Christophe Piganiol – President, Zuellig Pharma Korea



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With a wealth of experience in different countries around the world, Christophe Piganiol came to Korea as general manager of Zuellig Pharma in 2010. Today he discusses the importance of transparency in a volatile market and the introduction of new business models to satisfy customer demand.

What were your impressions of the local marketplace when you first arrived to Korea?

There is often an underestimation, especially from afar, of the speed and dynamism of the Korean market. Perhaps even more striking is its unpredictability. Changes happen with no time to adjust accordingly. From our perspective, the speed by which we need to react is simply incredible. Of course the market has challenges, which were already seen before with a rapidly-ageing population combined with more health demands. This means there is a strong push for cost control by the government. We understand the challenges that the government faces and we cannot predict six months from now. From a people perspective, the teams here are so dedicated to working to supporting the company and its activities.

What was your initial strategy upon arriving, and how did you react to the 2012 price cuts?

My strategy was centered on agility. When you have even slight visibility in Korea, you can change and adapt, and your team will support you as long as there is a sense of purpose.

When the price cuts hit us, the impact was huge because of the unpredictability. In Korea, original drug prices are at 45 percent of the OECD average. New products do not get high prices and it creates a huge strain on the market, both for manufacturers and for distributors like Zuellig Pharma as our fee is based on sales. Thankfully, with a little foresight we were able to predict these cuts and therefore questioned where we could develop new services. After ensuring that our distribution business could stand alone, we decided to innovate and develop new business models with new services. This involved venturing into more complicated industries where the margin pressure might be different.

Firstly, Zuellig Pharma Korea entered into logistics together with distribution, which was synergistic. We also tapped into the OTC and medical device market, the latter with Roche Diagnostics. Essentially the company spread its risk from both an industry and service perspective. Secondly, we needed to look for different business models. While the focus had been either on logistics or distribution, there are also intermediary models which can be applied to different product lines of a business. If a company wants to divest by outsourcing part of the business while retaining logistics, Zuellig Pharma allows its customers to slice their business to match their demands. This illustrates our logistical and financial agility to match customers' desired model. That thought process and capability we brought to market helped many multinationals in their strategic decisions.

How important are value-added services to Zuellig Pharma Korea, such as consulting or market intelligence?

We understand the needs of our clients, which is especially important considering rapid changes and a need to adapt your model. Of course, more models mean more complex business management, which is not easy. Ultimately, we are in a developed market that is starting to behave like a mature market, which means we need to offer different models. When you are solely growing, you can afford to have simple models, but mature markets require you to open more possibilities. This communicates a message to our clients of flexibility.

How has the shift in focus from generics to innovative drugs in Korea affect the supply chain model?

I would not say that the focus on generics in Korea has disappeared; there is still a large generic portion in Korea that has good business here. Looking at Pharma 2020, the symbiosis happening in Korea now between multinationals and Korean companies is prevalent both among manufacturers and distributors. From the manufacturer's perspective, more co-marketing agreements in the local

market help Korean companies, and locally developed drugs with sufficient potential can cover a global market with multinationals' assistance. As a group, Zuellig Pharma can help local pharmaceutical companies get their good products to the smaller, more complicated Asian markets. We have an internal team that looks for such products, and they discuss this with a regional team that commercializes with Korean and Western companies to reach out to a large number of patients usually in Southeast Asia, Taiwan, Hong Kong and Korea. As Zuellig Pharma has quite an extensive commercialization arm, we need to find unique and interesting drugs with a good medical dossier.

How have you tapped into the potential that the increase in number of clinical trials in Korea offers?

Distribution and clinical trials are completely separate. We have a full entity that does clinical trials in our group called Specialty Solutions Services, and this company can be found worldwide. They definitely support clinical trial management. We can operate on their behalf, but under a very specific set of procedures and activities that they enforce. Korean government wants to increase more clinical trials in Korea for multiple reasons, partially to bring drugs to their patients and also to develop knowledge within Korea's medical society on how to do these trials. You also learn by practice. This is separate from distribution but Korea has an excellent set up for that. Phase I and II trials can now be registered in English in Korea, for which the government is undertaking great efforts.

