Interview with Ario Setiadi, President Director, IDS Distribution

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IDS Distribution is part of an Asian, globe spanning Distribution Company. How does being part of a large, regionally specialized player help IDS Distribution in Indonesia?

The company’s regional presence is quite strong. When I first began working at IDS Distribution, I wasn’t sure about the right way to grow the company in Indonesia. In the end, the company’s regional predominance turned out to be a tremendous advantage. When you deal with IDS; you are dealing with the region. The company has a complete menu of logistics, manufacturing, and distribution services spanning the globe and concentrated in Asia. That’s why the company is now distributing products for Gilead Sciences, Raffles Health and a number of Malaysian companies for pharmaceutical drugs. While for medical devices we do the services for Smiths Medical, Pajunk, Sigma Medicals, MedGyn, Muzamal, Aircraft Medical etc. Otherwise we would be nothing more than new kids on the block here in Indonesia. On the contrary, IDS has a huge body of expertise and services supporting it throughout the region. A major selling point for principals is that IDS Distribution’s regional services allow principals to have a single distributor in Asia, rather than dealing with different companies in each country.

How are you working to win business from incumbent local companies who intimately know the marketplace and have strong client relationships?

The company must focus on product differentiation. We are not looking for a price war. We are also not strongly interested in tender offers, as we have to comply with our good corporate governance. One important differentiating factor is the company's unique, specialty products such as the anti-retroviral. Not many generic manufacturers can produce such complex drugs, so the relative scarcity means they are more expensive but also more valuable. There are cases where we have to urn potential principals away if they don't comply with company standards. Indonesia represents a unique challenge for distributors with its difficult geography of 17,000 islands and increasingly decentralized regions.

How do you manage to overcome such a challenging environment?

Seventy percent of the market is in Java island, and seventy percent of that market is centered in Jakarta. The top end of the market is in Jakarta, which consequently requires much higher investment than a place like Irian Jaya (Papua New Guinea). Having a full national focus makes a nice company profile for the website. At the moment IDS Distribution isn't looking at full national distribution, but is instead focusing on the most important market. Many companies that do have many branches spread across the country encounter a host of problems operating efficiently, ranging from deficiencies in collections to manpower to infrastructure. Thus, IDS Distribution is primarily focused on Jakarta and Java. The company does provide national coverage to its principals by outsourcing distribution in other provinces to regional distributors. We are able to effectively outsource these regions because our agreements with principals cover sales, marketing, Distribution, warehousing, logistics and distribution. The company contracts out the least profitable regions to maximize investment in the most profitable regions.

IDS Distribution is focused not only in pharmaceuticals and medical equipment, but also many other types of consumer goods, how do you maintain high quality service levels with such a diverse client base?

As IDS Distribution is relatively new in the country, we don't yet have a massive warehouse or a large fleet of trucks. At the same time, we aren't serving the typical full range of clients. The company has focused first on medical devices. This was selected because there are strong margins and few existing players. We have specifically targeted disposables and not equipment because equipment requires far more space and technical expertise. Disposables are a smaller market but they have much better margins, which have allowed the company to reinvest in establishing the pharmaceutical business. This business was started last year and this year we started distributing OTC. The prescription business has huge potential, but it is also a very crowded playing field. OTC is a booming segment in part because self-medication has increased due to better public education

regarding medical issues. The competition in OTC is stiff, but growth potential is enormous.

What are you looking for in a principal, are you more focused on multinationals or local companies?

There is no limitation on any type of principal, as long as their products are able to enter the market and there is a mutual interest in a partnership to effectively penetrate the market.However, most of IDS Distribution's current principals are foreign companies because locals already have established distribution agreements. We are looking to first expand our presence in the country and then look to sign on more local principals. The company is also currently undergoing the ISO certification process, which is crucial in attracting multinational firms. However, many multinationals have chosen to work with IDS Distribution based on the firm's global reputation, understanding that we are new in the country. Last year the company grew at 42%, and this year we target closed to100%. The Indonesian Pharmaceutical distribution segment is extremely crowded with around 200 companies.

