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The line between research based pharmaceutical companies and generic companies is today less and less relevant, as we have seen in the past few years generic companies climb up the value chain and patent products, and innovative companies purchase generic players. What is your vision of this model generally, how will it evolve?

I think that line has become blurred. If you go back not long ago – 13-15 years ago – there were very definite lines: it was either branded or generic. Often quality would be the deciding factor between the two. However once that quality merged then it became harder to differentiate. Big pharma companies spend in fact more money on sales and marketing than they spend on research. So branding is a very key factor in our industry.

Furthermore, different markets require different products. You simply cannot sustain yourself in many of the emerging markets – and I can really talk about emerging markets as that is where we have most of our strength – if you do not have a quality product which has become key and that is affordable. So you will see in all of these markets the biggest growth rates are in branded generic products generally.

Obviously, for a company like GSK to be involved with Aspen, they had to assess the quality of our products. We manufacture for many multinationals and that gives consumers reassurance and credibility around quality.

Further, many generic companies are entering into agreements with multinationals. The positive thing about branded generics is that it does tend to generate sustainable income.

How would you say the innovative companies and generics co-exist specifically in South Africa, considering they compete more and more in the same space?

They do. The one difference you will see in the South African market, that you do not always see in other markets, is that the two top companies by market share are actually local companies. Aspen is 17% of the South African market, meaning that one-in-five of every script dispensed at a pharmacy is an Aspen script.

In the South African market, it is very hard to get acceptance around generics and generic substitution. We have done a very strong job around marketing, and in investment in manufacturing and manufacturing facilities, to create the credibility and brand awareness that Aspen enjoys today.

So with that, you are able to compete effectively with branded companies. In some countries where there is limited regulatory support, your only trust can come from the brand name of the product and through positive brand integrity, consumers will be predisposed towards the company and the credibility of its products.

South African pharmaceutical companies however comply with stringent regulatory protocols which gives consumers significant comfort relative to generic products. This is one of the few countries in which two local companies are ranked first and second in terms of market share by value and where multinationals do not dominate this position.

2011 was very dynamic with the acquisition of Sigma, what are the growth objectives of 2012?

Sigma has been part of our business for only a short time, whereas the GSK acquisitions have all been bedded down for some time now. Our strategies are all progressing well, and we have achieved our objectives with the Sigma acquisition.

When we bought Sigma, we were told that the company made an EBIDTA profit of $75 million and we set ourselves a target to double that within a couple of years. We are in fact on track to achieve that in a shorter time frame which points to a successful integration. The Sigma acquisition has and will continue to play an important role in Aspen’s Asia Pacific expansion strategy.

We are also looking at some very interesting opportunities in Latin America. We have really focused on broadening our base in emerging markets, particularly Latin America, Asia Pacific and the rest of sub-Sahara Africa. We have opened an office now in the Philippines, with Thailand likely to follow shortly and business opportunities being investigated in a few other countries in Asia such as China, Indonesia and Japan.

How do you cope with Rand fluctuation, which impacts most local manufacturers in South Africa?

We are in quite a fortunate position as a Group in that respect. As we manufacture domestically, a lot of our costs are fixed in the local currency and the price is sold in the local currency. Our legislated environment dictates that we comply with Single Exit Pricing (SEP) which is set by the government and which is obviously also in local currency.

The parts that are not local currency denominated tend to be the chemicals – Active Pharmaceutical Ingredients (API), and those do have Rand fluctuations. The most expensive chemicals are those used in the manufacture of anti-retrovirals (ARVs). There is a significant demand for ARVs through the government. The government tender does provide allowances for rate fluctuation.

Having said that, as a Group, more than half of Aspen’s turnover is generated outside of South Africa. We expect that less than 40% of our 2012 sales will be generated in South Africa. So depending on what currency moves – the Australian currency has moved up a lot – as a Group we are very well hedged against currency risk.

Our foresight in increasing capacity through our efficient manufacturing facilities has stood us in good stead and has compensated for increased exchange rates.

During the 90s, many manufacturing facilities closed down in South Africa. You made the choice to develop South Africa as the main manufacturing hub for your operations, and this decision does not only impact Aspen as an organization but goes much further than that, considering you engage with the government on behalf of PHARMISA to really develop this sector of activity in South Africa. Could you compare South Africa with Germany, Mexico, Brazil, or India, where you have also developed manufacturing sites?

