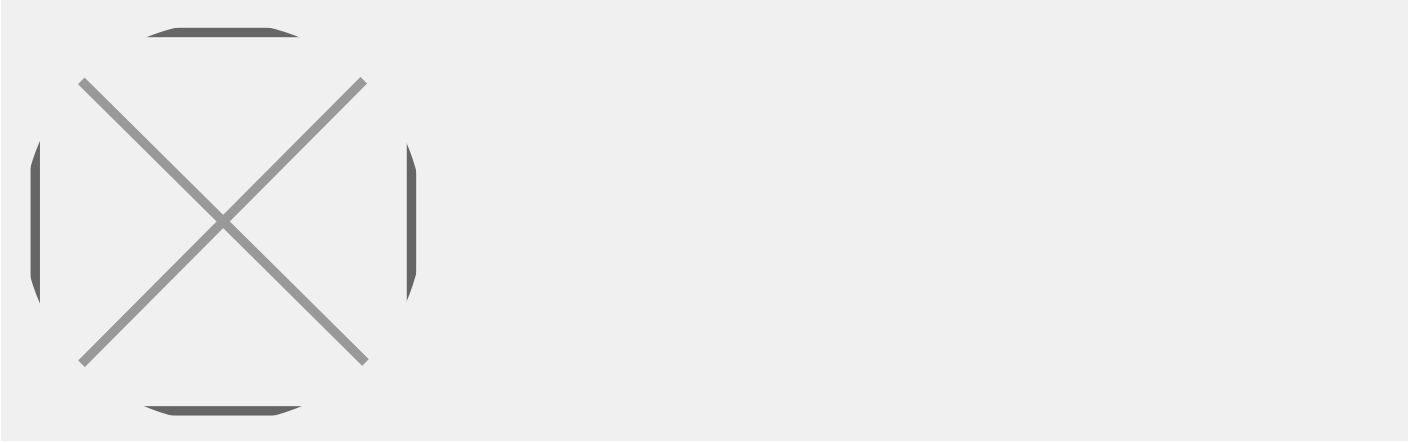
Interview with Andreas Windischbauer, CEO, Herba Chemosan



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You have been the CEO of Herba Chemosan since 2002. What were the initial goals you set for yourself when you took up this position, and where do we find Herba Chemosan today?

Herba Chemosan was founded in 1916 as a cooperative for pharmacists and has undergone many transformations over the years. In 2000 we acquired new owners when the company's German shareholders took over Herba Chemosan. This integration into an international group created some fundamental changes in the company. One of my primary goals is to maintain the cooperative feeling in Herba Chemosan that your customers are your owners and your friends as well. It was very important for Herba Chemosan to maintain good relations with customers as a result of our acquisition. It was crucial that during the transformation Herba Chemosan did not lose market share, that people are still confident in our company and that the culture stays the same, although being part of a publicly listed company. The difference in communication, particularly in regard to the press, created some tension among Herba employees. Additionally, the pressure to be profitable was not on the same level as it is now, being part of an international group. If you are independent, particularly when owned by pharmacists or thousands of shareholders, the pressure to increase results every year is different when you are part of an international publicly listed company. This has been difficult for Herba Chemosan. Employees in Herba work on average seventeen years for us and have an average age of 42. This is one of the strengths of the company: an unusually good mix of very experienced people and new people to drive business forward because the pharmaceutical market is constantly changing. As the pharmacy market is quite regulated in Austria, there are only 1,300 pharmacies in the entire country. Consequently,

there are long-lasting relations with the pharmacies and it is important to have people working for us for a long time. To make a comparison, the average turnover of a German pharmacy is €1.3 million whereas the turnover of an Austrian pharmacy is €2.6 million; the importance of each individual pharmacy here is huge.

Herba Chemosan controls 45 percent of the market share for public pharmacy, which equates to roughly 1,000 customers. How do you maintain such high quality service levels with such an extensive and varied client base?

Firstly, Herba Chemosan is the only company in the pharmaceutical wholesale sector covering whole Austria. That being said, Herba is more than a wholesaling company, which is one of the keystones of its success. The company has seven branches across Austria and therefore it is able to service every dispensing point, be it a pharmacy or hospital, within 90 minutes in the entire country. Secondly, Herba Chemosan does everything. We are full service providers; thus, wholesaling is really just a slice of the cake. The company offers everything to the pharmaceutical industry, from storing products to complete outsourced logistics, and if the Austrian market is too small to have an office here, Herba Chemosan is licensing and marketing products from foreign companies. Looking at pharmacists in Austria, Herba Chemosan is the number one business in wholesaling and number two for IT for pharmacies. More than 360 pharmacists are using Herba Chemosan's IT system. Herba is producing the biggest pharmacy catalogue for customers, which every pharmacy can customize. With over 250,000 items, it is the biggest pharmacy catalogue in Austria. Whatever a pharmacy needs, Herba will have an offer for them.

Can you tell us about some of the most exciting products we can look forward to in 2013 as well as the primary growth drivers that will continue the company's future success?

For us it is very important the company is "pain-spotting" when looking at customers. What you are selling will be bought by wholesalers. Two to four times a day, a pharmacy will receive deliveries from wholesalers. Herba Chemosan has introduced and tested a new program with eight pharmacies in 2012, that monitors what is being sold and calculates the price of products and the service level you want to reach. There is a fundamental change in what pharmacies are storing, the number of articles is changing, the stock level will decrease and the service level will increase. This sounds strange, but this is what is happening based on the data I have received. Secondly, pharmacies are very engaged in narcotic substitution. This is increasing and I think this is one of the most important services that pharmacies can do for public health. Additionally, the whole process of administration is incredible. Herba Chemosan has built a new program that will reduce 50-60 percent of the workload for pharmacies to handle. The company has changed its strategy in the past couple of years; it used to really focus on marketing services, which pharmacists are not so interested in anymore. The focus for 2013 is streamlining the back office processes of the pharmacy; a pharmacy is ultimately successful if its employees are always available with reliable

information, instead of wasting time in the back office ordering products for wholesaling, or spending time with documentation of substitution therapy.

