer (some outsourcing in place, some in-house drivers)
- Complexity of buying decision: National accounts have mix of corporate and local influencers
- Sales cycle time: Similar to typical Client sale

Source: Based on current experience with Walgreens Stratford (formerly Collins IV)

Home Infusion – GM%/Value Proposition

Current GM: 33.8% (Collins IV 2012)

Current Value

Cost, resource, tracking

- Reduced costs
- Reduction in time and effort required in managing drivers
- Ability to track location of shipments and confirm delivery

Potential Value

Optimization

- Analysis of cost to serve customers versus profitability

Challenges/ Requirements to delivering potential value

- Access to customer profitability data
- Client resources to complete analysis

Home Infusion – Approach and Status

- Primary focus
 - Target Walgreens
 - In discussions with corporate to add additional locations
- Next focus
 - Developing plan to approach Apria based on prior contacts
 - Gain warm introductions/referrals from Jack Collins
 - Opportunistically call on customers collocated with other calls
- Longer term
 - Develop plan to approach Bioscrip and Lincare
 - Determine attractiveness of smaller companies, and approach as appropriate

Verticals Evaluations

- Home Infusion
- Veterinary Labs
- Blood banks
- Nuclear medicine



Vet Labs – Market Overview

- Description of opportunity: Pickup of veterinary diagnostic specimens from vets/vet hospitals to take to diagnostic lab
- Market size: ~\$90 million (courier business)
- Total market: \$2.7 billion veterinary diagnostic labs
- Growth: 3.6% CAGR
- Structure: Fragmented, two largest players about 25%, public labs (~60) about 25%
- Initial segmentation: Big 2, public, new potential majors, regional
- Outsourcing: Major players largely outsourced, little data on others

Major players (total lab revenue)

- IDEXX: \$374 million
- Antech: \$328 million
- Federal/State/University Labs: \$700 million (estimate)

Potential new majors (total revenue):

- Abaxis: \$186 million, \$1 million transportation spend
- Heska: \$55 million, new to lab business
- Synbiotics: Diagnostic division of Zoetis (\$3.4 billion, primarily pharmaceuticals)

Regional (total/lab revenue):

- Newport Laboratories (MN): \$18.2 mil
- MVP Labs (NE): \$7.7 mil

Source: Company annual reports. Lab websites, IBISWorld 2013, Client sales

Vet Labs – Operations Overview

Detailed description of opportunity:

- Routed pickups one or two times per day from vets and vet hospitals
- Time windows for pickup is midday for one/day and AM/PM for two/day

Operational characteristics

- Routing: Routed
- Repeating: AM/PM routes M-F, Sat routes
- Route length: Range from 100 – 200 miles, 3-7 hours
- Driver availability: Standard working hours

Fit with Client current model

- Costing: Standard costing
- Pricing: Standard pricing
- Routing: Standard routing
- IC Contracting: Standard contracting
- IC Pay: Standard combination of time and miles
- Special requirements: none
- Management resources: Standard ops manager

Source: Based on current experience with Antech and IDEXX

Vet Labs – Marketing/Sales Overview

Ability to make sale

- Market credibility: high due to large presence with major players
- Knowledge of market: Limited visibility beyond major players and public labs
- Key buying factors: Deep knowledge with current customers, limited with others
- Connections: Limited known connections beyond current customers
- Referrals: Potential referrals as relationships with public/affiliated labs are developed
- Identification of decision-makers: high likelihood through traditional methods with private, potential bureaucracy with public

Resource related

- Number of potential customers: 2 major (current customers), 40-60 public, 3 new majors, unknown regionals
- Difficulty of sale: Similar to typical Client customer with private, likely bureaucracy with public
- Complexity of buying decision: Likely small buying center with private, complex process with public
- Sales cycle time: Similar to typical Client sale with private, longer with public

Source: Based on current experience with IDEXX, Antech, and similar customers (public/private)

Vet Labs – GM%/Value Proposition

Current GM: 29-30% (Antech 2012, IDEXX contract 2013)

Current Value

Cost, service, tracking

- Reduced costs
- Optimized routing
- Improved service
- Ability to track location of shipments and confirm delivery

Potential Value

TBD

- ?

Challenges/ Requirements to delivering potential value

- Developing value added proposition

Vet Labs – Approach and Status

- Primary focus
 - Execute against IDEXX and continue to add markets
 - Opportunistically go after incremental Antech business
 - Bid on Abaxis business
- Next focus
 - Contact “Potential New Majors” Heska and Synbiotics
 - Build out network (e.g. participate in trade organizations)
- Longer term
 - Identify connections to public labs and determine true size of opportunity
 - Develop resource efficient way to identify and contact smaller regionals

