Interview: Agustín Oleaga, Managing Director, DHL Supply Chain Portugal



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Agustín Oleaga, Managing Director of DHL Supply Chain Portugal discusses the challenges of supply chain management as it relates to the life sciences industry in Portugal, and how the country's geo-strategic positioning is an advantage in the ever-competitive pharma ceutical industry.

You were appointed head of DHL Portugal three years ago to reinforce the Iberian strategy of innovative products, customer loyalty, operational excellence and maintaining motivation and commitments. What were the main challenges that you faced in implementing that strategy?

Like all companies, DHL has experienced fluctuations due to changing market conditions and low demand due to the economic situation, which leads to a loss of focus on customers. The crisis had not started yet when I arrived, therefore I positioned the company's management system to be entirely customer-focused. By doing so we secured our existing customers, which took time.

After those changes, the dynamics of the company transformed rapidly. This move created a more positive environment while still maintaining our five sectors: retail, consumer goods, technology, energy and life sciences healthcare. The real challenge was then to merge DHL Supply Chain into a

seamless company avoiding separate departments. This means that one department's problem is everyone's problem. The idea is for everyone to exchange resources and knowledge.

In addition, we deployed a big customer project in Iberia, named BECUSTOMER. Contracts logistics are based in warehouses and transport where 100 to 300 people work for one or two customers. DHL Portugal has a multi-customer life science warehouse in which 90 percent of the workforce is comprised of women. Since our business is primarily based on people, we have to commit and motivate our people by emphasizing the paramount importance of knowledge and relationship with our customers. With this project BECUSTOMER, our people know our customers' necessities more and more, and they behave in a closer concept to the customer needs. That being said, we never lose sight of DHL's values of respect, results and diversity.

What are some of the specific characteristics of the Portuguese market as it relates to the supply chain business for life science and healthcare?

The design of the supply chain with regard to life science and pharmaceuticals in Portugal is similar to other Western European nations. Many laboratories in Portugal have their own in-house logistics centers. In Portugal and other Southern European countries, about 50 percent of logistics is outsourced, and that percentage is higher in northern Europe. On the other end, pharmaceutical companies tend to outsource the production of drugs.

In the last 30 years, the pharmaceutical supply chain has differed from other industries such as automotive or consumer, which have been outsourced for many years. This is due to margins of pharmaceutical companies being substantially higher.

Another factor that also has an impact in the logistic situation is the payment terms of hospitals with laboratories and pharma companies. Therefore, laboratories, and pharmaceutical and medical device companies are suffering from the previous situation. The growing factor of generics also plays a role.

Laboratories and pharmaceutical and medical device companies adapt to price erosion by reducing supply chain costs. We try to work close with them as consultants putting together our vertical operations in contract supply linking horizontally with DHL Express and DHL Global Forwarding. Working the three DHL Divisions together we have the availability to analyze deeper our pharmaceutical companies supply chain solutions.

To make a strategic business case in emerging markets you have to look 20 years ahead with a specific pharma company and one of the main points is to reduce logistics costs in the supply

chain. Regions like Southeast Asia and India are growing 20 to 25 percent per year, which can influence where a company establishes its production plant. We advise pharmaceutical companies to concentrate more on their core business, allowing us to broadly analyze their worldwide supply. Life science and pharmaceutical companies used to be very positive in economic results years ago, but with the growing factor of generics, some pharmaceuticals now are perceived as consumer and this is a turning point.

Portugal has experienced a 75 percent reduction in generic prices. How has that affected your strategy?

Our structure for pharma solutions are high-quality concept maintained operations. Generics are growing and forcing everything around them to reduce costs. This does not mean we do not work with generic companies and therefore DHL balances its operations between pharmaceuticals (no generics), medical devices and generics. Our negotiation with generic companies is not easy due to the fact that our operations are high quality standard and the relation logistics prices versus quality is not always well accepted by the generics companies. All of our customers want to be part of operations they deserve, supporting higher logistic prices.

What areas of the life science sector are most important in your day-to-day business?

The most strategic customers are those aligned with DHL’s way of working, which means any pharmaceutical company that requires maximum quality standards can be assured that their products are maintained with our top-of-the-line warehouse management system. Due to hospitals’ economical situation, we have created other logistic solutions such as Delivery Dialysis Home Care. This means that social security receives savings in terms of hospital bed availability. This concept is catching on throughout Europe.

How does Portugal’s geo-strategic positioning bring competitive advantages to this affiliate?

The geographic position of Portugal is undoubtedly very good for logistics, although regulatory laws of Africa and Europe are very different. Pharmaceutical companies do not want to sell products elaborated in one UE country to be sold in another UE country, though this fact is legal. If we have a UE country producing drugs, their selling price is therefore lower than another UE country and this cross-boarding concept occurs. You can produce drugs cheaper in one country and sell in other countries for a profit, but simultaneously you are competing with those other countries. With Africa, regulations applied are different and therefore logistic supply solutions have to be analyzed in a more horizontal way combining Contract Logistic and Global Forwarding Solutions. Portugal is

certainly convenient for accessing Africa and Brazil, the latter having immense life science production.

Many companies say that Brazil is a difficult market because it tends to favor Brazilian over Portuguese companies.

But that raises the opportunity to set up joint ventures. If you establish partnerships with Brazilian and Portuguese capital then you have a viable route. For me, partnerships with companies in Brazil should be a priority. From the logistic point of view there are clear solutions.

Rogerio Mansur of DHL Brazil explained how the autonomous nature of his affiliate allowed him to make decisions that aligned with his strategy without having to consult with DHL headquarters. In Portugal can you do something similar?

DHL's head office is in Bonn, and there are different structures throughout Europe. Our business is divided by sectors. We have a strong sector in Life Science in Europe, the Americas and Southeast Asia. The aim is to be the worldwide leader in the logistics area of the Life Sciences Industry. This is our goal. Commercially speaking, we have a business development team in Portugal that targets national and international companies to approach them. These activities are autonomous, but our worldwide system of connections allows any possible business or target lead to be seen by everyone.

What is DHL's competitive advantage compared to more specialized life science logistics companies?

Our life science structure worldwide is a consistent structure of operations. We approach all the big pharmaceutical companies that launch worldwide tenders, analyzing their supply chain complexity jointly with them. This is DHL's unique aspect. That being said we also approach local healthcare companies in the same way we approach global players.

DHL offers a number of services to the life sciences industry in Portugal. How are those services broken down?

Our life science services are the same in Portugal as in many other countries. We manage all kinds of drugs, cancer medication, vaccines, etc. For companies that do not have structure in Portugal we give them the possibility to deliver products, collect the money, and therefore we intermediate in the collection of payment. OTC products are more frequently sold by retailers in Portugal, and we provide logistics solutions in this area as well.

What are your ambitions for the next five to ten years?

We want to secure every job in DHL structure, improving business conditions. We want DHL Life Science sector to grow in a number of operations, adding value and dismantling complexity to our customers (Pharma and Hospitals). In the hospital area, we want to be part of the hospital inbound logistics solutions that allow them to concentrate on curing patients, also providing them with savings in their budgets.

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