

Interview with Carmen Ferlito, President & CEO, Ferlito

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Ferlito Farmaceutici was established in 1937 and has since then grown to become one of the most renowned pharmaceutical pre-wholesalers in Italy. Which specific values of Ferlito do you think were key to success and enabled the company to get where it is today, keeping growing organically and remaining independent?

Carmen Ferlito: Building on the legacy of my father Salvino Ferlito – the company’s founder – I personally took the organization through various development phases, and I have also transmitted this heritage of values to my sons Salvino and Antonio Benanti, who have a sound, international academic and professional background and are faced with the exciting task of further growing our business.

It is worth underlining that Ferlito has always been and will certainly remain a pre-wholesaling specialist. Our core competency is carrying out Warehousing & Distribution activities, therefore taking single-Client pallets in custody, storing such stock and then relaying multi-Client pallets to end customers such as wholesalers, or performing direct deliveries to hospitals, clinics, pharmacies, para-pharmacies, sales representatives, local health trusts or individual patients.

Our long history makes us the longest-established nationwide pre-wholesaler in the country. I started getting involved in the company when I was in my thirties. By then, my father had developed a long experience in the sector, firstly as a sales representative, and then as Area Manager at Lepetit Group. I have a pharmacist background myself, therefore Ferlito’s culture has always been based on sound technical competencies: as a matter of fact, each one of our

employees know that the amount of upstream work done by our Clients to research, develop, manufacture and sell a drug has to be held in the highest respect by us.

I learnt a lot working side by side with my father for a few years, and when he retired I naturally took the reins of Ferlito, applying his same values and adapting my learning to the ever-changing external context. For a start, seeing that pharmaceutical companies were increasingly in need of fewer and better located logistic partners, I decided that Ferlito - which back then used to have two depots in Southern Italy - should spread North.

From then on, the company has kept growing, establishing itself in Rome first and then also in Milan, where it has its headquarters today, and reaching the current turnover of just under €20m, with three logistic facilities and over 22,000 sqm of warehousing space available to our Clients.

Despite the growth it has enjoyed over the years, Ferlito's goal is not to become, at all costs, a much larger pre-wholesaler than it is today, but rather to further enhance its strong image and reputation as a highly accountable, trustworthy, quality oriented logistic partner. The company is devoted to quality of service and aims to create strong bonds with its Clients, continuing to build long-lasting business relationships with them. For us, a Client is not just a name, or a code, but rather an asset, and the products it entrusts to us deserve utmost, customized care. This is why I personally maintain a daily dialogue with our Clients, who know that they can reach me at any time.

Last but not least, a main feature of our organization is the excellence of its facilities. Our warehouses located in the Milan and Rome areas are at the cutting edge in terms of technology and safety.

As pre-wholesaling was not really recognized by law as an essential element of the pharmaceutical supply chain before the Ministerial Decree 538 of 1992, how did such regulatory change impact Ferlito's operations?

Carmen Ferlito: Such Decree eventually gave formal recognition to an activity which had already existed for a long time, but it also triggered an important selection process within our sector. Indeed, not all players could afford the investments required to comply with the Decree's regulations in terms of warehousing and distribution infrastructure.

This new legislation also entrusted Technical Directors with the responsibility to select couriers, which are perceived by many as a weaker link in the Italian pharmaceutical distribution chain. As I mentioned above, at the time the Decree was approved many couriers were not yet ready to

implement the changes required by the new law, especially in terms of temperature-control systems. Delivery delays progressively increased and temperature monitoring really started to emerge as a major concern.

Therefore, Ferlito devoted a considerable amount of time and resources to selecting the right couriers, training them in-house and persuading them to invest in the necessary technology. The paradox of those days was that while key players in the pharmaceutical distribution chain, such as pre-wholesalers and couriers, were being required by law to upgrade their infrastructure, pharmaceutical companies were pressing them for lower service fees in an attempt to reduce their own costs.

Looking at how such an ability to overcome obstacles has been converted into numbers, how do you assess the performance of 2008 in terms of growth and revenues and what are your expectations for 2009?

Carmen Ferlito: 2008 has been an important year in terms of revenue growth and also in terms of investments, due to the marked increase in storage capacity which we have achieved by replacing our previous facility in Rome with a brand new, larger one, and by doubling our surface in Milan.

Such investments have allowed us to respond to our Client's demand for additional space, and are now bearing their fruits as we see new business flowing in from prestigious multinational pharmaceutical companies. I therefore expect further growth in 2009.

Having brought our nationwide infrastructure to very high quality levels, our next goal is to develop an international network, by cooperating with like-minded peers. As we speak, we are working on this project.

At a time when the Italian distribution sector has demonstrated its ability to execute its complex tasks despite enjoying lower average returns than those seen in other EU countries, how do you assess the framework currently regulating commercial margins?

Carmen Ferlito: Over the years, the distributors' margins have inevitably been eroded, as considerable resources have been devoted to significant upgrades in areas like Cold Chain management and overall safety, but also due to rising insurance, human resources and transport costs, coupled with increased pressure for lower fees exerted by Clients.

There are still several pre-wholesalers in Italy today, but competition and market conditions will most likely trigger a concentration in the years to come. Such an occurrence will eventually enable the remaining players to reach a more critical mass and achieve additional economies of scale.

In Italy, the current top pre-wholesalers range from local subsidiaries of multinational general supply chain specialists to independent, highly specialized companies such as ourselves. To further succeed, an Italian-based pre-wholesaler will need to deliver an increasingly broader range of quality services at the right price and to have good operating connections with one or more international peers. Ferlito is on track to achieve such goals, thanks to its distinctive expertise and its dynamic and growth-oriented management team.

