

# Interview with Stephen Roche, CEO & Managing Director, Australian Pharmaceutical Industries Australia

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**it some landmark changes under your leadership, changing the balance between different pillars of the business – retail, wholesale product delivery, marketing programs. Would you begin by outlining where the balance has shifted today and what you would describe as the core of the API business?**

API is now a 101-year old pharmaceutical wholesaler with its heritage in the pharmacy sector. We see API as a retail services provider to the pharmacy sector. We make sure that our distribution to pharmacy, whether they are independent or part of our retail brand network, is the best in the country.

It is a matter of ensuring that we provide our customers with what they expect and need in this ever-changing environment, whether it is price, service or product availability.

**How challenging is it to continue to provide them with what they need in an environment that is changing and challenging? Last April we saw the biggest round of price cuts, how has this impacted on the API business?**

The word change is appropriate; there is no doubt that pharmacies in this country have undergone more change in the last 2.5 years than it has probably in its recorded history. With the current reform process this is likely to continue for the foreseeable future, so there is a continuity of change here also. We, along with the rest of the constituents in supply chain, are working to maintain both our presence and our profitability for our shareholders, as well as providing the best in market service & experience for our customers.

**At the helm for over five years, you have succeeded in keeping sales churning at Priceline stores despite some of the harshest and toughest trading conditions for retail in decades. What has been the key success formula?**

There is no doubt that Priceline has the ability to be a sustainable brand moving forward. Priceline now has 3.9 million loyalty club members – the foundation to the chain’s success. Priceline Pharmacy is well placed to serve pharmacists and consumers as they are looking for a blend between dispensing and other value items within the store. Priceline meets the nation’s needs both in health and beauty and in price and service.

**To which extent is the Priceline model reshaping the community pharmacy landscape in Australia?**

It promotes the community pharmacy model. It is about choice. Given that social policy determines equity of access for medicine across the country and it is absolutely crucial for the pharmacist as the

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owner to operate a store that they feel comfortable with and that the patient actually wants to visit.

Priceline offers something quite unique and sustainable for pharmacists that want to operate in a larger footprint that is still a community model. This is not a one-size fits all approach, but a matter of API's belief that this is a viable and sustainable model under the economic pressures that we are all facing.

### **How have you seen cooperation between big pharma and pharmacies change over the last years?**

Pfizer's decision to engage in a closer integrative relationship with pharmacists was the signal that everyone needed to re-evaluate their model. The scenario for API is to continue to adapt and change over the next three to five years as big pharma's depending on their own molecular portfolio and their generic relationship will change and adapt to whatever their new markets are. There is no doubt that, once the key molecules go post patent, branded pharma companies face a very different go-to market strategy.

API believes that it offers a very economic & viable service to pharmacy. Our view is that pharmacies actually want a single source of supply for their product, which provides real efficiencies to them which they need in this economic environment. API will continue to add value and the go-to-market strategy for brand pharma or generic suppliers as required.

### **Looking at the distribution sector in the region, we see a very competitive situation, with a balancing act between a big three (API, Sigma, Symbion) aggressively targeting each other's clients. How do you position API in the competitive landscape in the region to be the partner of choice for the world's leading pharma companies in Australia?**

That is a pertinent question. Margins are so thin that everyone has effectively the same product and the same pricing. The Community Service Obligation (CSO) demands a level of efficiency and fundamental investment. I am of the view that there is absolutely no point of differentiation in the supply chain. The CSO prescribes maximum price, minimum delivery, so in essence you are actually providing a similar service that cannot be differentiated. This makes it fundamentally a relationship business, both with our customers and the leading pharma companies

Moving forward, the clear point of differentiation will be offering retail services, whether it is Priceline, Soul Pattinson, Pharmacist Advice or our independent premium program.

### **What is needed post-2015 in your view?**

The three large providers need to look at a point of consolidation at some point in time. When we compare the levels of facilities and the level of infrastructure of European and American models with that in Australia we have to probably conclude that the Australian model is overweight and less efficient. We may need to look at what is economically & strategically sensible.

We have been a strong advocate of consolidation for about six years. As government continues to seek savings and pharmacies continue to need to be financially viable this discussion becomes more urgent. The government could also opt to fund the CSO at a higher level given the expected investment in infrastructure. We are now into an argument about whether we want a free market or a regulated market.

Unfortunately, there is no discussion on the table at the moment.

We are focusing on the new Community Pharmacy Agreement from 2015 now.

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The pharmacy sector in Australia is still making a crucial contribution in providing a top health care system, and it is incumbent on every constituent, every stakeholder to be a bit more collaborative on how they see that they need to adapt moving forward. Going back to the next agreement, with reforms in place this is a measure that everyone will need to take some degree of sacrifice; this should not be about winners or losers but about the sustainability of every stakeholder moving forward.

**We see players like Zuellig & Invida have moved from APAC into Australia – with Australian economy thriving on its position fuelling APAC growth & increasingly investing in cooperation with APAC, do you see opportunities to expand the business into APAC?**

It is a matter of capital and resource frankly. In the Zuellig circumstances particularly their operating model is very different as a family-owned enterprise. The Australian distribution process and pharmacy supply chain is very different from the Asian model.

**API business now consists of 70 percent wholesale, 30 percent retail – you want to move this to 50-50, how do you plan to make sure that API will retain its position as the country’s number one partner to the pharma industry?**

We have actually invested in our retail operations, so the more stores we add the greater the J-curve it represents for us. We have outlined what the impact to us as an enterprise would be if we would grow to 500 or 600 stores.

With that growth in mind, we see a strong and profitable partnership with our key partners in the industry. This is important because in my mind, the combined intellect is incrementally more powerful.

To achieve and maintain leadership, those key partners are crucial.

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