

Interview with Igor Kouznetsov, General Director, Euroservice

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You founded Euroservice, and have managed this business since its inception in 1996. What are the key drivers that have facilitated the growth of this company from a staff of 6 people to the ninth-ranking importing distributor in this country?

I believe that it is of some value, especially in the initial stages of business development, that a company's founder is also its manager. The organization's promoter obviously has a personal, vested interest in its success, and the establishment of effective business processes. This kind of founder/manager governing structure is common amongst companies that are starting out in Russia.

Furthermore, I believe that we were right to choose a narrow specialization in hospital products. At the time when we established this enterprise, competition in the segment was quite limited, and today we are well positioned.

We signed contracts with all of the leading producers in the hospital products market. Our growth began: we started in Moscow and Central Russia and expanded outwards. Our principal regional expansion took place over a period of ten years—we did not opt to expand quickly. Over time, we began to think about the evolution of our service offering, and decided that beyond distribution, we could offer additional services to foreign companies. Euroservice was the first hospital products distributor to sign a contract with a foreign producer for product marketing. The producer, an Indian biotechnology company, had no personal resources in Russia, and needed a partner. Today, the product that they gave us is a strong competitor in its therapeutic class, even when weighed against products by Pfizer and MSD. We continuously develop our product portfolio in the marketing business—we are hence more than a distributing company.

Over the last 15 years, we have firmly chosen not to broaden our sphere outside of services. We do not build production factories, nor open pharmaceutical chains. Just as in 1996, today we want to be a strong partner of choice in providing services to pharmaceutical manufacturers. Thanks to this commitment, we continue to capture market share in our segment.

As we move our strategy forward, at the end of this year, we are opening a brand new warehouse and office complex, which will allow us to more expediently perform our work, and to provide even better logistics for Western companies.

You mentioned your business unit dedicated to registering and marketing pharmaceuticals in the Russian Federation—an additional offer for suppliers. How important is this business in your overall strategy, and why should pharmaceutical companies entrust product marketing to an organization

whose core competency is in distribution?

As I mentioned, the companies in question do not have their own sales and marketing resources in Russia. They are mostly small or medium size businesses, and our job is to convince them to work with us. We offer a full cycle of services: from registration, to distribution, to promotion. This is an attractive offer.

Our other advantage is again in our specialization. As we work very particularly in the hospital segment, we know the institutional administrators, and the key specialists. Therefore, we can bring third party products to market very rapidly and quite successfully.

We are also quite flexible. If a company has any corporate requests about specific marketing emphases, we are happy to oblige them. This is a matter of our size and corporate philosophy.

Overall, this aspect of our business is quite important for us, and we really give it a lot of attention. The margins are definitely larger than in the distributing business!

Your focus is on the hospital segment. What do you feel are the particular challenges, and advantages, of working in a segment that is based on government purchases?

One advantage is that you have a certain sense of security. Government business comes with a guarantee—you can be quite sure that the contractual obligations will be fulfilled. Moreover, the volumes involved in the tenders are usually very large, and when you win the tender, you know that your business is well financed for a certain period.

The challenges, on the other hand, include the latest limitations on markups introduced by recent legislation. Due to the fact that 75% of our medicines are featured on the VED list—where prices are controlled—last year our business only grew by 3%. This happened for the first time in 15 years: prior to this period, we had been growing by 15-25% year over year. As wholesalers in the hospital segment, we currently find ourselves in a particularly low-margin business.

How will you ensure that you return to double-digit growth?

We are strengthening our regional positions in localities where we are currently underrepresented, and we are also adding new products to our offering. For example, we are focusing on developing the business in the Siberian region. We added further manpower to our representative office there, and are taking advantage of a number of enlarged agreements that we have with Siberian hospitals and Health Authorities.

In our interview with Protek, Mr. Muzayev said that his goal was not to be the leading distributor, but rather to be the most cost-efficient distributor. He too spoke quite a bit about profit margins. What do you think it takes to be profitable as price wars between distributors, and laws limiting markups, continue to drive down margins in this market?

Within our company, we have an internal system for resource economization, and we try to keep costs down.

