

PARTICULARITIES OF THE LOGISTIC OPERATIONS IN THE PHARMACEUTICAL DOMAIN

Luminița ȘERBULESCU, Associate prof. Ph.D.
Ana BUTNARU, Lecturer Ph.D.
Faculty of Marketing and International Affairs
Spiru Haret University

Abstract

*The management of logistic operations has a very important role in the case of pharmaceutical products. The purpose of this article is to analyse the particularity of the logistic operations management in the pharmaceutical domain. This is seen in the fact that there is the obligativity of using the exclusive distribution system, because the carriers do not have selling right to the final users. In the pharmaceutical domain, the logistic channels may be represented by a system of vertical marketing, made from producers, en-gross sellers and en-detail sellers that action in the frame of an unified system in which a member of the channel may detain property right over the other members the vertical marketing system may be corporative or contractual. In Romania the medicine producers adopted both marketing systems. Organising and distributing medicine from the specialised unities (pharmaceutical deposit, close circuit pharmacy or comunitary pharmacy) are settled through laws thjat are specific to the pharmaceutical domain. In these conditions the mission of the company is to give medicine with a balance between **price – quality – asureness – efficacy**, for giving accesibility to different treatments. The role of the state is significant, reason for an interdisciplinary approaching that may drive to ideas, oppinions that may be applied.*

Key-words: *logistic operation, exclusive distribution, conventional logistic channel, vertical corporative marketing system, vertical contractual marketing system*

JEL Classification: D₃₁, D₃₉

Introduction

The market for pharmaceutical products must satisfy the order through an offer of the producers that realise a restrained gamma of pharmaceutical products in big amounts, and the consmers that wish a big gamma of products in small amounts. This is the reason why, through the distribution channels, the intermediars buy big amount of pharmaceutical products, offering the clients the posibility to buy small amounts from the products they wish. The functions of the logistic channel do not fundamentally differ from the clasical ones but the problem

is who is making them: the producer, or independent distributor. About the organisation of the logistic channel – to the begin of 90s developed vertical marketing systems: conventional logistic channel and logistic system for vertical marketing. The vertical marketing system may be comanded by the producer, en-gross or en-detail seller, it might be two types: corporative vertical marketing system – all the channel is the property of a single person/brand and contractual vertical marketing system – the producers and the distributors are inked between through contracts that allow obtaining greater performances and economy then acting on their own. These systems created a conflict between the medicine producers and the distributors in the U.S.A. The producers serached to increase the control over the distribution channels, or by buying a distributor (ex. Merck), or making alliances (ex. Pfizer, Bristol Myers Squibb).

Literature review

The „logistics” term was first used in the military domain (Soare, C., Arsenie, V., Barbu, T., Onisor, C. (coord.), *Military lexicon*, Saka House, 1994), at the beginning of the XXth century, the logistics were considered that branch for the war art, that moves and provides armies. Step by step, the using of the term extended in the economical activity too, as in other domains (Bălan, C., *Logistics*, Uranus House, Bucharest, 2006). Reported to the definitons of the concept, we appreciate that the management of the logistics represents a complex of concepts, methodes, actions and measures developed with the purpose of assuring the normal functionality, eficient and efficacy of the logistic structures in ensemble and in detail, and has as a principal purpose touching the objectives, in the condition of rational use of resources material, human, financial and other nature that structure has (Bălan, C., *Logistics*, Uranus House, Bucharest, 2006). At an international scale, the logistics is a more ample process as implies from the participants a well knowing of the settlement and a big flexibility over the settlement of every country. The present theme is important because of the increasig ask manifested as international as national. The health represents a permanent preocupy as individual as statual. The economical situation from the last time period manifests different, as country level, but everywhere is observed a comune tendency to reduce as much as possible the price of the pharmaceutical products. It is a senzitive aspect to quantify because the ask may reach very big amounts in very short time (virosys, epidemies), it’s quantification must calculate a serie of aspects as demographical, economical, technical, many subjective aspects and last but not least the fact that the role of every state is especially important in assuring the protection over the health of population. The offertants are industrial producers, small laboratories and brands that are part of the logistic chain, such a channel needs a group of independent brands (intermediars), implied in the proces of availabling or offering services, in the view of use of final purpose.

To the effectued studies on population segments (consumers of pharmaceutical products and services), drove to the fact that at the level of 2010 it might be appreciated a far going based on the buying power. So aproximately 70% between the beneficiaries of the medico-pharmaceutical assistance in Romania are dependent on the public authorities in the district and cosume compensated services and products (receipt). Aproximately 20% have mediuin incomes and consume

pharmaceutical products and specialty services, mixing the pay system with the compensated one. Only 10% of the respondents have over average incomes and can afford the payment system. The most important problematic is that of the way in which armonising the efforts of all the participants could be realised for obtaining an increase in the grade of satisfaction of the consumers in efficient conditions for producers and distributors.