What other value added services do you offer to attract clients to work with you rather than the competition?

The main remaining differentiation is flexibility. For example, if the outlets are fully stocked, but a principal needs to sell a certain number of units, we can work with our outlets to take on extra inventory. On the other hand, if a hospital runs low on inventory but has a budget problem we can work with them to split payments and accommodate their needs. The company's approach to working with partners is very much focused on relationship building and working with partners to satisfy their needs. The IDS group globally has an extremely well developed technological infrastructure.

How are you implementing these tools in the Indonesian market?

There is a lot of technology available within the group, but we invest as we gain scale and leverage a regional technology platform. The biggest priority will be daily sales tracking and sophisticated reporting systems. The top priority is improving the customer satisfaction.After those technologies are implemented we will start focusing more on backend systems. On time Delivery is one of the most important metrics in the distribution business.

What are you doing to improve on time deliveries?

There is a large investment in delivery personnel. IDS Distribution is maintaining a ratio of one delivery courier for every five sales people. This is aimed at meeting the goal of a 4-hour delivery turnaround. Delivery time is critical, especially in Jakarta, and there is an incentive system linked to

meeting delivery targets. The commitment to such rapid deliveries is part of what attracts our clients. My experience working at pharmaceutical companies has provided such insights into client psychology and demands. The pharmaceutical industry requires an in depth personal touch. When we meet with clients we first present insight and solutions before offering our products. My own background as a University lecturer of Marketing enables us to discuss industry trends and, for example, present the benefits of multi-distribution over sole distribution, or talk about segmentation, coverage, indicators, and packaging. Another strategy is buying a company's products from their existing distributor. Once IDS Distribution proves that we can grow their business, we can then negotiate for better conditions and gain new business. The principal's preexisting distributor isn't threatened because we are buying through them. Of course this means lower margins at first, but it's a very effective method for penetrating the market. One challenge with distribution companies is keeping down operating costs and increasing profitability. The IDS Group's branches in Thailand and Malaysia had operating profit of 21.7% last year, and Chinese operating profit has grown 65.7% in the same period.

What are you doing to expand margins and increase net profits?

Maximizing profit is rooted in the portfolio strategy. The company does customer mapping to evaluate which customers are most profitable. Then the company allocates investments to the most profitable customers and maintains the less profitable customers without making major efforts at retention. Investments in the best customers include dedicated sales people and product specialists. The other important metric is the rate at which products are moving. We have discontinued some of principals because there was low demand for their products and we referred them to other distributors. Many of our interviewee's keep reminding us of the importance of attracting top quality talent in Indonesia.

How are you working to attract and retain Indonesia's best and brightest?

IDS pays for Performance and our remuneration is structured in a manner that attracts, develops and retains talent. The incentive scheme is also one of the highest in Indonesia. The company isn't spending a lot of capital on luxurious offices or fancy furniture. The offices in other countries such as Singapore, Malaysia and Thailand are much bigger and that is natural as the business in Indonesia is still new and growing.

As you are now the top executive in Indonesia at IDS Distribution, what are your ambitions for the next five years?

IDS Distribution will be equal with its main competitors. We are also looking to increase EBIT and improve the bottom line.

What is your final message for Pharmaceutical Executive’s international readership regarding IDS Distribution?

Don’t worry about Indonesia. The potential is vast and growing everyday. The political situation is stable and after the last elections the Rupiah has gained against the Dollar. At the same time, the government should do more to increase competitiveness. It is my personal view that some protectionist policies in the past have hampered competitiveness by coddling local companies. At the same time, it is vital for multinational companies to have a trusted local partner. Choosing the right partner is crucial as there are some local companies who are looking more for one off profits than a real partnership. IDS Distribution works with its principals to penetrate the market and establish a strong and sustainable

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