

Interview with Zaki Abdul Aziz, Executive Director, Millennium Pharmacon International

21.09.2009

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Millennium Pharmacon International has a long history, starting at its founding in 1952. Could you give our readers an overview of the company's milestones, particularly those from the past decade?

Millennium Pharmacon International, or MPI as is more known, used to be named PT NVPD Soedarpo Corporation Tbk. This is the very first pharmaceutical distribution company in Indonesia. Mr. Soedarpo Sastrosatomo, who founded and ran the firm for many years, was one of the first successful entrepreneurs in Indonesia. There were some changes in the ownership subsequent to 1996, and in 2004 a regional foreign player named Pharmaniaga Berhad from Malaysia bought a 55% stake in the company through the stock exchange. The remaining 45% are still owned by Indonesian, including the founding father. Just a little information on Pharmaniaga, it is a member of Khazanah Nasional Berhad, a government-linked company, that plays a major role in the logistics and distribution of medicines supplies for government hospitals and clinics in Malaysia. MPI over the past few years has been growing significantly, faster than the industry average. In 2008 alone we managed to record a 24% growth in terms of revenue. MPI acts as a distributor for more than twenty active principals focusing on ethical and over-the-counter pharmaceutical and nutritional healthcare products as well as disposable medical devices. The company's principals are experiencing a good deal of success in the current market and MPI's task is to continually service their growing distribution needs. As a distributor, the company must never fail to provide

customers with on-time delivery via its distribution network encompassing 29 branches across Indonesia.

What advantages does MPI have as part of a successful regional player, as compared to local competitors?

MPI is an independent distributor. We do not have our own products. Since it is independent, all principals are treated equally and customers are very happy with this alignment of efforts. We are very satisfied when our principals have successful promotional campaigns and we share in a small part of their success, not to mention helping them follow through with their go-to-market strategy.

How do you maintain the company's Indonesian identity and intimate knowledge of the local market?

MPI is a local brand. It's a well known brand that has been associated with the pharmaceutical distribution since the 1950's. Pharmaniaga progressively adds value to the distribution systems. The combination of these two creates a very versatile and dynamic MPI. This is key to becoming successful in a very dynamic pharmaceutical market in Indonesia that is governed by policies geared towards the creation of more local values within the Indonesian pharmaceutical supply chain. In that regard, MPI would like to increase its presence in the country by expanding the number of branches and increasing the staff strength to support the growth of the local industry. Therefore, we are readily adaptable to any changes in Indonesia. One challenge faced in expanding outlets, is the geographic isolation of so many regions.

What is your strategy to deal with this challenge?

MPI divides its operations into four regions. The first region is the immediate area surrounding Jakarta, the second region is Central and West Java, the third region stretches from East Java through all of East Indonesia including Denpasar, Kalimantan (Borneo), Sulawesi, all the way to Irian Jaya (Papua New Guinea) and the fourth region is Sumatra. The most challenging region, as well as the region that is experiencing the highest growth, is the third region. Given the extreme logistical complications in distributing goods among these many islands, it provides MPI with both challenges as well as opportunities to move ahead and open up distribution points in future.

How has Millennium managed to be so successful with its on-time delivery track record despite these logistical challenges?

The company has a commitment to working closely with principals. In fact, the company's structure is designed to be in-line with the principals' needs and to accommodate open dialogue at all levels.

The principals are creating demand for the products and are responsible for the marketing plan, whereas MPI is simply in charge of getting their products to their destination. The key in building a successful distributor-principal relationship is constantly staying in contact with principals and immediately working to satisfy their demands. Customers' satisfaction is key. This is where experienced employees and an open and honest company culture are crucial. MPI has 800 employees, and if they don't disclose problems at the lower levels, then open communication can never filter up to the principals. Early last year MPI launched a new initiative to encourage 'High Performance Culture'. The theme is TOPIC. The acronym stands for Teamwork, Open communication, Passion for Excellence, Integrity and honesty, and Caring. This motto has been integrated into all business practices from top-level executives to the lowest level. Feedback from this new approach has been quite positive. The company has been expanding at 24% recording \$78mn in net sales in 2008. However, net profits are just shy of \$1mn.

