Interview with Patrick Bergstedt, President, Asia Pacific, MSD

08.10.2012

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In Q3 2012, MSD reported worldwide sales of $11.5 billion. What was the contribution that emerging markets had?

From an MSD perspective, emerging markets refer to every market outside North America, Western Europe and Japan. Today, emerging markets contribute to around 18% of MSD’s total revenues.

For the next 5 years, MSD’s goal is to increase the contribution of emerging markets to 25%; therefore we are investing significantly in this area.

Referring to Asia Pacific, it includes all the Asian countries excluding India, China and Japan. In Asia Pacific, we are showing very good growth with some of our key drivers, specifically the diabetes portfolio with JANUVIA® and JANUMET®, the HIV with ISENTRESS® and VICTRELIS®, which is a new drug for Hepatitis C. Furthermore, the vaccines are doing very well overall and GARDASIL® and ZOSTAVAX® are key products.

What will be the main strategies in keeping in line with this growth?

The company strategy will be to focus on growing our core products. Secondly, we will need to extend our business, specifically geographically in locations like China, India and Brazil. In this same strategy of extending our business and following the merger, we will gain a stronger

foundation in consumer and animal health.

The other part of the strategy is to excel in terms of efficiencies, looking at the cost structure of the company, as well as figuring out how we can be more efficient in a much more challenging environment.

Moving forward it is crucial for us to do better with our products; every launch is a critical asset and it has to go extremely well. Investment in China, India and some of the other countries here in Asia Pacific will also be critical for our growth. The growth of the emerging markets has to counterbalance the pressure in the US and in Europe.

Given that these markets will be crucial to continued growth, what is the commitment of MSD to the region and specifically to Singapore?

MSD has a substantial commitment to Asia Pacific and Singapore. In relation to Singapore, we built a factory in 1996 and over the years we have been here, we have invested more than $2 billion USD, especially around our manufacturing capabilities. Recently we have made further commitments to the Singapore Economic Development Board to invest $250 million USD in the next 10 years.

In this country, we have a very big manufacturing footprint. The manufacturing facilities here are very strategic for MSD, since they are for our global operations. Indeed, we produce some of the company’s crown jewels, like certain products for diabetes and our new product for Hepatitis C, VICTRELIS ®, is exclusively manufactured in Singapore, we don’t do it in any other part of the world.

For R&D, we have a research lab that does translational research focusing on biomarkers, which is part of our collaboration with EDB and A*STAR.

As for our animal health division, we have developed vaccines for the fish farming industry at our centre in Lim Chu Kang.

So, Singapore houses our regional HQ, medical, regulatory, finance, HR and all the traditional functions. The only division we are lacking here is a specific regional representation for animal health and consumer care.

Why has MSD decided to operate extensively in Singapore?

Even though Singapore’s revenues are not very considerable, our presence here is very strategic. There is an excellent, stable economic environment, very good people pool and we have a long

relationship with the EDB— we have a great partnership with them. Furthermore, in Singapore there are great academic institutions, one of the best healthcare systems that competes with any other in the world, and a very favourable environment to conduct clinical studies and work alongside scientific leaders.

In Singapore we have a very strong manufacturing, commercial presence, and a business in animal health. We employ more than 1,500 people and are ranked # 2 in the Singaporean market. We are proud of our positioning and aspire to be #1.

For all of these reasons, Singapore is a hub for MSD. We moved our former HQ from Hong Kong here, because of this great, attractive environment.

MSD has historically invested in Singapore, with an approximate $2 billion USD over the years you have been here. Now MSD's commitment to China is increasing; a cornerstone of your expansion strategy is a new $1.5 billion R&D initiative in China. Does this new investment impact the commitment MSD has to Singapore?

No, Singapore remains a very strong regional hub. Certainly, we are building a stronger presence in India and China, but as a company we don't trade off one country for another.

Following your comments that MSD will continue growing and investing in the AP region– what do you expect to be your main challenges in meeting these ambitions?

There are a number of concerns. The healthcare environment is tougher, which makes it more costly to develop original compounds. Also problematic are the hurdles for doing clinical studies, getting drugs approved, and dramatically escalating reimbursements pressures. Therefore, the cost to entry is much higher than it used to be. Generic competition also changes the playing field significantly, given that this is an environment with very good medicines that have gone into generics (generics that once were original molecules discovered 10 or 15 years ago and are still very effective medicines). In the face of all of these changes, it is very important to demonstrate good efficacy, safety, cost effectiveness and value against a good platform of generics.

In addition, the world economy is slowing down. Although Asia has not slowed as much as Europe or USA, it is still not growing as much as we would like it to, despite high growth markets like Indonesia or Vietnam. Big markets such as Korea, Taiwan or Australia have low single-digit growth and there is a significant price pressure on healthcare as people are living longer and healthier. Hence, the cost of healthcare is increasing and governments are scrutinizing costs.

