

The South's



Most Ambitious Companies

CUSTOM HEALTHCARE GROUP

— The South's Most Ambitious Companies —

FOREWORD

Which are the most ambitious companies in the region, those which have the most potential?

Research commissioned by law firm Rawlison Butler reveals that most are names which simply don't tally with those which appear regularly in the media as exemplars, because they tend not to be networkers or publicity hunters.

The research programme to identify the companies took as its criteria:

- * A desire to build a business of some significance, to be a leader rather than a follower.
- * An ability to think (and act) strategically as well as operationally and opportunistically.
- * A willingness to build a management team and to be open to new ideas and advice.
- * Either an ability to re-write time-honoured modus operandi, or a skilful perpetuator and up-dater of traditional beliefs to achieve/sustain competitive advantage.
- * An organisation which is determined to continually develop new standards in terms of process, practice, and delivery.
- * Demonstration of a will to succeed despite obstacles.

This paper considers the attributes of one of the researched companies.

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Nigel Richardson opens a packet of painkillers to demonstrate how new product development can be applied to something as apparently standard as a generic medicine.

He pulls from the box is a blister pack of co-codamol, an analgesic made from codeine phosphate and paracetamol. There's nothing unique about the contents, which Richardson's company, Custom Healthcare, makes on a contract manufacture basis, along with a large range of other, again mainly generic, drugs.

But Richardson, the chief executive, is about to illustrate how his company offers a point of difference in its products. Unlike the tablet formulation used in other generic versions of co-codamol, Custom makes the medicine in capsule form to cater for those patients who have trouble swallowing conventional pills. They command a higher price-point than tablets and are thus more profitable for the business – an important point in an uber-competitive market where margins are slim.

The business, founded in 1979 by Richardson's father, Tony, and which now employs two hundred people is striving for more points of difference like this. Richardson gives another example. "Traditionally there are three strengths: 25, 50 and 100mg," he explains. "Patients who needed 75mg, say, needed to take two tablets. So it became clear that there were opportunities for more strengths; if someone can take one tablet it's cheaper for the government and more profitable for the manufacturer."

Richardson calls this approach "innovation rather than invention", and it's important in terms of making Custom Healthcare distinctive. He explains: "Having more of our own production services around new product development means we can be using specialist knowledge and technological expertise to leverage new opportunities."

There's a quotation on his office wall by Michael E Porter of Harvard Business School: 'If your goal is anything but profitability - if it's to be big or grow fast, or to become a technology leader - you'll hit

problems.' Richardson gives his take on this: "When you see others falling by the wayside it sharpens your wit and intuition to keep a close eye on numbers, monitor value, orders, costs, payments. But you also have to look at the way forward. It's easy to go for volume but if it doesn't bring profit what's the point?"

And to be profitable, the business needs to be able to sell on value rather than price, he says. "Value is something that's rarely on the agenda and it's difficult to quantify in the short term but it's about consistent standard of supply, being able to build quality and technical capability."

So how does Custom hold its own against the scale and clout of the multinationals. "The reason we're still here," explains Richardson, "is that while we can't compete in high-volume commodity products - and we want higher margins anyway - we produce a variety of products that are more complex to manufacture, in smaller volumes.

"The industry has paracetamol licences coming out of its ears, but there are still a lot of medicines in shorter supply as only one or two companies have licences to produce them. That means there are opportunities for us to make the more difficult and less commonly available products."

For example, larger dosage, high potency drugs which are complex to produce and some companies have had to withdraw it as their production was not consistent enough for the regulators. That left Custom in a stronger position as one of the few manufacturers allowed to make the drug.

The vast majority – about 90% - of Custom's business has been contract manufacture of generic medicines on behalf of the licence holders. But Richardson has ambitions to expand the 10% that is own brand, because it provides better control over capacity utilisation and commands a better margin.

"I want us to become more self reliant, less of a contract manufacturer and more a company that has its own products and provides speciality services," he says. "That would be a great result as we would have

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more control over our own capacity. Contract manufacturing can be frustrating as there's no control; we have the cost of production without necessarily getting the rewards."

With this in mind the company has been linking up with local medical schools, universities, and NHS consultants. "They're looking for opportunities to do trials, to find new medicines or combinations of medicines. We're working with them to bring new products to the market."

He explains how this might work. "They might think there could be some benefit in a new combination of products, to bring about lifestyle improvements for patients, and we can apply our expertise to bring them to the market as own-brand products. For example, the head of research at the local medical school wanted to find some way of helping people who have hyper-mobility in the joints, coinciding with a range of other conditions. This can be due to excessive collagen, which has numerous side-effects. If the consultants are saying 'we think this new combination of medicine might work', that's an area of opportunity for us and we will do a controlled study. I get very excited by the sense of achievement this would bring."

Cost pressures are a constant challenge in the pharma industry. Richardson says: "If you go to Asda or Tesco and look at the paracetamol, you'll get sixteen tablets for 16p. I defy you to find a packet of sweets that come as cheaply as that."

"The UK taxpayer and consumer gets a terrific deal from pharma in terms of the cost of generic medicines to the NHS. Compared with other countries we're incredibly cheap. I had a customer who was trying to source from Bangladesh, thinking they would achieve a lower price; but the figures the Bangladeshis were quoting was too high for him. It's more profitable to procure in the UK for the Bangladeshi market and more profitable to sell in Bangladesh than it is in the UK."

Overseas competition comes also from India, where the cost base is lower and where there are export incentives, and from China, where paracetamol, for example, is made for very low margins as the authorities are more concerned about creating employment

than making profits while they build global market-share.

Custom had a go at doing production itself in China. "We invested millions," says Richardson, "but it was probably a step too far for us. Everyone has to have their say out there, and every government department has its own process. Just to get water or electricity switched on we had to have face-to-face meetings. It was such a protracted process, much harder than we expected, and we didn't have the network a joint venture would have brought to help us move through those issues."

The lesson learned? "That we undervalue what we have as a nation," suggests Richardson. "In China most people do one high volume, repetitive process. British people are far more flexible, capable of multi-tasking, and thinking outside of the box."

In 2014, Custom moved from two sites to a single state-of-the-art facility. The five-year plan is to grow the business from a £13.5million turnover to £20million. And the group isn't afraid to diversify. A subsidiary, Nutra Ingredients, brings in nutritional ingredients, such as black garlic powder and pomegranate skin extract for food and cosmetics production.

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Researched and published by
DECISION magazine
www.decisionmagazine.co.uk