Interview: Jan Kruk – President, Cefarm SA, Poland



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Jan Kruk of Polish pharmaceutical logistics and distribution specialist, Cefarm, discusses the organization's secrets of success, as well as the broader logistics and distribution landscape in Poland.

As the president of Cefarm, what are your goals and objectives over the next few years?

My goal has been to double the company's turnover in the five years since taking the position in 2016. We are already on the right path, as in 2017, we reached a 17 percent increase in sales. Besides this, the company achieved good financial result, which was a problem over the past years. We managed to improve financial liquidity in an excellent manner and at the moment we are self-sufficient, not having to use bank credit facilities.

I took up the function as president of the management board when CF Cefarm was having a hard time. The fourth quarter of 2016 posed very many financial challenges and it prevented taking free decisions in terms of finance, on the contrary – we encountered lots of complex and radical decisions. As a company, we started counting money meticulously, both on the side of revenues and costs. The continuation of the tendency developed over 2017, namely high-margin sale to pharmacy customers, is an overriding and priority task within the framework of our company's vision. We focus our efforts into performing the highest sales volume possible into pharmacy customers, a channel in which we wish to develop, according to our strategy for the coming years.

The profit margin earned on pharmaceutical distribution is the result of the activity of many units in the CF Cefarm organizational chart. Spots where we strive at earning profit margin are located in purchasing processes but also in sales processes. We exercise due care when examining purchase terms and conditions, analysing each supplier and manufacturer individually, in cooperation with the controlling department. We hold cyclical talks, at least once a quarter, simultaneously monitoring resale results from the previous periods. We pay special attention to payment terms and inventory turnover in order to minimize the stock financing. We do not run our business based on unprofitable contracts and if we diagnose such contracts – we renegotiate or withdraw.

In terms of sales, we aim at configurations of the offer that are market attractive for a pharmacy contracting entity, simultaneously bearing in mind the turnover generated by a given customer, the history of cooperation or prospects for development of cooperation. In the coming months we want to intensify actions aimed at searching new pharmacy customers. We verify pricing policy and mark-up levels applied to the pharmacy channel on regular basis. We also focus on developing our warehouse as we wish to improve its structure for the benefit of fast moving stock i.e. the stock which pharmacies are interested in for daily resale. All of the aforementioned actions make up a vision which we will definitely implement this calendar year.

The next goal set is to increase the pharmaceutical market share 1.5-fold over the period of five years; as of now our market share increased by 37 percent with respect to 2016. Over the past year we increased sale to hospitals by 60 percent. This has had an impact on better patient service in the sector.

Obviously, reaching a positive financial result is very important and this is assumed in the CF CEFARM strategy in each year of its business activity.

Could you walk us through CF Cefarm’s evolution throughout the years?

CF Cefarm is one of the most experienced distribution companies on the pharmaceutical market. The state-owned Company’s history dates back to 1945, which allowed for the creation of a brand recognized by all in the sector over the years. For over 70 years CF Cefarm has elaborated strong business relations with suppliers of medicinal products, dietary supplements, medical goods, foods for special medical purposes or cosmetics, as well as with customers with which it has cooperated on regular basis for a long period of time. Our current business is based on cooperation with nearly 450 domestic and international suppliers and over 3800 customers. We handle three distribution channels, each of which has its own nature, requirements and rules of functioning. The CF Cefarm turnover is divided into pharmacy market (nearly half of total revenues), pre-wholesale market and

hospital market.

As a distributor of pharmaceutical products, we have also elaborated a comprehensive offer of logistic services for manufacturers, pharmaceutical distributors, marketing authorization holders, parallel importers and clinical studies sponsors.

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Cefarm can offer a broad range of distribution services and full logistics support, ranging from warehousing and packaging services to the distribution of products for clinical trials. Can you walk us through your offerings?

Centrala Farmaceutyczna offers its services in both Warsaw and Radomsko, and our services include clinical studies logistics services, including manufacturing (labelling) and releasing products for clinical studies and the delivery to the indicated centres; import actions for medicinal products from outside the EU and manufacturing activities performed in the Importer’s Warehouse and the Medicinal Products Manufacturing Plant, including labelling and repacking along with the replacement of a leaflet and series overprint; warehousing service in foreign goods Warehouses (formerly consignment warehouses); service in the scope of customs bonded warehouse (with gradual customs clearance of products from outside the EU – warehouse procedure), as well as the lease of specialist warehouse space intended for pharmaceutical wholesale facilities.