With all these challenges, the question is— how can we grow faster than the market? Considering the question of growing quickly, what is the differentiating factor that will allow MSD to succeed over the long term?

As a healthcare company, our strategies are dependant on the focus of wishing to save lives. So, understanding the specific needs of patients and customers (payer, prescriber, patient organization, and NGO) is critical to our success.

For 100 years, MSD has remained very committed to innovation. We have attempted to stay very focused on R&D and innovation, both in medicines and vaccines, which will help improve the quality of life. The remainder comes down to execution. For example, you can have the best innovation but if you do not bring it to people, innovation is worth nothing. Therefore, we are also very focused on access and how we can expand access.

Access in some of the countries in this region is critical. For example, Indonesia has 240,000 people and is the 4th most populated country in the world. There is still a very significant number of people there who have no healthcare or only very basic healthcare. Also, there are many people there who still pay for medicines out of the pocket. The government of Indonesia has great aspirations to bring Universal Healthcare to its population, and countries like the Philippines and Malaysia are trying to do the same thing. In this perspective, we have to forge partnerships to see how we can help play a role. The price of medicine is just one component; we have to look at the cost of healthcare, which includes the price of medicines, infrastructure, supply logistics, training of healthcare personnel, etc.

For most of my career, I worked on HIV in Africa and Latin America. We could give the drug for nothing but that didn’t help the patient, for example in Botswana, to get to the clinic and get medicine. At MSD, yes, we look at the cost of our medicines, but we also work in partnerships with patient organizations and governments to ensure that the medicines get to the people who need them, and we help educate them, to ensure our medicines are taken appropriately. All of these elements are an important part of this puzzle that we are trying to put together.

Do you think that partnerships are the cure-all? The industry is fervently looking for partnerships— does MSD have a different approach to partnerships?

Everybody is trying to forge partnerships because as an MNC, in order to be locally relevant, you need to find a bridge that helps you understand issues in any given country. In essence, you have to become local. In order to be locally relevant, you have to understand cultural nuances and partnerships help to do that.

We have a broad approach when it comes to partnerships, it can be a distributor, a company, but with time it becomes more and more important to partner with patient organizations, the government, the ministries of health, the reimbursement authorities, etc.

In terms of MSD's specific partnerships, probably the most recognized and long lasting partnership is the MECTIZAN® Donation Program for combating river blindness in Africa and Latin America, a well known and recognized example of CSR in our industry. More recent examples include the partnership called ACHAP that we supported in Botswana with the Melinda and Bill Gates Foundation to fight HIV. Both parties made equal contributions to supply medicine, train caregivers and build infrastructure. Another project that was recently launched is the Hilleman Labs in India, which is a partnership with the Wellcome Trust (a charity), where we joined forces to build a research lab in India that focuses on medicines for the developing world. The most recent one is "MSD for Mothers", which addresses maternal mortality around the world.

Examples of commercial partnerships include the one we have with Sun Pharmaceuticals in India to develop innovative generics (we have a similar partnership with a company in Brazil).

In your role as President, Asia Pacific of MSD for the past year, what has been most rewarding and what are your aspirations?

Today we are 5th in the ranking of MNC's in Asia Pacific and over the next year I would like us to become # 3. It is very achievable and I foresee that we can reach that position within the next 5 years by building stronger businesses in our key countries like Taiwan, Korea and Australia, and simultaneously building a stronger presence in countries such as Indonesia and Vietnam. We are still very young in the latter two countries but they are very high growth markets where opportunities for greater access are huge.

In terms of what I have learned—the portfolio of countries I manage are incredibly diverse. Being in one country in Asia Pacific does not mean you know Asia Pacific. Therefore it is very challenging, invigorating and stimulating since each country has its own distinctive challenges and opportunities. I am from South Africa, a country where people have, others have less and other don't have at all— in this region it is similar. There are huge opportunities to make a difference in peoples' lives and to do good and that drives me everyday.

From a managerial point of view, how have you adapted to the complexity of your new position and the region?

It is critical to have good people on the ground; everything cannot be run from the HQ here in Singapore. People who really understand how the markets work, who are able to build relationships, who understand the customers' needs, the challenges and who continually try to find solutions— this is key.

This is crucial for us since part of our strategy is to extend access and to develop innovative services like disease management and education programs.

What would you like to be your final message for our readers?

MSD is a company working hard to bring scientific innovation to all the people in Asia Pacific and we welcome the opportunity as a global healthcare company to become more relevant to the 600 million people who live in this region.

On a broader note, this industry is negatively perceived sometimes because we are seen as too focused on profits. They forget about all the good that we do. A lot of negativity surrounds the industry, but people should not forget that all generics have originated from a scientist in a laboratory who discovered that molecule and that R&D and innovation drive improvement in healthcare and improve people's lives— this part of the story unfortunately gets lost in translation.

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