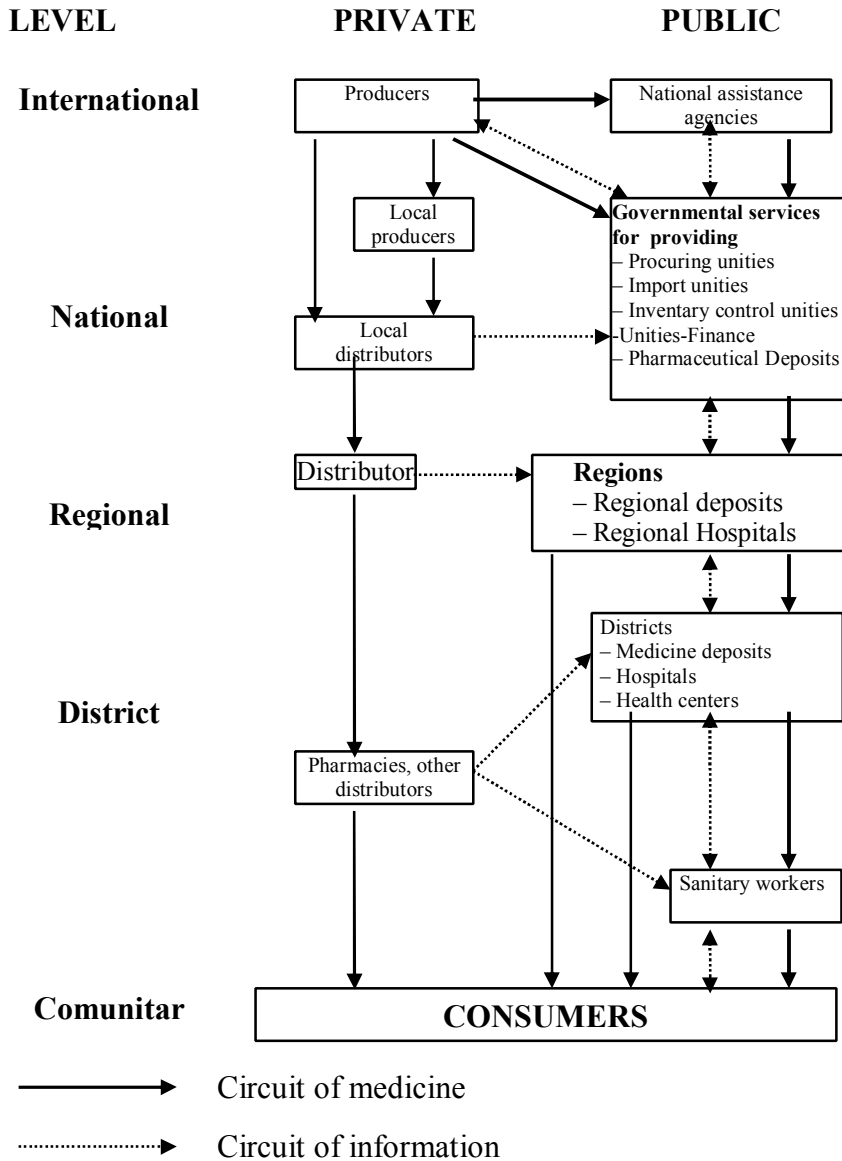
We meet preoccupies for this problematic in the Romanian specialty literature about the efficacy of the logistics, and in the abroad literature where an interdisciplinary approaching is tried.

The management of logistic operations and the role of the distribution channels in the pharmaceutical domain

Organising and distributing the medicine from the pharmaceutical deposit and pharmacy is settled by the Order Of the Ministry of Health no. 201/1999, annex 2, cap. II, art. 60-77. The pharmacy is a sanitary unity that has as an activity object the prepairing, conserving, sending pharmaceutical products for human use, parapharmaceutics, cosmetics, dietetics, stomatological, fitotherapeutical, and technico-medical products. The pharmacy functions on the basis of the Order of the Ministry of Health no. 201/1999, annex 2, cap. I, art. 1-59.

