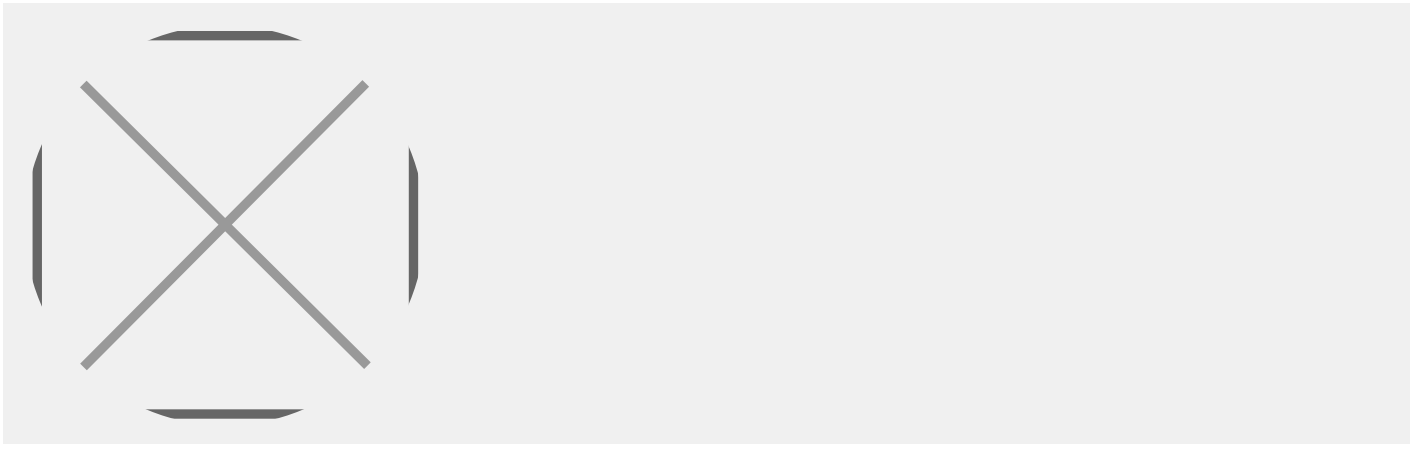


# Interview: Santiago Garcia, CEO, Anugerah Pharmindo Lestari / APL (a member of the Zuellig Pharma Group), Indonesia

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*The CEO of independent distributor Anugerah Pharmindo Lestari (APL) discusses the current market trends in Indonesia for distribution, which involve local pharma companies keeping their distribution in-house, and how his company, number one in the independent market, is working to break the trend of distribution in the country.*

***A key challenge for pharmaceutical companies in Indonesia is distribution, which is why finding the right distributor has become so crucial for their success. What differentiates APL?***

It is a common model for Indonesian distributors to be part of large pharmaceutical companies. Though they are generally not exclusive, roughly 70 percent of the distributors' portfolios come from their parent company. APL is an independent distributor, which is a key aspect of our differentiation strategy. We are an international company and operate according to an ethical code of conduct developed from the UK anti-bribery act and FCPA. Our transparency, professionalism and ethical behavior are some of the key reasons why many of the multinational pharmaceutical companies have chosen to work with us.

At the same time, APL directly covers over 434 cities through its sales forces. We have over 90,000 accounts that transact with us, which is a huge number for the health care industry. We are

innovators that constantly seek to develop new tools and new ways of doing business. Our competitors generally try to catch up and follow us.

Since September 2012, we have changed our market positioning. Zuellig Pharma – the international group we belong to – has always been known as a distribution company. Now, we have moved to a new model defining us as a ‘solutions provider to the health care industry’. While distribution is still our biggest business, we are expanding into a range of new services, all the way from patient solutions to retail, business intelligence, CSO/CSMO and so forth. We capitalize on our regional set-up and brainpower to reorient ourselves in this manner. While local competitors can copy us over time, they will find it hard to do so with the speed, accuracy and the level of quality that we provide. Indonesia is pioneering in the implementation of many of these services.

