

Interview with Richard de Souza, CEO, Martindale Pharma

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Having worked in the pharmaceutical industry for the past three decades, what attracted you to Martindale Pharma in October 2010 and what plans do you have for the company?

When I was invited to join Martindale I was tasked with the mission to identify a strategy for the company and execute that strategy to ensure the company's growth through the next generation of ownership. Martindale is probably one of the oldest pharmaceutical companies in the UK with its origins dating back to 1787 when it operated as a pharmacy in London and was later bought out by Macarthy Laboratories in Romford. Throughout this long history Martindale has grown and been successful with a growth rate around 15% during the three years before it became a privately-owned company in May 2010 at which point it was acquired by AAC Capital. Up until that point Martindale had operated under the ethos of giving the customer exactly what they want. While this certainly made the customer happy, many changes in the pharmaceutical industry were making the reality of always responding to demand very difficult and complex. When you rely solely on customer demand, then your business will slow down anytime the customer does not know what they want or has less demand. Rather than generating demand by understanding customer needs, the company was simply responding to it and this brought along a number of challenges for its continued growth. Furthermore, the company had been underinvested in, which meant that elements of our manufacturing facility were outdated and that product development and IT needed to be improved and modernised.

My job was to figure out what the company could do better and identify through the product portfolio the Therapy or Business segments that we truly wanted to be a part of. These segments were selected based on whether we were already ranked #1 or #2, , or if we could achieve one of those positions within a segment over the course of two years. From those elements chosen we created clusters of products that we believed could be successful and then set out a strategy to create demand for each one of those clusters. In order to do this, we also had to hire the right people that would enable us to drive these product clusters into the market. Finally, we had to invest in the business to ensure that everything we do is being accomplished in the most efficient way possible. Today we have a total of five Business segments; Specials, Addiction, Ophthalmics, Critical Care and Hospital Specialty Products.

Essentially, this is what we have spent the past eleven months doing, and even though we have experienced tremendous change at Martindale, we have been able to maintain sales growth levels in a demanding UK pharma market. In terms of employees, we have kept the same head count but we have chosen to replace close to 25% of the people in the company. This has been a broad HR strategy, upskilling some departments while others have been shut down and new ones created. We have invested heavily in IT, production technology and new product development; something Martindale was lacking in the past. I see new product development as a key aspect to ensure the continued growth of the company well into the future, but to maintain current growth we have had to develop a very active business development culture. For example, we have negotiated eight product deals and have launched six new products over the last year alone.

Another notable change for Martindale has been the upgrade of its facilities to operate under the highest regulatory and quality standards. Prior to my joining the company, Martindale's facilities had been inspected by the MHRA and had been criticised. After having invested in the manufacturing site, the MHRA conducted another inspection in January 2011, this time essentially asking for some additional work but with no findings jeopardizing our ability to supply products. At the end of July 2011 they audited our facilities once again and this time no remedial work was required. Such a positive inspection was essential to recover the image of the company as one committed to the highest standards of quality.

You spoke about the need to create market demand rather than following it, however this is very difficult to do in the market of Specials or Unlicensed medicines considering that it is very difficult to forecast and predict demand for those products. How exactly do you go about creating demand?

It is very true that demand in the unlicensed/ Specials pharmaceutical market is very difficult to predict as by definition these are individual patient medicines. Nonetheless, we have been able to

better gauge demand by establishing preferred partnership status with major retail pharmacy estates so that when a patient walks into one of those pharmacies with a prescription for a Special, then that order will directly come to us. So far we have managed to achieve this preferred status with a large number of the pharmacy chains, and this has allowed us to continue growing and remain the market leader for this segment. In doing this we are able to determine patterns and trends that can lead us to better predict what the demand will be. We are also helped because most unlicensed products are prescribed for patients with chronic diseases that require a specific medical regimen for a prolonged period of time.

Obtaining our preferred partner status allows us to plan better, but we can only retain this status as long as we add value to our partners and meet their needs on service for instance on delivery. This is one of the main differences between us and big pharmaceutical organisations, because Specials manufacturers rely on providing a predictable and reliable delivery date once an order is placed rather than trying to convince a physician to prescribe our product in the first place. This is why delivery and logistics are crucial for our success and we target ourselves to get every order out to a pharmacy within 24 hours from when the order was made. Currently we fill and deliver in excess of 90% of our orders within that timeframe and we are always looking to improve that. To achieve this we also had to continue to make it easier for a pharmacist to deliver the order to us, which is why this month we have launched an electronic ordering platform through our website. Being more efficient has also allowed us to extend the cut-off for orders for next day delivery from 2pm to 5:30pm, again providing the customer and our partners an added level of convenience. Innovation and customer-centric service improvements help underpin our status as the partner of choice for many pharmacies.

Specials only represents one of five Market/ Business Segments for Martindale today. Within your portfolio of products, which segments have been driving the company's growth?

One of our main Business segments and a growth driver is addiction, most notably opiate substitution therapies. Addiction is a growing problem and represents a significant part of the NHS budget. The NHS spends around £100 million on drugs for opiate addiction every year. The overall cost of addiction in the UK, however, is closer to £13.5 billion when you take into account the crime and associated costs related to illegal drug consumption and addiction. A 2010 study demonstrated that 65% of acquisitive crime is drug related, we also see that 30% of the prison population is convicted for a drug related crime. NHS guidelines state that an opiate addict should receive opiate substitution treatment before they can become drug free. Martindale Pharma today is the market leader in methadone, the first choice opiate substitution therapy, and we are also currently looking

to expand into the buprenorphine segment which is the second line drug for addiction treatment.