Among those solutions, the development of a wider range of services to help pharma players optimize their logistic channels will surely come as a priority. On which service lines is Ferlito focusing and where is there still more remaining unexploited potential?

Salvino Benanti: I believe there is room for Ferlito to further expand its service offering, continuing to free pharmaceutical companies from the burden of performing easily outsourceable tasks, therefore broadening our relationship with such Clients.

You might agree that a model of virtual pharmaceutical company is emerging. A considerable number of firms have indeed decided to progressively outsource several of their activities (from pre-clinical and clinical trials to manufacturing, regulatory affairs, distribution and sales), making the costs associated to such operations more variable and perhaps focusing their efforts on a smaller number of tasks, e.g. Intellectual Property development.

In this context, Ferlito is already able to offer administration services such as, for example, invoicing, payment collection and, in some cases, commercial support through product fostering.

Another example of an original, value-added service offered by Ferlito is express deliveries through our own fleet of minivans, which ensures that our Clients' products ?maybe urgently needed life-saving drugs to be dispatched to a hospital or newly launched generics which must reach the pharmacy shelf within a few hours ?will be made available to the chosen recipient exactly when they are needed. These are unordinary tasks which many couriers cannot always perform, hence our decision to create a small fleet of our ownr and offer such special services directly.

Looking at the social role of distributors, beyond services to Clients, how is Ferlito contributing to prevent the entrance of counterfeit medicines in the country?

Salvino Benanti: Counterfeiting is not very significant in Italy, thanks to our effective domestic regulations. Like the rest of the industry players, Ferlito is fully compliant with current traceability rules, and therefore plays its role in preventing the circulation of counterfeit drugs in the country. Indeed, each batch received is traced at all stages of its progress down the distribution chain.

In a context where some pharmaceutical companies tend to concentrate their sales in more easily accessible regions, neglecting the more isolated ones for logistics and economics reasons, to which extent can pre-wholesalers help their customers minimize the hurdles of decentralization on their activities?

Salvino Benanti: Each pharmaceutical company is free to decide in what areas of the country its products will be most promoted to physicians. The role of Ferlito as a pre-wholesaler is to ensure the safe storage and the prompt dispatch of its Clients' products to any final purchaser, no matter where such purchaser is located. Our three warehouses located in the country's most significant logistic hubs, coupled with our deep knowledge of the courier's competitive landscape, ensure that this happens.

Looking beyond Italy, some multinational pharmaceutical companies are contemplating the possibility of adopting a centralized distribution strategy for the whole of the European market, perhaps with very large warehouses located in the Netherlands, Belgium or Germany as their only hubs. Such models would probably help achieve economies of scale, yet they would make it harder to successfully serve more peripheral regions such as Central and Southern Italy, Northern UK, Eastern Europe, Southern Spain or Portugal which, on aggregate, represent a significant share of the market.

We, instead, believe that the sheer features of pharmaceutical products, from their strict storage and travel conditions requirements to their mandatory dispatch lead times, are such that a domestic presence will always be needed in larger peripheral countries like Italy.

As a matter of fact, there is usually a correlation between the easiness with which a final recipient can gain timely access to a given product and his/her willingness to buy it again the next time, hence a pre-wholesaler, by guaranteeing a product's widespread availability, can be instrumental in maintaining or improving its Clients' sales levels.

Overall, will future growth be fuelled by developing added value services for the existing clients or by betting on the expansion of the customer base in Italy and abroad?

Salvino Benanti: The Italian pharmaceutical distribution sector is likely to go through considerable changes in the near future. As already witnessed elsewhere in the EU, the current chain made of disconnected specialists such pre-wholesalers, wholesalers, couriers and retailers is likely to eventually evolve toward a more integrated model, with players becoming bigger and better positioned to manage more than one link of the distribution chain.

Against this scenario, our strategy will be twofold. At a 'horizontal' level, as already mentioned, we will establish operating ties with international peers in the pre-wholesaling arena, whereas at the 'vertical' level we will maintain an open dialogue with couriers and wholesalers in order to identify the most suitable way of integrating the services each of us offers.

To summarise, I would say that our goal is to create a virtual, yet very firm, logistic network so as to offer our current and prospective Clients an ever wider range of domestic and international services.

In this process of developing a strong international alliance, what makes Ferlito a partner of choice?

Salvino Benanti: Ferlito's main asset is its long-established expertise in the pharmaceutical supply chain arena. During its 72 years on the field, the company has acquired the highest level of knowledge and specialization.

We have developed particular skills in the performance of crucial activities such as Cold Chain management and urgent deliveries, and we offer full coverage of the Italian territory through high quality facilities, yet remaining highly flexible and versatile thanks to a medium-sized structure.

I believe this makes Ferlito an ideal business partner for an international pre-wholesaler wishing to generate synergies with a local leader.

As a final message to the readers of Pharmaceutical Executive, could you expose your personal ambitions for Ferlito in the next three to five years?

Carmen Ferlito: In the medium term, my management team and I will lead the company through its next stage of development, by adopting an international profile based on close collaborations with like-minded peers. By doing so, we will be well positioned to satisfy the pharmaceutical industry's need for quality-driven transnational logistic support.

On a more personal note, how do you assess the challenges and opportunities of being a woman in the Italian industrial environment?

Carmen Ferlito: Being a female entrepreneur has surely been a challenge at the beginning of my career, when I took the reins of Ferlito in the eighties, at a time when it was still quite unusual to have a woman as CEO of a company.

But it has been extremely useful to some extent too, as I am personally convinced that women can bring a very high level of scrutiny and accuracy to this profession.

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