Interview with Richard de Chastelain, Country Division Head, Bayer Healthcare South Africa

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Since we interviewed you in 2005, there have been many changes in the market, from consolidation, an increasing generic penetration, to new healthcare reforms… How have you integrated these changes in the company's development, and to what extent does Bayer's recent development reflect the market changes?

The first change has been the fact that companies have had to adapt to the increasing power of the private healthcare funders, such as Discovery, Medscheme and others, which five years ago were very limited and which now have become a lot more influential in pricing decisions. That's a challenge for companies because South African prices are influenced by a number of factors, including currency fluctuations. Funders are also tightening up on their own plans, co-payments are necessary if you're not in the right plan from a consumer perspective.

The second relates to the state. Under the new minister, HIV and AIDs care has become increasingly politicised, which requires an ever-increasing portion of the healthcare budget. Getting access to new technologies and new drugs is a real problem from both a state and a corporate point of view. It will become increasingly difficult to make drugs and new technologies available within the state and that won't improve as the healthcare budget, which is already under pressure, is going to be seriously challenged by the third dimension, the National Health Insurance (NHI).

There's no clear idea of where funding is going to come from at this stage; however, there is no doubt that massive funding will be required. Consequently, if it is currently a challenge for multinational companies to get new technology into the state, it is going to become an even bigger challenge in terms of the healthcare budget in future. We won't be excluded, but the nature of the model remains to be seen. At this stage it is unclear whether this will take the form of a partnership model or a tender model or something else. Such changes will continue; private sector funding issues will occur more frequently and there will certainly be increased pressure on state spending.

According to IMS Data, Bayer belongs to the top ten pharma companies in the total market in South Africa. What have been the historical and strategic factors that explain this strong positioning, despite the presence of local giants?

Bayer is an innovative company and all of our products are a result of Bayer or Bayer-related innovation. We are very strong in the women's health area, we have launched products and continue to launch products in oral contraception and we are the leaders by far in that area.

However, we are also involved at the high end of the market, in oncology and in more traditional Bayer areas such as antimicrobials and antibiotics, etc. We have had a very good product mix in the period since 2005, when we acquired Schering. As a result of that, we doubled our turnover overnight, which was probably the same worldwide. Although not in the same league as Aspen or Adcock, Bayer is a major player, not only through the prescription-driven business, but also a very strong consumer business. We're in OTCs, as well as vitamins and vitality areas.

What has been driving the growth in 2011, and break up of revenue between Animal Health, Bayer Healthcare Pharmaceuticals, Consumer Care, Medical Care (Diabetes Care and MEDRAD)?

We are about twice the size of Animal Health and about three times the size of Bayer Consumer Care business.

What is the strategic importance of South Africa for the group's global operations both in terms of revenue and growth potential?

Firstly, in terms of IMS, we have out-performed the market. The market includes real growth from generic companies which generally out-perform the market.

In terms of our positioning within the group as a subsidiary, we are part of a region called Europe. South Africa is a significant contributor to the European business despite having a different commercial profile to companies within the EU.

Obviously, there are issues in terms of currency: over the past few years we have benefitted from the fact that the rand has been strong, but the moment it weakens, we become less profitable. However, in real terms we have been a major contributor.

Many companies that had manufacturing facilities in South Africa closed, leaving only a few remaining. When we interviewed Mr Mr Anley of Pharma Dynamics, he explained that his

company chooses to import drugs from India, implying that providing affordable medicines for the South African people was more important than securing one or two hundred jobs. Would you support this view?

It depends on what the focus is, sometimes there's a conflicting message coming from the Department of Health, for example, some of the companies working in HIV found it quite difficult to accept that they received a relatively small percentage of the ARV tender, in one case 400 jobs were immediately at stake.

As far as the Minister of Health is concerned, he wants the cheapest anti-retrovirals. By contrast, the president, Mr Zuma would like to create five million jobs. There is a disconnect between the two; clarity is needed. It will be difficult for a company like Bayer to invest in any kind of production facilities in South Africa if there is no guarantee of the future viability of those facilities. Consequently, the focus needs to be clear, whether it's on affordable drugs, which is perfectly acceptable, or on developing the economy and creating jobs.

What's your philosophy, is health a social responsibility or a driver of the economy? Can it generate sufficient jobs?

