Interview with Zdeněk Zahradník, General Manager, Teva Czech Republic

10.08.2012

Tags: Teva Czech Republic

Mr. Zahradnik, you have long been an active member of the Czech generic drug makers' association CAFF (Czech Association of Pharmaceutical Firms), chairing the organization. Dr. Zörner, executive director of the CAFF, has remarked that the Czech Republic is a challenging market, but also one in which the authorities have put a steady focus on healthcare, and maintained the healthcare budget just as neighbors like Hungary implemented austerity measures and cut their healthcare funding. Before we delve specifically into Teva's activities on the Czech market, can you begin with an overview of the main opportunities and challenges you see in this country for generic drug companies?

The Czech market is difficult for both generic and innovative companies. There are flat price/ reimbursement cuts, a challenging reference system, no generic incentives, and an absence of drug policy. Our core business is generic but it is only one element within our business model. Teva brings a broad portfolio of quality and affordable medicines. We have an innovative flagship, leading product in treating multiple sclerosis—Copaxone.

Through a series of acquisitions and our strong pipeline, we have broadened our portfolio with a number of branded and specialty products. We are proud to be active in biotechnology and we offer traditional and favorite products in the OTC segment, now enhanced by our joint venture with Procter & Gamble. Teva's portfolio is the most diversified one in the Czech Republic.

We respect both principles of the pharmaceutical market—innovative and generic. Innovation moves health care forward, generics make modern medicines affordable for a broad audience of

patients. Generics can help drive down expenditures in the short- mid-and long-term. However, in order to make the most of this solution, stakeholders must have a strategic approach, and should design a well-balanced model. The Czech authorities are speaking about long-term policy and pharmacoeconomics—however, the reality is that we more often face immediate cuts and various ad hoc measures that are not patient friendly.

As the generics and/or pharmaceutical industry, we would like to see a system that is predictable, transparent and sustainable. We would like to participate in the realization of drug policy. We would like to serve the patients and help to increase the quality of public health. But current, and as well planned, measures can do much to threaten the affordability of certain products, and threaten the sustainability of the system. Electronic tendering can be a typical example.

I believe that the principle of sustainability is critical especially in a market like the Czech Republic, with its population of only 10 million. Small and middle size companies are said to think twice about doing business in an unfavorable environment, and the Czech market could be seen in this way.

We have touched on these four key aspects of the system—predictable, transparent, sustainable, and affordable—with many of our interviewees, and the Czech market has gotten quite low marks in all areas. Do you see a positive direction for change?

We see just some positive signs, like faster generic access, and we see that executive authorities are more willing to engage the industry in dialogue, and to discuss important topics.

However, at the same time, there are certain legal changes that are indicative of an opposite direction. We hear about a drug policy and a patients' interest, but there is very limited content. It is very difficult to address strategic principles when we face immediate measures such as the flat price cuts we have seen in the last two years.

Global companies like Teva have experience in healthcare markets all over the world—do you believe that this company and its industry counterparts can help the authorities affect a more positive framework within the Czech Republic?

Indeed, each market has its own specifics but, at the same time, healthcare experts across various countries identify similar directions of healthcare policy development. Hence, mistakes that local authorities make can also be similar. As an industry, we are trying to eliminate potential pitfalls and measures that governments can take to make the climate less frustrating. We look at examples around the world, and share these experiences locally. Teva's vision is: We Make Quality Healthcare Accessible around the World. I believe that we will do our best to bring Teva medicines to Czech patients.

Ultimately, is the Czech market attractive for Teva?

When we speak about how attractive a market is, we must think about how we define ‘attractiveness.’ One of the KPIs should definitely be the growth potential. In the Czech market, flat development is projected for the coming period. If we see decelerating growth, it certainly makes the market less attractive. Growth should also be considered alongside the three elements we mentioned previously: predictability, sustainability and transparency.

Our competitive advantage is a diverse model. This helps us to cope with challenges that appear in the market—more so than if we depend on a single therapeutic area. This is why Teva is successful, and this is why we believe in the potential of the Czech market.

Let us go back in time a bit, and consider how exactly you have diversified your portfolio over time. You are the former country manager of IVAX Czech Republic, and the 2006 acquisition of IVAX by Teva put you in the position of managing Teva’s Czech subsidiary. Teva has become the largest generics company in the world, after successfully completing the acquisitions of Pliva (Barr) in 2008, ratiopharm in 2010, and Cephalon in 2011. What have been the keys to managing these acquisitions at the local level, and how have they strengthened Teva’s Czech position?

Of these acquisitions, the most important milestone for Teva in the Czech Republic was the 2006 acquisition of IVAX. However, each acquisition was an important one for our Czech operations for a different reason.

As Teva, we are always striving to understanding how we can improve our competitive position and how we can bring additional value to patients and other stakeholders. We also try to understand a very simple question: what local leverage can we gain from a global integration? Throughout any integration process it is always critical to keep controlling the business and to stay close to the customer and to the patient.
The integration of IVAX gave us the benefit of strengthening our market leadership. This was also the case with ratiopharm. Our Opava production plant, established in 1883, became a member of Teva Family thanks to the IVAX acquisition. Pliva-Barr added important products to our portfolio, Sumamed and Herpesin, for example. Cephalon, finally, was very important for strengthening our hospital business, and introduced several very important branded and specialty products to Teva.

