Interview with Laurent Verney, President, Depolabo

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laurent-verney-president.jpg **French pre-wholesale market, Depolado had a quite impressive market share growth in the previous 3 years, now being responsible for a quarter of the French market. As the one responsible for these changes, what was your strategy to further consolidate Depolabo's leadership in France?**

Depolabo's participation on the French market has grown significantly in recent years thanks to our growing value-added. Since then our market share has increased from 17% to 25% of the French pre-wholesale market, thus making Depolabo the solid market leader in France. This share refers not only to city pharmacies market but also the hospital market, where Depolabo has a clear edge in drug distribution in France.

However, the pre-wholesale market is becoming increasingly competitive with other types of logistic companies targeting this niche. Thus, since I took over Depolabo in late 2006 I have followed the strategy of building up on top of Depolabo's existing logistic capabilities and market leadership and provided a wide range of additional value-added services, differentiating ourselves from all other logistic providers in the market.

For instance, before 2007 Depolabo was mostly active in the ethical market with a contract sales force (CSF) selling ethical products on behalf of the laboratories to pharmacies. Ever since the company created another CSF team dedicated to OTC products, increasing our market coverage and knowledge.

The difference between the sales of these two products is quite clear – when you sell ethical products on behalf of laboratories you try to sell them into the pharmacies with the strategy of 'the

more they buy the biggest margin they get'. On OTC products the strategy is to aide the pharmacy to sell out, helping them to make the products more attractive to the final clients; how they should display it physically so the customer buys it by impulse; how they should explain that a product is associated with the prescription of another ethical drug; and so on.

Depolabo deals directly with laboratories that address the French market with a wide variety of products. Our job is to create value-added services so our clients will find in Depolabo a more attractive option than selling their products themselves. For instance, with the same CSF laboratories launch, retire, reshape products and enter into new markets. If for each of these steps they need to create a team constantly hiring and firing people they will face a nightmare with the workers' social plan. Thus, they can count on us to do it more efficiently.

Depolabo's basic principle is to have a CSF team always ready to assist our customers at any time with any OTC or ethical product. We run campaigns by mutualizing the usage of those CSFs across laboratories and by doing so Depolabo makes the entire process much more cost-effective.

In such a developed and urbanized market, where rules are clear and centralized and the transport system is extremely efficient, many companies might feel they can do some of the services you provide in their own. How Depolabo manage to convince big and smaller international players to be their partner of choice in France?

There are several reasons why Depolabo is their partner of choice. Firstly, Depolabo is able to offer clients an end-to-end service. Since the acquisition by Alliance Boots we have been in charge of incorporating Alloga and Pharmadep (the CSF company in charge of the OTC products). Hence, we now offer a much wider array of services.

For instance, now Depolabo is able to manage the Autorisation de Mise sur le Marché (AMM) for laboratories; we buy them stock, we do all the marketing and selling activities around the products, we distribute, bill, invoice and do the cash management for companies. For instance, in 2009 we have distributed above €5 billion worth of products in the French market – 25% of a €25 billion market – of which €2.9 billion have been invoiced and cash-collected by Depolabo's team. This is why labs choose us to provide them these services – they don't have accounting teams and people on the phone to assist them like us; furthermore, they don't have the track record of which pharmacies pay their bills and so on. Depolabo has that knowledge and expertise. By sharing knowledge and expertise across many customers we can do the entire pre-wholesale activities more effectively than anyone else.

Secondly, if you are a big international company and you have your A class product that you want to serve directly yourself you will have to use your own sales force, your best marketing people, your best accounting and your cash collection people. However, what do you do with your B class product? You still want to sell them, you still want to manage them, you still want to make money

out of them. In this regard, an A class MNC would give the B class product to a service provider like Depolabo because we are a safe and effective player in the market.

Furthermore, a second tier company, which is smaller and has no sales force in France will choose Depolabo. In that case you typically give your core products to a company like Depolabo so we can do it all for you. Eventually, when you grow up in the French market you may decide to create your own affiliate and create your own team. Then you might revise the kind of services you will require from Depolabo. As you can see, there are many reasons why big and small international laboratories would like to work with us.

With such a wide penetration on the French market, what will be your strategy to continue to grow above the market average?

Depolabo will keep on expanding its service portfolio. We are a service company with a wide array of services that fit exactly the market requirements and we are on our way to becoming even more complete. We all know that the market is changing. My job is to know the market, dialog with clients, and try to understand what will be their requirements of tomorrow so that Depolabo starts building now the other bits of services that will fit their requirements tomorrow.

It is obvious to me that some of the activities I have today, such as service activities, will disappear tomorrow and will have to be replaced by something new. If Depolabo has the attitude of: ‘we are the biggest in the market; we have everything; and we don’t need to change’ we are dead. If we have this attitude, five years down the road somebody else will have created the services that the market will be expecting.