Having said that, it remains tough to fight local competition. We divide the market into three different areas: the prescription or ethical market (including vaccines), consumer health care, and medical devices & diagnostics. One particular company has been very strong in the ethical segment, and has been competing vigorously with us. Therefore, it always is an asset to be able to function as a one-stop shop company and serve more than one niche alone.

***What do you now see as your most promising growth drivers?***

We expand so rapidly into many new areas that it has become challenging to keep adding new staff accordingly. We neither have enough time nor resources to invest in all of the areas that we see growing. We have a team for the retail portion of the business and another that takes care of the pharma part in terms of CSO, marketing, etc. For business intelligence, we have also invested into a separate team.

***Do you manage to generate synergies between these different lines of business?***

From a back office perspective, we can harmonize all supporting functions like HR, finance, and so forth. From a market perspective – because we already know the entire industry – we can also build fairly easily on the relationships we have already established. So far, these CEOs appreciate the fact that we are working on different ways to do more for them. They have been very receptive to our efforts to expand and innovate.

***Many of the Indonesian pharmaceutical companies have kept their distribution in-house, as you mentioned. In your view, will this be a sustainable model going forward, or do you foresee a restructuring of the market?***

There is very little consolidation in the industry, which remains an issue. The top eight distributors in the country account for roughly 70 percent of the total market. However, there are around 3,000 PBF license holders. There are still many small distributors spread out over different regions in Indonesia. Even so, I do not foresee consolidation of the companies that matter, and do not expect the local pharmaceutical companies to sell off their distribution businesses.

Local pharmaceutical companies –accounting for roughly 75 per cent of the market share – drive the Indonesian pharmaceutical market because they have the power/ freedom to influence the decision makers. For this reason, many of the branded generics are more expensive than originator drugs.

In my view, the implementation of the universal health care plan (BPJS) will force some of the smaller distributors – as well as pharmaceutical manufacturers – to consolidate. The generics market acts as a commodity market today, but once the E-Katalog for BPJS procurement comes in, many products – and companies – will lose their place in the market.

***Why would an MNC consider partnering with a distributor that belongs to one of the local pharmaceutical companies?***

There could be different reasons to do so, one of them being for regulatory purposes: distributors that have manufacturing capacity can hold registration too. Others can be connected through API procurement tie-ups. Unfortunately, we cannot compete based on manufacturing. Instead, we need to differentiate ourselves purely on the services we provide.

On the field, we are recognized as the number one distributor. Every two years, we run AC Nielsen surveys. Unlike other distributors that use their own surveys, we have contracted an independent third party to study our position in the market. In our case, it was the customer – through a third party – saying that we were the number one. Despite the fact that the number two distributor – according to this survey – is very strong in consumer goods, we are still ahead of them.

***If it is one of your strengths to serve all three channels, how big are the barriers to entry for the other distributors to follow suit?***

This is a business of economies of scale. We carry the top MNC consumer health care portfolios. Other distributors will not easily reach these volumes. Our differentiation efforts are some of the main reasons to be able to retain these principals.

***Looking at growth perspectives from the existing base of principals, one may think of regional contracts or longer term agreements for instance. How successful have you***

***been at capitalizing on the network you already have?***

Being an international company – active within this region – we have been studying opportunities through regional contracts. However, such contracts may also backfire and result in us losing contracts to elsewhere, even though that has not yet happened to us.

We have been very successful. In 2005, our company revenues stood at roughly USD 400 million compared to USD 900 million at the end of 2012. Last year alone, we managed to renew 60 percent of our contracts, representing roughly USD 500 million in sales. This year, we already succeeded in signing five companies again. In the past five years alone, we have brought in 11 new companies.

Because everyone is now looking at Indonesia, many international companies are trying to enter the market. Doing so, they look for trustworthy and transparent companies. More and more, we now even need to reject companies.

***In which cases would you reject a new customer?***

There can be a number of reasons to reject a company. It is very important, for instance, that the principal is looking at investing in Indonesia. There are many companies that seek to trade only. We need companies that want to invest here and build their brand in this market. Another important aspect we look at is the principal's type of business. Even though the company may be willing to invest in Indonesia, it could be that their products do not fit with our requirements, for example voluminous products, with low prices that take up a lot of space.

