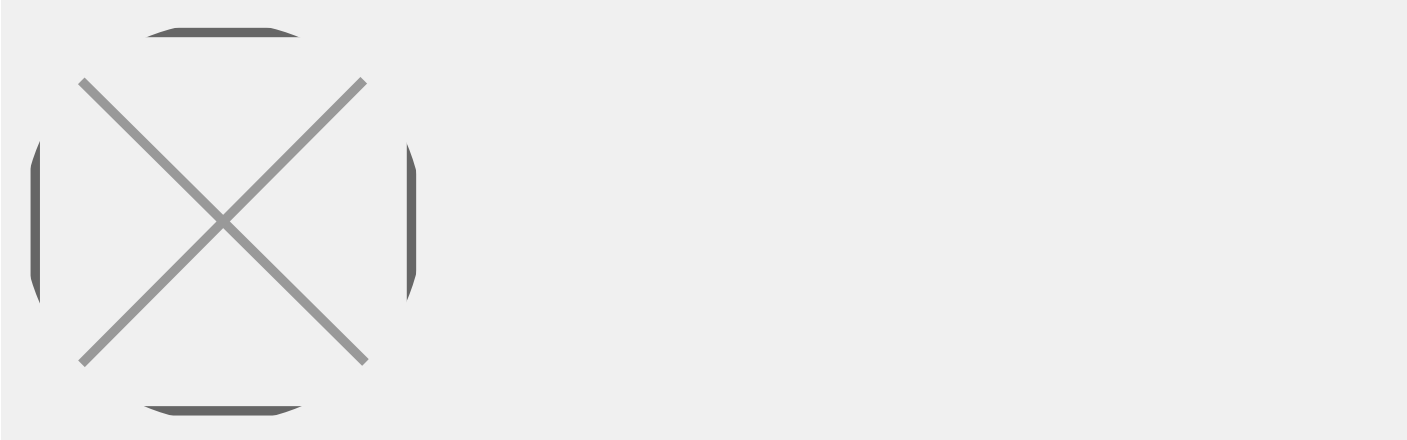
Interview with Eric Blondeau, Managing Director, Alliance Healthcare Russia



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Ist three months ago, having previously headed businesses in industries as diverse as retail, food, and automobiles. What drew you to Alliance Healthcare Russia? Do you find similarities between this job and your previous positions?

When I decided to leave my former position, I decided that I would not join a competing organization. Therefore, I went looking for something different.

I did not join the pharma industry; I joined Alliance Boots, which is a fantastic business case. It offered me a unique opportunity to work for a company that, 6 years ago, had gone through one of the biggest mergers in Europe.

But for me, the decision truly came when I had the opportunity to meet my colleagues and understand how the company itself worked. Alliance Boots has 5 core values: Partnership, Trust, Service, Entrepreneurship, and Simplicity. When I was introduced to the group, I learned of these 5 values. Then I met with the management team in the UK, and it became clear that the principles are not just on paper.

I have seen big groups and I have worked for big groups. But at Alliance, I really see a harmony between what we say and how we behave. From my point of view, it is these 5 core values, that the management team truly embodies, that set the company apart. The corporate culture that they have created here is a major strength of the company and a key factor in my joining.

What I can bring to the business is my knowledge of warehousing, and what we can call ‘Western best practice.’ We can bring these practices to Russia, which is quite a challenge. As we know, Russia is very specific. What we need to do is work in a hybrid way: bring the standards we know in a Western environment, into a Russian context.

How difficult has it been to learn and understand the complex landscape of the Russian pharmaceutical industry? What new challenges does this industry present for you as a manager?

Alliance Boots is a leading international group that focuses globally on two core business activities: pharmacy-led health and beauty retailing, and pharmaceutical wholesaling. While at Alliance Healthcare Russia, we currently focus on the distribution business, we nevertheless understand that the links between distribution, service, and retail are becoming closer every day.

The pharma industry in Russia today is very unique and the last 2 years have seen many changes—for instance, last year’s announcement of the vital and essential drug list has had a huge impact on distributors and wholesalers.

In a country as large as Russia, high-quality logistics are paramount in delivering drugs to retailers and pharmacies in the most efficient timeframe possible, and it is clear that an effective distribution system is pivotal in supporting the work of this industry. Taking this into account, entering as a new manager in the pharma industry is rather challenging.

But Alliance Healthcare has the advantage of offering a central structure and support team. Alliance has a lean management framework, which means that each top manager is also an entrepreneur: within corporate guidelines, each manager is expected to behave as though the business is their own. People feel empowered in this company, and this has helped us to achieve success both globally, and in Russia.

Even after leaving Alliance Healthcare, Igor Varlamov was voted as one of the most influential businessmen in the industry by a Pharmexpert panel, specifically for the work that he has done with retailers while head of Alliance. This leaves some big shoes to fill. What were the objectives passed down to you and what are the personal objectives you are designing as a new manager?

The focal point of my agenda is very clear: to implement best practices. The Russian pharmaceutical industry might be a bit behind, but it is moving in the right direction. Actually, this is true not only in the pharma industry, but across the Russian market. Look at retail for instance: Auchan! When it entered, everyone said the hypermarket concept would never work in Russia. But the point is that Auchan Russia is not the same as Auchan France.

The trend is clear. I think in Russia you need to ‘develop & adapt’ your global strategy. You need to develop the company’s expertise by making the right adaptations to match with Russian realities.

So my agenda is to take existing group business models which are not yet present here in Russia, and make them work here—for instance, services.