Wholesalers are numerous and generally have a small market share. Would a move towards direct access rather than wholesaler model imply?

The government has put in place a "dual punishment" system for the whole industry at the end of 2010 to avoid fraud. This law punishes both the giver and receiver and pays the whistleblower. There are many ongoing prosecutions, so the government is actively controlling this and it is encouraging for Korea's medical society. In this way, more transparency is better for everyone. However I do not think this will bring more direct business for manufacturers. Pharmacists typically have a few wholesalers they order from because receiving hundreds of shipments is counterproductive. Thus there is a need for consolidation. Whether we still need a large number of wholesalers is still up for debate. If you look at most modern countries, wholesaling is quite lean. Korea has about 2000 wholesalers, which is many for the size of the country and market. It doesn't matter whether it makes sense or not; this is the history of Korea and the future is equally unpredictable. But Korea's environment is certainly very different from other markets. Nevertheless, the situation is getting tougher with price cuts and more requirements for logistics,

for which we are prepared.

As an example, the government passed a law saying requiring at least 164 square meter for warehouses. Now wholesalers need to have lot numbers on record, which they could trace manually before but were not in the system. Now we need to have product serialization, meaning wholesalers need to capture serial numbers. These are small investments that are tough to do. And having fifteen different warehouses is nonsensical. Then you have to look into quality standards, which can also be difficult, especially f you have margin erosion. This is where size can help; if you have fixed assets you must deploy, you deploy them on a larger business so your cost structure is better. Korea's future is unpredictable, but looking at other markets, there will be some painful consolidation. Korea needs to understand how this will happen, and that will not be easy.

What makes Zuellig Pharma Korea the strategic partner of choice for the industry?

Zuellig Pharma has a solid operational background. We go through many audits each year from multinationals, but this helps you raise your own bar in terms of transparency and customers' trust. Secondly, in distribution you need credit management. As tough as it can be, local companies can be conflicting because they do not see the point of guarantees. This is the difficulty of operating in a local market with international standards. We are very strict on our credit management and how we handle finances and the credit situation with customers. As the market is typically underfunded, we are collateralized. Looking at the balance sheet of companies in wholesaling, typically you do not have a strong balance sheet. Therefore you rely on credit guarantee from banks. Zuellig Pharma has been here for many years and has a strong background. The ability to take risk or not take risk on credit can sometimes be a bit tough but this is what makes us successful across Asia. Our margins are razor thin and credit management is a key success factor in distribution here. Aside from that, we also have our commercialization piece, with which we are also very transparent and where we respect protocols we agree to. Given the free trade laws in Korea, in theory we could sell products at any price, respecting pharmaceutical laws that state that you cannot sell lower than you can buy. However, we commit to selling at a certain price for our client, we fulfill that commitment. We have very strong collaborative spirit with our clients.

How would you like to grow Zuellig Pharma Korea and what do you want to achieve?

The ambition for our group is to bring health to the community. Manufacturers create products that help in special therapeutic areas, but we believe that we can bring services that link with those products. Between manufacturers, patients and caregivers, there is a full set of services you can implement in the middle to support them. Having that ability will help us potentially affect the way

patients are treated. Zuellig Pharma has developed a few things around this concept, such as patient programs that we run on behalf of clients. We have a team of nurses that can take phone calls or visit patients. The company also runs services in commercialization for pharmacists or doctors.

People often focus on products when they do detailing. Our ambition is to focus on sickness; how can I help a physician and deliver him something much more meaningful than a product? For example, we sell quite a few products in pharmacies to help smoke cessation programs. If a pharmacist wants to help a customer stop smoking, they need to have the full story and program, which implies a very different approach. Essentially, as a company we want to be able to help a little bit more than just moving products by truly giving back to patients and the community. This means so much more professionally in the real sense of providing value, rather than simply CSR. As such, we limit ourselves to truly connecting healthcare in Asia.

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