In the past years the producers have been exposed too a presion for the price and the product portfolio, because of the modifyings in the assurance system for health and to the appearance of a new distributors group (ex. „Pharmacy Benefit Managers”). These offer advantages in delivering the medicine, but have made a list of medicine the doctors should take in view when give a treatment. For example, „Caremark”, an independent american distributor, says that did convince in average three out of five doctors to change a medicine that was not on the list with one that was written (Bucurescu, S.T., Cuparencu, B., Ponoran, V., *Marketing for the pharmaceutical industry*, Bucharest, Dacia House, 1999). The medicine producers must produce medicine depending of their comprehension on the prepaid lists, and those who try to maximise their profits see themselves constrained in their action by distributors and governmental organisms, to maintain the prices to a lower level. As a following for this conflict the producer companies switched on distribution (ex. „Merck” took over the distribution company „Medco”, „SmithKline Beecham” bought the distribution company „Diversified Pharmaceutical Services” and „Europharm”, „Pfizer”, „Rhone-Poulenc Rorer” and „Bristol Myers Squibb” signed an accord with „Caremark” for that their products to be included on this distributor’s list. In this way, the control over the logistic operations allows the producer to win the acces on new market segments and to obtain information about the doctor, pharmacist and patientt, that were not included in distributor’s data base.

Romanian producers that realised the vertical corporative marketing system, according to the international uses (producer and angrosist) are: „Antibiotesc” Iasi and „Labormed” Bucharest, and those that did not realise this system are „Europharm” Brasov and „Pharmatech” Tg. Mures. More of those corelate the logistic chain of tthe medicine with that of the information existing a significant trespassing between the private district and the public one as can be observed in fig. 1.



Source: Carata Ana, *Management, Marketing and Pharmaceutical Settlement*, vol. II, Didactical and Pedagogical House, 2000, p. 132.

Fig. 1. *Distribution channels and the circuit of information in the pharmaceutical domain*

For covering the whole Romanian territory a minimum of 13 pharmaceutical deposits is recommended, distributed on the whole territory but, depending on the efficacy of this web, it may develop in the future.

Logistic of the medicine

“The en-gros distribution of the medicine, which realizes by the pharmaceutical deposits represents the totality of the activities for providing, deposit and delivering, without the free activity to the public” (Order no. 863/28.11.2001 emitted by the Ministry of Health and Family for approving the Rules of good practice in distribution for the medicine, Official Monitor, part I no. 46, 2002, p. 1). The principal function of a pharmaceutical deposit is to assure a link between the medicine producer and pharmacies. The pharmaceutical deposit has other important functions too: selling and promoting, contacting, providing and forming the lots, making the goods sellable, depositing, transport, finance, taking the risk, informing. The angrosists from the pharmaceutical domain are, through nature and tradition, local operators, as a difference from the pharmaceutical brands that tend to be global. In the countries where the angrosists have a dominant role in the activity of market placing the products, the system of a logistic channel has the following characteristics (Bucurescu, S.T., Cuparencu, B., Ponoran, V., *Marketing for the pharmaceutical industry*, Bucharest, Dacia House, 1999):

- The en-gross sellers tend to open the products to all the producers and to deliver them to a specific group of clients (different types of pharmacies). Average, almost 80% from the pharmaceutical products' flux gets to the pharmacies through the en-gross sellers; the data varies from a country to another.

- Analysts and observers prognose that the tendency of use in an appreciable amount of the en-gross sellers in the circulation of medicine through the patient will go on in the next years. The number of the en-gross sellers varies from a country to another: in Norway is only one distributor, in property of the state; in Sweden two; three in Finland; between 5 and 280 in the other European Countries.

- The profits of the en-gross sellers reduced because of the pressures the governments for decreasing the health fees, private programmes for health assurances and the increased competitors in this district.

- Increasing the automatisation and using the electronic loading of data, billing and stock controlling helped en-gross sellers to reduce their costs, beneficiaries being the pharmacies and the patients.

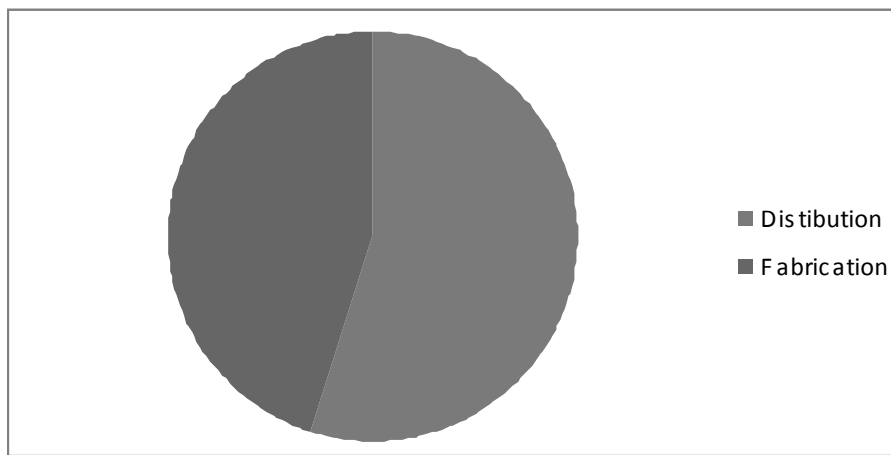
- A strong consolidation of the commerce district is awaited. A study effected by „Economist Intelligence Unit” (EIU) showed that, except Italy, Japan and Spain, the commerce district in the other countries is dominated by two operators (ex.: first two operators detain in Germany 45% of the market, 55% in France 65% in Canada, 67% in Great Britain, 41% in U.S.A., 80% Holland).