We understand that there is a lot of room in the country for the development of various services. There are 60,000 pharmacies in Russia! Manufacturers in Russia are only able to address—perhaps—a maximum 6000-8000. Therefore, there is much potential for us to help them. We already have Alphega Pharmacy to support pharmacy retailers, but also if we consider moving into retail here, we will wait until the time is right—then we will decide how to go about it. We are not in hurry, and will wait until the market is mature enough.

As you look towards this full integration, you probably note that “services” and “human resources” are not two particularly strong points for Russia. How will you address these dynamics and develop the company? What other obstacles do you believe you will face?

It is true that Russia appears to lack human resources and has not developed a strong service culture. This is a dominant trend on the market.When I look at our company, almost 50% of my top management and middle management have 10 or more years experience in Russia. This is a key asset for the company that we will be able to leverage when implementing a full service model, or discussing what should be done in terms of developing customer service culture. Having a strong management team with experience in a country is vital in corporate development.

We work in a client-oriented industry, so we need to develop a stronger customer service culture. This is something that Alliance is already well known for here in Russia, thanks to Sergey Perminov, founder of Apteka Holding and nowadays Non Executive Chairman of The Board. We were one of the first companies to introduce innovative marketing action at the point of sale. This was really a big victory—to bring to Russia a sense of how to treat the client at the point of sale, to make the sale pleasant, and to address the retail side with a customer interface at the level of the pharmacy.

But this is clearly this is not enough. There is room to improve, to develop more skills, and to understand what should be done in Russia. It’s not easy, but we have support from our headquarters and the skills of our management team.

In Russia, the gaps are filling quickly and service quality expectations will grow very fast. We cannot say that average is good enough. We have to try to be at our best—which will harmonize us with Europe.

On the supplier side, they need us to manage the front line—meaning retail. As I mentioned we already have Alphega Pharmacy as a platform to support this and we want to work with suppliers to

discuss, train, and develop skills at the pharmacy, so that the pharmacy could be of great use to the end customer.

We need to understand the trends at the pharmacies. Here generics offer an important opportunity for us, as substitution, something not common in Russia, will begin at the pharmacy level.

Furthermore, at the end of the day, we will focus on what we call strategic partners. Not all suppliers can be strategic partners. Alliance Healthcare and our suppliers will really develop more of a preferred relationship. We have to focus and develop our partnerships.

Last point: today, when I look at the industry, I don't see enough attention to assortment management. At the end of the day, we have to understand that the market will change. We have to pay more attention to having the right assortment policy in order to match the real demand.

What is Alliance Healthcare's competitive advantage? What kind of integrational synergies do you achieve with your parent company?

If we look at the pharma side and supplier side, we see that there are more and more pan-European partnerships. So when I talk about strategic partners, we understand that some of these partnerships will come from pan-European partnerships. Alliance Boots worldwide also acts like a reference partner for us. Moving forward, the industry will become increasingly competitive and one thing that will set Alliance Healthcare apart is this global network of know-how. We will focus on strategic partnerships with suppliers both at the global and local level.

Of course we will also look for local suppliers who share the same objectives—companies with whom we can develop truly strategic alliances. In the coming years, we will have an incentive driven focus in managing pharmacy sales. In Russia, manufactures have tried over the last 2 years to focus on putting incentives on the volume purchased, but most of them understood that the market could not grow in this case—the main focus should be pharmacy sales.

Margins in Russia are also very tight and we need to find ways to leverage our assets and make a profit. Companies are looking for a new business model to be successful here. We need to find the right balance and make strategic partnerships.

We recently opened our largest most modern warehouse in Russia. This is how we want to differentiate ourselves. This is how we hope to develop—not necessarily to keep opening new warehouses, but to modernize step by step.

We were one of the fastest growing companies in 2010, and of course there is some pressure to perform similarly in 2011. We need to refine our business model in order to maintain this and achieve the right balance. The industry is under pressure. To grow, size is not enough. The business model and business practices mater. End users become increasingly important.

Do you feel that, by growing the pharmacy chain, there is a risk of causing a conflict of interest with your pharmacy clients, especially those that are part of the alliance of independent shops you support, Alphega Pharmacy?

Does Protek have a retail network? Yes. Does Katren have a retail network? Yes. Does Alliance Boots in the UK have a retail network? Yes! This market is very big. If you separate properly then there is no conflict of interest.

And what about the size of the country? Is it appealing? Or a headache for distribution?

There is an issue with infrastructure in Russia, so really the size of the country is a challenge. There is no other country in the world with this size and specificity. So, yes, Russia is an opportunity, but at the same time it is a huge challenge to manage efficiently.

But it is also a matter of choice. We have ourselves chosen to take a nation-wide approach, rather than focus only on cities with 1 million-plus inhabitants. There are only 13 cities with this size in the territory, and we are already in 46 locations in Russia, with 23 warehouses. We are already in cities with 500K+ Inhabitants. We will go deeper where it makes sense.

We are in the top three, but not number one in terms of geographical presence, because the price is very high. We do still need to expand further to be the partner that every pharma company hopes to have.

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

With a very low per capita consumption, $90 out-of-pocket spending in 2010, we have to keep in mind the potential, despite the turbulence.

The government has sent clear signals, and set initiatives in place, to develop the pharmaceutical industry. There is room for improvement, but the potential for growth is unmistakable. We are in the right place, and soon it will be the right time. The industry is moving towards local production and now the next factor will be generics. We need to be patient and in a few years we will see a different picture.

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