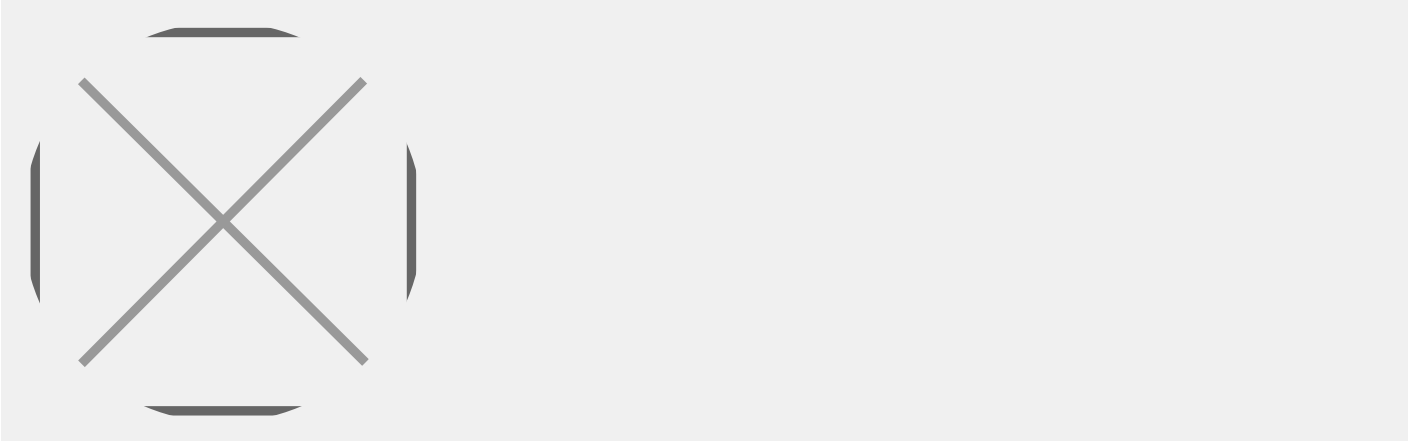
Interview with Yves Hermes, Chief Executive, Zuellig Pharma Thailand



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‘In markets are more efficient, relationships are important. When markets are more efficient, relationships become less important because the markets become more systematic, professional, and objective in the way they operate,’ said Mr. Zwisler, former CEO of Zuellig Pharma Asia Pacific when we interviewed him in China. At which development stage would we put Thailand in this regard?

Thailand is not the most sophisticated pharmaceutical market you would find in Asia. Referring to the comment of Mr. Zwisler, I would say that relationships are still very important in Thailand.

The challenge is not too big for Zuellig Pharma because we have been established here for more 60 years, and during these years we have established very solid relationships with the different stakeholders of the Thai healthcare market. We have been present in good times and in bad; among others during crucial situations such as the red-shirt revolution or the recent flooding, times when it is of vital importance to have a solid distributor that continues to provide the Thai patients in need. The fact that we have always stood up over the years helped us get recognition from the different stakeholders in the market and build the needed relationships.

Of course, one could say that relationship could also mean non-compliant practices, which is clearly not the case with Zuellig Pharma. We have very clear limitations, and within that framework we are perfectly able to establish and maintain the necessary relationships.

Three years back, you went from leading 400 employees in Taiwan to leading 800 employees in Thailand… It might be a bit straightforward to assume that the Thai operations are twice the size of the Taiwanese in revenue as well; would you therefore outline the role of Thailand within the operations of the Zuellig Pharma operations in SE Asia?

Thailand is clearly a very important market for Zuellig Pharma in Asia, although not necessarily because of its size as a whole, but more because of our market share. Over the years we have developed a dominating market share of above 55 percent looking at MNCs. We have invested a lot in our infrastructure network and technology over our more than six decades in the country, and given the importance of Thailand to us today, we clearly continue to invest.

We believe in the country and its future growth, and we see opportunities to grow with the country and to even help it.

With the government's cost-containment policies, the pharmaceutical environment is quickly evolving, with soaring shares of generics in a government hospital dominated market and increasing inroads of branded generics in the market. Given your focus on MNCs and innovative medicine, how do you diversify the Zuellig Pharma portfolio to optimize opportunity and minimize risk in an environment increasingly focused on cost containment?

It is correct that it is a major challenge for the industry to counter the cost-containment policies implemented by the government since 2009. The growth of the pharmaceutical market today is lower than GDP growth, which creates challenges in its own in terms of the attractiveness of the market. Furthermore, another challenge for us as well as for our principals is the presence of overall price erosion related to cost-containment measures.