What are you doing to increase margins and enhance profitability in the business?

The first priority is to enhance capacity utilization. This means the capacity of each branch to generate revenue and profit. This effort has been quite fruitful with much improved results in first quarter of 2009. The second priority is to cut operating expenditures relative to sales without compromising on the quality of service. 2008 was exceptionally challenging with ever-rising overhead costs such as fuel and transportation costs which eventually led to increase in other costs as well. Finally, we are seeing that there are still some niches in the healthcare markets that we have not pursued which may provide us with high margin. We are making efforts to pursue this. Many distribution companies have an integrated approach, incorporating products from a number of different industries. MPI is currently focused on just pharmaceutical products and disposable medical devices.

Are you looking to diversify the business?

There is absolutely no interest in moving into consumer goods at the moment. However, one new area of focus is disposable medical devices. They represent an attractive niche. Indonesian hospitals are looking for ways to make their services faster and more convenient for patients, and disposable medical devices are an excellent way to satisfy that need. Therefore, MPI is looking beyond just distribution of pharmaceutical products, or in other words, the bigger health care picture. Hospitals and pharmacies are the company's primary existing outlets and hospitals in particular have needs beyond pharmaceutical products. Therefore MPI is looking to leverage its excellent relationships to efficiently enter new product categories. MPI has had some success in recruiting principals including Merck, Meiji, and Lapi Laboratories. Yet, the distribution market is

very crowded.

How are you looking to attract new principals?

MPI is the bridge between principals and customers. Essentially there are two aspects to that: Effective and efficient communication, and effective and efficient distribution system. We commit ourselves in giving market feedback towards marketing activities and promotional campaigns launched from time to time by principals. Daily performance report can be retrieved conveniently. This encapsulates MPI's 'consultative approach' towards working with both principals and customers. We also commit ourselves in ensuring timely and quality delivery. This certainly requires not only proven reliable distribution system, but also proven storage and warehouse facilities, in accordance with good distribution practice. We pride ourselves with the above two aspects to bridge the principals and the customers. The fact that we are growing higher than the market as you have observed, can hopefully be a reference for many of the principals's successes forward. One other major differentiating factor is quality standards.

How would you compare MPI's quality standards with the rest of the Indonesian distribution industry?

MPI needs to ensure that its infrastructure is always maintained in accordance with the required standards. There is also a need to improve various systems including excellent Information and Communications Technology,. Ultimately, if the principal is not able to penetrate the market, it is MPI's fault. As I mentioned earlier, MPI's service has two core components, delivering to customers and facilitating communication. Therefore, all infrastructure needs to be in excellent condition and the manner of delivery and storage practices need to be top notch. During our interview, Dr. Lucky Slamet from the BPOM mentioned that the agency is looking to push for consolidation in the finished products distribution segment.

How do you see yourself adapting in a consolidated environment, with larger more integrated competitors?

The supply chain in Indonesian pharmaceutical business is indeed quite a challenge involving many distribution networks. The key is getting the products to the end users. MPI looks forward to the new dynamics that may be forthcoming. We are blessed with having a real life experience, via its shareholders, Pharmaniaga. Pharmaniaga has been acting as the 'consolidating entity' procuring supplies of medicines to Malaysian government's hospitals and clinics. Perhaps this experience could add value in Indonesia. Millennium Pharmacon International has come a long way in the past five years, with very strong performance.

What is your vision for development of the company in the next five years?

MPI would like to be the leading company emerging from the consolidation period that is to come. The company's total business is actually small compared to the market as a whole, so the opportunities to grow are large.

What is your final message for Pharmaceutical Executive's international readers who are interested in entering the Indonesian market?

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