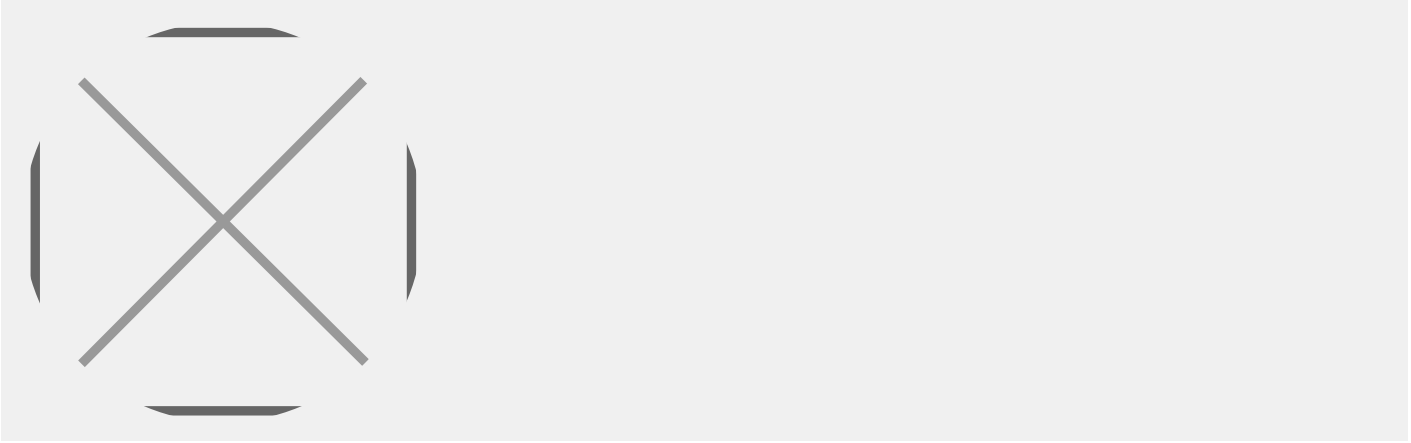
Interview with Carlito Realuyo, President and General Manager, sanofi-aventis Philippines



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Mr. Realuyo, you have been in sanofi-aventis for 16 years, three of which were at the head. What have been the major achievements that the company has reached since your appointment as President & General Manager?

In the last years, the pharmaceutical industry has been able to engage with the government, which is a big achievement in itself. Last year's government intervention on the prices with the MDRP made the government and the industry closer, including sanofi-aventis.

On the side of sanofi-aventis, we have signed a number of access programs with the Department of Health. We have also launched Winthrop Pharmaceuticals in the Philippines, which focuses on unibranded generics – we were the very first multinational company to have launched a unibranded generics company in the Philippines, competing with two local manufacturers, Pharex (which is part of Pascual Laboratories) and Right Med (part of United Laboratories). Moreover, we signed an agreement and initiated a program called Innovation for Life, under which we proactively reduce prices on certain products, specifically targeting indigent patients in government-run hospitals. These were my major achievements.

The price reduction strategy can be seen as a commercial suicide. Do you think it is sustainable in the long run for sanofi-aventis in the Philippines?

It is definitely not sustainable, as shown by the initial results. The MDRP was implemented in the third quarter of last year and the promise was that we would see a volume growth that would

compensate for the price reductions. After eight months from the implementation, we can see some volume growth but it does not compensate for the price reductions.

The objective of the price reductions was to provide greater access to medicines. When you look at the whole industry, you see that it has grown only marginally in volume, showing that the objective of providing improved access has failed. The beneficiaries of the MDRP were those people who could already afford medicines and now can buy their medicines at half the price.

How do you plan to compensate these price reductions at sanofi-aventis?

I do not think that we can compensate it. As we are unable to compensate it today, the way to go is optimizing the operating expenses. The market is no longer growing double-digits in the Philippines due to the MDRP, so it is difficult to obtain additional investment for the country. There is also an issue with the predictability of what will happen next, hence we had to start optimizing our operating expenses.

I think that rather than saying compensating (which we really cannot) it is more about preparing for the mid-term and what we can do to protect ourselves from future price reductions or future government interventions. In the Philippines we are following the global strategy of diversification, started by launching our Winthrop portfolio, which includes the low price molecules. We are also diversifying into a different business, which is the food supplements. We have just recently launched our Cenovis line, which is a food supplement, sanofi-aventis acquired the company in Australia. The Philippines was the very first market in which it was launched outside of Australia. The plan is to build up a diversified portfolio. The Winthrop and the food supplement diversifications protect us from further unpredictability of government intervention. Therefore we do not compensate, but we proactively go into diversification strategies.

How difficult it is to promote innovative products here in the Philippines?

Innovative products are not difficult to promote in the Philippines. The Philippines is a pure out of pocket market, where there is no one entity dictating the purchases, which is good and bad at the same time. For multinationals it is good because it is free pricing. What drives the business is the promotion to the doctors, who are the prescribers of the medicines. Unlike other countries where it is generally driven by tenders, there is no big purchaser here in the Philippines – the government does not have any budget for healthcare. They do purchase medicines but marginally, less than 5% of the total industry sales.

However, there are two dominant monopolies in the Philippines. One of them is Zuellig Pharma, the only pharmaceutical distributor – this is something that we need to manage as a manufacturer. The second is represented by a big retail chain, Mercury, which represents on average 40 to 60% of the business of the entire pharmaceutical industry – of the 120 billion pesos annual sales, 60 to

70 billion of them pass through this chain.

What do you think will be the drivers of the growth for the future for sanofi-aventis in the Philippines?