On the other hand, costs are increasing in Thailand; the minimum wage has been upped to 300 Baht per day, which represents a raise close to 40 percent in many cases. However positive this may be for the employees, it provides a major challenge for a company such as Zuellig Pharma, as the wage of over half our people is influenced by this.

Otherwise this is a quite high inflation country, leading to significant cost-increases. We have had to develop strategies to maximize opportunities and minimize risk, trying to find ways to grow faster in order to absorb the cost-increases and develop our business. Zuellig Pharma has chosen to balance growth and create opportunities for growth that the traditional distribution services in the pharmaceutical industry were no longer able to offer through diversifying our product and principle portfolio.

We furthermore chose to develop innovative services in the drugstore channel. Zuellig Pharma has developed a program for drugstore channels and independent pharmacies to improve commercial

capabilities by supporting category management, developing planograms, training drugstore employees, and helping to develop marketing programs to attract more customers and maximize sales opportunities. That is an example of how we diversify our services.

We also see in the drugstore channel a bigger growth opportunity, mainly because this channel is basically self-pay. And because there is no reimbursement, there are also bigger growth opportunities, and our strategy is to increase our professionalism in that segment in order to maximize growth opportunities for us and for our principals.

In addition to that, we are diversifying into medical devices and animal health, two segments which are growing much faster than the pharmaceutical segment.

Still, we hear from other distributors that they apply similar strategies in order to meet the challenging market conditions. The distributor sector in Thailand is known to be highly competitive; when we met Mr. Brown of Invida even said that 'It's a war out there!' How do you stay number one?

We believe that we have the right approach and the right strategy. We are number one in the healthcare and pharmaceutical segment, and we believe that to further improve our position as the market leader, we also need to invest heavily in technology. An example of that would be cold chain management, an area of strength for Zuellig Pharma. We have invested massively in this, and in Thailand we have the largest cold-chain facility; we transport more than 80 percent of the vaccines in the country.

We also invest in IT solutions; we offer track & trace to our principals, while we have also developed sophisticated benchmarking, sales-analysis tools, and, on the medical device side, we have developed solutions to help monitor and control all the medical devices which are put on consignment at hospitals; which is a very important part of the business model when it comes to medical devices.
All these solutions are extremely important to give us a competitive edge and to continue to grow faster than our competitors and to be the preferred service provider to the healthcare industry.

You mentioned track & trace; also taking into account your function as a PReMA board member, could you tell us how Thailand's IP and counterfeit challenge has developed since we were last here and how Zuellig Pharma as the country's leading distributor can help overcome the challenge?

The problem still exists, although I do not think the problem has worsened, but it is very difficult to make real progress in reducing counterfeit. A lot of surrounding countries also have poor track records when it comes to counterfeit and Thailand suffers from that to a large extent. It will be difficult to have improvements here without improvements in other countries.

Distributors can help to identify and track and trace the source of counterfeit drugs through technical IT solutions. Those solutions are not very cheap, because they are heavily reliant on expensive technology. Critical mass is a must to keep prices attractive. We are now at the stage that pharmaceutical companies have to decide how to invest to fight counterfeit and to manage the different projects and investments to develop their sales, so there is a competing element as such.

Although it might be hard to predict what is coming next in Thailand's business environment, Zuellig Pharma's leading position shows nonetheless that the company has developed a good strategy to respond to upcoming challenges! Where will you take the operations of Zuellig Pharma in Thailand in the coming five years?

The key objective for Zuellig Pharma in Thailand is to strengthen our number one position and to provide even more support to the pharmaceutical industry to develop sales and develop market penetration. That is a key element that will drive the success of Zuellig Pharma. As a service provider we want to be very present and supportive in providing solutions and services that will help better access and penetration for our principals. All the solutions that we have discussed before, IT solutions but also commercial solutions, are absolutely critical in that strategy. We have clearly outlined the areas in which we want to further develop and diversify our services, and it is a question of walking the talk by investing and supporting those initiatives and services. Because we are a service company and rely on people, the key is to get the best possible talents to provide the best possible services. People are the key for our investment in Thailand, and we are eager to spend our resources in Thailand.

What is your Final Message to the readers of Pharmaceutical Executive about the commitment of Zuellig Pharma to continue to bring top quality medicine to the Thai population?

Our people make Zuellig Pharma. Coming back to the flood, the commitment of our people to ensure that Thai patients would get the medicine throughout this dramatic situation was unbelievable. It was about walking the extra mile, working 24-hour days to protect the products in our warehouse and to find boats to reach pharmacies and non-accessible hospitals to make sure that products reached the patients in need at the end of the day. Our people were driven by the Zuellig Pharma mission to bring wellbeing and health to the Thai community. That is the way we want to do our job.

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