

Interview: David Goodman, CEO, Pharmascience, Canada



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David Goodman, CEO of Pharmascience, describes the importance of balancing innovation with low cost products in Canada and outlines his company's strategy for growth domestically and internationally.

2013 marks the thirtieth anniversary of Pharmascience. How does the company's original business compare with its business today?

Pharmascience was first established as a branded business with a very small generic footprint. Back then, our goal was making a name for ourselves in the highly valued and internationally sought-after Canadian market. Our game plan was threefold: focus on customer service, develop a more flexible business model than our multinational competitors, and offer a much faster time to market than our counterparts.

Fast-forward to today and we are now the third largest generic pharmaceutical firm in Canada, and have become the largest manufacturer and employer in Quebec's pharmaceutical industry.

As the industry has changed, so have we. Today we're focused on accelerating growth in both our branded and international businesses, creating new opportunities and unlocking our potential in key markets around the world.

Was the switch to generics in the 80's a reflection of the changes in the Canadian marketplace?

We started to switch more over to generics in the late 80s because we saw a great need and wider acceptance. The cost savings that generics provided and the industrial development they created stimulated many provinces to adapt progressively wider substitution of generic products over branded products. Professionals also became more comfortable with generic product utilization resulting from increased scientific knowledge supporting their equivalency to brands. The high productivity of the brand companies to launch new products also gave us comfort that the market for new generics would continue for some time to come.

How has the legislation for pricing regulations affected local generic companies?

I believe you're referring to pricing reforms initiatives, which many provinces launched last year. These unilateral price reductions require generic manufacturers to assess the profitability of each product and then determine whether it makes sense to keep them on the market at the new price point.

In the long term, this means we must all be more cautious and selective about how we invest here in Canada, both in terms of products and manufacturing capability. Certain products simply won't get launched, leaving Canadians with fewer choices for lower-cost products. Already some of our competitors are deciding not to bring certain products from their portfolio into Canada because it's not worth the investment risk.

It's not clear if the Provincial governments understand the impact this policy will have on decelerating investment or the implications on the health care model. Canadians receive a multitude of benefits from the current model, including reliable and convenient access to a broad range of low-cost medications. And while health care spending is about \$200 billion in Canada, generic drug spending accounts for less than 3 percent of that at only \$5.3 billion. It would be unwise to assume that meaningful savings can be achieved by focusing only on the generic side of the equation.

Given the benefits of a healthy local generic drug industry, and the cost savings greater generic drug investment could bring to the health care system, it's tragic that the government isn't encouraging greater investment and incentives to keep our domestic industry strong.

What is the role of generics in terms of investing in innovation versus imitation?

In Canada, market monopolies for brand-name pharmaceutical companies have increased eight times since 1987, yet R&D investments continue to decline.

According to the Patented Medicines Review Board, brand-name drug companies spent just 6.7 percent of Canadian revenues on R&D in 2011. That's well below the 10 percent level they committed to in 1987. It also marked the ninth consecutive year they've spent less than 10 percent of their domestic sales on R&D. So it's clear there's no link between increased intellectual property protection and increased Canadian R&D investment by brand-name pharmaceutical companies.

Canada and the European Union are currently negotiating a comprehensive economic trade agreement. As part of these negotiations, the EU has tabled proposals on behalf of brand-name drug companies. A report by two of Canada's leading pharmaceutical policy researchers estimates that adopting the EU's drug patent system proposals would lengthen periods of market exclusivity for brand-name drugs by three and a half years, on average, adding \$2.8 billion to Canadians' annual prescription drug bills and not creating any meaningful benefit to the local industry.

Most brand-name drugs sold in Canada are shipped into the country. The vast majority of generic drugs sold in Canada are made right here. In fact, the majority of the pharmaceutical manufacturing capacity that exists in Canada is generic. A dollar spent on a generic drug supports more jobs, more R&D investment, and more investment in pharmaceutical manufacturing capacity in Canada than a dollar spent on a brand-name drug.

What is the strategy behind choosing your sales offices in locations such as the Ukraine or Vietnam?

A key quality of Pharmascience is how we value leadership, supporting people who want to take on expanded roles. Essentially, it was entrepreneurs within Pharmascience who moved the company into those markets. Being a Canadian company was a benefit for these business leaders in terms of market penetration and distinction, given the high quality perception of Canadian products. This process has been very successful in Ukraine, and we're now following the same path in Vietnam.

We have a genuine interest in opening up new markets, especially emerging markets with high growth potential. Our international expansion is now focused on finding more entrepreneurs or strategic partners, but we remain very selective.

What do you look for in an acquisition?

Pharmascience's acquisitions are focused on new geographies, new commercial channels, and increasing market access and penetration. Beyond the strengths each company brings to

Pharmascience, we also look at what we can learn through working with their people to make our entire business stronger.

For instance, two years ago Pharmascience acquired Aegera Therapeutics, a company focused on new chemical entities and development. Through the integration process, we introduced some of their best practices to allow us to increase innovation in our new generic products. This type of activity has brought our R&D pipeline to a new level.

Pharmascience invests more than \$30 million in R&D and is one of the top 100 investors in Canada. What does that investment bring?

The \$30M we invest in R&D each year supports the ongoing success of our three divisions: Pharmascience Canada, Pendopharm and Pharmascience International. It provides us with the opportunity to take a leading role in delivering innovative products and services to our customers. In consumer products, it also allows us to invest in clinical trials to support strong claims for each product. Ultimately, it means our branded and specialty divisions will represent a higher percentage of our business in coming years.

While our commitment to R&D investment has not diminished, the impact of government pricing strategies has become a factor in how we now invest. A few years ago, we may have selected the fastest route for bringing a new product to market. Now, as a result of the price decreases, we often take a path that does not focus on time to market but cost to market. If everyone follows this strategy, Canadians will be the ones who suffer since they won't have lower cost alternatives at the earliest opportunity.

What makes Pharmascience the strategic partner of choice?

If you were to ask our customers, suppliers and licensors, I think they'd say we're nimble and responsive, even amidst all the changes we've seen in our industry. They see us as a company that will be able to adapt to the changes and continue to be their long-term partners.

We have the advantage of being privately owned. Our head office and production facilities are here in Canada. Our supply capability and reliability is one of the best in our industry, which represents a huge benefit for our customers. We are also developing and implementing new services that help our partners and customers to improve their business and adapt and prosper in our changing market.

The entrepreneurial spirit of Pharmascience has made us very solution-oriented. This enables us to innovate and co-create with our partners.

What would you like to have achieved in the next five years?

I would like to see the balance of our business change so that there is a greater contribution from our international and Canadian branded divisions. This will be essential for the growth of Pharmascience. We'll achieve this by introducing new products that highlight our capacity to innovate, as well as our ability to differentiate product benefits to customers. This will be done with our own developed product portfolio as well as those resulting from business development relationships.

In addition, in five years I would like us to be recognized as the strongest diversified pharmaceutical company in Canada with a larger international affiliate and business relationship network supporting the commercialization of our innovative products.

Investment grows economies, and it's the ability to challenge and compete with each other that drives greater innovation and efficiency. We must constantly remind ourselves that both the generic and branded business need each other to grow. In fact, it's that dynamic which has made us so successful. In the future, I believe more and more companies will follow our model of being balanced between branded and non-branded products. We need to stimulate both sides of the industry in Canada to make sure Canadians are developers and commercialization sites of the newest innovations and can continue to support the drug product savings in a sustainable manner.

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