Dr. Kwizda mentioned that the quality of products is so high due to extremely stringent regulations in the country. How can Herba Chemosan serve as a role model for other countries in the region? In what ways can the company serve as a beacon? You manage E. Europe.

It is very important to have a safe and reliable supply chain. The European community will implement a directive of falsified medicine in two years, in which every product can be identified. While this will be costly, it is critical that companies have no counterfeit products. Thankfully, this is not an issue in Austria. Secondly I think that supply chain partners are really working well. Herba Chemosan has great relations with the pharmaceutical industry, so the company is not looking around for cheap products on the so called ‘grey market’. Purchasing products from other countries can cause problems with quality checks, particularly as it takes a long time to determine foreign products’ acceptability.

The Austrian pharma industry generates a trade surplus of €700 million per year. In your experience, how do you see the Austrian production capacity and potential and how should Austria position itself in relation to these other emerging manufacturing hubs around the globe?

This is a political question, as it is becoming more and more difficult for Central European countries to maintain production facilities. This is due to the incredibly high level of regulation. Compared to other countries, the qualification of people is very high and this is paramount to keeping these companies in Austria. The current mindset is, that it must be convenient for people to come to and work in Austria. Neighboring Slovakia has a flat tax of 19 percent and the labor is much cheaper. The previous Austrian government ruled that if a company with headquarters in Austria has losses in other countries, these losses can be deducted from Austrian taxes. This was an excellent idea, and many companies with headquarters in Eastern Europe moved to Austria. While relations between Austria and Eastern Europe are solid, in general it is better for companies to be based here rather than there.

The health system in many European countries is of very high standard compared to the rest of the world. In recent years there has been pressure for governments to cut back on healthcare spending as people get older, and it forces them to find meaningful savings in healthcare. Austria is no exception. Have you adapted your commercial strategy over the past couple of years to adapt to this change?

Herba Chemosan has invested a lot in IT systems and is able to react to changes in the market. From an economic perspective, Austria is currently in a comfortable position. Our strategy is to be

prepared for every change. We are also training the management of Herba Chemosan every year rather than focusing on creating hundreds of strategy meetings. What will happen in the market is often different from what you plan. Herba Chemosan is investing a lot in its people, ensuring that they are properly trained for adaptability and flexibility. Investing in IT and people is the foundation of Herba Chemosan's strategy for the future.

Many people that we have spoken to cite the difficulty of retaining the best possible human resources as talent becomes more difficult to find particularly in niche markets in the healthcare industry. What do you do to ensure that you retain the very best talent for Herba Chemosan?

Herba Chemosan is not focused on paper but rather the employees. As I mentioned, a 17-year average career is very impressive and those at the very top have to act as a role model for the management board. It is very important to have the right people across the entire company. Compared to our competitors, Herba Chemosan is relatively big in a small market.

In terms of partnerships, can you elaborate on what developments are active with local companies and in the region?

The pharmaceutical wholesale business is a very national one. Mail order will be legally allowed next year in Austria. This will impact the market and therefore it is very important to look at the activities of other markets, to learn and transfer this knowledge. For example, the generic business in France is going mainly directly to the pharmacy. This is the fastest growing part of the pharmaceutical market in terms of volume. This means that a growing part of wholesale is disappearing at an alarming rate. It is important for Herba Chemosan's core business to have volume. Without volume, a company cannot function. The demands of the industry and the customers are changing. We have developed many tools to ensure that the generic industry stays with us and our competitors. I believe that the market can evolve over time, particularly in Austria.

Are there any new areas that Herba Chemosan is looking at going into, or do you see the market moving in a certain way to enter new areas of business?

Forward integration is very important for Herba Chemosan. For example, the company has roughly fifty pharmacy participations and has a lot of very close relations with pharmacies. I would also comment that the customer will become even more important in the next ten years. Furthermore, hospitals are really serviced by the industry with logistic providers, but I think it would make more sense for the hospital to use someone between the industry and the hospital. There are a lot of ideas that Herba Chemosan is creating that revolve around this concept, but it is really a political issue concerning hospitals desire to stay with their own business and not use better services.

You have a background heavily focused on science. What opportunities did you see in the distribution business?

I studied pharmacy because my family has two pharmacies. I realized during my studies that pharmacy is not 100 % for me. I tried science next and this was also not helpful. I was asked at one point early on in my career if I wanted to be the assistant of the branch director of a wholesaling company, so I thought I should try it. After two months I took over the director's position, managing 300 people. It was definitely a matter of being in the right place at the right time.

You seem very relaxed. What keeps you up at night or check your I-phone on the weekends?

As a CEO, I think the most important thing is to have the right people in the right position. If I feel that I can trust someone, this creates the best working environment possible. Trying to cultivate people's trust as well is important. If you have to question people's judgment or authenticity, this can be serious setback. You have to trust in people. One of my most important tasks is to talk to people inside the company and keep them constantly motivated.

If we were to return to Austria in 3-4 years, where will you have taken the company by that point, and where can we find you?

I have been CEO for ten years. I like to work here but I doubt that I will be here in another ten years. In three or four years, Herba Chemosan will still be the leading company in the pharmaceutical supply chain. We will have a strong forward integration with pharmacies. I think we will have fewer, but more skilled people compared to today. Additionally, Herba Chemosan will be modernized greatly in the coming years.

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