Every factory, to be effective, has to be efficient. Assuming you have that as a relative base, since there are a lot of effective factories around, you are just one of a number of efficient factories and the question is how do you differentiate yourself?

My opinion on global pharmaceutical manufacturing is that scale defines you. It is how much volume you put through a particular site that will make a difference to your costs. I have looked at many of the multinational structures, where production is driven by the fact that they continuously make acquisitions, with each company they buy certain volumes of tablets must be produced.

Now, I look at what Aspen can make. If we can make ten billion tablets at one manufacturing site, and considering many of the multinational sites I visit can only make a billion tablets, then they would need to run ten factories to keep up with us. Having ten different factories implies you engage a lot more capital and human resources. Manufacturing expertise is most certainly one of Aspen’s distinctive competitive advantages.

At the outset, when we first entered this market sector, we knew that South Africa would not be a gamble but that we would get the volumes. We have done that, and we have added manufacturing capacity and capability for our offshore businesses. Aspen’s German manufacturing facility in Bad Oldesloe is highly automated, yet it is not as competitive as our South African facilities. Our facilities in Brazil and Mexico are largely driven by local manufacturing advantages, the government incentives and the duties, rather than their efficiencies.

The advantage that South Africa has is that we have high volumes as well as a good skill base. The cost of electricity has increased, but it is still relatively cheap. There is also a huge difference in the cost of labour between Europe and South Africa. Our advantage is to be able to mechanise and to be able to have predictable volumes through one site.

The reality is that in a generics industry you compete directly with companies in the likes of India. You do not benchmark yourself against Germany or the UK, you benchmark yourself against Asia. While the Indians work very quickly and find solutions, the advantage we had is that we have predictable volumes and we also have branded products that give us some volumes and, in addition, we manufacture for third parties. This all contributes towards reducing costs of goods.

With labour being expensive, you have to think twice about how you employ, whether you add machines or not for instance. Often, the advantage of machinery is that you can turn the machine up a little higher to double the output, whereas you need to employ twice as many people for the same result.

That is how we have tried to manage ourselves: to get all the quality requirements, get all the machinery that comes out of Europe, and combine it and get the facility right the first time.

So if you look at our absolute costs per thousand tablets that we make we are not dissimilar to the most cost-efficient manufacturers in the world. We are obviously substantially cheaper than multinationals but you would not see a huge difference between our conversion cost base and say, the people that we trade with in India.

When we first bought a business called South African Druggists which had facilities, I was young. Before I met the manager, I asked to see the trade unions and said, ‘I want to do this deal but we need more productivity’. He replied: ‘You are an asset stripper. How do I explain to employees that you want them to be more productive, as if they work twice as hard, there will be half as many jobs?’

It was a very interesting and lengthy conversation, following which they said they were going to trust me. We grew exponentially after that. Before BBBEE was implemented, I brought the trade unions as shareholders into Aspen. The shares went into our trade unions through our workers pension funds, meaning that all the workers on the floor benefitted from the increase in the Aspen share price. This is probably one of the things I am most happy about. I have not seen any other manufacturing team in the world producing in as much complexity and in the volume that we do. It is an amazing achievement.

As Minister Motsoaledi underlined, South Africa has 17% of the global burden in HIV/AIDS for 0.7% of the world population. As a leader in ARV generic medications, you hold a great responsibility towards the South African population; still you are a listed company. How do you balance the business interest with the social commitment?

This is a very challenging balancing act, particularly considering the impact of diseases such HIV/AIDs and TB.

HIV/AIDS is a disease primarily afflicting the poor, it is disproportionate, and people affected by AIDS in South Africa cannot necessarily all afford to pay for ARVs. In reality, providing ARVs to all HIV/AIDs patients at the cost of the medicines at the turn of the century could have had a dire economic effect on South Africa. As far back as 2002, we identified that there would be an increasingly desperate need for ARVs, and we didn’t have access to these products as they were all under patent.

I personally met with some major multinationals and showed them videos of HIV/AIDS patients and explained to them that these people could not afford to pay a hundred dollars a day for an ARV treatment. The multinationals were of course worried about their patents, but I convinced them to give us voluntary licenses for ARVs.

Although we did not have the scientific expertise like the research-based multinationals do – some pharma companies have more PhDs than we have in the country! -, but we were the very first company in the world to receive US FDA accreditation for the manufacture of selected generic ARVs.

