Interview: Aleksandr Iavorskyi – President, Biocon, Ukraine



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Aleksandr Iavorskyi, founder and president of Biocon, Ukraine's leading third-party logistics (3PL) company in the pharmaceutical and healthcare areas, provides insights into Biocon's impressive development and unique partnership approach as well as the life-changing home delivery services that the company introduced into the Ukrainian market. He also documents the main rationales that motivated him to expand Biocon's warehousing capacity by 150 percent in 2014, at the height of Ukraine's economic crisis – a bold decision that has already yielded encouraging results.

Founded two decades ago, Biocon now proudly stands as Ukraine's leading 3PL operator, partnering with the most prominent international and local pharmaceutical companies operating in the country. Could you walk us through the main milestones of the company?

A chemist by trade, I worked as a researcher at Kiev National University until the disintegration of the USSR in 1991. As Ukraine started transitioning from a planned to a market economy, fostering scientific research and academia was no longer a priority of the government, which prompted me to choose a new career path. In the early 90s, most of my fellow researchers started working for international pharmaceutical companies, as the latter were looking to expand their activities into the Ukrainian market. A friend of mine was in contact with MSD, and – as he knew I was looking for new opportunities – he offered me to take care of the logistics and distribution of the company's products in Ukraine.

Given the world-class reputation and exceptional quality of MSD's medicines, I had absolutely no doubt that these products would be easily sold in Ukraine, so I confidently signed the distribution contract and made the required prepayment, before waiting three months for the palettes to arrive to Ukraine. Nevertheless, I quickly realized that despite these products' unrivalled quality and their indisputable therapeutic benefits, currency rate at that time rendered them very expensive for the vast majority of Ukrainian patients. We were then left with no choice but to actively promote them among doctors, specialized clinics, and hospitals, an effort which actually paid off as we ultimately managed to sell our stock off. This success drew the attention of other international pharmaceutical companies, with which we set up similar distribution partnerships. We then established a first 70 sq.m. warehouse in the center of Kiev, which proudly became the first of its kind in Ukraine to be successfully audited by MSD. In 1998, we however decided to shift our strategic focus and Biocon became a 3PL, with the objective to establish ourselves as the undisputed leader among logistics companies operating in the pharmaceutical and healthcare sectors.

Over the past two decades, our total logistics complex has grown from 70 to over 45,000 sq.m, but developing our company's capacity has been no bed of roses. When we decided to establish our first 10,000 sq.m. class A warehouse in 2008, our limited financial resources prevented us from getting a loan from Ukrainian banks. We then reached out to the IFC, a member of the World Bank Group, which audited our processes and business plan for more than a year before ultimately granting us the financing we needed to further develop our company. Once we completed the construction of this first, large-scale warehouse, we started building a new, 20,000 sq.m storage facility, whose financing was eased by our increasing profits. We completed the construction of this additional warehouse in 2010, and this 30,000 sq.m logistic complex now operates as the logistics base of more than 30 international manufacturers of medicines and medical devices.

In 2011-2012, we bought adjacent lands with the idea to build two new warehouses totaling an additional storage capacity of 30,000 sq.m. Nevertheless, the 2013 Revolution broke out, and no one could have imagined the events that followed – from the annexation of Crimea to the ongoing war in the east of the country. When the Revolution occurred and the country got bogged down into this terrible war, our project was already ready – we just had to decide whether we wanted to move it forward or not.

On September 9th 2014, despite the economic crisis and the war, we decided to start the construction of a new warehouse, whose construction ended in September 2016. This new warehouse, which undoubtedly stands as Ukraine's most advanced storage facility for

pharmaceutical and healthcare products, boasts a total area of 15,677 sq.m. and a capacity of more than 16,000 pallets.

Why did you decide to further increase the company's capacity at a time that could be considered as the height of Ukraine's recent economic crisis?

We did it because we believe in our country, its growth potential, and its people. Furthermore, Ukraine holds a population of around 45 million inhabitants, so it makes no doubt that its pharmaceutical market holds substantial growth potential. Overall, we considered it only a question of time before the pharmaceutical market and the country's economy would fully recover and deliver on their promise.

Although we took our decision in a very volatile and challenging context and without holding any guarantee of success, Biocon can now leverage this brand new warehouse at the moment Ukraine's economy and the country's pharmaceutical market are picking up again *[in 2017, Ukraine's economy is set to grow above two percent according to the World Bank, while the pharmaceutical market's value is set to increase by 17 percent (in US dollars) according to the data provider Morion, e.d*]. As a matter of fact, this new warehouse is already half full – only eight months after we completed its construction.

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In the meantime, investing during these challenging times also allowed us to decrease the overall cost of the facility's construction. Finding financing was however very difficult, as no Ukrainian bank could support us in this project and we then had to look for an external investor. Ukraine's scarcity of financing has been persisting despite the recent economic recovery but this negative context now works to our advantage, as our competitors will also face tremendous difficulties when it comes to developing their own expansion projects. Furthermore, the current Ukrainian pharmaceutical market is characterized by a deep price pressure and very low margins; in this context, building a new, profitable warehouse and gaining market share has now become extremely tricky, which should help us stay ahead of the competition in the upcoming years.

