Interview: Calvin Tsai CEO of Orient Pharma & Jack Wu, General Manager of Nutricare, Orient Europharma, Taiwan

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Calvin Tsai and Jack Wu talk about their two-pronged international approach through pharmaceuticals and nutricare. The head of the nutricare business elaborates on the challenge of introducing milk products to the Asian market in the current climate, and the head of the pharma business explains the company's long-term strategy for breaking the US market.

In a message regarding the current position of the company, Orient EuroPharma (OEP) Chairman Mr. Peter Tsai mentioned the milk powder market in China as a key focus area for growth. Can you expand on these comments?

Jack Wu (JW): OEP's goat milk powder business has grown 20 percent in the Q1 & Q2 of 2013 compared with the same period last year. Our success has been led by international expansion: currently, overseas sales account for 30 percent of our turnover in this product area, with China and Malaysia accounting for 70 percent of that figure.

Not long ago, Taiwan represented the major weight of our milk product sales. However, the country's birth rate is quite stable nowadays and we find limited opportunity for further growth in infant formulas. Although the nutricare business unit can continue to expand in Taiwan in adult nutrition, it is nevertheless important for us to diversify geographically in order to sustain our

development.

Recently, the milk powder market in China experienced a scare involving certain New Zealand-manufactured products. Did this represent a PR challenge for OEP, whose own milk products come from New Zealand?

JW: For sure, these events were detrimental to New Zealand's image. However, the company wasn't involved in these events, sine all our milk products are manufactured by Dairy Goat Cooperative.

Nonetheless, as I mentioned, products that came from New Zealand came under suspicion, and we had to react. We released a statement to our channel agents and customers, and posted it on official websites, to let public consumers know that they had nothing to worry about.

Perhaps on the contrary, as your competitor suffers, your market share can increase.

JW: This is indeed a possibility, but it will take time. Fonterra is the major milk products supplier in the world, so any negative impact on Fonterra can potentially have negative impact on the entire market. Even Abbott's nutrition business seems to be suffering as a result.

It will also take time for the market to recover, but with that said, we believe we have good prospects for medium-term growth.

What would you cite as your principal competitive advantages in nutricare?

JW: There are three advantages in our business.

First of all, for establishing stable and reliable relationships with suppliers, we decided to work with a single supplier. Through cross holdings, our linkages with supplier are stronger than you would typically find in this industry. Second, OEP's headquarters are located in Taiwan, which is a great base for expanding into nearby Asian markets, especially China.

Third, we have very powerful and strong marketing team which has greatly improved our sales.

In other business units, OEP stresses vertical integration, from manufacturing to point of sale, so it comes as no surprise that you have a tighter relationship than usual with your supplier in your milk powder business.

JW: That's right. I would like to add a few words about our supply strategy, because it's truly a unique point for us. Our partner, the Dairy Goat Cooperative (DGC), was formed by a group of farmers. These farmers pooled their money to fund a professional team that could help them sell

their product.

JW: From the top of the value chain down to the consumer, we are linked together.

JW: Other players in this business tend to work with a blending company, which in turn will source from a number of farmers. DGC offers products from a single collective of farmers, all of whom are its shareholders. It's a more 'communist' system than you would usually see!

What percentage of OEP's revenues is generated by nutricare?

JW: Over 50 percent. We started the business in 1991, and our first forays overseas were to Malaysia and Singapore. In 2008, we expanded to China. We didn't always envision that nutricare would become such a major contributor, but as the business evolved, we saw the potential. It's a good model of business risk balance and support with pharmaceutical business. We stand on two feet: if something goes wrong in one division, the other can help pick up the slack.

In a time when most pharmaceutical companies have sold off their nutrition business if they had one, OEP has remained diversified. What do you say to those that may believe you have your hand in too many baskets?

JW: Although we're diversified, we are still a focused company. In the pharmaceutical business, we have pursued niche products. In nutrition, we are not a food and beverage provider: we are a specialty nutrition company.