The quality of our services is guaranteed by duly prepared infrastructure, specialized and experienced staff and we hold the ISO 9001:2008, and all processes are carried out in accordance with the requirements of GMP and GDP (Good Distribution Practice). Our mapped warehouse rooms are equipped with reliable devices which guarantee the storage of goods in the best conditions possible, and the most important is our professional and experienced team that guarantees efficient and comprehensive service.

Currently our logistics services are used by a few dozen contracting parties, including renown manufacturers of innovative medicinal products and a clinical studies sponsor as well as large CRO companies which carry out a number of clinical tests in Poland on behalf of foreign sponsors.

What are the challenges the wholesale ecosystem is currently facing in Poland?

The pharmaceutical sector is developing in accordance with the tendency assuming the access to information on the market. Without data on the market and the company’s position among competition, it is very hard to take proper decisions allowing for dynamic pace of growth in expected channels. Our strategy for the coming years assumes strong development in pharmacy

channel and investments into independent pharmacies. Combining the two criteria mentioned above, CF Cefarm is searching for innovation in the computerization process, in particular in the scope of relations with suppliers, customers and institutions monitoring the dynamics and tendencies of the pharmaceutical market. Implementation of data to IT systems used as well as data exchange with external systems will ensure legal security and it will pay off with much higher level of business trust both on the side of suppliers and recipients, and this will significantly allow for extending the scope of cooperation and using new business opportunities.

How is CF Cefarm contributing to advance the distribution landscape in Poland?

CF Cefarm has been developing in the health care sector for a dozen or so years. As one of few wholesalers on the market it successfully conducts daily, on-going cooperation with virtually every hospital at the territory of Poland. Taking the specific nature of such a customer’s service into consideration, it has the highest priority among our three distribution channels and is served as the priority one, both on the commercial and logistics level.

The nature of the pharmaceutical market and the direction of its development makes the wholesale margins earned and potential workable margins slightly lower. Therefore, distributors seek high margin opportunities in other areas. Logistics activity is the strength of our Company and this is great potential for use.

The need for implementation of new technologies, mainly targeted at IT integration with the manufacturer and the customer attracts great interest of ours. That sector’s development allows us to navigate more extensively and efficiently in such a large group of supported suppliers and customers.

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What are your future goals for CF Cefarm?

CF Cefarm intends to maintain the development tendency, elaborated in 2017, on the pharmacy market which is the biggest market of the sector, increasing the revenues earned in this segment. Each of three supported distribution channels is strategic for us and we do not indent to resign from their development. We would like to see such a tendency in the coming years. It should be remembered that it is the pharmacies that are the key ones for the supplier and the manufacturer at the end of the day. The pharmacy segment is the most monitored by the aforementioned manufacturers who measure their market share and work with their position with pharmacy customers. Its development, from the perspective of a pharmaceutical distributor, gives innovative

opportunities for cooperation with suppliers on this more and more difficult market and it allows for exploring completely new business areas. The construction of new headquarters of the Company is an important and strategic priority. The current size and location of warehouses causes the lack of possibilities for further expansion in the scope of pharmaceutical products distribution development. We plan to build new headquarters over the period of the next 2 years.

CF Cefarm aspires to be the major supplier to virtually all hospital customers, both in the public and private sector. Since 2015 we have been constantly developing in this segment, selling not only to hospitals but also to clinics and clinic chains, quite dynamically growing over the past months. Supplying the aforementioned customers regularly we are as close as possible to the Polish patient and all our actions and strategies are targeted at human life and health. In relations with manufacturers the service of that distribution channel is a significant area and it enables the access to as wide a portfolio of necessary medicinal products as possible. As compared to the competition, we have been distinguished by sales to hospitals for a dozen or so years. Owing to that our commercial offer enables us to provide pharmaceutical help to the Polish patient in any place and in any health care unit in Poland.

Such actions should also allow for significant increase in the share of sales on the pharmaceutical market. We do not exclude the option of acquisition of existing pharmaceutical entities/other wholesales. In particular, we intend to focus on hospital patients, not forgetting about open pharmacies.

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