



CASE STUDY

8 DOLDER SHANGHAI TRADING Co., Ltd.

Pharmaceuticals and Chemicals Industry

SUMMARY

Dolder specializes in the sourcing, purchasing, marketing and distribution of natural raw materials, intermediates, active substances and additives for the polymers, pharmaceutical, chemical and food industries worldwide. The company's subsidiaries in Europe are engaged in sourcing and distributing raw materials for the polymer and pharmaceuticals manufacturers while its subsidiary in China sources and purchases primarily fine chemicals from local suppliers for international pharmaceutical companies.

This case study highlights the following factors for the success of Dolder in China:

- strategic market entry using the expertise and business know-how of a market intelligence provider
- supplier relationship management
- methodical local recruitment process and people management

Figure 1:
Dolder's activities in China
Source: Swiss China Survey, 2005

		B2B				B2C	
		Industrial Component	Industrial Equipment	Raw Material	Services	Consumer Goods	Services
Producing							
	For own China operations						
Purchasing	For mother company						
	For third party			Dolder			
Selling	SOE						
	POE				Dolder		
	FIE Global						
	FIE Local						

SOE -State-owned enterprises in China

POE -Private-owned enterprises in China

FIE Global - Foreign-owned international enterprises with operations in China that are clients of Dolder in the global scale

FIE Local - Foreign-owned international enterprises with operations in China that are not clients of Dolder in the global scale

GLOBAL INDUSTRY TRENDS and OUTLOOK

Polymers

The versatility of plastic makes it valuable in markets as varied as packaging, building and construction, transportation, electrical and electronic components, and medical. The adaptability of plastics also offers manufacturers the freedom to focus either on exclusive markets or spread themselves out over a larger number of application areas. The global plastic applications sector is expected to grow as plastic influences applications ranging from daily life uses (i.e. packaging and internal wiring for houses) to highly specialized functions (i.e. automotive and electronics), thereby driving the global requirement for polymer raw materials up. Demand for flexible polymer ¹ materials (e.g. flexible PVC) around the world is expected to grow approximately 18% from 2003 to 2008 ¹.

Pharmaceuticals

IMS Health (a global business intelligence and consulting service provider for the pharmaceutical and healthcare industries) estimates that global pharmaceutical sales will have a compound annual growth rate (CAGR) between 8% and 11% through 2008 ². Figure 2 shows the breakdown of global pharmaceutical sales by region in 2003:

Global demand for pharmaceutical chemicals is expected to increase approximately 6% per annum to USD84bn before the end of 2005 ³. The eight largest drug-producing countries – US, Japan, Germany, France, China, UK, Italy and Switzerland – will account for almost 80% of the total demand. Pharmaceutical fine chemicals production is generally moving towards Asia, with China and India as the biggest Asian manufacturers. However, the bulk of production still originates from developed countries, as pharmaceutical multinationals produce the biggest part of their raw materials.

Region	2003 Sales volume (in USDbn)	Market share	Change in sales volume from 2002
North America	229.5	49.0%	+11.0%
Europe	115.4	25.0%	+8.0%
Japan	52.4	11.0%	+3.0%
Asia (excl. Japan), Africa and Australia	37.3	8.0%	+12.0%
Latin America	17.4	4.0%	+6.0%
Rest of Europe	14.3	3.0%	+14.0%

Figure 2:
Breakdown of pharmaceutical sales by region in 2003
 Source: IMS World Review 2004

MOTHER COMPANY – DOLDER AG

Company background and current situation

Dolder Group sources, markets and sells chemical and natural raw materials, intermediates and additives. Founded in Basel, Switzerland in 1898, the family-owned Dolder has since become an international supplier of raw materials and services for manufacturers in the fields of chemistry, pharmaceuticals, food and plastics worldwide.

Business units / product divisions

Dolder Group is divided into two main business units — Polymers and Fine Chemicals.

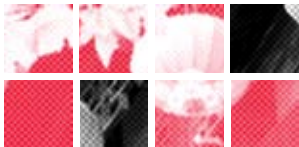
The Polymers division account for 75% of Dolder's activity. It provides customer-oriented services focusing on raw materials, semi-finished products and special compounds and distributes pellets, fibers, plastic film and special chemicals for the polymers processing industry. However, since Dolder is not active with its polymers unit in China, it shall not retain further attention for this case study.

The Fine Chemicals business unit sells raw materials for the pharmaceutical, chemical and food industry as well as for the chemotechnical operations and offers services for active pharmaceutical ingredients (API), food additives and active carbon.