Verticals Evaluations

- Home Infusion
- Veterinary Labs
- Blood banks
- Nuclear medicine

Blood Banks – Market Overview

- Description of opportunity: Transport of blood products, equipment, and supplies between collection points, blood banks, and hospitals
 - Market size: \$60-70 million (courier business)
 - Total market: ~\$8 billion (16 million whole blood units/year)
 - Growth: Unknown
 - Structure: Red Cross handles 45%, 3 blood banks 5-7% each, remainder between 70 blood banks and hospitals (5% of market)
 - Initial segmentation: ARC, major regionals
 - Outsourcing: ARC outsources significant portion of deliveries, unknown on others
- Major players (based on units of blood)
 - American Red Cross: 7-8 million units
 - United Blood Services: 1 million units (18 states, primarily western USA)
 - OneBlood: 1 million units (Florida)
 - NY City Blood Center: ~800,000 units (greater metro NYC area)
 - America's Blood Centers: Represents 77 community-based blood centers (including three listed above)

Source: Blood Bank annual reports and websites, Wikipedia

Blood Banks – Operations Overview

Detailed description of opportunity:

- Blood products moving from collection sites (mobile or fixed) going to blood bank
- Blood products moving to hospitals with empty boxes returning to blood bank
- Transfers - Blood from hospital to hospital
- Returns - Blood products being moved from hospital to blood bank facility

Operational characteristics

- Routing: Some routed, high percentage stat
- Repeating: Routed – yes, stat – same locations
- Route length: Highly variable (shorter routes in metro areas)
- Driver availability: Most deliveries during day, but 24 availability required

Fit with Client current model

- Costing: Standard costing
- Pricing: Standard pricing
- Routing: Standard routing
- IC Contracting: Standard contracting
- IC Pay: Standard combination of time and miles
- Special requirements: Some training for ICs (e.g. on OSHA requirements for blood), no special vehicle requirements
- Management resources: Standard ops manager

Source: ARC RFP October 2010

Blood Banks – Marketing/Sales Overview

Ability to make sale

- Market credibility: high with ARC due to current use of couriers, prior relationships
- Knowledge of market: High level of visibility to players
- Key buying factors: Limited knowledge beyond standard requirements
- Connections: Limited known connections beyond ARC and minor Client business with NY Blood Bank
- Referrals: Potential referrals from ARC if capture business
- Identification of decision-makers: Likely similar to other verticals

Resource related

- Number of potential customers: ARC, 3 major regionals, 70 others
- Difficulty of sale: Similar to typical Client customer with added complexity of non-profit
- Complexity of buying decision: Similar to other large customers
- Sales cycle time: Similar to typical Client with high potential customers, with potential higher resistance with in-house

Blood Banks – GM%/Value Proposition

Current GM: 39.5% (Client*)

Current Value

Cost, service, tracking

- Reduced costs
- Optimized routing
- Improved service
- Ability to track location of shipments and confirm delivery

Potential Value

TBD

- ?

Challenges/ Requirements to delivering potential value

- Developing value added proposition

* Client margins may not be typical due to specialized nature of blood products (apheresis, stem cells)

Blood Banks – Approach and Status

- Primary Focus
 - Pursue opportunities to bid on American Red Cross
- Next Focus
 - Systematically contact larger regionals through network connections (e.g. Gulf Coast, United Blood Services, OneBlood, NY City Blood Bank, and Central Blood Bank/ItxM)
- Longer term
 - Determine if profitable to serve smaller regionals
 - Develop plan to expand into related products (e.g. plasma)

Verticals Evaluations

- Home Infusion
- Veterinary Labs
- Blood banks
- Nuclear medicine



Nuclear Medicine – Market Overview

- Description of opportunity: Delivery of very time sensitive radiopharmaceuticals from centralized pharmacies to patient location, primarily hospitals
 - Market size: >\$11 million (courier business)
 - Total market: \$1.9 billion radio-pharmaceuticals
 - Growth: 18.3% CAGR through 2019
 - Structure: Fairly concentrated market, some players are divisions of very large companies
 - Initial segmentation: Large Independent, division of large company, small independent
 - Outsourcing: Some firms outsourcing substantial parts of courier work, unknown on others
- Major players (revenue where available)
- Cardinal Health: ~12 million doses annually, 130 nuclear pharmacies, 30+ manufacturing facilities globally
 - IBA Molecular: 13 US facilities
 - PetNet (Siemens): 50 locations globally
 - GE Healthcare: Over 30 pharmacies in US
 - Covidien Pharmaceuticals (spinoff mid-2013): \$453million radiopharmaceuticals (global)
 - Triad Isotopes: 61 facilities in 23 states
 - Lantheus Medical Imaging: \$288 million

Source: Company annual reports and presentations, Transparency Market Research, Purdue Dept of Pharmacy

Nuclear Medicine – Operations Overview

Detailed description of opportunity:

- Routed delivery from centralized pharmacies to 1-4 locations in another city
- Most route start-times range from midnight to 9:00 am
- Timely delivery absolutely critical due to decay rate of product

Operational characteristics

- Routing: Routed
- Repeating: Varies by day, but deliveries to same cities on multiple days per week
- Route length*: Range from 30 – 800 miles, average 330 miles, 1-15 hours, average 7
- Driver availability: Primarily early morning hours, some very long routes