It will definitely be the Winthrop portfolio. Today Winthrop represents 5-8% of the total business, but in the next 5 years it should represent at least about 20 to 25%. PHC or what we call Personal Healthcare or Consumer Healthcare will continue to drive the business of sanofi-aventis, specifically for the Cenovis line. We have a few good brands, especially Lactacyd® (which is called Dermacyd® in Latin America) and Essentiale®. I think these two brands, immune from price reductions, can drive the growth of sanofi-aventis in the Philippines. We already have the brand equity so all we need to do is to expand the product line. Of course it will cost us more, because it will be driven by advertising, so we will have to spend at least 20-25% of our total sales on advertising. Therefore the initial investment will be very high, but it will also be very fast in terms of return.

Sanofi-aventis has been very committed in the Philippines and it initiated several schemes together with the Government and with local NGOs to support the disadvantaged. Which are the projects that have had the biggest impact on people's lives?

Two weeks ago we signed the Innovation for Life program, which is an access program for our patented products. Fortunately the Department of Health had a program on insulin access, so we have started two weeks ago with insulin. The first one to sign was actually Eli Lilly, with their Humulin® line. Since the market is out of pocket, through the program we provide the government hospitals with a 55% discount on our Lantus® product for the indigent patients on selected government hospitals. Today we are targeting about 11 regional DOH hospitals. The first expansion phase would be to be able to expand the number of hospitals and hence expand the number of people who will benefit from the program. The second expansion phase would be to be able to bring in more products, specifically oncology.

Multinationals are now focusing into Asia as the region that is driving the growth and reshaping the pharmaceutical landscape. What is the importance of Asia for sanofi-aventis and in this context, what is the role that the Philippines are playing?

Let me talk about Asia first, which will be the growth driver for the pharmaceutical industry. The big countries like France and Germany are no longer growing and they expect price reductions every year of 5 to 10% range. In Asia population is growing, the government has not intervened much on pricing (except in the Philippines) and economy is growing so most of the multinational companies are seizing the opportunity of the growth. For sanofi-aventis, Asia-Pacific together with Latin America are the two growth regions.

When you look at the Asia Pacific composition, there are the big growth countries, China (which has the highest growth in terms of economy), India, Russia, and of course Japan (which has the highest per capita), while the South-East Asian countries are the smaller ones. It quite polarizes both in terms of volume and in terms of investment. I think that is the challenge for the Asia Pacific region. The South East Asia is still projecting growth, much higher than the growth of the developed countries, around 8 to 12% growth, and among the countries Vietnam and Indonesia are growing on double digits.

Looking at the Philippines, we used to have similar growth rates with the other South East Asian countries. However, today my mandate in sanofi-aventis is to be able to start launching and diversifying, because most of our core brands (including Plavix®, Aprovel™, Solosa®) have expired patents, so we do not expect much growth from our pharma business. What we are trying to do now is focusing and diversifying into other businesses where we can be strong. The Philippines is strong in consumer healthcare. Consumer healthcare today represents about 40% of the total business, driven generally by two brands, Lactacyd® and Essentiale®. The objective is to expand and extend these equities into the target segment and of course adding the food supplement line Cenovis. Our LRP forecasts CHC to represent at least 50% of the total company business in the next 3 to 4 years, and will be driven by these three brands.

Sanofi-aventis is one of the top pharma companies, it is number one in some of the European countries and in the BRIC-M, and it is strong also in the developing markets. Given that the Philippines is one of the largest sanofi-aventis affiliates in South East Asia, what is the current positioning of the company in the local market?

At the moment our rank felt from 4 to number 7, because of the impact of the MDRP. Three brands that represent 30% of our sales were subject to MDRP. The impact is 15% less against our previous turnover, so our ranking fell. So my objective is to get back to number four, where we were positioned previously.

My direction is to be back at number four in the next two years. What will build the business will be the diversification strategy, the CHC and Winthrop. If I add the vaccines business, we would already be back at number four. Today we look at it as two separate entities.

Sanofi-aventis brought in a German-Canadian to change the company overall. Now you are the first Filipino to be at the head in the Philippines. What can you bring to the company as a national that foreigners lack?

I started as a medical representative; I have been in the industry for a long time, occupied most of the positions from sales operations to marketing, so that is what I bring: the knowledge and the experience.

The other aspect is the long term vision of the company in the Philippines. A typical expatriate would think of the business depending on how long he will stay, normally 3 to 5 years, so the normal cycle would be to clean up, to build and to make sure to deliver. In terms of directions, I look at the business on a long term sustainable manner unlike the other expatriates who would probably look at it on a mid-term perspective, 3 to 5 years at most. Beside local knowledge, that would probably be the basic differentiation of having a local general manager versus an expatriate.

On a personal note, you are running one of biggest companies, in an important emerging market; how do you balance your personal life with running a leading MNC?

My blackberry turns off at nine o'clock in the evening and starts at five o'clock in the morning. I stop working during these hours. I do not bring work at home; my wife does not even know what I do in the office. I work hard in the office but after work it is all for the family and fun, that is the way I balance it.

What would be your final message on behalf of sanofi-aventis in the Philippines to the readers of Pharmaceutical Executive?

Sanofi-aventis is here in the Philippines to stay and the objective is to be able to help government and the Department of Health to focus on healthcare reforms. Today the government is focusing on the short term, on reducing prices, and all the decisions on healthcare are driven by politics. My personal objective, together with sanofi-aventis and at the same time with the PHAP, is to focus all the stakeholders in changing and reforming the whole healthcare industry in the Philippines. At sanofi-aventis we will help the Government in doing it.

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