Company size, extent and structure

Dolder Group has about 100 employees (70 are based in Switzerland) and a total of four subsidiaries worldwide. The Group's subsidiary companies in Switzerland, Austria and Italy are involved in supporting the certification of raw materials and distributing them.

Meanwhile, the China subsidiary is active in sourcing and purchasing fine chemicals and natural raw materials from China for the mother company which subsequently sells to pharmaceutical manufacturers. The company's current global turnover is over USD100m, 25% of which comes from the fine chemicals business.



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Targeted market segments and distribution structure

Dolder Group serves the business to business (B2B) market segment. For its fine chemicals division, the company targets mostly the middle-sized as well as some big pharmaceutical companies in Europe, Asia and Latin America.

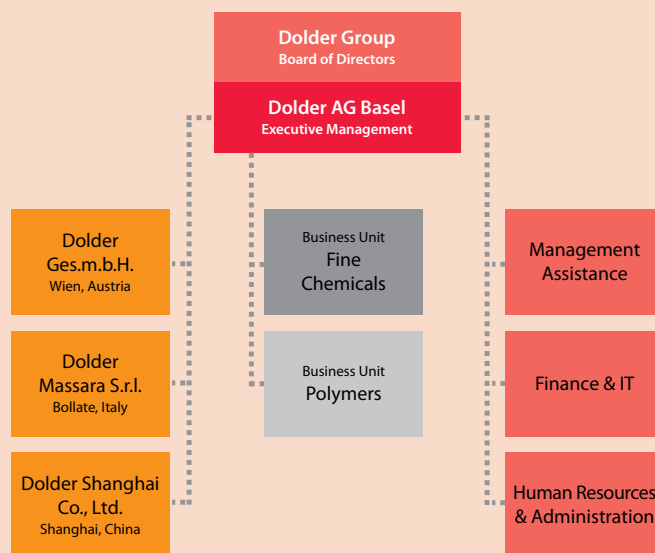
Dolder deals in generic (off-patent) raw materials and sells directly or via sales agents to its pharmaceutical fine chemicals customers in ten nations including Turkey, Egypt, Brazil, Mexico, Argentina, Japan and the countries surrounding Switzerland.

Competitive advantages

The following elements are Dolder Group's competitive edge over its competitors:

- exclusive rights on products in key markets obtained through granting certification support to suppliers. Each new product needs to be certified before it is permitted for use in Europe and the USA. Dolder's team of specialists in Switzerland and China supports Chinese manufacturers to obtain their market certification. In compensation, Dolder acquires exclusive sales rights on a product from its manufacturer in major markets or for certain clients.
- in-house experts for efficient technical support
- GMP-certified warehouses in Switzerland that facilitates high availability and timely delivery of products
- selective supplier choice and supplier qualification especially in China
- international distribution and sourcing network
- extensive knowledge of suppliers, customers and markets

Figure 3:
Dolder Group company structure
Source: Swiss China Survey, 2005



ASIAN INDUSTRY TRENDS and OUTLOOK

Pharmaceuticals

Growth levels in Asian pharmaceutical markets are expected to go up as Asian tiger economies – characterized by economic growth, free market environment, developed industry and increased investment in health and health infrastructure – recover from the 1990's regional economic slump. The pharmaceutical markets of ten leading Asian countries: China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand; are estimated to have a combined annual growth rate of approximately 10% by 2006.

Consumption levels drive sales volume up while government-controlled prices and intense market competition hold prices down; hence, pharmaceutical growth in Asia is mostly driven by volume rather than prices. Pharmaceutical sales in the region are expected to exceed USD30bn by 2006⁴.

Production of pharmaceutical fine chemicals is expected to grow significantly in China and India. China's pharmaceutical fine chemicals industry has steadily developed for over 40 years following governmental policy in the 1960s to ensure the country's self-sufficiency in the textiles, agriculture and health care sectors. China currently hosts over 6,000 domestic manufacturers of pharmaceutical fine chemicals. With about 250 large and 8,000 small-scale producers, India meets around 70% of its requirement for drug intermediates, pharmaceutical formulations and chemicals. It is currently among the top five global manufacturers of active pharmaceutical ingredients (APIs).

Multinational pharmaceutical companies are also expected to begin shifting their production towards these two markets with the perception that it is far more cost-effective to produce pharmaceutical fine chemicals in China and India than in Western countries. With large pharmaceutical companies looking into substantially increasing their share of fine chemicals outsourcing out of China and India, the rate of total fine chemicals outsourced from these two countries could increase 20% to 30% by 2006 to 2007⁵.

