Interview with K. Shivkumar, Director – Pharmaceutical Division, Merck Limited

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Over the years, multinational corporations (MNCs) have increasingly been penetrating the Indian pharmaceutical markets. How have you observed this trend throughout your career?

Based on India’s macro-economic growth of around 8 to 9 percent in the last 7 to 8 years, the pharmaceutical industry generally grows 4 to 5 percent faster than that average. It is clear that in markets such as Western Europe, the growth of the MNCs has been stagnating. There is increasing pressure on these companies’ pipelines, and there is lacking R&D to fill the gap. The strategic move into emerging markets is very smart, but in my view should already have happened earlier. However, as they say, it is better late than never.

You say late, but Merck has already been present in India since the 1960s. How do you explain this paradox?

We were late in the sense that we only started investing heavily from 2007 onwards, mainly because the Group maintained a strong focus on the US market and the development of biotech. Since our biotech pipeline is not as strong as Roche’s for example, Merck realized it needed to increasingly tap into the growth opportunities of the emerging markets worldwide. As a result, we moved from 2 to 3 percent growth in India some years ago, to levels of 14 to 15 percent today.

By nature, the other key emerging markets -Brazil, Russia and China- are very different from India and all require different skillsets to succeed. In that sense, there is no escaping that, as an MNC, we have to increase our presence in emerging markets, and India is clearly one of them.

Historically, the Indian subsidiary was established as the first Merck Group company in Asia. What role do the India operations play today, and how do you see them evolving in the future?

We are currently looking at a new strategy for the BRIC countries. We are looking differently at these markets and are now trying to identify what is required to get us to the next level. For India in particular, I already feel that much attention is now being given to this market.

Looking at the Group’s performance, 2010 was rather positive. How did you see the performance in India and what is your outlook for 2011?

In 2010, we lost a product that was launched earlier in 2009. It was taken out of price control and marketed as a food product. We replaced the big product Evion with Evion Omega, but as the price went up 5 to 6 times, the government was not pleased. Hence, we lost almost Rs. 350 million. In spite of this, with the good performance of biotech and oncology, we grew by around 9 percent. If we would include the effect of Omega, the growth rate would be somewhat around 14 percent.

Overall, recent reports have shown that Merck is growing at 21 percent while the market is growing around 16 to 17 percent. Today, the future is looking bright as we grow ahead of the market. We have expanded our field force and product portfolio, and going forward, we also expect to surpass the growth of the Indian pharma market. We are looking at very aggressive investment in terms of people, products, product development capabilities, sales force effectiveness, clinical research, and so on. There is a lot of activity lying on the table for India right now.

If we take a look at your inorganic growth path here, October 2009 was a milestone with the acquisition of Bangalore Genei. What synergies or additional capabilities did this bring to the Indian operations?

Under our previous strategic plan in 2007, there were five key pillars. The first two were the expansion of the field force to match competition and the launch of a branded generics portfolio. We entered areas where we did not have our own NCEs or research products. Therefore, we tied up with local companies. Next, the biotech business also came in-house. The oncology business, launched in 2006, was a further expansion of that. The entire organization was ramped up in the sense that we did not have a market research department, a proper medical department or sales force effectiveness. The company was rather quiet and sleepy. Ramping up all these key functions was thus essential.

We dedicated ourselves to HR, sales force effectiveness and the creation of a market research department. Furthermore, we also encouraged training from national to regional and area levels. For business development, we went from no staff initially, to 2 people in 2007, and now 5 today. In 2009, we also added a separate team for the cardiometabolic niche. Today, this team has grown to roughly 230 people.

M&A was a last pillar in this strategy, which for obvious reasons could not yet take place in 2008 and 2009. Our strategy was also to gradually execute on our pillars, and digest the first four steps of our strategic outline.

In the vitamin segment, Merck has established strong brand names such as Neurobion and Polybion. Is it not risky to depend on a few brands from a strategic point of view?

That is why we are investing significantly in cardiometabolic care. The vitamins segment is referred to as general medicine, where we do not invest in high margin products. The idea of the product portfolio is to take them out of price control to get a higher price.