What are the main specificities that set this new class A+ warehouse apart from existing facilities in Ukraine?

First, we really wanted to build a very flexible facility, which offers a similar quality of services to all our customers, regardless of their size. We also implemented the most modern and environmentally friendly technologies available globally. For example, we chose construction

materials that display a very high level of energy efficiency, installed water-loop heat pumps, LED lighting, and a modern biological treatment facility.

With this new warehouse, our customers can also fully leverage Biocon’s unrivalled service offering. For example, our logistic complex holds a customs control zone and a cargo custom division where customs authorities and experts from the State Fiscal Service of Ukraine are permanently based. In the framework of public-private partnership with Ukraine’s Ministry of Health, we have also developed a laboratory of quality control which now proudly stands as the largest one in the country. Comprising both a physical and chemical laboratory as well as a microbiological facility, any medicine can virtually be tested in this facility – directly in our logistic center.

Biocon has been working with leading pharmaceutical companies since its beginnings. How do you leverage this privileged relationship to continuously improve your operations?

We are strongly committed to provide pharmaceutical and healthcare companies operating in Ukraine with the best quality of services possible. To fulfill this fundamental objective, we truly see our customers as our partners – and this approach goes back to the early history of our company. In 1994, I was invited to visit MSD’s headquarters and manufacturing plant in Kenilworth, New Jersey. This experience provided me with a great understanding of this pharmaceutical giant’s expectations and processes, and I was then able to design and develop Biocon’s service offering accordingly.

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Although we have tremendously gained in experience over the past two decades, we are eager to learn and we deeply believe that we can still benefit from our partners’ international experience, especially when it comes to quality control or their supply chain requirements. Before building our new warehouse, we actually had the opportunity to visit Sanofi’s main logistic center in France, which helped us design quality standards that would be perfectly aligned with those of leading pharmaceutical companies.

Biocon’s innovative approach is not limited to the B2B field, as the company was the main investigator of a very interesting home delivery service for pharmaceutical products. Could you provide us with an overview of this project?

We actually followed the example paved by MSD and Medco, as they have been particularly successful in offering home delivery services of medicines in the US market. Inspired by this project, in the early 2000s we contacted Ukraine's postal services company, which welcomed our initiative with great enthusiasm. We then started working on the development of this B2C service, which encompassed the conception of the home delivery technology in itself as well as the design of order forms and product catalogs. Our target was to ensure that patients would receive their orders within three to four days. At that time, we had absolutely no expectations regarding the potential success of this groundbreaking project, as it requires patients to fill order forms by themselves – which they are not used to do – and to pay for their medicines in advance.

We eventually launched this project in 2006, and it rapidly became extremely popular – especially in rural areas and small villages, which made up around 70 percent of our customers. In these areas, people often display higher healthcare needs than in larger cities, but the very low density of pharmacies often prevent them from accessing their highly needed medicines. Furthermore, by eliminating intermediaries, we were able to significantly reduce product prices, which is particularly significant in a country where out of pocket spending makes up more than 85 percent of the overall medicines supply.

From 2006 to 2011, we successfully delivered more than two million orders to Ukrainian patients, while our product catalogs were available in more than 14.000 post offices across the country and 50.000 postmen were involved in this project.

Nevertheless, in 2011, the Ministry of Health decided that this delivery system did not comply with the country's distribution standards any longer, and they changed Ukraine's regulations to definitively prohibit home delivery of medicines. We naturally contested this unfair decision and explained that we specifically purchased our medicine containers in the EU, in order to ensure they would comply with the highest distribution standards. Entire villages, which used to rely on this system to access highly-needed medicines targeting chronic diseases, wrote letters to the Ministry of Health, asking for this system's reinstatement – without any effect. Many different Ministers of Health have succeeded each other since 2011, and we have – unsuccessfully – been trying to put this item back on top of their agenda.

Since the government of Mr. Groysman took over in 2016, we have however perceived a renewed interest regarding this system, and it seems that it could be integrated within the recently implemented reimbursement mechanism *[as from April 1 2017, 21 international non-proprietary names (INNs) in three therapeutic areas are part of this reimbursement system, e.d.].*

Our 2017 report on Ukraine is called "*A New Era*", as we believe very promising years lie ahead for Ukraine and its pharmaceutical market. In this positive context, what will be the development approach that Biocon will favor?

From its beginnings to our most recent developments, Biocon's philosophy has always been centered on innovation, being ahead of our competitors, and anticipating upcoming market trends as well as the arising needs of our customers. By working hand-in-hand with the industry's leading pharmaceutical companies, our partners have been providing us with a very accurate understand of the most pioneering dynamics shaping the global pharmaceutical and logistics industry, allowing us to be a frontrunner when it comes to translating these trends into our local ecosystem.

In this context, building long-standing, enriching partnerships will always remain at the core of our development approach, whether they relate to customers or to our European counterparts operating in the logistic area. In this regard, we recently became a member of the European Logistic Association, which enables us to connect with all European logistics companies and provide us with a heightened opportunity to promote our activities and Ukraine pharmaceutical market to potential European partners.

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