DOLDER in CHINA

Subsidiary background and current situation

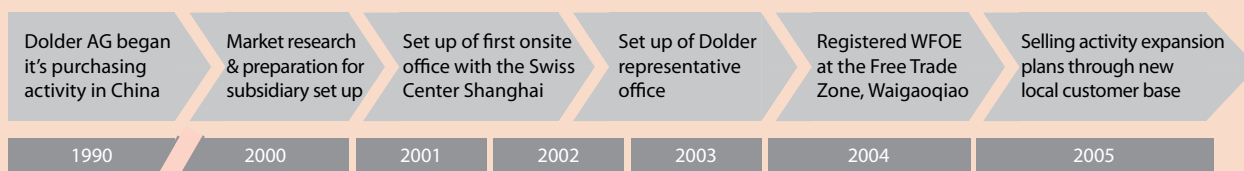
Dolder Shanghai began sourcing fine chemicals and pharmaceutical raw materials from China for its mother company in Basel in the early 1990s. Its first office on the Mainland was set up in 2001 with the help of the Swiss Center Shanghai (SCS), a local support network. During its preparation year, Dolder carefully evaluated the form of its set up and potential candidates as local representatives. In 2003, it established its representative office in Shanghai to follow-up on the spot with existing suppliers, find new ones and manage them locally. In the middle of 2004, Dolder Shanghai Trading Co., Ltd. was officially registered as a wholly foreign owned trading company in the only area that allows such a set up within the Yangtze Delta: the Waigaoqiao Free Trade Zone, about 40Kms from downtown Shanghai. For convenience in receiving suppliers and clients, a representative office was set up in the city.

The wholly foreign owned trading company is set up to sell within China in addition to sourcing and purchasing. It also allows Dolder tax-exempt privileges in its purchasing activity. In the long term, the subsidiary may also export from China directly to its international customers.

Figure 4:

Subsidiary background and plans

Source: Swiss China Survey, 2005



Subsidiary size, branches and turnover

The subsidiary presently has seven local employees in Shanghai. Dolder Shanghai's purchasing value has increased 400% four years after setting up its first office in China in 2001. The China subsidiary has also significantly contributed to Dolder Group's increased overall gross income.

Local competitor and competitive advantage

Dolder Shanghai's competitors in China are international companies from the USA, European countries and local Chinese trading companies that offer very competitive prices through lower margins on large quantities standard business. These competitors arrived and set up their offices in China before Dolder came into the market. However, despite the time advantage of its competitors, Dolder Shanghai was better equipped with local knowledge and support before it set up locally. This eventually helped the subsidiary win the respect of local manufacturers and is highly regarded by its local sourcing partners.

Value chain

Dolder Shanghai sources and purchases fine chemicals and active pharmaceutical ingredients from Chinese suppliers and exports to Dolder AG. The mother company sells globally to pharmaceutical companies that manufacture generic medicinal products. The end products are distributed to consumers through retail channels such as hospitals, medical clinics, doctors and pharmacies.



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Having succeeded in its sourcing and purchasing activities, Dolder Shanghai has recently begun test-selling pharmaceutical end products through two pharmacies in Shanghai. The subsidiary aims to further develop its customer base to sell end products locally within the next five years.

FACTS and ANALYSIS

Motivation and market entry strategy

China's participation in the World Trade Organization (WTO) compels it to integrate more completely into the global economy enabling the country to compete in the global market. China is now bound to WTO's fundamental principles such as improved transparency and access to market of non-Chinese suppliers engaged in the distribution of pharmaceuticals. To gain access to international markets, China also committed to the Good Manufacturing Practices (GMPs) standards of the pharmaceutical industry. To meet the global GMP criteria, stronger regulations have been enforced by the China State Food and Drug Administration (SFDA).

