

Interview with Iryna Gorlova, General Director, Support in Market Development (SMD)

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As the founder of SMD what was it that prompted you to create this company and what were your objectives at that time?

Up until 2003 when I created SMD, I used to be the head of IMS for Ukraine, Moldova and Belarus. As a matter of fact, the majority of the SMD team had also worked for IMS before the company closed down their offices in Ukraine. The main reason why IMS had to leave this market was because they had a very hard time finding good quality data and establishing the necessary relationships with pharmaceutical companies and pharmacies to gather information. This was the opportunity that I observed in 2003, and it was the guiding principle of what SMD represents today. I wanted to create a company that could support the pharmaceutical industry in Ukraine and provide the sector with the necessary data to make the best business decisions. This kind of data was a necessity to develop the full potential of Ukraine's pharmaceutical sector. In particular, multinational pharmaceutical companies were demanding such data in order to make their forecasts and report back to their headquarters. Furthermore, because the growth of mature pharmaceutical markets have been decreasing, international companies are turning to emerging markets like Ukraine in order to ensure their overall growth. Our aim was to support them in this endeavor by providing the same quality data and services that they are used to in other markets. In doing this SMD also serves to promote Ukraine and the region as a great opportunity for investment.

You speak about the need to develop the pharmaceutical market of Ukraine and great opportunities that are possible here. Can you elaborate further on what is missing for these opportunities to become a reality?

I think the main answer to that question lies in the current state of healthcare in Ukraine which is far behind European standards and below most other countries in the region. This might come as a surprise when you stop to think that Ukraine has the 3rd highest expenditure per capita in healthcare however the great majority of those expenses come directly out of the pocket of patients. Ukraine's public healthcare is very limited and only supports 5 programs for major diseases, such as oncology, HIV, tuberculosis, diabetes, transplantology and rare children's diseases. Treatment of any other health condition must be paid entirely by the patient and this is something that they have gotten used to already. Ideally, the country will move towards implementing a reimbursement system that can subsidize the cost of treatment in order for patients to afford the most modern and highest quality drugs. Under the current system the underprivileged population has no access to treatment as they cannot afford medicines of any kind. These people then find the cheapest alternative to treat their symptoms, and what ends up occurring in Ukraine is that people are very prone to self-medication. This trend is boosted by the fact that pharmacies widely sell prescription drugs over the counter. The lack of access to adequate healthcare inevitably means that there is a low diagnosis of major diseases in Ukraine and this is a situation that organizations such as UNICEF are trying to address through educational campaigns.

Furthermore, public healthcare institutions in the country are antiquated and extremely inefficient, and this is represented by the fact that only 7% of the country's healthcare budget is used to pay for the treatment of patients, while the remaining 93% are related to administrative costs.

Ultimately the profile of the country's major medical conditions does not match the profile of the pharmaceutical market. Due to this unsustainable situation there has been an emergence of private clinics throughout the major cities in the country, but these are mostly unaffordable to the greater part of the population.

Historically, Ukraine served as the manufacturing center of pharmaceuticals for the entire Soviet Union with over 100 producers located here. Essentially this ensured that cheap medicines were always available to the population, which is why the government never felt a real need to develop a public healthcare system. Even today, Ukrainian pharmaceutical companies account for 70-75% of total medicines sold in terms of volume, with the top 6 local manufacturers representing 1/3 of all products in the market. Most of these companies are quite modern and have European

standards of manufacturing including GMP certificates. Since 1991 they have been expanding and financing their renovation through private means because there was never any government support for the sector. Nevertheless, the achievements of the industry are demonstrated by the fact that Ukraine joined PIC/S in January 2011 in order to harmonize its operations with international standards. This also means that local companies are cleaning out their product portfolios to weed out the old Soviet medicines and replace them with modern alternatives. The local pharmaceutical industry is experiencing increased pressure and competition from multinational companies, and this is why they must update their operations.

Clearly there is much to be improved in regards to Ukraine's healthcare, and we see that the government has finally accepted this point and is seriously speaking of reforms and even the introduction of a reimbursement system. Do you believe that these efforts are serious and will come to fruition?