Health Care has become increasingly a social responsibility rather than a driver of jobs. The social responsibility component of health is very important. However, access has to be created; in countries like South Africa, people need access to sophisticated medicine, and that includes drugs that treat diseases that are not found elsewhere. There was a major announcement this week from a number of companies about donating massive amounts of drugs to treat ten or twelve different conditions, most of them African-type conditions, they are essentially orphan drugs.

That is the social responsibility part and companies are increasingly obliged to do that and the rural and state component of that in South Africa is increasingly focusing on that, as opposed to job creation. There is nothing wrong with that, in my view. A country like South Africa, particularly in the area of health, arguably has more of a social responsibility to have competitive and fair prices, rather than to create large numbers of jobs; that is not to say that the two are mutually exclusive. However, the government, quite rightly, focuses on a limited healthcare spend to try to get the best price out of the market. Whether that is attractive to multinationals is a different story. Already from the limited spend, and the best possible prices, they still run into problems with payment. That does not mean that companies will not invest in other forms of commitment, particularly as new drugs are developed, but that will be more on the sales and marketing side, as opposed to the production side.

The Minister of Trade talks about incentivising companies to bring production back to South Africa. What are your views on a possible incentive?

It may not happen in the short term. There may be tax breaks for local companies, but for us, it would have to be meaningful. It must be considered that there is competition in terms of production from highly efficient countries such as Singapore, more sophisticated environments, with lower levels of bureaucracy.

Different markets require different attitudes; therefore what advice would you give to the General Managers whose companies are not here yet, what is your approach, what philosophy do you need to have in order to succeed in this market?

First and foremost, be close to your customers. And most important, be close to Government. Governments are not always accessible but that is not necessarily a problem. Establish a relationship with your customer base, your immediate target market. Those relationships are very important. You have to understand the dynamic here. This is a different market from virtually any other market in the world. Managers sometime come here, often bringing models from their previous assignment and then find that things are not the same. There are very few markets where there is such a dominant private healthcare sector and such a disparity between the cost of the drugs in the private sector and versus the cost of the drugs in the government sector.

It’s a question of access; a far bigger selection of drugs are available in the private sector, provided that you are employed and have medical aid, as opposed to what is accessible in a government institution where a lot of drugs are simply not available because they are either too expensive or they are not called for on tender. Part of the problem is that the private sector is currently somewhat static; there is hardly any growth in the market and that growth is derived from the limited base that is available which would be through price increases etc. The number of people privately insured is still around 7 million. Anyone coming in on a new assignment is going to have to respond to that, and a lot depends on product portfolio. With the right portfolio it is possible to succeed in this market, but static companies not developing innovations that the market wants will find life very challenging because eventually generics will simply erode their business. If technology stands still and you are not developing technology that is affordable and accessible, you will struggle in this market.

Mr de Chastelain, what is your vision for Bayer South Africa for the next five years?

These are exciting times but for the time being, we have to take NHI out of the equation as we do not know what that model is. However, in the short term, we have a number of new products which we are going to be launching; a big challenge is the Medicines Control Council (MCC), which is considerably slower than comparable markets in Europe and elsewhere. We are hoping there will be improvements in the MCC as it is moving from a completely government model to having a slightly different dimension and we are encouraged by that. We believe that this will happen relatively soon, so that will help. Being able to get drugs registered is vital. With regard to Bayer, we have a number of drugs that will fulfil needs in Oncology, but also in Women's Health and in other areas of the business. We are very positive about the short and medium term, providing that we can get the registrations we need.

What is your final message?

South Africa should be seen in a positive light. In your previous survey, we were fast followers and that is relatively accurate. We have avoided a lot of the problems that are being encountered in European markets as a result of the situation there and that is one of the reasons that the South African market shows growth and why a company like Bayer is so successful. We do not have the issues that the social programmes in Europe have. That does not mean excluded that we are from them, however, this is an attractive market, but not without its own particular challenges.

There exists a dichotomy in South Africa between first and third world, our first world environment is as sophisticated as anywhere in Europe or the US, but there is also the third world environment, which is essentially the state sector, that has access to some very good drugs, but affordability is everything and there is a huge disparity between the two. Ways of partnering must be found and this is what NHI should be, a form of partnership, attractive to everyone. The models I have seen indicate that it might move in that direction as opposed to complete decimation of the Private Sector. I believe that there will be real accommodation and that there has to be.

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