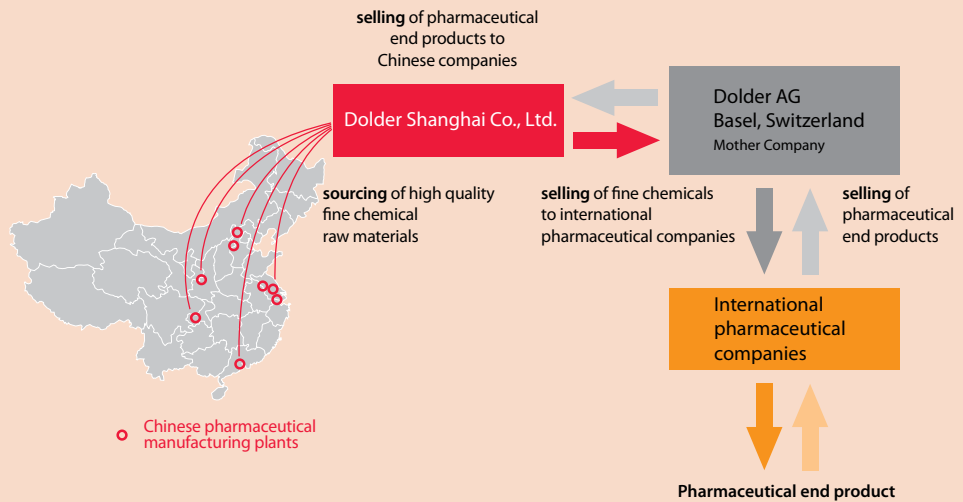


Figure 5:
Dolder Shanghai value chain
Source: Swiss China Survey, 2005

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Chinese pharmaceutical companies are investing heavily on facilities and manufacturing plant upgrades which significantly improve their output quality and enable them to level up with European manufacturers. Dolder recognizes that China's entire pharmaceutical industry is moving towards higher standards making it a key production hub and marketplace for sourcing and selling pharmaceuticals. As a result it is of strategic importance for Dolder to ensure a privileged access to China's supplier base.

To define how to establish its presence in China, Dolder worked with the Swiss Center Shanghai (SCS) and its network of local experts. The initial step was devised at the immediate set up of an office in the SCS, staffed with one sourcing representative. The SCS support network provided the necessary business know-how and local people psychology to successfully assess, select and (initially) supervise Dolder's first sourcing representative.

With the development of activities, more employees were hired, making it worthwhile for Dolder to have an office independent from the SCS. With well-established purchasing activities, Dolder could spare some resources on developing its selling activities in China – yet another big potential but even more difficult to tap.

Recruitment and people management

In order to select suitable individuals to join the Dolder Shanghai team, the subsidiary follows a three-step local recruitment procedure:

- The first round involves the preliminary screening of applicants by the local General Manager and making the initial selection of candidates.
- At least one representative from Switzerland headquarters and/or the local General Manager and a second person will review the screened applicants and pick out candidates who qualified for the first interview.
- The third step is the second assessment and validation of the best applicant by representatives of the mother company and of the Swiss Center Shanghai support network.

Through this process, Dolder Shanghai obtains valid input on the candidates' qualifications from both the local and foreign perspective. This selection procedure also assures Dolder Shanghai of minimal staff fluctuation. In the long term, Dolder benefits from retaining employees who are loyal, expert and experienced.

Location

Shanghai, the communication hub on China's coast, has been chosen by Dolder due to accessibility from the city to other areas within China and abroad, in addition to the opportunity to find more highly-qualified staff in the city. Since foreign-invested trading companies are only allowed to set up their headquarters in Waigaoqiao Free Trade Zone, Dolder established a representative office in downtown Shanghai.

The subsidiary opened its downtown office using the following criteria in selecting the best site for the office:

- within close proximity to the city's metro line stations
- within the vicinity of residential and business districts with plenty of dining establishments
- easily accessible area that can be located by suppliers and customers without difficulty

Supplier selection and relationship management

Despite the increasing quality levels of local pharmaceutical suppliers, Dolder Shanghai is carefully choosing its local partners. It is important that the suppliers maintain high business ethics and provide the quality, service level and price that comply with the global standards set by Dolder Group. Dolder's supplier selection process narrows down the number of potential suppliers from several hundreds to a dozen.

Managing the local partners is the next big challenge once the selection is made. To ensure that high service levels are sustained, Dolder Shanghai audits its manufacturers on a regular basis. The company nurtures its partnership with the manufacturers by forging stronger ties through regular visits, open communication channels in all levels of management and spending social time with the executive members and owners of the partner companies. Dolder believes that relationship building with its Chinese partners requires a connection that goes beyond pure business dealings. By forming trust-based relationships, Dolder Shanghai does not only secure long term partnerships — the company can also reduce supplier quality control to save time and unnecessary costs.

FACTORS FOR SUCCESS, RISKS and OPPORTUNITIES

Opportunities

China has become one of the largest pharmaceutical-producing countries in the world growing in market value at an annual estimated rate of 17% over the last decade. The country's WTO membership comes with its commitment to tariff concessions, tightening rules on intellectual property and allowing market access to foreign companies engaged in the distribution of pharmaceuticals. Together with the local companies' improved quality of products and growing service levels, all these present a tremendous opportunity to Dolder as a foreign-owned pharmaceutical trading company to develop its sourcing and purchasing activities in China.