How do we stay competitive? We first have a very close relationship with our customers. Depolabo has quarterly meetings in the Paris region where we gather around 45 customers with a speaker on a given topic. For instance, one was about the Centrale d’achat en France, the other one was about the impact of the HPST law; and another one was in cold chain. Thus, Depolabo tries to find topics which are not necessarily related to a service that we sell but we pick a topic that the market is thinking about and we dialog with our customers to see where they are today and where they think they will be tomorrow. By keeping that dialogue active we try to understand where the market is going and what new services we should be thinking of to fit with the market change.

We have another initiative that was just initiated one month ago called Depolabo Club. We will be meeting again on the 7th of April. Depolabo Club consists of about 25 customers that decided to join the group, take a couple of subjects, and go deep into discussion the subject with each other – the subjects are about distribution, marketing, merchandising, change of legislation and so on. Naturally, this is also another way of keeping in tough with the market.

The third element is to be part of Alliance Boots. Through them I have access to the larger European landscape. Talking with the other Country Managers I try to stay alert on what's going on elsewhere that may happen later on in France. So it's of great value for us to be part of a large international group.

These three elements will guarantee Depolabo's continuous and sustainable growth in the years to come.

As the market leader and expert, in your opinion, which are the challenges that distributors face in the French market in terms of regulation and legal quality requirements?

I wouldn't call them challenges. The pre-requisite to exist in this market is that you have to do business by the book. The book in this case is called CSP – Code de la Santé Publique – article number R5124-2 that describes what a pre-wholesale activity must obey and the CSP is very clear. In order to do so Depolabo has very responsible pharmacies as clients, we have quality insurers and that know the regulations by the book. Everything we do at Depolabo is based on what we call operational excellence, a foundation for the house. We are Level One certified and that tells me how Depolabo should do the work and we are not going to deviate from that by one millimeter.

Besides that, by following and applying the regulation carefully Depolabo creates a big plus for our customers. They know we are certified, they know we go by the book and they know there are no bad surprises when dealing with Depolabo.

There are some changes like the new HPST law in France, which is changing the way the health system is organized. For instance, it will modify the way public tenders are submitted by hospitals. Depolabo's job is to understand what will be the impact of these measures and for that we have a team of people managing tender for laboratories to properly respond to tenders from hospitals – another differential of Depolabo.

Depolabo's growth was also accompanied by a steady increase of its staff, going from 550 employees in 2006 to 950 now. How did you manage to attract and retain these people inside the company?

Actually it's not that difficult and there is nothing to do with pharma and drugs; it has more to do with being sensible as a manager. I learned many years ago what I like to call the three Es: the first E goes for Energy. I have to demonstrate energy to my staff every day. She second E is Energize, which means to be able not only to be energetic but also to energize other around you; and the third one is to Execute, for which we have a board, we have shareholders, we have the management in London, so we have to deliver. If you have these three Es on a regular base then you have no problem retaining and motivating the best people and run your business with the right talent. This is what we in Depolabo do.

In the wake of so many company and market chances, what are your main expectations for Depolabo in the coming years?

My ambitions for Depolabo's future are divided in three stages. Today we are in stage one. The main task is to incorporate together Alloga, Depolabo and Pharmadep, building the synergies and making them work together by sharing the best seeing from each company.

Stage number two is to keep developing Depolabo's customer intimacy; always knowing more about the market, customers and dialogue with them to understand the upcoming market changes. If possible, when we detect a change, we try to influence the way the market will lead for the change by proposing your own solution.

The third and ultimate goal is to be at the forefront of the market evolution, by being able to promote and deliver new solutions to fit with the market requirements. In that respect Alloga, Depolabo and Pharmadep are working closely with Aliance Healthcare in France. We are working on a new model of distribution called NMD that goes for New Distribution Model in French, which is going to combine the best of the two worlds. One is taking the power, trust, and partnership spirit of pre-wholesale where the laboratory retains the title of the product and knows where the it is sold to, keeping the product's track and being able to account for each box and combine that with the strength of the Alliance Healthcare France – they deliver to every pharmacy every day. This is why we are combining our pre-wholesale model with their wholesale expertise so that we can build a unique distribution model in France.

Does Depolado consider being active in other markets besides France?

We plan on exporting the expertise build with the union of Depolabo and Alloga to other European markets. There are several other countries where Alloga has fully-owned Alliance Boots affiliates such as Italy, Netherlands, Spain, Norway and Czech Republic; there are several countries like the UK, Germany and Switzerland where we have associates that are partially owned by Alliance Boots; and the other countries in Europe are most of the time covered by partners where we have no shareholding. Alliance Boots has asked Depolabo to work with all these countries to replicate the success of Depolabo in France – start from the pre-wholesale basic offer and augment it, make it richer, with more services and as we do it we will together build a truly European network.

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