We are trying to grow our medical devices and visual care areas. Medical devices are still small compared to the total size of the market.

***Going from USD 400 to USD 900 million in just five years is quite a jump. However, looking at the margins and taking into account rising labor costs in Indonesia for instance, what has been your strategy to stay a profitable company too?***

We are working on drastic measures to address our cost structure. Almost our entire strategic plan for this year is based on changing the way we do things here. Macro-economically, the biggest challenge in Indonesia is inflation. Electricity, for instance, is expected to increase 15 per cent in three steps this year. Inflation will be roughly 7 to 7.5 per cent, with spikes up to 10 to 11 per cent. The unions, at the same time, will keep lobbying for salary increases. Since Indonesia is now entering election times, they are quite likely to be successful in achieving this.

Once universal health care coverage is launched next year, all private companies will have to contribute approximately (as per today) 5 per cent to the government at one point in the future. At the same time, employees will continue to ask for additional private insurance, which will further drive up costs. Just because the government is now offering employees a basic health care package, the staff will not simply give up on the many benefits that private health insurance offers. This will be affecting all companies going forward.

If you compare our company to others, you will see that we are performing very well in terms of productivity. There are distributors out there that are one-third our size, yet up to 1,000 employees more.

***After so many years, you must be used to dealing with the poor infrastructure and complex geography of Indonesia. How do you cope?***

In Indonesia, it is not possible to have simply one company for transportation services nationwide. As a distributor, you easily have to deal with forty-over companies for transportation alone. When talking about frequencies, there are many challenges too. Moving goods and people is very difficult because the links between some of Indonesia's key cities are missing. We also notice that truck loads are often incomplete while the discipline among logistics companies is often lacking. Electricity cuts are another big issue, especially when we start talking about cold supply chains. However, the situation is improving and changes are happening in this respect, and these challenges are an integral part of doing business in Indonesia.

***What guarantees can you give as a reliable distributor in an unreliable environment?***

We do not only help our clients on the quality and sustainability of the logistics chain itself, but do much more than that. We have helped them change their entire business model. The distribution facilities and warehouses are there, but this is not the most important aspect of what we are able to offer our clients, we help them build sustainable businesses for the long run.

We need to be able to understand the challenges that our clients face. The wholesale or so-called PBF channel is often misused. Every time that pressure rises, goods are being sold to wholesalers at severe discounts. We, however, target and cover the proper channels consisting of hospitals, doctors, clinics and pharmacies. We want them to work through us and let them work on demand generation, rather than flooding our channels at discounted prices that would erode price stability.

Moreover, selling through the PBF channel creates a black hole in market intelligence, as majority of those sales are not recorded and so we lose market data. By not stopping the PBFs, the good

sales representatives also lose their incentives and motivation to convince the doctors to buy their products. For them, it becomes much easier to sell the necessary quota to PBFs at discounted rates.

***Coming to business and market intelligence, you already mentioned that you have a made a range of services available to your customers. How easily can this be copied by the competition?***

We do not feel that our competitors can copy us in this respect. Some of them offer their principals such data – sometimes even free of charge. There are a number of important differences. A key differentiator, for instance, is the fact that we carry 50 per cent of the MNCs' products. The data we collect is therefore much more valuable and can definitely not be compared to distributors that carry products of their own manufacturing company and contributing up to 70 per cent of their portfolio. Our data/ information is so strong that we even managed to bring up the attention from established companies on that field

***You have a strong business background from top institutions like INSEAD and Harvard. What keeps you with APL?***

Once you get used to managing big and complex companies, it is difficult to downsize. Moreover, if you like the challenges and the entrepreneurial side, every day here becomes even more rewarding. I love my freedom and everything that comes with it. In our Group we have very strong financial controls, but for the rest we have our freedom to create and to innovate.

We have to interact to a very large degree in this sector, which can be a great source of knowledge. It is great to be able to strategize and then implement your plans. For a long time, I have not looked at this position as 'work'. Even rougher times – which we face from time to time – makes you more resilient and forces you to find new ways of thinking.

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