Interview with Santiago Garcia , President Director, APL

21.09.2009

Tags: APL

APL is part of Zuellig, the top Asian pharmaceutical distributor. How does being part of a large, regionally specialized player help APL here in Indonesia?

Being a part of Zuellig provides a significant competitive advantage for APL. The international nature of the company has necessitated processes, procedures, ethical transparency and values in addition the obvious technical expertise. Multinationals have confidence in APL because they understand that they are working with a professional, transparent, international minded company that they can trust because APL is truly independent and has aligned interests with principals. APL is constantly developing new tools and systems to add value to principals including providing whole new categories of data, state of the art distribution centers, innovative processes and everything related to supply chain. Zuellig has reached a position where it can make use of a diverse set of experiences across Asia for over 60 years. This value is transmitted to principals in every single country in the region. There has recently been a 180-degree change in the orientation of APL. Previously we were closer to principals and assumed customers were being served. Now managers are far more focused on working with customers and visiting branches. Working closely with the market is the ultimate way to please principals. Another differentiator is luncheons that the company puts together for principals and top management. For instance, we recently invited a leading international business expert, Jim Castle, and Sofyan Wanandi, a top Indonesian political advisor. This adds value from a different perspective regarding the macro economy and the national political environment. Your background is as a turn-around specialist and APL is currently the result of mergers between Wigo and APL.

What are you doing to fully integrate the various legacy systems and streamline the business?

The model that Zuellig had been implementing in other countries was not working smoothly in Indonesia. I was brought in to assess the situation and adapt the business to the Indonesian market. I had previously worked in the country so I was already familiar with the people, culture, and market. The company has developed a new strategy and a new set of goals to better align with partners and cement our position as the number one distributor. The market conditions demand a certain level of adaptation, yet Indonesian operations also need to match company-wide standards and best practices. The primary difference in the Indonesian market is the fact that the top five local companies have their own distribution companies. The parent companies sustain these distributors because over 50% of their volume comes from the parent companies' manufacturing arm. In order to recoup overhead and indirect costs, these distributors work with external principals, but they are not independent companies. Thus, it will be very difficult for APL to get business from the parent companies unless they spin off the distributors and outsource some of their business to APL. Thus the market is very complex and difficult for an independent distributor to penetrate. The current economic conditions may catalyze a change. There is also a transition of power occurring, from company founders to the new generation, which may not be interested in continuing in-house distribution. Such internal changes, as well as potential acquisitions, will create a change in the industry. Change will eventually come because current conditions are inefficient and costly. However, necessary consolidation will also be costly because acquirers will need to shed redundant distribution operations, closing down warehouses and laying off workers. Every major distributor needs full coverage of the largest archipelago in the world. APL is the most complex company in the Zuellig group because it is necessary to have 3 distribution centers, 28 branches, and 35 sales offices covering 63 cities with 2400 employees across the nation. The entire Zuellig group has 8000 employees, thus APL represents almost one third of the group.

All of these factors mean that Indonesia needs to be addressed differently from other Asian markets. Are you looking to make acquisitions?

APL is primarily focused on bringing in new principals. Much of my time is focused on working with these new clients. The company provides the most diverse and highest service levels in the industry including developing new tools that can't be found elsewhere. This is very important to principals and by taking business from other distributors, eventually those distributors may be forced to move towards consolidation. The strategy is to be very strong internally and take as much market share as possible with the existing infrastructure. APL ran a customer survey In July of 2008. According to this survey the company is still number one, but the gap between APL and its

competitors has narrowed at particulars cities and a channel. Immediate action was taken in that specific channel and cities to address concerns and ensure that the survey in 2010 will show increasing gap vis-à-vis competitors. Much of this decreased customer satisfaction is because attention was focused on merging APL and Wigo operations, harmonizing company cultures, and standardizing policies. Now that the integration phase is over, the company is again focused on client needs and results have been very positive. Not only is the company focused on bringing in new principals, we are also increasing the length of contracts with existing principals from 1-2 years to 4-5 years. This is another way in which we are securing the company's position and locking out competitors. Many principals have a multiple distributor strategy where they use up to 10 or more distributors for Indonesia alone.

How are you working to get a larger share of business from existing principals?

Since the start of 2009, APL has been successful at convincing principals to move to a sole distributor strategy. It is much easier for principals to deal with just one distributor, which also decreases confusion in the market. Additionally, the proliferation of multi distribution agreements compresses margins across the marketplace. Rather than segment co-distribution by product, channel or geographic territory, most companies pit several distributors against each other to drive up sales. This strategy works at first, but distributors are then forced to give steep discounts, and outlets eventually come to expect these discounts. Thus single distributor strategies decrease costs across the market and save principals the need to manage multiple distributors. There are also regional distribution deals that benefit both Zuellig and the principals. These agreements increase leverage for both parties, increase consolidation, and importantly help principals efficiently analyze data at a regional level. APL has always been a leader at integrating technology into its logistics systems as the first distributor in the country to implement SAP.

How are you looking to use new technologies to maintain your technical edge over your competitors?