We have discovered that within the methadone market there are a number of different populations, including those drug addicts treated in prison, addicts living on the street, who are in the most difficult phase of their treatment and the help they are offered is led by charities, as well as those long term addicts who are on the path to becoming drug free. Each of these segments requires a different approach to methadone because they all have different needs. Martindale has had to adopt different strategies for each of these segments.

One example of our adaptation to the different needs of the marketplace was in developing alcohol-free products for those populations for whom alcohol consumption is prohibited, either for medical, religious or cultural reasons. We also support education of healthcare staff involved in treating drug addicts, building an understanding of how to engage with a population which can be vulnerable and where the person dispensing their medicine can help support the addict if they are able to build a dialogue.

Unfortunately addiction is a growing problem globally. Therefore we have now moved to providing our Physeptone range of methadone products outside of the UK into the Middle East, Africa and other European countries. Each of these markets is very different in terms of policy and distribution, but we are establishing the right partnerships with health authorities, charities and distribution networks to expand in those locations.

Another leading area of growth for us is in ophthalmics, the numbers of people with eye conditions, like dry eye and conjunctivitis is increasing due to our ageing populations and environmental factors like the increased use of computers and air conditioning. This is a Business segment where Martindale has some history and we currently estimate our business represents about a 6% market share in cash terms. Our intention is not to compete with high-end prescription products produced by the largest pharmaceutical companies, but rather we aim to position ourselves in the middle of the market, for the more common ophthalmic conditions, because this section is under served. Martindale had a total of six products to begin with and we have already in-licensed and launched four more products to expand our ophthalmic portfolio with my marketing team launching on average one product every quarter. Due to this success we are also exploring the possibility of moving upstream into products for glaucoma and more serious medical conditions. Everyone recognises that ophthalmics is an expanding business, with medical treatment being offered outside of pharmacies, hence we see optician chains and stores opening up at major supermarkets and other common locations. To leverage our products in these new channels we have developed partnerships to supply our products as own label or third party brands.

Finally, our Critical Care Business segment, based largely on our unique range of pre-filled syringes for resuscitation in Emergency Rooms and Operating Theatres has also been growing at a fast rate. The sad reality is that litigation costs for the NHS account for 10-15% of their budget and many legal cases are around medication errors. Most of the errors are not deliberate, but rather they mostly emerge out of stress situations. In order to reduce such errors, hospitals are moving towards using pre-filled syringes that ultimately shorten the response time to deliver life-saving drugs and decrease the margin for error. Martindale is also #1 for this market segment and we are looking to continue its growth because this is very much a niche segment with high technical and commercial barriers for new entrants.

Considering your impressive success in the UK, what ambitions do you have for Martindale's international expansion?

In 2010 Martindale only had 4% of its turnover coming from international markets. Within 12 months we have taken that up to 10% and my goal is to reach over 20% within three years. Historically the international markets where we were present were the legacy markets, such as Australia, as well as the Middle East and East Africa. We did not have much of a presence in Europe, so this has now become one of our main priorities particularly because these markets have very similar needs to those of the UK market. As a company, we already know how to solve some of the problems in the UK, so we are looking to transfer that knowledge to other European markets with similar needs and conditions.

With such rapid change at Martindale, how do you manage to attract and retain the best staff and to keep them happy in the company?

The profile of someone who is successful at Martindale is someone who loves to be challenged and to think about new ways of working around obstacles. People that get a great sense of satisfaction out of achieving the best are exactly the type of people that we need here. When I took over the company about a year ago, I sat down all of the employees in small groups and communicated to them what my style and expectations were. I said to them: "some of you will be here in a year's time, and some of you won't because it will be very uncomfortable for you here if what you are looking for is a sedate lifestyle". "Everyone has the chance to stay and prove themselves if this is what you desire". Over time there were some people who felt they couldn't adapt and voluntarily expressed a desire to leave. Others were unfortunately in functions that were no longer relevant and with these we parted company, having tried where an employee's skill could be transferred to a new department, making such a transfer possible. In upskilling the organization we were fortunate that big pharma have been shrinking at a time when we were looking for new people in

our key roles and so we have been able to hire very talented people.

Managers are beginning to realise that for every pair of hands they employ, they are also getting a brain for free. This means that anyone that is a part of our company can add to the overall success by thinking about how they improve their job and function, and we encourage managers to empower everyone to do that.

What is your final message regarding the future of the UK pharmaceutical market?

The UK market has become very challenging for a number of reasons, but one of the most important being that the NHS is going through significant changes at the moment and the outcomes are still being articulated. While the agenda of the NHS is shifting to focus on quality and efficiency, I am making sure that all the managers in the organisation understand the need to uptake innovation in order to drive greater efficiency. The UK is also shifting and paving the way in how healthcare will be delivered by moving away from hospital and GP driven healthcare to one that places a greater importance on home care and pharmacies. Ultimately, all of these changes represent opportunities for the pharmaceutical industry; it is simply a matter of changing our mentalities and looking at our model differently. How you define the market will always depend on the eye that you bring to it.

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