

Interview: Fred Westdijk Vice President Life Sciences & Healthcare; Jens Gaudaen Commercial Director Life Sciences & Healthcare, DHL Supply Chain Benelux, The Netherlands



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DHL Supply Chain Benelux understands the challenges life sciences companies face and has developed solutions to help overcome them. The Vice President and Commercial Director discuss how the services of the logistic provider are evolving to better adapt to the new needs of the industry and the business segments offering the highest potential for growth.

What are some of the key differentiators of logistics for life sciences and healthcare compared to other industries?

Fred Westdijk (FW): What differentiates the life sciences and healthcare industry is first of all a stricter need to comply with local and international regulations as well as a higher demand for high-quality service – considering the life-changing impact of the products. On the other hand, our impression is that the pharmaceutical industry, especially established pharma, still lags behind other industries, such as retail or consumer products, regarding the overall speed and efficiency of their supply chains. Furthermore, we still see drug companies investing heavily in in-house facilities and

logistics whereas other industries have moved away from this model to cut costs and concentrate on their core competencies.

Jens Gaudaen (JG): The traditional pharmaceutical industry is still a market with high amounts of local stocks and a large percentage of supply chain managed by a push model. This structure is based on manufacturing decisions rather than on real market demands, which is something not common anymore in consumer products or retail industries. It shares, though, a common thing with the retail market: the need to maintain local distribution.

How are the industry's needs developing over time?

JG: The sector seems to believe they still need local stocks, but we see that this is increasingly changing. In the past, supply chains were mainly driven by local sales offices, whereas today they are rather pulled by regional organizations. In addition, with the strong and fast development of biotech products, time-to-market is becoming a crucial competitive advantage. Supply chains of generics, on the other hand, are already very lean, hence do not offer much area of improvement.

FW: We also notice that supply chain management is receiving more and more attention in pharmaceutical boards. It was a topic previously handled by departments such as procurement and finance. Today, it is undoubtedly more relevant, not only in the Netherlands, but across Europe, as outsourcing supply chain management offers the great advantage of transforming a fixed cost into a variable one!

How does logistics vary between regular and specialty pharma?

FW: There is tremendous difference: specialty pharma absolutely wants and needs new drugs to quickly get to the market mainly because of treatment specificities. Considering higher compliance regulations for these products, the main focus is on bringing the products to the right place at the right time rather than strictly on process costs. The industry indeed is willing to pay a higher price to ship them considering their inherent and sometimes perishable value. Regarding generics, we are slowly moving into a consumer model, as it is a volume driven business.

Most traditional big pharmaceutical companies lay somewhere in-between, as they often handle specialty pharma as well as generics. A trend we observe more frequently these days is the move away from regular pharma into specialty drugs. This shift however implies a massive change for supply chains. Some players have not decided yet on which end of the spectrum they want to be. Thus, they have a mixed supply chain, which is very difficult to manage. In such cases we usually advise our customers to split it up according to product category because needs and cost models can be very different.

Nevertheless, whatever pharmaceutical specialty; our value proposition to our customers is that we will run the supply chain more efficiently than they do at a better cost.

Could you please provide us with an overview of the structure of the DHL Benelux operations?

JG: Life sciences and healthcare is one of the largest business units within the DHL Supply Chain Benelux operations with over 500 people solely dedicated to this business unit. We operate in different segments of the market: in Belgium we are by far the market leader in local distribution and order-to-cash for pharmaceuticals directly to pharmacies and hospitals. In the Netherlands our positioning is different because of the different market model given the importance of a limited number of wholesalers. We thus rely on local distribution for some customers, but hardly deliver directly to pharmacies at all; although we deliver specialty products to hospitals. The Belgian market

is much more complex than the Dutch, thanks largely to its increased scale and complexity of distribution: Belgium has 5,000 distribution points compared to just 250 in the Netherlands.

A business segment we are particularly active in and which is growing is our network model based on European Distribution Centers (EDC). We already count among our customers companies such as Sanofi – Genzyme, Shire and Biomarin, and even turn into the CMO field and provide services such as late stage customization for global distribution of biotech products.

FW: Most of our biotech customers in the Netherlands are EDC customers, while some even used the country as their global distribution center. It's a market focus because of stock holding value: given the limited availability of products, companies prefer central stock over local country stocks. We started serving this segment as a classical logistics service provider but evolved into further services, offering late-stage customization, such as product labeling and secondary packaging. We serve the market from the low-end supplies up until very expensive segments but we do so in different supply chain models fitting the needs of the specifics for that product type.

Why do growing biotech companies choose DHL over other competitors?

FW: Many of our international logistics competitors have good logistics skills, but are not specialized in life sciences. On the other side you have more specialized life sciences players, that are pharma-oriented, but their logistics skills are weaker. For instance, only in the Netherlands we have more than 20 sites while many of our competitors only have a couple; we have more than 2,000 sites around the world. We try to combine the global logistic scale with the life science know-how, and there is no other company in the Netherlands nor in Europe with the same value proposition.

JG: We have different teams running different streams. We have the advantage of having 500 people working only on life sciences and healthcare. This means we really have specialists dedicated to serving the wide scale of the market.

What industry segments are you interested in focusing on in the future?

FW: Specialty pharma is a clear focus as well as increasing our EDCs, both for pharma as well as for the medtech industry. We are very curious to see what is going to happen in the generic field; we have seen different supply chain models, but their strategy is not entirely clear. We compete in the segment and will follow developments closely.

We do want to enter the hospital business: the market develops rather slowly in terms of logistic outsourcing, but we see huge potential because it remains largely underdeveloped. We see an interest of medical device companies to partner more comprehensively with hospitals and be increasingly seen as service providers, but we do not think this model can work due to the complexity of the logistics and their lack of expertise in this field. Overall, we believe that there is a need for commercially neutral logistics service providers in this area.

JG: Due to clear government policy, home care is also a trend, especially in the Netherlands. What we are looking at how this model is going to operate and how it is going to be organized. Today it is very scattered and fragmented among local companies.

What other segments are you eyeing besides biotech products and supply chain for hospitals?

FW: We are also interested in managing sites that customers want to outsource. Two years ago, a leading global pharma company asked us to manage a distribution center they had in Belgium, with the aim to improve cost level and efficiency. In this case we converted it into a multi-user site and

brought in three additional customers to fill the space. That's something our customers obviously are not capable of, as supply chain management is not their core business.

What are your expectations for the industry for the coming years?

JG: We ask ourselves: how much bigger are the big players going to get? What tensions is it bringing to the market? How are smaller and mid-tier companies going to react? Are we going to see more split-ups or mergers? It is a very interesting trend to follow. If you look at the competitive map within logistics, only few players compete at the same level while most of us are focusing on the same strategies. Some of the smaller companies will probably be acquired; some will only focus on transport or other interesting niche markets. The market is evolving quickly and both local players and big established third party logistics need to find their final position in this market.

Where will we find DHL Benelux life sciences and healthcare in five years from now?

FW: We will still focus on EDCs, and from the Benelux region we will probably be serving additional markets for domestic distribution. This is in line with our overall strategy of being able to deliver certain products directly to markets in a wider area. We want to further increase our leadership position in specialty pharma, provide our customers with more high-value services, and also penetrate the hospital market. We have an exciting time ahead of us!

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