Our real challenge came in the very first years of the tenders, where we could have priced our product 5% or 10% below that of the originator and still win the tender, considering we were the only generic company providing ARVs in South Africa. But we chose to be very responsible in our pricing in order to ensure that as many patients as possible could have access to ARV treatment.

Today, there are many companies in the ARV market in South Africa which ensures that we do not have that same social obligation as we used to have. We are still by far the largest supplier of ARVs to the government through their tendering process, and despite having ten Indian competitors, we are still price competitive. Fortunately today, the government and disadvantaged HIV/AIDS patients are receiving quality, cost effective ARV treatment, whether it is from Aspen or not.

We have played a very important part in the South African healthcare system and presently provide quality ARVs to more than one million people across Africa every single month.

You have demonstrated so much in South Africa; the next challenge is at an international level. In 2012 you expect more revenue coming from foreign business than from local business. Aspen has a global presence and a well-balanced portfolio between North and South, East and West, mature markets and emerging economies. How do you select the markets you go into and the market entry strategy?

Our market entry strategy is often determined by where we think we can get critical mass. We don’t enter a market with an attitude of ‘this is what we do in South Africa so this will work here’. One often sees this approach, particularly from western multinational companies.

We will go into a market like Australia, where we speak the same language and might play some of the same sports, but they are two very different markets. The dynamics in South Africa are completely different to Australia.

In fact the dynamics in South Africa are far similar to a country like Brazil, where you have a big disparity between rich and poor, and where there are similar disease profiles – especially TB and HIV/AIDs. When we initially entered the Australian market in 2002, we identified limited opportunity in the generics sector and focussed on being a niche player. Over the past decade we have built up a very competitive branded product portfolio and Aspen is now ranked as the leading pharmaceutical company in Australia with one in every 7 scripts dispensed being for an Aspen product. The 2010 Sigma Pharmaceuticals Limited acquisition provided greater impetus in the generic market – an area in which Aspen is very proficient in South Africa. We have an incredibly strong team in Australia, very ably led by strategic executives who understand the business and who are key to our growth into Asia Pacific.

In 1997 the company was founded, it then consolidated its leadership in South Africa, and then its global footprint.

Aspen has been ranked number one in South Africa for a few years already, we are also number one in sub-Saharan Africa, number one in Australia, and we have a growing presence in Latin America and Asia. I would like to see us in leadership positions that cut across the Latin America geographies – and that is really Brazil, Mexico and Venezuela. Those are the three big ones in pharmaceutical terms, along with Argentina perhaps.

We are a very opportunistic group. If there is a good opportunity in the US or France, we will look at it and if it’s right for our business, we’ll consider it as a business venture. Right now we are exploring the prospect of setting up our own operations in countries such as France and Germany.

I think the advantages that we have created for ourselves in creating a platform across these difficult markets means that we have become a very easy one-stop shop for multinationals. They do not like fluidity. Their markets are rigid. They do not like to make plans in different markets and have to make a decision. But we make those decisions. We have grown from nothing and I think our most exciting times are still ahead.

What advice can you give to all the people who think it is their turn to have their own success story?

My advice to someone starting their own business would be that they should pay attention to detail and make sure that they really understand their business. Most businesses fail in the beginning. You start spending money you think you are going to make before you earn it. Ensure that your business works and your business model works and understand the details of the business. Do not just take someone’s word for it. If you understand the details you have more chance of making the right decisions. And business is really about making right decisions.

What is your final message to the readers of Pharmaceutical Executive?

We have grand plans as a Group. Wherever we go, we ensure that we fully understand the market, we work it out and then we commit to doing well.

If you are an entrepreneur you have to be passionate about what you do. If you feel passionate then you automatically feel that you are making a contribution – whether it is to your country, to people's lives, or to the people around you – it makes a difference. It makes it worthwhile getting up every day.

There are always issues and always problems. But I think on a personal level I have balance in my life. I would not leave Durban to go to New York for the prospect that we could do so much better as a Group in New York, because I am not going to affect my kids. I am not prepared to disrupt my family – I would rather give it all up for them.

I am very fortunate to be in this situation. I am also not stupid – you have to have a bit of luck in life, which I have had, and I am going to enjoy it.

But, each day you have to feel passionate about what you do – that makes a big difference in your success!

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