- Internationalising affects the commerce with pharmaceutical products, so many en-gross sellers tried to „europise” their activity through activities and alliances (ex. „CERP” Rouen from France bought the brand „SA DAFRAENE” from Belgium and other three en-gross sellers in Spain).

- The en-gross commerce with medicine integrates vertically, some en-gross sellers started to develop production activities or detail sales. „Unichem” (GB) brand produces medicine and opens in detail through „Moss” Brand.

Because of the great competitors many en-gross sellers improve their operation through introducing the logistic automat systems, electronically command systems. Information from the market allow the en-gross sellers to serve their clients better than other competitors and to maintain a good link with the market.

In this sense, analysing the economical evolution of more societies that develop contracts in this area we considered signifiant an interesting example, SINDAN SRL, that in 2002 was authorized to produce, import, deposit and distribute en-gross human medicine. Once with the apperance of the Law no. 336/2002 the company was broken into two companies, each with a specific domain of activity: production, distribution. Is interesting the fact that the incomes fromm distribution are bigger than the ones from production (fig. 2). Same tendencies have been observed at every analysed brand.



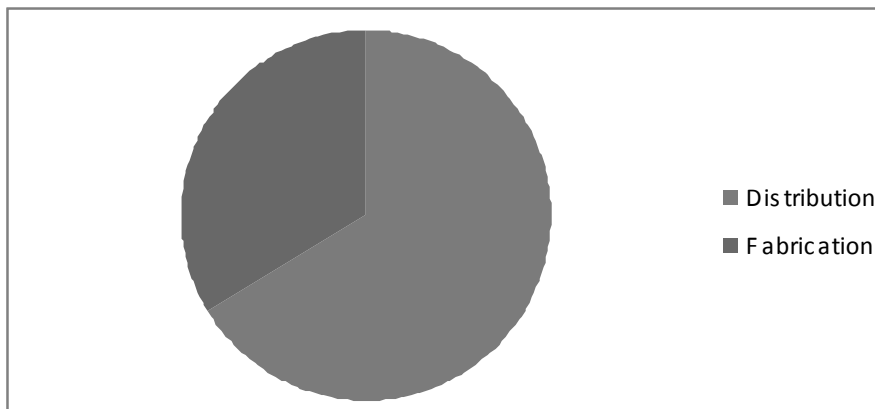
Source: Internal information of the analysed brand.

Fig. 2. *Incomes of the brand depending on activities (2009)*

In present the products' portfolio of SINDAN is composed from 110 products (aproximately 37% from the business number of the company is represented by the production and distribution the left 73%) (fig. 3).

According to the Rules of Good Distribution and Law about organising and using the National Agency of the Medicine and Ministry of Health (Law no. 336/2002 about human use medicine), the logistic activity is developing in controled conditions, according to the present legislation. The transport is done with ways that maintain the medicine in the conditions described by the producer. Trasability (the ability of finding the history, appliance or localising what is taken in consideration) is a settlement condition and is applied starting from the maintaining the recordings from the providing pace.

For the efficacy, the societies adopted a new procedure for the reception products, deposit, distribution, use of products.



Source: Internal information of the company.

Fig. 3. *The number of products parted on activity*

Conclusions

The medicine represents a special commercial product. Its essence is double: carrier of values that must be taken back through the act of transfer of the property and, in the same time, factor that contributes directly to the population health, with a special social importance. The logistic function allows the closing between the patient and the medicine and through its' activities, covers the distance in space and time between producer and user, making different treatments possible.

A first conclusion stains in that the management of logistic operations in the pharmaceutical domain represents a particularity, and that the use of exclusive distribution system. Another conclusion is that the producers from the pharmaceutical industry realise a restrained number of products adressed to special needs consumers, that's why the responsibilities might be bigger than in the case of other products and services. In these conditions authorising more products in the sight of sending on the internal and external market and extending the distribution lines would be benefic.

The delivery system is organised so as every client is served in the least 24 hours. A part from the clients are served in 12 hours the emergency orders could be served in 4 hours. In these conditions the time and price factor may be sustained through adopting the unitized systems of some mini-containers built with international standard dimensions. The pays are reduced with the cover, the risks of losing or breaking through carrying are reduced, and the time for executing the transport reduces to half. Adopting the concept of logistic integrated management, offering some better services to the clients and reducing the pays for distribution, needs team work, inside the brand and with all the organisations that realize the logistic channel (Kotler, Armstrong, *The principles of marketing*, Bucharest, Teora Publishing House, 2004, p. 615).

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