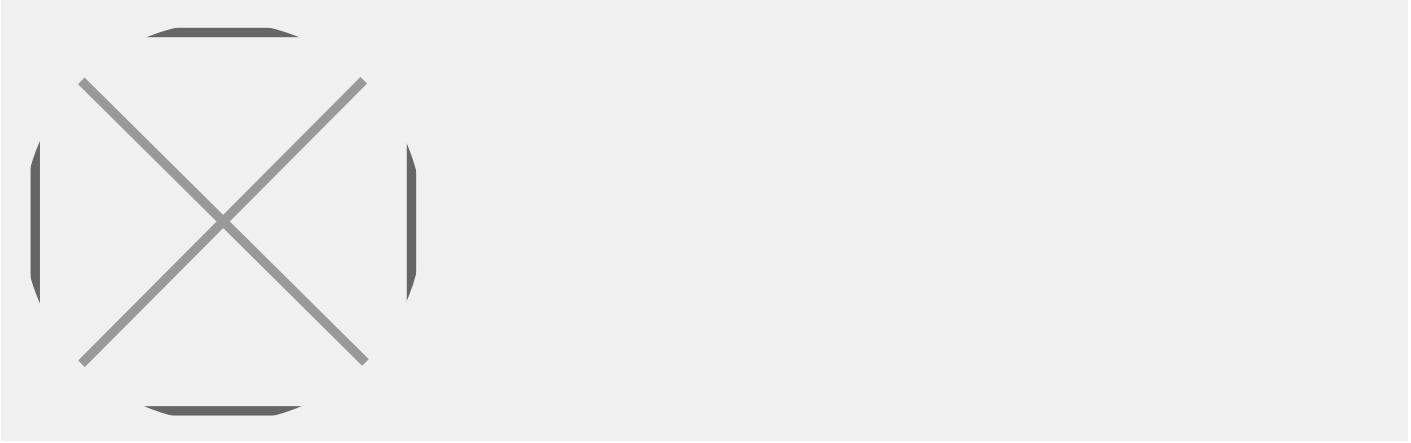
Interview with Václav Novotný , Managing Director, MSD Czech Republic



20.08.2012

Tags: MSD Czech Republic

Dr. Novotný, in 2008, you became Managing Director for MSD for the Czech and Slovak Republics. In the very next year after your appointment, you were tasked with managing the merger between MSD and Schering-Plough. How challenging was this undertaking, and what were the keys to its success?

This was indeed a great challenge for us. I believe that everyone in our company would agree. It was mainly challenging because we really tried to select the best of each organization, and create a new entity that would be truly great—in terms of processes, portfolio of products but mainly in terms of people.

We carefully selected an optimal structure and optimal positions, products mix and compiled policies and procedures based on input from both legacies.

Some companies execute a merger very quickly, and the process is complete within few weeks. We very purposefully took our time, and I believe that this is the reason why we can be quite satisfied with the outcome and the fact, that our customers and other stakeholders did not feel any negative impact of the merger on their interacting with us.

In our research, we found that, in the wake of the merger, you used advanced techniques such as ‘Sociomapping’ to strengthen your newly created team. Can you tell us about your efforts to build a cohesive culture at this affiliate?

Culture and values were elements that were certainly at the forefront of our thinking. It did not matter who came from which company: we wanted to create something that was greater than the sum of its parts.

Team Sociomaping was one of the tools we used. Sociomaping is a process wherein a map is created that demonstrates the connections between people: how far they are from each other, and how close they would like to be. Using this technique, we can better understand the level of interaction and communication among our team, and optimize it as necessary. Subsequently, when our staff saw the results, they had a chance to discuss it amongst themselves, both in teams and one-to-one. It really helped us to understand each other better.

I think that, especially in times of integration—when you combine people from different environments—taking a systematic approach towards cohesion is paramount.

Where does MSD stand on this market today, three years removed from the merger?

I mentioned that we are very happy with the result of the merger, and our figures justify our efforts. The Czech pharmaceutical market has been growing at around 1% for the last two years; MSD, conversely, has enjoyed a growth rate of approximately 10% over the same period. We are one the fastest-growing companies in the market.

