

# Continuing to deliver

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## Consolidation in the healthcare industry

Stefano Pessina

When I first started working in the pharmaceutical wholesale industry over 25 years ago, it became very clear to me that the industry offered the opportunity to improve efficiency and service across Europe through consolidation. At that time, consolidation in retail pharmacy was almost unheard-of outside the UK.

In most European countries the wholesale industry was split among a large number of regional businesses, some operating as co-operatives and others family run.

These businesses mostly performed their role well, within the bounds of what was possible. However, they lacked the scale and resources needed to improve service levels and develop additional facilities so as to offer the support and assistance that pharmacists increasingly wanted, as more was asked and expected of them.

A concentration of volume creates more efficient wholesalers, able to offer the highest possible levels of service to the pharmacist, enabling them in turn to offer higher levels of service to their patients.

Patients benefit from ever improving levels of pharmacy service available to them and the improved efficiency that larger wholesalers brings, in terms of cost savings and a wider and more reliable supply of products.

Consolidation in retail pharmacy in the UK, allowed within strict parameters controlling the pharmacy sector, has seen the evolution of pharmacy chains focusing on a variety of different market segments. These chains exist alongside a well structured and managed independent pharmacy sector. Where chains are owned by wholesalers, they work closely with independent pharmacists and professional bodies to improve services and reduce costs involved in running high quality pharmacy services.

With increasing pressure both on national health services and on national budgets, it was also inevitable that if consolidation could deliver better standards of service at lower cost, it would be not only welcomed, but positively encouraged.

Of course I was not alone in recognising this, and in other key markets across Europe similar consolidation was beginning, forming the genesis of the three main pan-European wholesalers operating today, and there is still some way to go before consolidation is complete in Europe.

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## The benefits of our network

Geoff Cooper

Our work in bringing together a geographically and professionally diverse range of businesses into a unified group, and in so doing being an agent for consolidation in our industry, has brought with it many benefits, both those most obvious and tangible, and those more subtle but nonetheless of considerable significance.

The portfolio of businesses that we have brought together gives us exposure to a range of different markets, each with their own unique characteristics. This means that, while from time to time competitive or regulatory pressures may restrain growth in any individual market, we are able to continue the overall development of the Group in line with long-term trends.

The inclusion of retail pharmacy within that portfolio also spreads our exposure within certain markets, while maintaining our focus on the provision of healthcare. The integration of pharmaceutical wholesaling and retail pharmacy into one group brings many commercial benefits for us, facilitating the sharing of expertise and experience, allowing the wholesale division to focus its service specifically on areas of most benefit to our retail pharmacists and use this focus to offer equal benefit to our independent retail partners.

A more immediate benefit of our portfolio to us is the ability to share services and resources across many businesses, allowing optimum use of resources and appreciation of expertise in key business functions such as information technology, human resources management and procurement, reducing the cost to each individual business and improving the overall efficiency of the Group.

Of course we also benefit as our part in the consolidation process lets us bring together diverse businesses in a structure that allows us to benchmark and standardise activities, to establish and roll out best practice not just within a business, but across a continent and beyond, reducing our costs and bringing benefit to our customers across the Group.

# Continuing to deliver (continued)

## Working as partners

Stefano Pessina

Our business is one of interdependence with our customers. It is not a simple customer-supplier relationship. A pharmacist relies on his full line wholesaler to a great extent. They depend on being able to get their pharmaceuticals delivered accurately and on time, every time.

It is vital for us that we know our customers and understand their needs. We believe that one of our competitive advantages is this view of the pharmacist as a partner more than just a customer. This focus on the pharmacist as a partner is enshrined in our heritage, as many of the companies that make up our Group began as pharmacist-owned co-operatives, drawing much of their management from the pharmacist community who could identify exactly what their colleagues needed from a wholesaler.

We maintain our co-operative heritage through the continued participation of independent pharmacists in our business, both through a significant presence among our shareholders, and through our international consultation programme which gives pharmacists the opportunity to raise commercial and professional issues with us and actively participate in the direction and development of our business and services.

We also maintain the tradition of employing pharmacists throughout our business, so that their knowledge and understanding touch almost everything that we do. Pharmacists can be found not just in our pharmacies, but in warehouses and offices across Europe, working at every level, from shop floor to Board room. They act as a constant guiding force for the Group.

Our own pharmacists extend our ethos of partnership into the community, working closely with other healthcare professionals to play an active role in the provision of primary care, and with patients themselves, providing the skills, advice and support to ensure the patients' well-being.

Partnership is as important to us internally as it is in our relationships with our customers. The success of the Group is based on our businesses actively working together to improve themselves. This is particularly important between our retail and wholesale divisions, allowing both to enhance their performance, and the service that they offer their customers.

