Interview with Rob Botha, Vice President UTI Pharma Africa, UTI Pharma South Africa

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rob-botha-vice-president.jpg

merville in 2004, the year when IHD, formerly jointly owned by 11 major pharmaceutical companies, was acquired by UTi. We are interviewing you today at the head of a much bigger company. To what extent has the distributor now taken a new dimension in terms of financials, human and operational resources?

Our growth can be attributed to SEP increases, organic growth and development in other market segments and product portfolios.

We have seen significant growth in our diagnostics and the consumer healthcare areas. We started focusing on those two areas as many of our manufacturers prefer a single solution as opposed to multiple suppliers.

Graham Somerville said the secret of direct distribution is never taking ownership of the goods. According to Iain Barton of RTT, the Single Exit Price (SEP) killed direct distribution. How has your strategy and approach in the South African market evolved over time?

The manufacturers are coming under more pressure and therefore need to look at how to streamline costs and develop more cost effective supply chains. We carefully look at their requirements and at how we can best service them.

The UTi model has always aimed at supplying all healthcare market segments, and that is still our model, including direct distribution. We see a trend now for manufacturers to select specific services from our offering in an attempt to streamline their supply chain. This includes developing

new, innovative solutions.

Direct business was always the main focus of UTi as it is a way to reduce costs within the supply chain. We now see that manufacturers are opting for alternative offerings, be it pre-wholesale only with a few direct customers, or the full order to cash service over all market segments.

Previously, contracts were concluded between UTi Pharma and local offices whereas current tender award practices are largely being driven out of overseas Head Offices and adjudicated by global procurement and logistics departments. This provides us with a challenge as we are benchmarked against countries that are not faced with the cost drivers that we have in South Africa. For example, electricity costs escalating at 30% per annum, double digit wage increases for unionised labour, unstable fuel prices and facility costs significantly more expensive than the equivalent in developed countries. It is operating against this background that makes distribution in this country much more challenging and costly.

The current concern with SEP is how annual increases are calculated, using the exchange rate as one of the elements. Quite frankly, from our perspective, operating within the borders of South Africa, the exchange rate is irrelevant, although I do believe that the government will entertain alternative ways of calculating the logistics fee portion to satisfy our local cost drivers.

As we said previously, IHD was jointly owned by 11 major multi-national pharmaceutical manufacturers, Abbott Laboratories, Aventis Pharma, Bayer Healthcare, Boehringer Ingelheim Pharmaceuticals, Bristol-Myers Squibb, Eli Lilly, MSD, Novartis, Roche Products, Schering and Wyeth. To what extent has this helped you maintain and further build on an existing client portfolio and further strengthen commercial collaborations?

Whilst owned by the manufacturers, we were fortunate enough to develop a solid platform for our infrastructure and quality management systems. Subsequent to the sale we have been able to build and improve on this. Our manufacturers, through both local and global quality and compliance audits, have greatly assisted us in developing our current quality standards, which we believe to be an important differentiator.

Our traditional client base was always pharmaceuticals. However with the potential change in legislation to regulate any product that makes a medical claim, we have seen an increase in interest from non-traditional clients in the healthcare industry. This will mean that more and more products that are currently warehoused in standard warehouses will be required to be stored in pharmaceutical grade warehouses.

Outsourcing is becoming increasingly popular for healthcare products, and whereas in prior years pharmaceutical grade facilities were less of a requirement, they have become more of an issue when outsourcing decisions are taken.

Given the kind of performance you have enjoyed since the acquisition in 2004 and taking into account all the investments made since, what is the weight and strategic importance of the South African operations within the group's global footprint?

UTi is historically a freight forwarding organization. Over the last ten years, the organization has been making acquisitions within the contracts, logistics and distribution environment, which has led to two broad segments: freight forwarding on one side, and contracts, logistics and distribution on the other.

Although UTi has always had pharmaceutical freight forwarding business, we were the first contract logistics and distribution acquisition within the pharmaceutical environment. We were a strategic acquisition to grow the Pharma vertical by replicating the model and providing an integrated supply chain solution.

Our success in replicating the model has been modest, because a need has to exist in the country before it is possible to set up a direct distribution model or a model similar to the one we are operating in.