But we look at more than just sales numbers. We are also near the top in terms of customer satisfaction. For instance, in surveys that measure trust and value—where customers assign a rating to companies and their representatives—we are very positively evaluated. These surveys support our sales results.

We also conduct a number of internal surveys. One such survey—which we label the Engagement Index—measures how happy employees are with the company, and whether they would recommend a friend to work for us. In the Czech Republic, we score very, very highly in these evaluations, which confirms that our stated values are not just cliché and our employees see and feel them in real life settings.

What is driving your ability to overgrow the market? Is it the launch of new products, or is it the development of market share in your existing portfolio?

These are both strong factors. If we look at our existing products, we have a very strong presence in biologic treatment. Remicade, for instance, is the biggest product in the Czech Republic, and continues to enjoy robust growth. But we are also growing for example in diabetes, cardiology, oncology, allergy treatment, women health and in hepatology.

In short, we are developing very well in all of our traditional therapeutic areas—and we continue to launch new innovative treatments that solve unmet medical needs and bring added value both for

patients and doctors. In the last two years, we brought great new products such as Tredaptive (solving residual CV risk), Simponi (novel biologic for rheumatic diseases) and Bridion (providing deep neuromuscular blockade that significantly helps at the end of surgery) to the market. We are now preparing for the launch of Victrelis, innovative breakthrough medicine, which bring new hope for these patients with Hepatitis C who have failed previous therapy. The continuous launch of new products is essential for our growth.

In order to facilitate our market presence, we focus on staying very close to the specialists whose patients can benefit from our products. We are very conscious, firstly, of our reputation amongst customers; and, secondly, we ensure that we bring them evidence based information that they can trust.

In a letter to shareholders, MERCK/MSD chairman Kenneth Frazier recently remarked, "2012 and 2013 will be particularly challenging years given the patent expirations for Singulair and continued uncertainty in the global economy. However, Merck has a record of successfully managing through patent expiries and a variety of external challenges. We are optimistic about our business." What challenges does Merck face locally, and are you, like Mr. Frazier, still optimistic?

Mr. Frazier is very much right—we are very optimistic as an organization. In fact, in the Czech Republic, we lost our Singulair patent last year; despite this loss, and the presence of approximately ten generics on the market, we still retain dominant market share in this molecule. Of course, we must adjust our price—with the arrival of the first generic competitor, the market price in the Czech Republic is generally diminished by about 25%; with the arrival of the second, we see an additional 10% decrease—but we rely on the trust and added value that we bring to physicians that have used our product for ten years. We strive every day not to disappoint them and from our sales results we can see that those built partnerships go beyond numbers.

I personally believe that the role of generics, after the expiration of a patent, is to drive down the price so that resources can be used for new innovative products. Some of our originator colleagues have removed products from the market when prices were driven down by genericization, but we have never looked at the situation in this way. Every time we have lost patent, our product was so well-respected and confirmed to be used by patients even with increased co-pay.

In terms of challenges, while our trajectory is undoubtedly positive, there are of course a number of factors that complicate our success. These are mostly driven by the external environment. For instance, new legislation has recently been proposed that would restrict the access of medical representatives to physicians. We are quite active in our efforts to explain to the authorities that we do not believe this is the correct strategy to take. We proposed a compromise wherein the physician must agree to the visit with the representative before we are able to approach them.

Otherwise, if the measure is passed in its current form, we view it as restrictive and something that will limit free competition and access to information.

Do you see that the authorities are willing to incorporate your suggestions?

We will see! The next meeting of the parliament will be after summer break. But broadly speaking, I find that the dialogue between the authorities and the industry is quite transparent but can always improve. Of course, it is principally the industry associations that voice companies input.

In our recent conversation with Mr. Zahradnik at Teva CZ, he mentioned that a market needs to display three characteristics to be labeled 'attractive': the first is transparency; the second and third are sustainability and predictability. How would you rate the market on the latter two elements?

It is indeed very difficult to make predictions and forecasts in our market. One reason is that price and reimbursement revision is ongoing. We never know when the revision of our product will start, and when it will end.

The sustainability of the system has also been put into question—but I find that even without extending the budget, we can locate greater efficiencies in the system. In the pharmaceutical field, however, the regulation is already very strong. We already have some of the lowest prices in the EU. We can identify potential savings in other aspects of healthcare: be it in the number of hospitals or the specialization of given facilities, etc.

