Interview: Victor Shatz – Chairman & Owner, Fanex, Latvia

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Victor Shatz, chairman, founder, and owner of Fanex Latvia, talks about the origins of Fanex and the development of his career. He also talks about Fanex's market share within the Baltic region and the company's strategy to reach success and spread risks.

We understand Fanex was established in 1993 primarily in response to Millipore Corporation's decision to set up a local distribution network across the Baltics for equipment and materials for liquid chromatography and filtration. Could you tell us more about your career and the origins of Fanex?

My initial career was in academic sciences and, by the beginning of the 1990s, I had become the head of the Chromatography Laboratory at the Latvian Institute of Organic Synthesis. The immediate aftermath of communism was highly disruptive to our activities. As a direct result of the economic and political changes sweeping the country, the budget of the laboratory shrank down to nearly zero, and the average salary in the lab was equivalent to 30 USD per month, so I started to look for partners for cooperation abroad, I sent many letters to western partners, people and companies, with whom we had cooperated before. We were, frankly, willing to do pretty much anything for any Western partner just to keep afloat.

One day, we received a phone call from the head of Millipore Finland, saying that he was actively looking for distributors in the region, and we were nominated to compete against other two candidates for the distribution function. In the beginning, we had a small company within the laboratory, and then later on we rebranded it and developed into Fanex. the distributors activities for Millipore took place on part time basis, but in October 1993 Faneks was established as a private company and myself and my closest colleague stopped working for the institute of Organic Synthesis

How did you develop the requisite capabilities?

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We did not have the full business expertise required at that time, but we certainly did possess the technical knowledge and that set us apart from would-be competitors. My wife brought her industrial experience with her, she was a chemical engineer, and with my career experience, I was familiar with local market dynamics.

Moreover, the Head of Millipore Finland Heikki Jussila who was responsible for development of Millipore business in the Baltics, became my teacher in business at that time. He took me on some client visits and from those visits, I understood how business was to be conducted. I do not think it was more complex than doing research, however, I would not say it was easy. As a scientist, I had to adjust to the circumstances at that time, to go from working in a state laboratory (poorly financed, but psychologically independent work), to the conditions when I became dependent on the customer's preferrences, funds and wishes.

After a few months the results came out and they has gone quite well. We got the distribution contract, and we were asked to establish a company specialized in doing this business and to quit research. However, despite the success of this cooperation, I was not feeling a strategic stability, after all, it was based on a single deal which handed them much leverage over us. They asked me what we needed to feel insulated from any turbulent times that might be yet to come, and the four people we were at that time answered that 400 USD per month would allow the company to survive no matter what could happen. Millipore accepted and Fanex was established as a company.

What is Fanex's scope of capabilities today and how do you maintain your competitive edge?

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We are not a three-person company anymore, we possess almost 20 personnel split between the company here in Latvia and our other in Estonia and we also have a joint venture in Lithuania which we started to grow quite soon after the establishment of the initial entity.

In these markets, a certain degree of maturity has now been reached whereby sales of products are not enough on their own. You cannot hope to maintain a viable business if you just concentrate on getting the product into the marketplace. Instead, you must provide a complete and competent service for what you are selling. From the business point of view, the after-sales process is tremendously important and most often your key differentiator. It is not only about pushing products on the market, but also to look areas where you can add value. These other areas bring as much revenue as selling the instruments. In our industry, they say that “it is only the first instrument that is sold by the salesperson, everything else is sold by the service people” that is why we have expended a lot of effort in assembling the strongest possible service team.

We are not doctors, we don’t make pharmaceuticals; we are merely suppliers for the makers. So, if we talk about supplying process and analytical equipment for pharmaceuticals, our portfolio covers between 40 and 70 percent of their requirements. We enjoy long-term relationships with our clients and receive a large amount of repeat business. This is absolutely crucial in markets of this size because there are not that many companies out there so if you burn your bridges then you limit your scope for the future. Our longstanding cooperation with Grindeks, the biggest manufacturers in Latvia, is a good example of the type of loyalty we have been able to inspire. For us is very important to give the team the right competencies. We must always ensure that the staff, that has been growing gradually, understands what they are selling.