Teva seems to make one acquisition after another—particularly in recent years. And each merger seems to be successful. What makes this company so good at integrating other organizations?

In two decades (1990–2010) Teva has realized a number of different acquisitions. This is why there is unique experience and know-how in our company. We are able to be fast and decisive. We respect local culture and knowledge; we are disciplined in how we execute our integration plans.

On paper, growth means a broader portfolio and increased sales; however, within an organization, growth also entails having to adjust a company's structure, culture, and processes. How are you coping with the management of what is today a much larger organization than the one you first joined in 2006?

You are right: it is totally different to run a company with 40 staff members than it is to run one with 180. We are among the largest commercial organizations in the Czech Republic today. The Opava facility has 1500 employees.

It is really important, throughout this series of integrations, to understand and very critically evaluate the optimal go-to-market model each time. By intuition—or by human habit—you tend to utilize preexisting models that you inherit from your acquisition. However, if you simply copy what you have done in the past, you will find yourself in a situation wherein you are running a strategy that is 15 years old. This can be really problematic.

Instead, with each successive integration, we should challenge the model. We constantly should compare our strategy against a current stage of market development. This is not always the most comfortable, but it is the only way.

In 2008, Teva committed more than 1Bn CZK to what was the largest investment in the Czech pharmaceutical industry since 1989—the expansion of the company's Opava plant. The company has since committed to additional expansion of capacity at this site. What has been the significance of this production facility for the group?

We are very proud of our Opava site. It is motivating for us—the commercial team—that we are not just an importer of pharmaceuticals but we are as well a respected local producer. Almost everybody knows of Czech company Galena, which was the Opava facility name from the 1950s to the 1990s. To this day, the brand 'Galena' is well known by doctors, pharmacists, and patients. It is prestigious for our Czech staff that the company decided to make such a local investment, the biggest in the pharmaceutical industry since 1989.

Currently, the Opava production site is not only a local or regional producer, but it is strategic for Teva globally. Investment will reach 2, 5Bn CZK and planned capacity is up to 16Bn tablets a year. We have substantially increased the number of employees at the site, and provided jobs in an area that is challenged by unemployment. This makes the plant important for our reputation in the Czech market, as well.

Why commit to such an investment in this country? In our conversation with Dr. Zörner, he noted that very few players invested in production here. He saw no incentives in the market to do so.

Obviously, the tradition of this facility, coming from Galena times, is quite strong—but you cannot invest based on tradition only. I believe the decision was driven by the quality and professionalism of our colleagues in Opava. Prior to the investment, Teva had experience with the factory. The quality, dedication, and level of leadership led to a logical decision to invest.

As we have discussed, Teva has broad generic, branded, innovative, and OTC portfolio. How does the company ensure that it is successful in each segment?

We want to be be successful in each field, because we are committed to leadership. As I have said, a diverse business model is our foundation—but we do not approach each segment in the same way. We diversify not only our products, but also our strategies. We attempt to understand the specifics of particular disease areas, and this is the basis for success.

For instance, if we look at our OTC portfolio and the preparation of the launch of Vicks line—products we are introducing through PGT Healthcare—it is close to a FMCG approach. It's a totally different story in how we support our innovative product Copaxone.

Do you segregate these businesses from a structural standpoint, as well?

Yes, our front-end and commercial structure reflects strategic differences I have mentioned before. But there is one, consolidated back-end support organization, our basic processes are identical. And we are supporting one company culture.

According to a number of opinions a company should do more than make sales in a country—it should give back to the community through education and other CSR efforts. Teva seems to share this philosophy, proliferating it through channels such as Foundation for Your Heart. Can you comment on this program and other ways that Teva brings added value to this market?

Before we go to our CSR activities, I believe that there are also other areas where we create added value—for example where we keep non profitable products on the market that aren't subsitutable, aren't we adding value for physicians and patients …? In our CSR activities, we do indeed have the Foundation for Your Heart program, which is focused on supporting the education of young physicians. The second focus is prevention of cardiovascular diseases.

With other partners, we work on projects such as those dedicated to the prevention of SIDS (sudden infant death syndrome), for which we provide breathing monitors every year. We cooperate with the CF Club, which helps to children with cystic fibrosis, and we encourage our employees to volunteer. We are a general partner of the Czech trail-orienteering representation, the sport of both handicapped wheel chaired and able-bodied sportsmen. We support community projects; we want every employee to be proud of working for Teva, because we are a responsible company focusing on many aspects of common life.

There are many changes in external environment globally, in the region and in the Czech Republic too. And as far as we know, there are changes in Teva as well. What do you believe the next five years holds for Teva's Czech operations?

I would firstly wish to all of us, pharmaceutical companies, patients, physicians, pharmacists, employees, partners, customers and politicians as well, just a healthy and happy 5 years and a transparent, predictable, sustainable and affordable healthcare system.

Regarding Teva in the Czech Republic—we have the broadest offering on the market: from Copaxone and biotechnological products through specialty and branded portfolio to generics and OTC. We will utilize this platform to further strengthen our market leadership. We do not believe that there is an easy road in front of us, given the current climate in the market. However, thanks to our unique strengths, I am sure that we will continue to be very successful and achieving nr.1 position on the generic market is our logical ambition.

See more interviews