The question is the willingness of this country to continue to demand and finance innovation. This is something that we strongly advocate—innovation is needed, in any market. I believe that recent history shows that the Czech market has been open welcome innovation—but some industry members are a bit concerned about the future. We hear very often that this country will no longer be able to afford to pay for innovation over the next few years. I don't believe this to be true. Health is essential if economy should prosper. We have to guard innovations and implement policies that overcome static thinking and assess various approaches from long-term perspective.

In Romania, MSD's Steve Warner told Focus Reports, "I believe that you need to control what you can control. Regardless of what is going on externally, we can control our attitudes, our discipline, our focus and our interaction with our customers… As things change constantly, I have decided to keep most of my team out of these variable issues. I want them to focus on the customers, the patients and the people of Romania." Do you share Mr. Warner's philosophy?

I do. This is not a matter of Romania, or the Czech Republic—this is something we want to emphasize and improve upon in MSD globally: our customer focus, and our constant endeavor to be the most trusted partner for doctors. This is the core of our business, and this is why we need

professional, dedicated, engaged people that our customers' trust.

What programs do you engage in to get closer to your customers, beyond offering them a product?

For one, we offer them education: we organize or support seminars, lectures and we produce a number of publications.

We create various community and health literacy programs and projects that help doctors to enhance patients' compliance and motivate them to active and positive approach to the treatment or prevention. These programs go inline with our philosophy that MSD brings not only healthcare but humancare.

We also run clinical trials in the Czech Republic. I see that our work in this field provides a great benefit for this country. The AIFP (Association of Innovative Pharmaceutical Industry) recently published a study, in conjunction with Ernst & Young, which assessed the outcomes of AIFP members' clinical programs. The study demonstrated that over the last four years, the amount of innovation that originators brought to the market is enormous. For me, it was especially striking to see how many people were able to have early access to these products. If a patient suffers from a disease that has in the past been untreatable, and they have the chance to participate in a study, it could save their life or significantly improve its quality.

Of course, by conducting these trials, we also bring a great wealth of resources into the Czech healthcare system.

Do you believe that large companies like MSD will be interested in bringing earlier stages of research here? We were speaking, for instance, with Mr. Dvor?a?c?ek of the AIFP, who commented that the Czech government is investing heavily in broadening this country's research and innovation base. Mr. Dvor?a?c?ek had mentioned that he hopes his member companies will be interested in participating in such efforts.

As a Czech citizen myself, I would really love for this to happen. However, at this juncture, I am not yet convinced. If the country and the government supports innovation, then we may bring more robust research programs to the market—but if things take a different turn, it is perhaps more attractive for a global company like ours to bring R&D to the major emerging markets or larger European markets.

MSD is one of the first signatories of an act calling for greater transparency in public procurement. Can you tell our readers more about this initiative, and its broader implications for MSD and the ethical direction of the market?

Ethical business practices are our greatest imperative. This philosophy is ingrained within our company culture, we advocate within our industry for the application of high standards and I will note that our internal ethical governance is even greater than those required by Czech authorities. Hence, we decided to support this initiative. It was a drive originated by the American Chamber of Commerce, and MSD was among the first to sign. While we do not ourselves participate in the tenders affected by this act, our support was given more in the spirit of bringing more rigorous ethical considerations to the market as a whole.

I see that strong ethical practices are being adopted industry-wide. As a company that puts patients and ethics first, this puts us into a strong position.

MSD is today ranked second on the Czech market amongst innovators. Many managers will say that they don't care about rankings—but rankings are of course an indication of market share. Are you satisfied with the market share you have? Where do you want to take this company over the next 5 years?

We can be satisfied but we work hard to be even better. Today, while we are second in market share amongst innovators, we are third or fourth overall. Our aim is to improve this positioning.

Our continuous attitude is that if we win silver, we lose gold!

In order to grow, I believe that the essential component is people. I truly learned this during our merger. You need people that understand the values and the vision of your organization. As a manager, moreover, I try to facilitate an atmosphere of positivity. With the right attitude, there is no limit to what we can do.

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