We would not go the way of a company in the FMCG sector. Rather, in each of our businesses, we have stayed true to our pharmaceutical and medical expertise. We don't feel we have our hand in too many baskets, because our core customers are still pharmacists and physicians.

Moreover, we are a sales and marketing organization. This has always been our focus. When we have integrated, it has been from the bottom up, rather than from the top down.

In the three years since Focus Reports' first interview with this company, OEP's manufacturing and drug development subsidiary Orient Pharma (OP) has had a number of milestones, including PIC/S GMP and FDA certification. What is your appraisal of OP's recent progress?

CT: In 2010, the construction of our manufacturing facility was complete. By 2011, we had PIC/S certification.

At the end of 2011, we submitted our first ANDA to the US FDA, and were inspected very quickly: within a number of months. Through today, we've submitted three ANDAs to the US, and we hope to receive our first product approval very soon.

In terms of production and distribution, our focus now is the US and Asia. We are not yet thinking about Europe.

On the research side, our emphasis is on CNS. The vision is to continually focus on new formulations and combinations. We are not looking to bring NCEs to the market.

OP is developing two products. One is collaboration with the company Durect. Our strategy is to carry products from Phase I to approval, and with the Durect-partnered drug we have completed Phase I and have the formulation down. We have approached the TFDA about the next step while our partners work with regulators in the US.

Our second product, geared towards Parkinson's disease patients, has just completed Phase IIA trials, and we are looking for partners that can help us move to Phase IIB or Phase III.

Drug development is famously risky. Why not stop at manufacturing?

CT: Our sales team is more of a specialty team than a generics team. We want to give them something different, and that's why we want to develop drugs with new formulations and combinations.

How will you penetrate the US market?

CT: In the US, we are newcomers, so we will tread cautiously. We are entering from the bottom: in the short-term, we will offer generic products first. We will cooperate with distributors and learn our way in. Our new drugs will take another two to four years to reach the market, and are the foundation of our long-term strategy. Generics will sustain us while we wait.

What is your mentality at OEP regarding being a 'local' or an 'international' company?

CT: Companies should possess both ambitious and conservative views. The definition of global is depending on what we look in that business. I can declare that we are definitely a regional company in Asia. We have a physical presence outside of Taiwan: eight overseas subsidiaries, staffed by a full team of sales and marketing people, administrators, managers, and so on. We have the whole package already.

You might say that a company is truly transitioning to multinational status when it has localized its operation in every overseas market where it has set up a subsidiary. Would you say OEP is there?

JW: It's positive. OEP is not only a localized but also globalized company. Our employees were almost from local, which includes subsidiaries, China, Singapore, Malaysia, and others. That way they can share knowledge and information of the local market.

What do you believe to be your biggest challenge?

JW: In the nutricare business I would say regulation is the major challenge: each country has a different system. Furthermore, in the wake of the milk scare in China, markets in the region seem to have tightened regulation more than ever.

The policy and regulation affairs in China changed very quickly. We have to work on this issue carefully with partners and government stakeholder to stay abreast of change.

External factors are very difficult to control, and therefore, we have to focus on our products. In this sense, we set targets, and we achieve the goal. It's that simple.

CT: For me, the biggest challenge we face is formulating an international OEP culture. As we expand further, we need to really start thinking about these things. We want our people to feel like one big family. We've started to bring people from all of our subsidiaries in the region to Taiwan for an annual party and award ceremony. We've also increased intra-company communication to keep everybody working toward the same goals, sharing best practices, bouncing ideas off each other, and so on.

We are working toward a shared culture with shared values. We know we cannot do it in a day: many multinationals have been working at it for more than a half-century!

What does the 'made in Taiwan' brand represent in this region?

CT: I believe it stands for quality. But actually, I want for our own brand to eventually supersede the fact that we are Taiwanese. The country of origin should fade to the background. Hopefully, one day, people will think of OEP as a company that started in Taiwan, but has gone on to become truly international.

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