Interview: Andreas Windischbauer – President, PHAGO, Austria



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Dr. Andreas Windischbauer, president of the Austrian Association of Full-Line Pharmaceutical Wholesalers (PHAGO)

discusses the organization's role within the Austrian pharma industry, its current challenges, price pressures, competition, and future prospects.

Can you give us a brief overview of PHAGO?

PHAGO is the association of full-line pharmaceutical wholesalers in Austria. As the link between the pharma industry and pharmacists, we define ourselves as the backbone of the drug supply chain.

We ensure that the national stocks of pharmaceutical and medicinal products are provided and available if they are needed quickly.

With a range of 50,000 products, PHAGO claims to be able to meet Austria's daily demand all over the country. In which ways does the association feel responsible for covering the demand of the country?

We live in a changing world with a lot of challenges. Nowadays, manufacturers are not only suppliers, but also customers with specific needs; however, our main clients remain pharmacists. For example, a number of factors could cause shortages to occur, but we, as a wholesaler association, are actively communicating in the supply chain to avoid this.

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In terms of shortages, there is a lot of information held by the manufacturers; we are the last in line to get the medicine before the delivery, so if we run out of stock, the pharmacist is confronted with a shortage and he/she will have to find a different solution for the patient.

However, thanks to collaboration and information-sharing, Austrian pharmacists and wholesalers have been able to manage current shortages so far in order not to harm patients. Therefore the situation onsite is better than for example in Germany with regard to shortages issues.

We need to receive information quickly in order to deliver on time, depending on the needs of patients and doctors. This is the role of the association. This is why information is key. This level of information can be an advantage and is this important for the entire industry because of our role and for the future. This is not a competitive advantage.

It is very interesting to compare ourselves with other industries such as e-commerce. We have been communicating electronically with our customers for decades now, so this is not brand new to us.

We have very high quality standards in term of levels of delivery and information. At the same time, we have additional demand from the industry because of high price products that need specific deliveries. We need to keep all this safely and always adapt to new legislation.

What are the current challenges that your members are facing? How do you plan to overcome them?

As full-line wholesalers it is more and more difficult to fulfill requirements due to increasing obligations, laws and services. On the other hand, we are confronted with decreasing contribution margins. As a matter of fact, we are delivering every second drug paid by sick funds below the price of a stamp (68 cents)! And there is an ongoing trend towards direct supply by the pharma industry jeopardizing our mixed calculation model.

At the bottom line, we, as full-line wholesalers, are offering more services for less money. Just take the implementation of the falsified medicine directive including the obligation for wholesalers to document batch numbers as an example.

Interestingly, although a lot of regulations are coming from Europe, the implementation in Austria is sometimes different.

For example, Austria has implemented temperature control deliveries but they were not necessary in Germany for a long time. It is more expensive for us because our government has a strong focus on the quality, which is understandable: medicine is very important for everybody living in Austria.

How does the distribution system work here in the life-science industry?

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We have a decreasing margin system, above a ceiling of 346 euros per package, you get a fixed margin of 23.7 euros per package. This means that, if you sell a 10,000 euros package you will receive 23.7 euros, which is very low. This system is based on a pricing system from 2004. But the numbers in the pharmaceutical industry have considerably changed during these past ten years. This decreasing margin system does not produce enough margin to face all the challenges that have been coming up. This mixed model does not work anymore, because generics are getting cheaper prices and on the other hand, high price products have this limit.

All the members of the PHAGO association are delivering 140 million units for the pharmacists, paid by the health insurance, Half of these units (70 million) have a margin below the cost of a stamp for a normal letter (68 cents). However, we are delivering within two hours, whereas a normal letter needs a few days to arrive. We have to do something.

How do you manage this price pressure and competition directly from the manufacturing site?

I think managing the price pressure and decreasing margins is about being incredibly efficient. As a full line wholesaler, we are faced with more and more direct deliveries from the industry to the pharmacies. This leads to the strange situation that an extremely expensive life-saving extremely expensive medicine has a lower service level for the patient than a cheap generic drug. Pharmacists have to get medicines within the two hours or, at the latest, the next day. From a patient perspective, it has to be the same service level between generics or life-saving medicine.

As the link between manufacturers and pharmacists, how would you qualify the working relationship between them?

In Austria it is quite good, we have a long tradition of talking to each other compared to other countries. All the small and medium companies are included, we are all colleagues. You have always access to who you need to talk to. This is our culture.

We have a long history of compromises: it is difficult to get the best solution but on the other hand it is a key advantage here in Austria.

You are both the President of PHAGO and CEO of the leading company in the wholesale and supplier sector; how do these joint roles help you better represent your members?

Indeed, sometimes it is complicated because I have to think about what role I have for the day, but, both roles are facing the same challenges. The PHAGO association in Austria is rather small; we are really working closely together even if there is a strong competition between each other. It is a big advantage to be a small association.

A few years ago, we were 16 members, but because of the challenges trend and this environment of competition, we are now six members. Some companies have been merged or acquired, and the smallest members disappeared.

The healthcare industry has a huge environmental footprint. Do you consider this in your operations?

Our whole business model is based on ecological principles! We bundle transports and therefore reduce CO2 significantly. Also all our transport boxes are recycled.

Wholesalers do have an economic and ecological advantage for society! We have to consider the environment and it needs to be protected, especially in the life-science industry. The network of full-line pharmaceutical industry exists all over the world and helps to protect the environment. It is just about finding solutions. We need to be safe, fast, cheap and protect the environment.

Where do you expect to see PHAGO in the next five years?

I am sure we will be by far more integrated with our customers, the industry and the pharmacists – very much driven by the digitalisation of all businesses – and be a solution provider for all customer groups to improve patients' easy access to medicine. We like to call ourselves the "backbone" of drug supply.

Adding fantastic logistics, higher quality, and becoming super-fast with additional information in a changing world will fulfil the needs of the patients and our role in the healthcare industry.

The EMA (European Medicine Agency) is looking to relocate in the EU after the Brexit vote. What do you think of having the EMA in Vienna?

This would be great for Austria; having such an important agency in a city will be attractive for companies. It would put Austria on the next level on the European stage. Vienna has a great quality

of life, it is safe and geographically in the middle of Europe.

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