Fit with Client current model

- Costing: Standard costing
- Pricing: Standard pricing
- Routing: Standard routing
- IC Contracting: Standard contracting
- IC Pay: Standard combination of time and miles
- Special requirements: Specialized training for ICs, racks in vehicles
- Management resources: Standard ops manager

* IBA has fewer facilities than competition, so distances may not be as long with others

Source: Based on RFP with IBA Molecular – Oakwood Village

Nuclear Medicine – Marketing/Sales Overview

Ability to make sale

- Market credibility: high with IBA due to current use of Dynamex, modest Client presence
- Knowledge of market: Limited number of players
- Key buying factors: Limited knowledge beyond IBA stated requirements
- Connections: Limited known connections beyond IBA Molecular
- Referrals: Potential referrals from CAPS
- Identification of decision-makers: high likelihood through traditional methods

Resource related

- Number of potential customers: 2 high potential (IBA, Triad), 3 large company (Siemens, GE, Cardinal), number of smaller
- Difficulty of sale: Similar to typical Client customer with IBA and Triad, high likely price pressure with Cardinal, GE, Siemens
- Complexity of buying decision: Similar to other large customers
- Sales cycle time: Similar to typical Client with high potential customers

Source: Based on RFP with IBA Molecular – Oakwood Village, discussion with Bill Mohn

Nuclear Medicine – GM%/Value Proposition

Current GM: 30% (IBA Proposal)

Current Value

Cost, service, tracking

- Reduced costs
- Optimized routing
- Improved service
- Ability to track location of shipments and confirm delivery

Potential Value

TBD

- ?

Challenges/ Requirements to delivering potential value

- Developing value added proposition

Nuclear Medicine – Approach and Status

- Primary focus
 - Win initial IBA market and pursue other opportunities
- Next Focus
 - Approach Triad Isotopes (based on prior contacts)
 - Develop approach for divisions of larger companies (Cardinal, GE, Siemens)
- Longer Term
 - Determine size of opportunity with smaller independents
 - Leverage experience into other specialty pharmacy opportunities

Backup



Evaluation Framework

- Market Attractiveness
- Operation Challenges
- Marketing & Sales
- Potential Profitability



Evaluation – Market Attractiveness

Characteristic	Considerations	Comments
Market size	<ul style="list-style-type: none">• Big enough to matter?• Small enough to not be over-served?	Large markets likely over-served
Growth	<ul style="list-style-type: none">• Growth driving opportunities• Lack of growth driving cost pressures	Growth can include growth in outsourcing
Structure of Market	<ul style="list-style-type: none">• Market leaders/second tier that can be targeted• Ability to segment customers	Markets must be defined well enough to identify target customers
Degree of outsourcing	<ul style="list-style-type: none">• Completely outsourced• Moving to outsourcing• Completely in-house	Partially outsourced industries could provide best opportunity

Evaluation – Operational Challenges

Characteristic	Considerations	Comments
Costing/ Pricing	<ul style="list-style-type: none">• Can we use existing models?• Can we adapt existing models?	Clear understanding required
Routing/ Scheduling	<ul style="list-style-type: none">• Can we use existing capabilities?• Do we need new skills	
IC related	<ul style="list-style-type: none">• Will we be able to source the appropriate drivers?• Will existing pay plans work?	Awareness of specific challenges
Special Requirements	<ul style="list-style-type: none">• Do drivers need special training and/or equipment?	Special requirements could drive defensibility
Resource Requirement	<ul style="list-style-type: none">• Will we be able to operate with existing local/dispatch resources?• Can we price for additional requirements?	

Evaluation – Marketing & Sales

Characteristic	Considerations	Comments
Market Credibility	<ul style="list-style-type: none">• Are we known in the market?• Can we demonstrate credibility?	Credibility likely higher in adjacent verticals
Market Knowledge	<ul style="list-style-type: none">• Do we know who the players are?• Do we understand KBFs?	Some markets will need to be approached to learn enough
Contacts in Market	<ul style="list-style-type: none">• Do we have existing customers/contacts?• Can we get referrals?• Can we identify decision makers?	Need to draw on entire organization for connections
Resource Related	<ul style="list-style-type: none">• How many customers in the target pool?• Are there any aspects that might drive a longer/more difficult sale? (e.g. complex buying center)	Timing of likely customer acquisition is a consideration in attractiveness of market

Evaluation – Potential Profitability

Characteristic	Considerations	Comments
Gross Margin	<ul style="list-style-type: none">• Do we have current customers?• Would we expect their GM to be typical?	
Value Proposition	<ul style="list-style-type: none">• Is our current value proposition compelling enough?• Can we develop higher value?	
Other factors	<ul style="list-style-type: none">• Can we leverage existing relationships, geographic presence, etc.?	

Potential Approaches

Approach	Description
Standard approach	Pick top targets and systematically contact
Beachhead	Focus on single high-probability customer
Full-court press	Dedicate effort against a large number of potential customers
Test the waters	Selectively reach out to sample of top targets and reassess based on feedback
Wait	Hold off targeting, with conditions explicitly outlined for re-targeting
Avoid	Abandon segment

For each segment, a specific approach should be decided