It is very difficult to say when and if considerable changes will take place. It is true that the government has been seriously discussing this possibility in recent times, but the main problem of such initiatives is that there is a lack of strategic vision within the Ministry of Health to truly make things happen. Furthermore, it is very common to have multiple Ministers under a single presidential term, which does not provide the necessary continuity for major changes to take place. Overall, the changes that are being proposed only represent a shifting and reorganization of current healthcare resources in an attempt to make them more effective. There are discussions of decreasing the number of hospitals and establishing centralized health centers, such as multi-purpose clinics, instead. Despite all this, the fundamental problem that the system faces is a lack of funding on behalf of the state. Without the needed financial resources and a long-term vision for the healthcare system, I find it very difficult that things will change anytime soon.

Given this current state of Ukraine's healthcare sector, what services does SMD offer its clients in order to help them better operate in such market conditions?

SMD offers a full spectrum of services to all of its clients, ranging from the development stage of products to their marketing and distribution. Most importantly we provide the highest quality market data for companies to make the best market decisions. Due to our long experience in the market, we have been able to establish strategic relationships with pharmacy chains for them to provide us with first-hand market data. This was a very difficult task at first because pharmacies were not open to the idea of sharing their data and collecting it in an efficient and structured way. Over time they have realized that they also benefit from having the best information available and the business improves when you can better predict market trends. Overall our main clients are the

international pharmaceutical companies, because they are the ones demanding such data that is readily in most any other market in the world. Slowly we are also obtaining local clients as they also professionalize their standards of operation more similar to European standards. I like to think that SMD is like a guide for pharmaceutical companies, always providing the most informed advice with years of expertise in observing the trends of the industry and knowing how to manage the unpredictability of the sector. So far we have been quite successful in Ukraine and we are now considering expanding into other regional markets where we also have a network of contacts that can provide us with the local expertise.

Finally, we would like to assist authorities in their efforts to reform the sector and to become a true partner for them. I am convinced that with the right information and understanding of the market, the government could turn the opportunities of Ukraine into a reality.

We've spoken about the challenges and how SMD can assist companies to maneuver them, but what remain the major opportunities of the Ukrainian market?

The opportunities for this market are obvious when you think that the country has a population of 46 million and the pharmaceutical market only represents US\$3 billion. As I mentioned earlier, there is a high level of diseases and conditions that are not diagnosed adequately under the current system, and this means that there are many underdeveloped therapeutic segments with great growth potential. The OTC segment also offers attractive conditions as this is the largest OTC market in all of Europe. Even so, major companies such as Mylan and Watson have not entered the Ukrainian market because they are afraid of its unpredictability. This is unfortunate because the Ukrainian pharmaceutical sector has rather low barriers to entry and has been experiencing fast growth even during the years of the financial crisis.

Furthermore, if in fact the government ends up carrying out major healthcare reforms and introducing a reimbursement system, this is the time to enter the market. If companies wait to come to Ukraine until after reforms are in place, it will be too late because the competition will have already established itself in the market. This year alone the market is expected to grow 12% and this growth would be much greater if there was an influx of government funding for medicines. Indeed the majority of the growth that we are seeing today is due to an increase in prices because Ukraine still has quite low prices when compared to other regional markets, which means that prices will most likely increase under a reimbursement system.

What is your final message to the readers of Pharmaceutical Executive regarding the future of Ukraine's pharmaceutical market and the role that SMD will play in it?

I would like welcome your readers to explore the opportunities that Ukraine has to offer and to not be afraid of the threats of this market because they are certainly manageable with the right information and expertise. SMD is ready to assist any foreign pharmaceutical company that requires local knowledge to maneuver local market conditions. We are here to connect people and to provide solutions because this is what we have been doing for many years now. Ultimately the idea is that we need to open up Ukraine and spread the word that this market has been overlooked for many years and it is now the right time to develop it. There are always some risks involved, but these can be managed, and the opportunities are just sitting there waiting to be seized.

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