Interview with Martin Spatz, General Manager, Teva Ratiopharm Austria

09.11.2012

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Dr Spatz, what would you highlight as the main specificities of the Austrian generic market, and explain how Teva has adapted its approach to the Austrian environment?

Teva recently changed directions in its development, determined to be a multifaceted company, offering to the market not only generics but also branded innovative drugs. Copaxone, for instance, comes out of Teva’s pipeline. In Austria, in value terms, this strategy is already reflected in our revenue profile, as 50% of our sales are generated by the generic business, and the other half by the branded innovative business.

This approach works quite well in Austria because the generic market is highly branded. Generic substitution is illegal in Austria, which means that only physicians take the decision on what drugs should be given to patients, which they decide not on the basis of International Non-proprietary Names (INN), but on the basis of drug names. Even a generic can be a brand, and no one has the right to change that decision.

Therefore pharmacists play a bigger role in the OTC market, as opposed to the role they play in the prescription business. In the specialty market, physicians play a major role as gate keepers. The physicians decide if their patients should carry out with the reference drugs, even if they are more expensive, and the sickness funds have only limited influence on those decisions.

In fact, Teva aspires to be everywhere in the world in the medium term, and Austria is seen by the group as a role model, i.e. as a laboratory for Europe.

Teva acquired Ratiopharm in 2010 for 5bn dollars to increase its presence mainly in the German market, where Teva had not been so strong in the past, and also in Europe. What has been the impact of the acquisition on the Austrian operations?

The impact on the Austrian operations has been massive for a very simple reason: before the acquisition, Austria was the only white spot on the European landscape of Teva's operations. The company only acquired hundreds of marketing authorizations which were never used, and had no presence at all in this strategic market.

The one innovative product developed in the past by Teva, Copaxone, was exclusively marketed by Sanofi-Aventis according to a global cooperation between the two firms. When Teva took over Ratiopharm, there has been a clash of cultures in Austria, because Ratiopharm was a family-owned, cosy and very well protected German company, aloof from the Israeli giant's corporate culture. Teva had at the time only a small European hub: the commercial centre for Teva's European operations was a small office in Utrecht.

Suddenly, in three weeks, we needed to prepare not only the budget for the next years, according to Teva's standards, but also prepare for the takeover of Copaxone from Sanofi and manage the acquisition of Cephalon to strengthen our oncology business. It has been a challenge for the local organization, but in the end, the pure generic company Ratiopharm turned out to be a multifaceted company, with a leading treatment for multiple sclerosis (Copaxone) enjoying a 31.5% market share, and through Cephalon with the leading therapy in oncology per capita in Europe (with Myocet), as well as the leading branded pain therapies (with Fentora).

In addition, in 2011, Teva decided to sign a Joint-Venture with Procter & Gamble, called PGT. Ratiopharm already had a sizeable over-the-counter (OTC) business; and because of our performance, it was decided that we should have the lead for PGT in Austria. Hence on top of our existing portfolio, we added all the Vicks products in the public pharmacies. As a result, we are one of the country's top five OTC players today.

Today the company has the broadest product portfolio in Austria's pharmaceutical sector, with more than 650 drugs approved. What are the main elements of Teva Ratiopharm's commercial strategy which allow you to cope with such a large number of products?

Teva Ratiopharm has the widest access to all the stakeholders in the system. We meet with the sickness funds, with the public pharmacists, with the hospital pharmacists, with the Key Opinion Leaders (KOL) in oncology and in the Central Nervous System (CNS) area, and with the dispensing doctors amongst others.

In order to manage such a portfolio in the best possible way, I have organized the company into business units. In my personal opinion, the industry as such will sooner or later end up with a model very similar to the Teva Ratiopharm model (OTC + branded drugs + generics), whereby also 'big pharma' will have to market a lot of drugs, instead of focusing only on innovation. I see a paradigm shift from the traditional model implying that generic drugs are meant to be separated from the branded drugs; and OTC should be operated separately.

If a company wants to survive in the future, is needs a more down to earth stance, and it should develop a capability to offer a more complete portfolio to the customers.

What Teva Ratiopharm currently has is probably unique, and I hope the company does not change its strategy in the medium term. The competition has always separated its different businesses: Sandoz is the subsidiary of Novartis, they are two distinct organizations whereby the generic business is owned by the originator parent. It is slightly different to what Teva Ratiopharm wants to do, with one commercial operation in charge of the whole portfolio.

Teva's brand penetration in Europe is very strong. Having said that, very interestingly, the company chose to give continuity to the Ratiopharm brand in Austria. Would you like to elaborate on this strategic choice?

In Germany, the brand Ratiopharm is still alive and kicking. We have in fact just launched a new Ratiopharm campaign. This is exactly how Teva operates: Teva would never enforce a brand, a strategy, or a go-to-market approach to a given country if this does not lead to the maximisation of the company's profits. A generics strategy is always a local strategy; more than any other business, the generic business requires a local approach.

Austria is a very branded market, and imposing a Teva brand as opposed to the well-established Ratiopharm brand would make us lose market share in just over 6 months.

In the future, I hope the Ratiopharm brand will be kept for the generic business, and the Teva brand more used for the innovative portfolio. The community of CNS and MS specialists already knows that Teva was behind Copaxone in the past.

Austria has one of Europe's lowest generic penetrations in value, and the lowest generic rate in volume with 26%. As a market leader, how important is it to raise awareness about the benefits of generic usage in Austria?

Although we are not a pure generic company, we are the only company – except perhaps Sandoz – present in the top ten players, ranking 9th in the total pharmaceutical market, and this is quite an achievement. In value, the presence of generic companies in the top rankings is not significant. Now, looking at the number of tablets, injectables, or syringes sold in total, we are number one by far according to IMS data.

Again, the Austrian pharmaceutical market is highly branded. Hence the physicians who have been used to prescribing Nexium, an AstraZeneca product, for the last fifteen years, will find it difficult to switch to Esomeprazole Ratiopharm, especially if there are no real incentives or tools which promote generic uptake. We do not have health budgets for physicians; we do not have INN prescription; we do not have patient co-payments.

Nevertheless, for a large player like us, it is not such a problem. We enjoy a very high level of brand loyalty. If a generic drug carries the Ratiopharm logo, it is easier to get access compared to a company that is not as known as we are in the market.

The price decay is very steep in the beginning. Yet we are still in an environment which allows us to offer these drugs to the market.
Nevertheless, the promotion of the generic cause needs to be done. Many physicians are not aware that there is quite a substantial gap between the price of the reference drug and the generic drug. 256 million Euros savings could be made in the reimbursement system, should all the physicians prescribe a cheaper generic drug instead of the patent free originator. This money could be used to fund the launch of innovative drugs.

What is Teva Ratiopharm’s growth potential in Austria?

If the right steps are followed properly, the growth potential for Teva Ratiopharm in the market is massive. Whereas the total pharma market in Austria is expected to grow by 1% or 2%, the generic market could grow by 5% to 7%, if it is not spoiled by voluntary price cuts; if we fully exploit the potential, it could even grow by 10% to 15%.

If your brand is not known, you will need huge upfront investments; if you are here as an established generic player, the market is rather protected. Barriers to entry are rather high because it is a branded market.

I would like Teva Ratiopharm to be in the top five players in Austria in a three years time. This is is reaching for the stars, but these objectives are set on the assumption that some companies will lose out because of patent expiry. On the other hand, Teva Ratiopharm will have new launches starting next year, of both generic and innovative drugs, including two major launches in multiple sclerosis and in oncology. Lastly, the OTC market also represents high growth opportunities for us, with an expected annual growth of 7%.

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