Moreover, China's aging population ensures that growth in drug use will not diminish any time soon. The country's population of 1.3 billion has a projected ageing rate ⁱⁱ of 3% per year. Five years ago, there were around 88 million people in China that were aged 65 or over. This vast market, therefore, presents a huge potential for rapid growth in consumer demand for pharmaceutical end products. With its own organization solidly established on the ground, Dolder is able to further identify specific opportunities in purchasing and distribution. This will also enable Dolder to define an efficient strategy for the company's future with respect to China's development.



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Difficulties and risks

A vast and dynamic environment

With over 6,000 domestic pharmaceutical manufacturers in China (mostly with immature or unstable operation processes) and new manufacturers appearing regularly, it is not easy to get the right product from the right supplier at all times. Cultural differences, contrasting business practices and a constantly changing regulatory environment also make it challenging for Dolder to manage its sourcing and relationship with its local partners. Nevertheless, Dolder Shanghai provides a competitive advantage through superior management in comparison to international competitors.

Protectionism

As the difference in quality between Chinese and European products get smaller, local products are becoming increasingly attractive to international pharmaceutical companies in terms of price. This may drive European companies to safeguard their home market and to appeal to their government to impose higher taxes on imported Chinese products. This would render Dolder Shanghai's activities less attractive.

Growing Chinese competition

The downside of improving quality and service levels of pharmaceutical producers in China is that it attracts international companies with the necessary critical mass to do their own sourcing and manufacturing in the country. Many of these companies are Dolder Group's customers or potential customers. This shift of activities will impact the mother company's customer base. Furthermore, Dolder faces the risk of gaining new competitors as Chinese manufacturers may export directly to international pharmaceutical companies, at the same time, local pharmaceutical trading firms are learning how to support local suppliers to obtain certification in Dolder's markets. To address this, Dolder considers to either back-integrate (invest in the development of pharmaceutical fine chemicals and active ingredients) or forward-integrate (invest in facilities for the production of pharmaceutical end products) or both, to secure long term advantages for its current global trading and distribution network.

Success factors

The following key factors explain the success of Dolder in China, despite the subsidiary's late set up in the country:

- **Strategic market entry using the business know-how and expertise of a market intelligence provider**

Even though many of its competitors came into China at an earlier time, Dolder Shanghai managed to secure its success in the country owing to a careful yet short preparation phase before it established its own operation in the country. By employing a local support network in Shanghai, Dolder was able to select the right initial staff at optimal cost to establish its presence step by step and earn a well-regarded reputation among the local manufacturing companies.
- **Effective supplier relationship management – effecting constant supplier performance appraisals and forming trust-based partnerships**

Through a network of suppliers, Dolder Shanghai selected the best local partners in accordance with Dolder Group's corporate standards. Through proficient management of its relationships with the local suppliers and reinforcing the partnerships with trust and friendship, Dolder Shanghai has fulfilled its initial goal to successfully source and purchase in China. This same foundation may support Dolder Shanghai as it moves forward to its next step: building up its customer base in China for its selling activities.
- **Methodical local recruitment process and people management**

As a global company, it is very important for Dolder to not just select the right team members. It is also as crucial for the company to motivate and retain the staff. Shanghai's population of approximately 17 million and the city being home to some of the brightest individuals in the country, indeed presents Dolder with a massive and skilled labor market. Although

finding the right people in the metropolis is not difficult, choosing the most qualified candidate out of the lot is most challenging. Dolder Shanghai's three-step local recruitment procedure (see "Recruitment and people management" above) provides the group with efficient means to select the individual who is most suitable for the position. Applicants are assessed by the local human resources administrator, a foreign representative from the mother company and local experts. Through this meticulous procedure and by projecting Dolder's image as a resourceful, serious and successful Swiss player, the company can expect ethical staff, low manpower turnover and benefit in the long term from its experienced and loyal team members.

*Information on Dolder AG courtesy of:
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Notes

- ⁱ Polymer – literally means “many parts”. A polymeric solid material may be considered to be one that contains many chemically bonded parts or units which themselves are bonded together to form a solid. Two examples of industrially important polymeric materials are plastics and elastomers.
- ⁱⁱ Aging rate – is defined as persons aged over 60 years old or over per 100 persons under the age of 15

Sources

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