SAP turned out to be a very good decision because most principals use the system, which facilitated interfacing systems and exchanging data. We also develop additional tools through third parties. The aim is to bring information to principals that help them run their business better. Principals need insight into whether med reps have efficient calls, the frequency of their doctor visits, and actual prescription behavior. Providing this data doesn't directly enrich APL, but is a differentiator that provides additional value to principals. The key metric for all distributors is on-time delivery.

What are you doing to improve on-time deliveries throughout Indonesia?

Despite the fact that it's a developing country, Indonesia has a very high service market. After the '97 Asian Financial Crisis, there was a glut of stock combined with undercapitalization. This pushed up service levels, and today same day delivery is an absolute requirement in the medical channels in the major cities. Maintaining this service level is extremely costly and is the prime reason APL has so many warehouses and branches across the country. There are even cases where a pharmacy calls the distributor with an end customer waiting in the store and demands delivery within two hours. This requires very efficient transportation and delivery. We have brought in outside supply chain experts to analyze processes and identify weaknesses, including a review of the SAP-DRP module. These improvements run the gamut from software analysis, to outsourcing, to performing surveys. Cross-functional task forces also play an important role by visiting branches, collecting data, performing analysis, and improving procedures. Another important differentiator is the intelligence APL collects from customers and competitors.

When you meet a new principal, what are the three things you tell them to gain their business?

Zuellig is an independent distributor, which means principals can trust the company's 60-year track record proving that we are transparent, open and have aligned interests. Secondly, the company has thoroughly ethical business practices with systems and values that strategically fit with principals. Additionally, if there is ever any expertise or technology requirement, APL can quickly import it from the Zuellig Group. The company is also very flexible with many different customized agreements with various principals including exclusive sales forces, consignment based distribution models, specific geographic targeting, and even completely redesigning the business model for a multinational consumer products company. This new model designed for one of our major principals is a first in Asia, but once it's rolled out, it can be offered to all new principals. APL is even offering clinical trial services to one client, as well as certain expensive oncology products that are delivered to individual patients. In December 2008 APL implemented a 24/7-delivery service for lifesaving drugs in partnership with a local outlet. These are all differentiators that might not be general knowledge, but are ways in which we service both principals and the end customer. Many of our interviewee's keep reminding us of the importance of attracting top quality talent in Indonesia.

How are you working to attract and retain Indonesia's best and brightest?

APL has a very clearly defined performance based payment system. This balanced score card was rolled down from Zuellig Group into Indonesia. There is a very strong emphasis on always hiring the

best by selecting fewer, highly trained employees in a process known as talent planning. There is also a high potential program, which identifies individuals who are then developed for greater responsibility across the region. The program is called the Zuellig School, which facilitates moving these high potential employees across the region. Every year the company brings in top young talent as management trainees, preparing them for high/mid-level positions across the organization. Some of these employees do leave the company, but close to 65% stay with the firm. I am a true believer in developing individuals, and that only be becoming a better person can one become a better leader. Thus training goes beyond just technical abilities and effectiveness in sales, operations or finance but taking individuals out of their comfort zone and developing them as a better person. The company brings in an international consultant to work with top management and a highly respected Indonesian management-consulting firm for the entire middle management team. The company's overriding goal is to double business in 3-5 years, and the organization and infrastructure must be ready to handle that new business size in a sustainable way.

You have listed a number initiatives and programs, what are your top priorities at the company?

I never create a hierarchy of priorities; I view them horizontally. It is always necessary to maintain day-to-day business and track results across the entire horizon of "priorities": Developing and especially implementing strategies is extremely important. Compensation targets are precisely tied to implementation of strategy in daily operations. It is also vital to understand what principals and customers need and keep in touch with them everyday. Developing new businesses is also a daily function with constant meetings and negotiations. There are always unforeseen events, such as the current H1N1 Flu episode, which triggered our Crisis Management team key actions as an integral part of our BCP, therefore preparing the distribution of kits with masks, Tamiflu, thermometers . It is also necessary to interface with emergency response teams and principals. All of these issues need to be addressed every single day.

As you are now the top executive in Indonesia at APL, what are your ambitions for the next five years?

Doubling the business and pleasing both principals and customers is the core of the five-year plan. If we really do reach that target and the expected consolidation in the market occurs, APL will be in a position to influence certain market habits. If this occurs, the cost of doing business in Indonesia will go down and benefit all the stakeholders including the end consumer. For example, in principle it is not necessary to have 28 warehouses. However, before consolidating warehouses the market needs to expect next day deliveries as occurs in most of the world. Additionally, the government needs to invest more in roads and basic infrastructure. Rain can shut down ports for ferries

between Java and Sumatra and many roadways. This forces firms to keep very high stock levels, which is also quite expensive.

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

We are thinking proactively, beyond the scope of a typical distributor, of ways to increase market share for our principals. There are many programs targeted at achieving this goal, in addition to normal distribution services. For instance, there is a plan to expand distribution to the ‘grey market’ by selectively and gradually converting portions of that ‘grey market’ into a proper, licensed normal market. There are many other ways in which APL is working to expand and improve businesses for our principals.

See more interviews