Our number one line of products is chromatography from which we have close to 50 percent of the market share. This makes us very successful with big international brand names like Waters. We still face down competition from other brands, but our long-time experience in the field and our competencies, have allowed us to remain as leaders in the market, even though when Waters is generally a more expensive brand.

What makes you the go-to partner of choice as an exclusive distributor for leading multinational brands such as Waters?

I would say that a 25 years career in research is a good training to do many different things afterward. However, there is not one single principle to get our distribution deals done. What we do in the situations where we get a single deal is to try to improve our knowledge of our most sophisticated products and then, we use this knowledge to get our next deal. We started a company in Estonia five years ago, and our Joint venture in Lithuania has been running for eight years, so the network of supply that we have right now in the Baltic region has been developing naturally, following the needs of Waters.

They offered us to take those neighboring countries because we were, and we still are, the most successful distributor of Waters in the Baltic region. Although in legal terms we are not the exclusive distributor for Waters in the region because of certain pro-competition laws that do not allow it, in practice, we are the only distributor. Our network of suppliers also includes companies like Spectro, from Germany, which is a manufacturer of spectroscopy equipment for elemental analysis, we also have IKA and Kern among many others.

How different is the operating environment in the Baltic region and where do you see the competition coming from? How easy is it for competitors to emulate and recreate what you do?

We have to adapt our operations quite a lot to reflect the differing market dynamics in each of the 3 Baltic States. This is because the local life sciences manufacturing landscape varies quite markedly. The pharma industry in Estonia is quite small and mostly universities connected. Latvia has a real “classical” pharma industry but almost no biopharma and biotechnology. Lithuania has little classical pharmaceutical industry but is much stronger in bioprocesses and biopharma. This means that the nature of our business offering has to be adjusted to suit.

The type of products to reach each market is ultimately very different. We have been fine-tuning our operating structure for many years and we are aware that there are three or four companies that are comparable to us in size, with their own focus. Yet, at the end of the day, it is quite difficult for a new entrant to compete. We have seen new entrants in the less sophisticated product lines, like spectroscopy. Some start-ups that are five or six years old are quite successful, but this is not a static market and we have equally witness companies that are on the slide and have been losing their relevance. Our strategy for keeping ourselves on the edge is not stopping where we are. We always keep our eyes open to look to seek out new partnerships in the fields that we believe have the highest chances to grow.

How high you perceive the threat of your current partners skipping the middle-man and establishing a direct distribution in the region?

The size of the Baltic market does not justify for most our suppliers to maintain a permanent office. Some major manufacturers of pharmaceuticals do, of course, maintain an embedded local footprint, but the market for medicines is much larger than that for equipment. As long as equipment manufacturers like Waters enjoy a nice market share, obtained via distributors, I do not see serious reasons for them to take this step.

For most of our partners is simply too risky to enter a country where they are not familiar with the local habits, not just the language, but the business, research and historical context. To build up that familiarization and local insights takes sustained investment and perseverance and cannot just be created overnight. For most MNCs the tiny Baltics markets don’t justify the time, effort or expense. There would, at best, be an opportunity loss where they could have been generating a bigger bang for their efforts by focusing their energies elsewhere. As such, they instead prefer to entrust distribution to insiders and to alleviate themselves of the hassle they would otherwise have to put up with. I believe that it’s fair to say that the current business arrangement of deploying local partners like us is an enduring, stable and sustainable one.

What is your strategy to deal with the risks that come from the market?

It is important to understand that we are not just looking towards the pharmaceutical industry market. More than 50 percent of our customers are universities, which are very much reliant on EU funds, and the availability of these funds makes our financial picture very fluctuating. This is not unusual for us, we have seen those peaks and drops, and it has taught us how to be ready for it, therefore, we diversify our sources of revenue. We do not rely on just our sales, we also have meteorology and calibration laboratories, that are accredited according ISO standards, we also have a small chromatography laboratory here which is developing now, we hope it will be financially efficient in a short period of time. Having different sources of revenue is how our company spreads the risk.

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