DHL Supply Chain Spain – Francisco Milián, Chief Customer Officer & Business Director Healthcare Sector

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DHL Supply Chain has made great strides in recent years to invest in healthcare logistics in Spain. Francisco Milián, chief customer officer of the company's Spanish affiliate outlines these investments discusses the need for greater efficiency across the Iberian peninsula for the delivery of healthcare products.

What have been some evolutions of the logistics sector over the last five years in Spanish healthcare?

The healthcare sector was actually not a major sector in terms of revenue for DHL Spain five to seven years ago, and was thus fairly small with only a small pharmaceutical site of 6,000 square meters in Getafe. After looking at countries with lots of healthcare business like the UK, Benelux, or Brazil, we found an opportunity to grow in that sector. After seven years of continuous development, our pharmaceutical capacity has expanded from 6,000 square meters to almost 40,000 square meters with 2 sites in Madrid, 1 in Barcelona and 2 in the Canary Islands (Tenerife and Las Palmas). The opportunity to grow came through regulation changes and the industry approach to outsourcing. In the past most pharmaceutical companies used to have their operations in-house; after recent market changes, more demand on professional service offerings and margin pressures in the Healthcare industry, logistics are being outsourced by the industry, and today DHL

is a top three player in the market.

What are some of the specific characteristics of the Spanish market as they relate to logistics?

Some sectors like consumer, retail and automotive heavily outsource logistics, and they have a lot of experience in outsourcing and managing 3PLs. Other sectors like healthcare do not have this experience, particularly for newer companies who need a partner that can provide a good service so they can continue outsourcing in the future. These companies need a reliable partner for their first outsourcing project and they are a key target for DHL. We can be a safe pair of hands for companies that decide to outsource because we know the industry and its challenges.

How does Spain's decentralized nature affect the supply chain?

The model in Spain and in Iberia is usually to have one central warehouse that serves the 17 autonomous communities, which each have unique way of preparing orders and sometimes require special preparation. Through this central stock and ability to specialize, we always ensure our customers get what they need.

How has the reduction of price for off-patent brands to the same price of generics affected your business with pharmacies?

The innovators used to have big volumes and order for a few points. Now they have many orders to more points, and this change in order profile drastically changes the supply chain. Instead of delivering pallets or boxes, we ship units to more delivery points. Furthermore, costs increase significantly; serving one box to a pharmacy costs far less than serving the same units to 20 pharmacies. Thus, innovators' supply chain costs are increasing and they are losing volume. That is why some of them have decided to outsource their supply chain management; they used to have their own warehouses with their own people based on Pharmaceutical terms and conditions. Now the warehouses are half full because of lost volume and increase in costs for human resources.

DHL can deliver products to the right parts of the supply chain to pharmacies and hospitals delivering great service in a more efficient way. We can bring different customers together in a shared user site and deliver multiple customers' products to the pharmacies and Hospitals in the same vehicle. Equally in the warehouse, we can balance stock among customers who share risks as well.

Generic players behave more like consumer companies, who are used to outsourcing with big volumes; they behave based on cost over service. They also come with different profiles; the

autonomous communities are bidding pharmaceuticals based on big orders so now they are shipping big orders rather than small ones.

How would the consolidation of the pharmacy model in Spain affect DHL?

At the moment we can cover the 20,000 pharmacies in Spain. If there is a consolidation of the pharmacy model this could mean that rural areas might have problems to get.

Regarding the frequency of delivery to the pharmacies I think the government should challenge the current model. At the moment some pharmacies get three or four deliveries a day … The cost of these services is too high, and we believe that is why some pharmaceutical companies want to sell directly to the pharmacy. Bypassing wholesalers, companies avoid the cost of having to go to the pharmacy several times per day. That is where we see an opportunity. This is called “direct-to-pharmacy”, and it is already used in Australia and the US. DHL and several pharmaceutical companies want to employ this strategy in Spain.

Is this “direct-to-pharmacy” strategy relatively new?

Some of the biggest pharmaceutical companies in Europe have tried to implement this concept, but wholesalers were not happy because they were being bypassed. Some of them therefore had to go back to the original model. Delivering a product several times a day is acceptable for highly valuable and unique products for big diseases only treatable in hospitals, but not for cheap OTC products in pharmacies.

In terms of the healthcare division in Spain, what does the Iberian strategy involve?

I am actually responsible for Iberia as a whole from a business perspective. We have an Iberian strategy to be able to deliver services to the industry. The challenge now surrounds regulation. According to law, you cannot have a central stock and deliver to Lisbon, which is closer to Madrid than many places in Spain. As Portugal and Spain have their own regulations, this is one of the challenges for the European authorities to fix. Ultimately it means we have more costs than necessary. We have four warehouses in Spain and one in Portugal, but we could serve Portugal from Spain. The industry should also be allowed to decide where their warehouses should be located and how the supply chain should be managed, not the autonomous communities.

What is the breakdown of your revenue in terms of the different products you handle daily?

Medical devices is 50 percent, medicine are 50 percent. We have two warehouses in Madrid, one focused on innovators and the other on medical devices. That is why we try to find synergies for different customers through our distribution channels.

What is the competitive advantage of DHL Supply Chain in terms of offering the best possible transportation and logistics service?

The biggest strength of DHL Supply Chain is its ability to provide a global solution to any customer, integrating ocean, air, and road freight, warehousing and final distribution. That is why most of our customers are global players like. They want a single partner if possible. DHL has a strong footprint in Spain. In addition to our two Madrid sites, we have a site in Barcelona that is expanding from 10,000 square meters to 14,000 in January 2015. We also have sites in Las Palmas, Tenerife and Lisbon. This allows us to provide services across the Iberian Peninsula. We partner with our sister company DHL Express to do the final distribution at temperature controlled <25ºC. They have invested in the trucks and local platforms to do the final line haul from Madrid and Barcelona to every point in Spain. DHL Supply Chain has other partners for very specific transportation needs.

Today we have a global healthcare sector within DHL Supply Chain and Deutsche Post DHL, and we have a global strategy for investing in a solid global healthcare footprint. Spain is one of the top ten countries for this investment. The decision to invest in new and bigger sites from a relatively small business was a local decision supported by the global corporate strategy for this sector.

Do Spain’s cultural connections to Latin America and its positioning as a natural gateway to Europe and North Africa make a difference?

It helps in that there are still many Spanish companies with factories here producing and exporting, especially to South America. This is managed by our sister company DHL Global Forwarding. While DHL Supply Chain does not take care of air or ocean freight, we have a community of DHL’s four divisions in Spain. We look for opportunities together, from warehousing to freight forwarding to transport; in that way we find opportunities for our freight forwarding colleagues to export products to Latin America or import products into a warehouse for supply chain from Latin America. Over the last couple of years we have seen a few examples of companies wanting to export, coming to DHL Supply Chain and now they are shipping to Latin America, and vice versa.

What are some of the changes you would like to see in DHL in the next five years?

Our facilities are expanding and are being upgraded. With new GDP regulations we had to invest in temperature and humidity control. In the next five years I want DHL Supply Chain to be the market

leader by far. By then I would like our network to have grown more, and I would also like us to be more involved with hospital logistics. We have tried this before in recent years without success; autonomous communities think on their local needs, but we believe that having a more national thinking in terms of procurement and Supply chain would benefit the whole system and be more optimal.

DHL has a good case study in the UK where we serve the whole country with five warehouses. I would like to see that in Spain in five years' time. I would like to see one hospital logistics supply chain that is more efficient and that we are the partner of choice for the Spanish government. That would help other customers as well.

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