Of course, specialization again helps. We could always sign an agreement for distribution in the retail sector, but we know that we would lose money if we do. It is a matter of volume—if we diversified and sold some number of retail products, we would not benefit from the efficiencies, or supplier discounts, that specialization brings. Our assortment features approximately 2500 products, and we establish volume agreements with our suppliers. Cost-wise, our business model is likely even better than that of certain nationalized distributors, because it facilitates an economy of scale.

Is there much room to grow if you continue to focus on what is currently the country's smallest market, in relation to giant markets like the out-of-pocket segment?

By our calculations, we own between 15-20% of the market in hospital wholesale—certainly in Moscow, and perhaps a bit less in the regions. With this kind of market share, our turnover is approximately 10Bn RUB. If you look at the hospital market, there is still room to capture further share and build upon this turnover.

Besides, when we look at the conditions on the overall Russian market, we see that many retail-focused distributors—Protek, for example—are having some difficulties in the hospital sector. We do not see the threat of additional competition.

Finally, the focus of the government on broader patient access to medicine, and greater financing of the health system, is naturally a great advantage for us. While cities like Moscow are relatively strong in patient access, many outlying cities are not. As the government endeavors to reach those citizens, so will we.

So, yes—we believe that we can continue to develop by focusing only on the hospital segment. Both the entire segment, and our share within the segment, will grow.

Multinational companies are committing more and more to this market as it becomes clear that Russia is a lucrative environment. What is your strategy to attract the leading pharmaceutical companies, when they can take their choice of any distributor in Russia?

Firstly, we have spoken a bit about the fact that we are broadening and strengthening our distribution grid, ensuring that we can circulate products throughout the entire country. We are building our competencies not only as distributors but as a marketing company as well. We are concentrated, and adding additional services like warehousing. Our cost proposition is quite attractive.

Finally, we are trustworthy. We make sure that we have no disagreements in payments, nor delays in service.

Indeed, in your company mission statement, you quote Robert Bosch in saying that it is better to lose money than trust. How do you incorporate this philosophy in your day-to-day activities?

We definitely adhere to this philosophy—these are not empty words. They are true for myself and for our staff, and both our suppliers and our clients are aware of our standpoint. Perhaps that means that we will not evolve as quickly as some of our competitors. Nonetheless, we find value in this way of operation.

A Russian distributor's operation is huge, so we must be very active in upholding our principles across the enterprise. When we see that some mistake has been committed in the course of business, we try to immediately fix the situation; better, we try to put mechanisms in place to prevent it from happening in the first place.

And you don't believe this to be a dangerous philosophy?

It is not dangerous, no. It is the correct philosophy. It is perhaps dangerous in the short-term; in the long-term, it pays off. There have been many examples when we did business with a certain organization or with certain individuals, dissolved ties for one reason or another, and they returned to work with us again four or five years down the line—they remembered that we were dependable partners.

This year Euroservice celebrates its 15th anniversary. What would you say is your proudest accomplishment as the manager of this company?

I am proud of the fact that, first of all, we have grown into a quite large, serious organization, with whom very many pharmaceutical producers are happy to work. I am pleased that we have a team that is capable of achieving our targets, whether they are to capture new market share, to broaden our territorial presence, etc.

I believe that it is an achievement that we have secured a portfolio of third-party products that we develop and market ourselves, and that these products have strong success in their therapeutic classes.

Another achievement will come when we complete the construction of our modern warehouse-office complex, which will give us a greater measure of control over our operations.

I would mention, finally, that practically once a month, our warehouse facilities are audited by Western companies, and we are proud that they are usually satisfied. And if they have any complaints, then we view the occasion as a learning opportunity.

What is your final message to the international readers of Pharmaceutical Executive?

We are open to collaboration. We are most interested in partnering with high-technology, small businesses. We are ourselves not a large company, and therefore we take decisions, and actions, very quickly. For like companies, we are strong partners both in marketing and distribution. We want to take products from the registration stage through the marketing stage, and see ourselves as a full-service enterprise.

Beyond this kind of full-cycle partnership, we are ready to provide distribution services throughout the entire Russian Federation for any size of company. We have a high quality of service in this respect.

Lastly, regarding Russia as a place to do business—bears do not walk the streets of Moscow anymore!

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