We have a UTi Pharma facility in Slovakia which we set up and which currently runs on our systems. We are also currently active in Canada, installing our systems and processes in existing UTi facilities for health and beauty clients, with the hope that it will grow into a replica of our South African operations.

Challenges in South Africa lie mainly in getting the products to remote, rural areas in the country. What is it that makes you the right distributor to face this challenge?

Our footprint, both through our own network and through the extended network of the broader UTi, is sufficient to make sure we can cover every location within the borders. We can service over 97% of our customers with a next day delivery, while the balance is serviced within 48 hours.

The R530m centre in Johannesburg is due to open this year and will triple the company's warehousing capacity in South Africa, helping it meet double digit growth in demand. Before the opening, to what percentage of your capacity are you operating and how do you plan on meeting the growing demand in South Africa?

Our current capacity is between 90 to 95% within some of our facilities. In South Africa as a whole we are working at about 83% capacity, because we have other facilities around the country which are smaller distribution hubs that have a reduced stock holding. But the latter have been designed to accommodate future growth and demands.

We keep product centrally to supply our exports and state customers out of the Johannesburg facilities. In 2006, we built the second bulk facility in Johannesburg in order to alleviate capacity

constraints. Moving to the new facility will bring us to 60% capacity; it is four times the size of our current facility, with the ability to expand to 5,5 times.

One of the reasons behind the new facility is that our business portfolio has grown substantially with the acquisition of Chronic Solutions Company (our direct to patient dispensary), and we are consolidating our operations into one facility. On top of that, the facility was designed with a 10-15 year vision in mind. Our second facility will be used as a specialist handling division for cold chain, diagnostics and other products that are not ideally suited for the new facility.

We believe that a successful National Health Insurance will require close partnership between private and public infrastructure, and this should be good for our new facility, although obviously there is still a bit of uncertainty as to what type of impact NHI will have on our business, and by when.

We see more and more public-private partnerships in the country; the Minister for instance announced investments together with a private partner in EPI manufacturing. Do you see this model happening in the distribution sector as well?

I believe that is the way to go. We have tried and tested supply chains, and we are probably one of the largest suppliers of pharmaceuticals direct to the government, so we understand how to operate with them and we understand the challenges they face. We have already entered into a partnership with the Western Cape government, whereby we are responsible for the direct supply of chronic medicines to hospitals and patients in that province.

The investment in the new facilities reflects the organic growth of the company. Considering it is a highly consolidated market, to what extent can the company grow inorganically?

Currently three players compete for the same pharmaceutical manufacturers, and we believe that other players may enter the pharmaceutical distribution market. With this in mind we started looking at alternative channels and market segments to supplement our existing business. We are currently growing market share and competence in diagnostics, consumer health, medical devices, and animal health.

What growth potential do you see for UTi in this market of the next three to five years?

Inorganically there is potential, although it is a highly consolidated market: particularly with the number of mergers or acquisitions that have taken place. There is potential for us to grow on the generics side of our business. We started off primarily with multinational R&D pharmaceutical organizations and have never had a particularly large generics portfolio, but that is about to change, as we have earmarked it as an important way for the business to go forward in South Africa.

We believe generics will play a significant role in healthcare in South Africa, together with the R&D organisations, some of which have their own generics divisions. The new UTi facility is designed for high volume products and is automated in such a way that a pallet, once it is put away, can actually be dispatched without human intervention. With the new facilities, we will be well positioned to service both low volume innovator products and high volume generics products.

Do you perhaps have a final message to the readers of Pharmaceutical Executive?

I would like to stress that the big suppliers in the private sector need to work together with the government to ensure that the vision of NHI can be achieved. It is going to be a long process, but we know that it will be unsuccessful without private intervention. The infrastructure is not where it should be yet, and without private support it is going to be a problem.

The UTi commitment to South Africa's health care is strong. It is our intention to supply our manufacturers, to the benefit of the consumer, with a more integrated and consolidated supply chain that is both cost effective and efficient. The industry as a whole is at a crossroads at this time, and our strategy will not only benefit our clients but South African health care as a whole.

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