

Interview: Rui Carrington, CEO, OCP Portugal



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Rui Carrington, CEO of OCP Portugal, a Pharmaceutical distributor which has undergone a significant evolution over the years as part of an adaptation to the changing market trends in Portugal, outlines the history of the company, and offers insight into the ways in which local pharmacies can recover from their debt.

What have been some of the recent changes in the Portuguese pharmaceutical industry that have affected wholesalers?

In January 2012, pharmaceutical wholesalers in Portugal were given a regressive margin model for the first time. In the last two years there has been an accumulated double digit decrease in the market mainly due to this new margins model, governmental price reductions driven by generics and price competition among generics and established products.

Portugal also has new reference price countries, which include Spain, Italy and Slovenia, whereas before it was Spain, Italy, Greece and France. Mandatory prescription by international non-proprietary name (INN) was also new for us. Additionally, the focus for pharmacies is on credit risk; indebtedness and sharp falls in profitability have led to significant growth in the number of pharmacies with suspended supplies, prepayments and legal proceedings in court. There are also some financial risks among some pharmaceutical wholesalers. We are waiting for new Good Distribution Practices (GDP), which will be very demanding when applying for new investments. By

the end of the first quarter of 2014, we will have an update of the regressive margins model in place.

Looking at austerity measures, the ambulatory market value was at its highest in 2008 (€2.8 billion). In the following years, the market decreased dramatically, and the market size in 2013 is the same as it was in 2002, indicating a €812 million loss, or roughly 29 percent. The market value is smaller, but the same players for pharmacies and manufacturers exist, meaning some companies will disappear and others will be merged.

So how did all of this happen?

The average public selling price decreased 23 percent between 2007 and 2013; generics decreased 64 percent and Rx decreased eight percent. In Portugal, the average price of generics was higher than prescription-based products because the most expensive molecules were launched in the beginning of the country's generics era. Volume is at the same level as in 2007. The decrease was only in price. For the thirty years preceding 2005, margins were stable in Portugal. Since then, margins and prices have decreased and we are suffering.

The model pharmacy shop, as we know it today, and patient accessibility to drugs have been affected. It is possible that punctual short-term market supply problems arise because of economic conditions or lack of financial capacity to support pharmaceutical distribution, shortage of bank credit and continuing reduction in market value. Pharmaceutical distributors have been internally adjusting in order to optimize their operating costs, through the concentration of infrastructure and improvement of the efficiency of the distribution system. Maintaining this model in the future, the current national coverage is undermined primarily by the value reduction of the Portuguese pharmaceutical market.

However, distribution and pharmacies can make win-win partnerships with industry. Everyone can increase productivity to improve the system. OCP Portugal is in a privileged position in that everyone needs distributors. We can partner and collaborate with manufacturers using the utmost transparency while supporting them through promotion of their products all across Portuguese pharmacies. Security stock offers tools to push transfer orders by wholesalers, and grants product warehousing and transporting conditions, and this can include hospital products. Until now, wholesalers have not touched hospital products because of yearlong payment delays by the government, for which we do not have enough margin. We hope that changes soon for us and for pharmacies, as it is in other European countries.

For us, the difficulties of other distributors are an opportunity to catch their markets. Seven wholesalers until now have 92 percent of Portugal's market share, and in a few years there will be fewer players. We can guarantee access to better commercial conditions and promotional products from the industry to pharmacies, as well as help to manage their stocks.

What are some of the ways in which the market can be ameliorated?

Reducing the actual level of credit from wholesalers to pharmacies would be a start. This would require banks to provide credit lines that allow both to restructure their debts.

We need to at least maintain the current margins of pharmaceutical distribution and progressively increase the fixed part of it to cover the major part of operational costs. This is the best way to ensure compliance with GDP and the Statute of Medicines, and to preserve the model.

In terms of market supply shortages, austerity measures such as price and margin decreases means that the industry is not interested in investing, leading to a lack of attractiveness for older, cheaper medicines, and financial difficulties for all players.

Considering that average prices are cheaper in Portugal than in other Western European countries, it certainly is more attractive for companies to do some export business.

How can you overcome the shortage situation?

Transparency mechanisms are needed across the entire supply chain, and we need INFARMED to play a steering role. The agency is already promoting meetings to find solutions. Patient groups (media) are pressuring the government also.

Compensation measures to support operational costs across the supply chain can prevent and manage supply shortages. Transparency and reliable information about quantities available from manufacturers can also make a difference. Defining a "life-saving" list of medicines that all players should commit to, granting Public Service Obligations (PSO) would also help. Transparency and exchange of reliable information about real needs, availability, quantities and deliveries should be the guiding principle.

What are some of the key milestones in the history of OCP Portugal?

In 1991, OCP Repartition, the first multinational distributor in Portugal, acquired the Portuguese wholesaler J.C. Crespo S.A. with four percent market share and one warehouse in Lisbon. Prior to this, all distributors were national and family companies. In 1992, OCP Repartition acquired Castilho & Cia. Sucrs, Lda (my grandfather's company), also with four percent market share,

adding three warehouses in Porto, Régua and Viseu. OCP became the biggest wholesaler in Portugal. In 1993 Gehe acquired the French pharmaceutical wholesaler Office Commercial Pharmaceutique OCP, and the Gehe group became one of the largest European pharmaceutical wholesalers with its key operations in Belgium, Germany, France, Portugal and the Czech Republic.

In 1995, J.C. Crespo and Castilho & Cia. Sucrs, Lda. merged to create OCP Portugal, and the Porto warehouse was refurbished. Our main competitors were Unichem and Alliance Santé, who also made purchases and merged into Alliance Healthcare. In 1999, OCP Portugal purchased two local pharmaceutical wholesale companies in the center region of Portugal. They were merged into OCP Portugal and a new branch in South of Tejo River was built. In 2001, a new warehouse and headquarters were opened in Porto. In 2003, two new branches opened in Lisbon and Torres Novas. In the same year, Gehe changed its name to Celesio AG and became one of the European market leaders in pharmaceutical distribution.

In 2005, OCP Portugal acquired another family pharmaceutical wholesale company, Soquifa - Medicamentos SA. In the same year, consolidation resulted in seven major players in the country. In the following years, OCP Portugal underwent major reorganization in terms of moving activities between and building of warehouses to optimize the network. We also implemented new ERP Oracle based solutions for logistics, finance and HR applications. In 2009, Celesio acquired the majority of the leading player in the Brazilian pharmaceutical wholesale market, Panpharma. OCP Portugal was asked to support the acquisition process in terms of cultural aspects, language and training.

Despite the fluctuations of the market in more recent years, OCP Portugal has continued to grow while some of our competitors have struggled. This is in part due to our aggressive strategy in acquisitions. Turnover in 2013 was roughly €500 million—we are very productive and we have a very lean structure. We are the Certified Company by ISO 9001 and in the last few years we received the Excellent Place to Work prize.

Your grandfather started the company many years ago, and the company has experienced a tremendous evolution. What legacy do you want to leave behind?

I would like to be the leading company in Portugal, offering good opportunities for employees, adding value to our customers and suppliers and finally to be a recognized company by everyone in the sector.

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