

Interview with Cristina Garlasu, General Manager, Dr. Reddy's Laboratories Romania



30.07.2012

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You have been the first employee to start Dr. Reddy's in Romania and when we look back at those early years, we see that a portfolio of gastroenterology and analgesics was chosen to enter the market... Why, in the first place, were these therapeutic areas targeted?

At that time, the company was already successful with certain products in other markets. I listed these and cross-checked which ones would be most successful in Romania. In particular for the gastro-intestinal area I was quite right, as one of our main products has grown into the number one product in the market, and is expected to bring us more than EUR 10 million in revenues. In its class, this product currently captures roughly 56% of the market share. The timing we chose to enter the market with this product was exactly right.

The strategy of the company was then to focus on those therapeutic areas that were developing the fastest. As a result, today we focus on oncology, cardiovascular and gastro-intestinal. This does not mean that we are not looking at other domains. CNS, for instance, is a field of activity in which we have been registering products. So far, this has not been successful because we were lacking the experience, but it is an area we aim to target more in the future.

Furthermore, it has already been publicly announced that you will have 6 new product launches this year. How will this reshape the product portfolio?

These products will be strengthening our existing portfolio, and we expect them to reach around USD 1 to 1.2 million in sales. Apart from that, next year, we will have another 7 products that will be

launched either directly by us or through a partner.

Looking back at the early years, what did you find most challenging about starting the Romanian operations of Dr. Reddy's?

My first priority was to understand how this market functions and what are its key success factors. I needed to properly understand how my company, coming from India, a market which was not having the right exposure in Romania, could benefit from these key success factors that were determining Romanian growth.

Then, it was a matter of adapting to Romanian regulations, which were changing every year. Before becoming part of the EU, Romania saw a lot of changing rules, the introduction of reimbursement, etc. In fact, I started the operations when our currency was not yet convertible. You can imagine those times were completely different. A second challenge was thus to keep the rhythm and understand these changes.

Once Romania became a member of the EU, it was a matter of leveraging all the opportunities that Dr. Reddy's had in the rest of Europe. We also started looking at growth opportunities through in-licensing activities, even though that is a different challenge altogether.

What have been the key milestones of Dr. Reddy's growth path then?

In Romania, Dr. Reddy's achieved a million US dollars in revenues after roughly 4 years of activity. Around 4 years back, we reached USD 10 million, while the company has grown to USD 17 million turnover in 2010. This year will be a big milestone as we aim to cross USD 20 million.

What elements are going to drive the company over this USD 20 million turnover milestone?

First of all, we have a portfolio which is aligned with the therapeutic areas of growth.

Apart from that, there is the fact that we invest in people, not only in terms of staff numbers but also in terms of individual professional growth. We now have systems in place for personal development. This has become more important as we also work with people with less experience in pharmaceuticals or sales. This is quite a challenge as we have changed from a representative office to a limited company, with only marketing and promotion activities in its domain. This means that we are not directly involved in sales. Still, we need to stay connected with our distributors, we need to be aware of stock levels at pharmacies, and so on. This means that our people need to acquire many sales and negotiation skills, to make their life more comfortable. Our investment in people is therefore expected to act as a driver of growth.

I also count on some predictability in the financing of the market. You cannot base your business on assumptions alone. While you need this certain degree of visibility, there are still many things that remain foggy these days.

Did you see a similar level of unpredictability in 1995?

It was a different kind of no man's land. There was unpredictability at all levels, but everything was somehow more streamlined. Today we have so many regulations that we have become, in a way, overregulated. The main issue today remains the under-financing of the healthcare system in Romania. With only 3.6% of GDP being spent on healthcare, in theory, we are far below Europe's lowest, which stands around 6%, as well as the European average of 8.6%. It is sometimes even less than African countries, which is appalling.

Dr. Reddy's has nonetheless remained an investor here in Romania. However, Satish Reddy already announced to reduce the international focus to a few key markets while the Spanish subsidiary already closed down. Has this ever been a threat for the Romanian operations?

Not at all, and in fact the opposite is true. Within Dr. Reddy's global operations, Romania forms part of the so-called G8 group of countries that the company focuses on worldwide. Romania is attractive because of its growth and its current potential, as well as the overall profitability of the business. While these elements play an important role to focus on Romania, this market is also attractive because of our established operations that have proven to be successful so far. There is a big potential in the Romanian market, which still has to grow in value and structure. This means that we also expect growth in the new therapeutic areas of success. For instance, Dr. Reddy's is successful with various biologics products in India, and I hope to be able to provide such products to the patients in Romania one day. As a market I feel we are now at the bottom and can only move up from here. All in all, rather than a threat, the Romanian operations have been encouraged and supported from our headquarters. There is a very strong commitment from the Romanian team too, which has played a crucial role.

Do you feel that Romania can also be a learning platform once Dr. Reddy's decides to move from a G8 to a, for example, G12 or G15 focus?

I sincerely hope so. In fact, for a brief period of time in my 16 years of tenure at Dr. Reddy's, I have also been the Group Country Head for Romania and Bulgaria. At that time, it was also in the plans to further develop the business in countries such as Poland and Hungary, which fell under the same Central and Eastern European emerging zone. A CAGR of 6 to 9% through 2015 is expected for this region, which is far above the global average of 3 to 6% and a European average that ranges from 0 to 3%, as per IMS.

We saw quite some companies moving rapidly in Romania through acquisitions, with the sale of Terapia to your Indian counterpart Ranbaxy just being one example. Dr. Reddy's did not go down the same road. Do you feel that this has been an opportunity that the company has missed out on in the Romanian market?

