

Interview with Rogerio MANSUR, Director of Operations, DHL Life Sciences and Health

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Rogerio, you were one of the people responsible for integrating two well-established companies in the Brazilian market with the acquisition of Exel by DHL in late 2005. How challenging was the integration process to you as a former Exel director?

Exel Brazil first got involved in the life science business in 2003 through the acquisition of Unidock's, a traditional leader in the outsourced life sciences and health care market. This was a very important acquisition for us because at that point Exel was present only in consumer and automotive niches. The way we organize the company is by industry and even after Exel's acquisition by DHL we still follow this structure. Therefore, after the acquisition of Unidock's one of our verticals became life sciences and health care.

Regarding Exel's acquisition by DHL, even though Exel was bigger than DHL Solutions in 2005, both were very big companies and their advantage was that there were no overlaps over industry, services, and geography. DHL had only one customer in Life Sciences in Anapolis (in the Mid-West state of Goias), and in that point Exel had no presence there. Now we have a multi-customer site in the region. So looking at the life science business there was no overlap, anywhere. DHL Solutions was very strong in technology and automotive in the after-market segment. On the other hand, Exel was very strong in consumer and life sciences with Unidock's. Besides, Exel's presence was concentrated in Sao Paulo state and Northeast and in the case of DHL Solutions they had presence also in Manaus, in the Mid-West and in the Northeast. Transportation was a good part of their

portfolio solution, they (DHL) were much more concentrated on multi-customer facilities and in the case of Exel we were more focused on large facilities with solutions dedicated to one customer. Therefore, at the end we didn't have to shut down operations due to overlaps, being a rather complementary acquisition.

In the following five years after the integration of Exel and DHL, we saw the Brazilian pharmaceutical market double its size. What were DHL's major achievements and transformations in this period?

When Exel acquired Unidock's it used to have only two sites, one in Sao Paulo, another one in Rio. After the integration with DHL, there was another one in Anapolis. Today the group has seven sites and a huge transportation network; our presence and coverage of the vast Brazilian territory is much wider. Also today DHL has the capacity to provide solution for our clients wherever they need us in Brazil. Now DHL has much more expertise in medical devices and this was something we didn't have before. As today our medical device solutions are still linked to pharmaceuticals, we are opening a new 19.000m² site specialized in solutions for medical devices; however, we see that the market is requiring an increased specialization. Hence we are heading this way. DHL is nowadays much better positioned in terms of geographic presence and also we have a much deeper specialization regarding pharmaceutical, healthcare, and medical devices. The next step is to have specific solutions designed for generics. DHL knows that the market is changing fast. Five years ago costs were an issue but only so much. Now the market is very price sensitive, therefore we want to design a product more adequate for generics. For sure we need to comply with all regulatory requirements, but we know that volume and different profiling creates a different demand in terms of costs for generics.

How independent is DHL in Brazil to follow specific strategies to the local market?

For sure DHL Brazil is part of a bigger organization and we want to leverage our expertise and the way we manage customers at the global level. On the other hand, our local affiliate has the autonomy to put together our own strategies that will lead us to a faster growth locally, having to submit those plans that need new investments from headquarters.

The autonomy of the local subsidiary sits on the fact that we are the ones elaborating the plan that is later submitted for approval. For instance, when we decided to focus on generics we evaluated the fact that this market is gaining the necessary scale for us to bring the expertise DHL has in the area overseas. When you go to the US or Canada, DHL has a high scale of automation that a few years ago was impossible to transfer to Brazil from a financial point of view. Now tables have

turned, since labor costs and local scale justify such investments.

Regarding generics, DHL has important international clients aggressively acquiring Brazilian companies, allowing the company to grow both by gaining local partners and by helping these traditional multinational partners in their new investments in Brazil.

So are you also targeting partnerships with local generic laboratories?

Yes, we do have a number of local partnerships and our local portfolio is very promising. Nevertheless, local labs are still not used to outsourcing as much as multinationals are.

What are our main expectations related to growth in the Brazilian market in the coming years?

DHL Brazil has the ambition to grow between 15 to 20% per year in the next four years. As I said, we see that market specialization is one direction we are heading. The aim is to have a specific solution to medical devices and to generics. Today, due to scale, all these solutions are mixed.

Secondly, we will expand geographically. Before, the demand in Brazil was concentrated in the South and Southwest, now this is changing dramatically. Therefore, DHL aims not only to have distribution but also well-established infrastructure in the upcoming regions. Now that customers are more price-sensitive, DHL needs to gain further efficiency and productivity. As a result, in the coming years we will invest much more in automation and new systems, bringing this expertise from abroad.

Our customers are also expecting more alternatives in terms of distribution channels. In the past Brazil was a more pre-wholesale business selling out to the wholesales. What you see now is that more and more clients want to see innovation solutions and propose different alternatives for channels. This is also something where DHL is investing resources in order to provide those alternatives.

How does DHL manage to deliver services and solutions with the same level of quality in Brazil than elsewhere, taking into account the country's problems in infrastructure and other major bottlenecks?

In terms of quality, even though Brazil is not so well developed as other countries, when you see the regulatory framework set up by ANVISA the country is not behind in any way. However, there is still room for improvement in terms of making resolutions less influenced by legal interpretation and making requirements clearer. It is thanks to Brazil's demanding system that many national companies obey not only ANVISA's requirements but also high GMP standards.

ANVISA is launching some very innovative things such as tracking and traceability of medicines. Naturally, they still have many years to fully implement this, but when you compare these high-level standards imposed to the industry with other developed countries you will see Brazil is doing pretty well. As a result, all companies, DHL included, have to deliver the same level of quality here than in more developed markets.

What is your final message to the readers of pharmaceutical executive worldwide, especially those in Brazil who are also part of this special report?

DHL is moving towards even more tailor-made solutions to our health care and life science clients. We want our customers to count on us, not having a transactional relationship, but a much more strategic one, in a way that we can support constantly their growth in the market. One of the things DHL does, which is hard for companies to do by themselves, is to have a big mass and scale. DHL can create synergies in a way that we can leverage our clients' stance in the market. For instance, DHL has a service called 'direct to hospitals'. In the past the same hospital received deliveries from different customers. Now DHL put together a solution where all deliveries for the same hospital are done at once, with specific delivery windows agreed with the hospitals in a way that when you get there the hospital knows exactly the time that we arrive and the truck driver knows exactly the procedures of the hospital in question, as he is always the same who does the delivery there. This is an advantage that DHL creates with its customers who, by themselves, couldn't do it. Therefore, DHL is willing to partner with its customers in a way that they can leverage sales and further reduce costs.

Today more than 30% of all the medicines pass through DHL's hands. In order to have a more important role in the supply chain of life sciences and health care we need to further specialize and bring innovations already available abroad to the Brazilian market, not forgetting the local requirements, local needs and the way companies operate here. Our final message is that DHL wants to grow together with the country supporting the growth of our current and potential customers by being increasingly innovative and being wherever they need us to be in order to support their growth.

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