

# Interview: Dr. Andre Arief Lembong, Chairman, PT Pharos Indonesia

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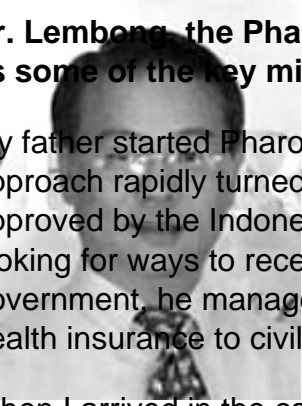
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*After taking up the mantle of his fathers company, Dr. Lembong has taken it to new heights, while also bulding a sister company, Century Healthcare, from the ground up. He discusses with us the history of both companies, lending insight into their investment plans, their aims in relation to generics and OTC medicines and their partnering with AMS as a distributor which has helped them to reach the position in the market that they find themselves in.*

**Dr. Lembong, the Pharos legacy, built by your father, ates back to the 1970s. What do you see as some of the key milestones in the company history?**



My father started Pharos in 1970. At that time, he mainly bought machinery from Europe. His approach rapidly turned the company into the first facility with high quality manufacturing standards approved by the Indonesian government. In order to start generating cash flow, my father was looking for ways to receive a quick return on investment. Because of his good relations with the government, he managed to obtain orders for the government-driven Askes program which provides health insurance to civil servants.

When I arrived in the company, I was given the task to start a new business rather than continuing my father's. As a first step I started Century Healthcare, which has now grown into the largest chain of pharmacy outlets in Indonesia in terms of outlet units. While it is my intention to sustain all our past partnerships, I also saw the opportunity around 1997-2000 to start manufacturing our own products. Indonesia is a large country of immense opportunity, so we decided to aggressively invest in product development by means of formulations, tablets, suppositories, injectables, and so forth. Now we are developing 1,500 compounds on a 24/7 basis using a lot of heavy equipment.

**Generic portfolios are generally rather broad. If you say that choosing the right products is key, are there any areas you favour in terms of product development or marketing?**

Back in the year 2000, we used to sell 90 percent of our portfolio in ethical drugs, while today 60 percent is in OTC. We are still maintaining our stronghold in the ethical pharmaceuticals niche hence the 2,000 people strong field force but are intensifying our efforts on the OTC side. For OTC our field force is 300 staff at present and will continue to grow 30 to 40 percent every year.

**You mentioned Century Healthcare as one of the first elements you added to Pharos Group. What value and synergies does this new entity add to the Group today?**

While several people now look at our structure and start speaking of vertical integration, I do not believe that we have already reached that point. At present, Century Healthcare still adds value to Pharos. We have been changing Century's supply chain and, due to a change in margins, profits doubled last year. But from the point of view of Pharos, we still mainly rely on promotional efforts through audio/visual channels. Thanks to our highly capable marketing team we are now growing at

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40 percent in OTC compared to 20 percent in ethical. I do believe that we can do much better next year.

### **What are the main distributors you have chosen to work with?**

Our largest distributor is AMS, which is being run by my brother, Roy. It exclusively sells products for Pharos and Novell Pharmaceutical Laboratories. This exclusive distributorship grants the company the necessary economies of scale to survive. This is important because many of the distributors in Indonesia were hurt by a 40 percent increase in salaries. Without the changes we made to our retail business model, we would have suffered in a similar manner.

### **Where do you see the need for further partnerships?**

When it comes to high-tech, we prefer to partner with mid-sized overseas companies. They do not want to worry too much about risk and want to ensure that the marketing works well. We position ourselves as a marketing team for these companies. To do so, we need strong capabilities in portfolio management, adequate reporting systems, and so forth. Such systems are also essential to control and improve the productivity of our workforce. Apart from sales data, these platforms allow us to see how our people are performing. From my point of view, many of the Indonesians perform well for what is inspected rather than what is expected. q

### **When you took over the business you had a vision to move into retail. You came with a set of new ideas, but which achievements are you more proud of?**

I am most proud of the people we work with. They work very hard, we train them vigorously and make sure that they can replace us as our future leaders. Technology is also important and is another area we aim to invest in. As labour costs will increase, we have to seek for ways to automate our processes. We want to move fast and use our skills and capabilities in robotics and machinery. The technology is available and we should look into integrating this in our business. We are for instance looking at integrating vending machines at our outlets.

Biotechnology is another area of interest to us. My son is already studying in San Diego, one of the biotech hubs in the world. We also see high potential in laboratories. Beyond blood glucose, increasingly tests are taking place for haemoglobin, cholesterol, etc. In the 2,000 generic pharmacies that we aim to open in the next three years, we will have such testing equipment for the poor. There are big technological changes that allow for lower cost products to enter the market. Two Stanford graduates are working here to develop a testing technology at one hundredth of its initial cost. Our aim is to bridge global technology in health care through Pharos. We have big ambitions.

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