The successful expansion of our Group also owes much to our belief in partnership. Our willingness to enter into partnerships in new markets, rather than to insist on outright takeovers has afforded us the opportunity to enter such markets as Turkey and Spain.

## Practical partnerships

Geoff Cooper

The concept of partnership is admirable, but it is the manner in which we put this into practice that differentiates our business. This can be seen at every stage as product flows through our businesses.

We work in close collaboration with manufacturers to help them reduce their costs and better manage their finished goods inventory, through Alloga, our pre-wholesaling "joint-venture" with our partners, Galenica of Switzerland. In distribution we have built a wholesale division based on the firm belief that when a business joins our Group, its management team and its ability to work seamlessly as a partner in our business, is every bit as important as any other aspect of the Company. We apply this approach clearly when choosing to establish minority investments in businesses, recognising the importance of building a partnership before a company is fully integrated into our Group.

In our wholesale businesses we constantly strive to act as a partner with our pharmacist customers in developing their own businesses, rather than as a simple supplier of goods. Whether through the provision of better and less expensive business support services, through the use of state-of-the-art technological systems or the other added value services which we provide, our pharmacist customers know they are working with a wholesaler who truly has their interests at heart. Of course the partnership between our own retailers and wholesalers adds an entirely new dimension to this, as our pharmacist customers find themselves with the opportunity to work with a wholesaler who better understands their business. We bring this experience across our Group to offer our pharmacy customers the opportunity to tap into this skill base to exploit the benefits of chain pharmacy within their own business and so enhance their own financial and professional performance.

**01** "We believe that our service should be driven by the needs of our pharmacist partners"; an example of this belief can be seen in both our continued development of our traditional pharmaceutical businesses, and through the support we supply in new areas of the pharmacy business such as in Italy where we are the largest supplier of homeopathic products.



**02** "We employ a significant number of pharmacists throughout our business"; in every market supervising pharmacists work with our wholesalers to ensure accuracy and help maintain our focus on the needs of our pharmacist customers.



Extracts from the interviews with senior management are available on-line at: [www.alliance-unichem.com](http://www.alliance-unichem.com) 'videos of the senior management'



# Continuing to deliver (continued)

## The importance of service

Stefano Pessina

The quality and consistency of our service is a significant differentiator between ourselves and our competitors in many markets, and we believe it is the key to our success.

Every market in which we operate is competitive, with regulated pricing. Naturally competitive pricing remains important, but, provided the pricing is competitive, it is the level of service that will provide the commercial advantage with the pharmacist, and so win their order.

We monitor service levels continuously, and regularly commission independent research to compare our service against those of our competitors.

Service levels are measured in many different ways; in wholesale it can be measured by factors such as accuracy of delivery, timeliness, or incidences of out-of-stock lines. In our pharmacies we work hard to ensure that we maintain the highest possible levels of professional service and believe that the number of repeat customers we have reflects our success.

We are not, however, complacent about our service levels, and benchmark ourselves not only against the best in our own industry, but increasingly against other industries as well to ensure that we provide the best service we possibly can.

## Making service an everyday creed

Geoff Cooper

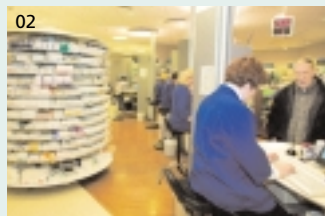
In almost every aspect of our business we live or die by our service levels. We constantly monitor stocking levels, order accuracy, and order turnaround times through our depots to ensure that our pharmacist customers get the products that they need reliably, accurately and on time, every time. This means the pharmacist is able to reliably meet the levels of service expected and demanded by their patients.

From the patient's perspective, service is vital. When a patient enters a pharmacy to get a prescription filled they are placing a great deal of faith in that pharmacist, expecting them to ensure that they dispense the right product in the correct dose with adequate and accurate instructions for taking the medicines. Patients also expect their pharmacist to be aware of the implications for them of taking the drug, and the manner in which it should impact their condition. They quite rightly expect high levels of advice and professional integrity from a well trained, informed and resourced expert.

When they choose to enter one of our pharmacies, or one of those of our independent pharmacist partners, we must ensure that they get the highest possible level of service from that pharmacy. Our success in this is shown in our UK market share of the National Health Service prescription sector of the market, and the volume of repeat business that comes from loyal and long-standing customers.



**01** "We constantly monitor stocking levels, order accuracy, and turnaround times through our depots"; a combination of technology and advanced processes are used to improve the speed and accuracy with which goods flow through our warehouses.



**02** "In retail we continuously strive to identify and develop new services"; as we re-fit our pharmacies we are combining advanced dispensary processes with the latest pharmacy management systems to provide the highest levels of patient care.

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## Innovation

Stefano Pessina

We must continually innovate to enhance and maintain our service levels, economic performance and market leading position. In an industry where our competitors copy our every move, and our prices are regulated, innovation allows us to stay one step ahead.