Dr. Reddy's follows a strategy which plans to leverage our own assets and strengths to increase depth in the existing markets and use acquisitions as a vehicle to expand our presence. Dr. Reddy's is interested in acquisitions which will give momentum to this strategy and add to our depth in our key priority markets, including Romania. It may not be a company as a whole, but may instead be a local portfolio, a team, etc. Our organic growth is limited by certain constraints, such as registration timelines, which means that inorganic growth may sometimes help us to grow faster.

If we look at the uptake of generics in the market place, there is no more doubt about the quality of drugs being manufactured in Hyderabad, India. Physicians and pharmacists, however, still prefer to prescribe innovative drugs to create a better cash flow due to the long payback terms in the country. How do you see this changing and what can you do to increase the market share of generics in Romania?

If we look at this market today, generic drugs currently capture around 30% of the value and 60% of the volume of the market. However, IMS estimates that by 2015 80% of the cost of drugs in pharmerging markets will be going to generics. This increase from 30 to 80% is a huge step for Romania. The CAGR of around 18% in the past 3 years is encouraging, but not enough. I think it is definitely going to be a world of generics, because of the market environment, and because there will be plenty of molecules going off-patent. We, as a company, have a very good practice of being first to launch in the USA for instance, therefore I believe we can play a much larger game among the generics players in Romania as well.

In fact, when I started in 1995, my main barrier was to make people aware of India as a high, top quality producer of pharmaceutical products. The market, including the regulators, the distributors, and so on, was completely closed to this source of products. We had to explain that out of the more than 22,000 manufacturers in India at that time, Dr. Reddy's has always been a top 3 player. Generic awareness is increasing today, but there still is a preference towards innovative medicine. Through associations such as APMGR, we aim to emphasise that generics are a viable solution to go forward.

As the market is going to go the generic direction and we are a generics company, we feel we can have a positive impact on the sustainability of the system, and thus there is potential to grow.

Especially since just 3.6% of GDP is being spent on healthcare. Nonetheless, Romania has been very good at keeping its national budget deficit under control...

Romania has also been good in streamlining the number of hospital beds per capita for example, and has definitely done some things right. The reform is not nil, but is happening somewhat chaotically and is very prone to changes in legislation. There is a lack of consistency, which is exactly what a foreign investor is looking for. While the payment terms (of average 330 days) are of course unimaginably unattractive, it would be far more important to at least be sure that you would

get your money back after one year. You would have a more predictable business plan, which is exactly the problem today.

How were these payment terms when you started in 1995?

Not at all the same. There were companies that were selling on advanced payment, and personally I do not remember anything more than 90 days of payment terms during my first 10 years. Then this figure moved up to 120, 180, 270 and now even up to 330 days. On the other hand, there is an EU directive saying that the payback should be reduced to maximum 60 days by January 2013. I wonder how this can be reached, but I do count on the EU to force this on Romania.

The company is of course there to bring more than medicines alone. Through partnerships with Gral Medical for example, Dr. Reddy's works together on health campaigns. How important are such initiatives in Romania?

In general, it is a fact that Dr. Reddy's is not only into selling medicines. Gral is just one example of our social campaigns, and we have had some very nice initiatives in Romania particularly. These differentiate Dr. Reddy's as a generic company. We have been engaged in environmental initiatives. After a successful project in the Danube Delta 2 years ago, we are now planning another activity in cooperation with National Geographic, this time for extinct species.

In terms of social initiatives, we partner every year with the Cancer Patients Association and Onco Kids. This has nothing to do with the business aspect of the company, but is simply a way to try to help the people in our community live better and healthier lives, which is part of our credo. Of course, there is also a sustainability aspect, coming from the Indian headquarters that aims to minimize pollution and so on. We try to minimize unnecessary spending and avoid wastages locally as well.

We have also partnered with an NGO called World Vision, through which we tried to help young kids who are just over 18 years old and are getting out of the social system provided by the State. We tried to help them stand on their feet and find a path in life. With this same organization, we have this year started the initiative "I want to go to high school", where every employee contributes part of the salary. With this funding, 10 kids of some very poor families in Romania were able to stay in high school. By the end of this fiscal year, we aim to reach an entire class. Through such activities, we try to give back to the society, because pharma is essentially a very social industry.

It has been 16 years now, where would you like to the Dr. Reddy's operations in Romania in the coming 3 years?

We have great expectations. Today, as we speak, we rank 33rd on the total market, and 13th on the branded generics side. We obviously aim to enter the top 10 in the branded generics market in the next 2 to 3 years. As mentioned before, this position will be reached by bringing in new

products, of which 7 product launches will already take place next year alone. We have a growth forecast of more than 30% CAGR till 2015, which will hopefully take us up to USD 50 million by then. This is of course coming from new products, as well as possible redeployment of the field structure, rethinking of the business model, as well as potential inorganic growth. Provided the environment will be supportive, this can definitely be achieved.

What is your final message on the commitment of Dr. Reddy's to our international readers?

Romania is definitely a focus market that no one should avoid or neglect. Dr. Reddy's' success so far is an example that it can be done without having any prior exposure. This differentiates us from companies with 20 to 30 years of experience in the market. There needs to be a lot of enthusiasm behind the investment plan, but it will definitely be worth it. Romania is clearly a country with plenty of potential, offering numerous advantages compared to some of the neighbouring countries. If there is a proper plan to leverage key success factors such as people, knowledge, etc., it is possible to be successful by 2015, which is the IMS timeline. All in all, it remains key to have a strong emphasis on people

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