Innovation is about process and procedures, as much as technology, and we focus on innovating in every area of our operation in turn to make it better or more efficient.

Many of the areas of innovation that we have worked on over the years have focused on helping the pharmacist build their own business. This has been achieved through improving the efficiency of the pharmacy, through improving their professional skills, or through improving collaboration and dispensary disciplines and skills to improve overall service levels across the industry.

We have also, however, been able to work with manufacturers to develop a number of specialist services for them, from logistics and support services to assistance in the marketing of their product in the pharmacy and advising patients on its use.

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## Making innovation work

Geoff Cooper

We structure our businesses to promote innovation at all levels and champion the best of these ideas and concepts to the benefit of our own or our customers businesses.

We are working to develop common technology and process systems across our wholesale businesses, to improve the efficiency of operation and accuracy of service while at the same time helping us collect more accurate and timely data about the operations of each warehouse.

In retail we continuously strive to identify and develop new services. These are developed in concept stores in key locations within which we can showcase and fine-tune ideas before rolling them out across our retail chain. These innovations, once tested and refined, are made available to our pharmacist partners through our virtual chains, operating with considerable success in the UK under the name Pharmacy Alliance, in The Netherlands under the name Kring Apotek, and most recently with our new concept specially developed for the French markets, called Alphega.

Our companies have always been at the forefront of technological advances in pharmacy. We are currently involved with trials of electronic prescription transfer in the UK and elsewhere, and are in the process of rolling out a new pharmacy management software system that we have developed to bring this area of the pharmacy business up to date.

The community focus of our retail business has meant that our pharmacy chain has long been recognised as a leader, outside academic and hospital pharmacy, in clinical pharmacy and in pharmacists professional development. Our retail division has won much praise and recognition for its innovative new training and professional development which allows pharmacists to meet their professional requirements for on-going development, helping to enhance overall standards in the industry while at the same time meeting a legal and professional requirement.

**01** "Regulation must achieve a balance between protecting the public interest as a payer and protecting consumers' interests"; we must recognise this balance and our skill is in serving both these interests simultaneously, while recognising that we must always place the patient's interests first.

**02** "To dismiss all regulation as a threat to our business is to not understand the nature of the regulation or the businesses themselves"; most regulation presents opportunity as much as restriction to our business, although this may not always be obvious.



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# Continuing to deliver (continued)

## Managing regulation

Stefano Pessina

The regulatory environment within which we work has always had within it an inherent tension. In Europe, unlike most of the world, national governments are the primary payer for pharmaceuticals. Almost every aspect of the distribution of these products is handled by the private sector.

Regulation must therefore achieve a balance between protecting the public interest as a payer and protecting consumers' interests. As a consumer, the public wants high service levels. Consumers want products to be available immediately wherever they may live and they want the pharmacist that dispenses the product to be able to offer advice and counselling on their condition and the pharmaceuticals that are being dispensed.

The demand for these services continues to rise steadily through demographic trends raising the average age of the population, while at the same time expectations from national health systems continue to rise.

When governments act to review regulation they do so to manage this growth, to avoid unsustainable pressure on the public purse. At the same time, however, they are aware of the benefits of a thriving and efficient distribution system, and want to reap those benefits for the patient. Regulation reduces the rate of market growth, but our skill at working within the regulatory environment, and the service that we offer both government and the public, are such that we recognise regulation to be as much a protection for us as it is for the public; a stabilising rather than destabilising force in the industry.

## Working with governments

Geoff Cooper

Probably the most significant management skill required to maintain a market leading position in our business is the ability to manage the regulatory environment in which we work, and to meet the challenges and exploit the opportunities presented by changes in regulations.

We meet the challenges of regulatory change by a combination of refinements to our businesses, their cost structures and commercial terms, or through innovating new services to address the issues raised by the new regulations. But regulation can provide long-term market stability, as well as a challenge to be overcome. It defines the parameters within which we work, and ensures a smooth and reliable environment in which we can plan and develop our businesses in the future.

Regulation change is often predictable. Changes to regulation occasionally makes the news headlines, but in fact they typically arrive after a long lead-time, and involve much consultation, all of which we are involved in, affording us the opportunity to influence change, as well as to properly plan and prepare for it. We share a mutual interest with regulators in maintaining efficient and reliable availability of medicines and pharmaceutical care, we help regulators achieve their objectives by actively co-operating to manage supply and suggesting innovations in structures and reimbursement regimes.

One of the biggest opportunities that regulatory change offers us is the choice to exploit the competitive advantages that our efficiency and focus on costs brings. No matter what alterations may be made to regulations governing the operation or compensation we receive for our services, the most efficient will prosper. To dismiss all regulation as a threat to our businesses is to misunderstand the nature of the regulation, or the businesses themselves.