Diabetic neuropathy, for example, is a big problem here in India. Yet, with Neurobion Forte under price control we cannot do much in terms of investment, because the margins are low. That is why we launched Neurobion Plus, which is a more specific and higher margin product for diabetic neuropathy.

These brands also have a lot of potential in the rural areas, where people are looking for affordable high quality products. We have now set up a team to address the rural areas (class 2, 3 and 4 towns) of around 450 franchisee people. Another 350 people of our own, work for the metro- and class 1 towns for general medicine and higher margin products. The cardiometabolic team works in metro-, class 1 and class 2 towns, which we will eventually expand to class 3 towns.

India in itself is also being considered as a manufacturing hub. Merck has already tapped into this potential by establishing the Goa plant in the 1980s. What role does your manufacturing expertise play to position yourself in the industry here?

Goa has essentially been used for three or four products, while most of the other products are outsourced. There are factories in India that are in a long term agreement with Merck to exclusively manufacture for us. Even though these factories are not owned by Merck, the quality standards are maintained while efficiency can be generated.

Do you see the role of these partners increasing in the future, or is there potential to increase your own manufacturing capacity?

While the Goa facility is already working at maximum capacity, I do not see ourselves expanding that facility any time soon. I believe that most MNCs have realized that their strengths are not in manufacturing. It is better to outsource such processes to those companies that can reduce overhead costs due to economies of scale.

If it is not manufacturing, what is your strength then?

Our strength is in commercializing new products, which we have successfully done for products in oncology and biotech for example. Besides that, we are also strong in marketing some of our older products such as Concor. Today, this brand has gained 8 ranks compared to last year. Our strength lies in conducting clinical research, building relationships with doctors, as well as having a strong knowledge of the local Indian market.

A paradigm shift towards innovation is also said to be taking place in India. Do you see more opportunities for MNCs, to tap into this increasingly innovative character of the Indian local industry?

One opportunity I see very clearly is to compete in the biosimilar market. An example as such is the product Gonal-f, which is a recombinant follicle stimulating hormone for fertility. There are already 4 to 5 biosimilar versions for this product, developed by companies such as Reliance and Lupin. These are companies that have even succeeded at reverse engineering in biotechnology. I thus do not see why MNCs would not partner with them to source products in India, and possibly take them to other markets too. This is one particular area that has become extremely important for the Group.

We are also looking at turning India into a product development centre of excellence. This would be for both the Indian market, as well as India-similar markets such as Thailand, Malaysia, the Philippines and Vietnam. We currently have a very small product development team, but it is part of our strategy to expand our local R&D capabilities. With the right headcount and equipment, we should be able to come up with differentiating formulations. Bisoprolol was developed in India 5 years ago and is being launched in other parts of the world today.

Is it a challenge to attract people to support your growth strategy?

From when I have arrived here, I have always had very qualified people around me. I have also been able to attract some people from my professional network. Yet, there is a problem of attrition in first line sales representatives and first line sales managers. This is a problem we are trying to address by providing distant MBA programs for first line managers and MBA programs in Mumbai for second line managers as well as the marketing staff.

What makes the experience of working at Merck in India unique?

What is always needed is good leadership. If you have an energetic leader that rolls up his or her sleeves and is very actively involved in the field, this drive will also motivate the rest of the staff. Moreover, people tend to get very excited when they hear our ambitions plans for Merck in India. They see the growth rates and the results.

What has been your key achievement in the 3,5 years you have been with Merck?

I am very pleased that, for the last 3 years, we have been able to grow ahead of the market. We have been able to change the image of the company from a sleepy company into a much more aggressive player. Some of the doctors have been very surprised in the way we are expanding rapidly, as well as our aggressive growth strategy. We engage them in clinical trials, advisory boards, and focus group meetings. All of this makes it clear that we are in play now.

Where do you see Merck in India’s ranking of the top 50 companies in 5 years from now?

Globally, we are in the top 15 while we are currently ranked 31st in India for a variety of reasons. Today, our aim is to gain 6 to 7 ranks by 2015 through organic growth. In order to enter the top 20 however, M&A will be required. We would then be looking at targets ranging from EUR 100 million to EUR 250 million.

Is there a final message you would like to convey to our readers?

As far as the country concerns, it is clear that we cannot afford to stay out of India. And as for Merck, we will do all what is possible to get more critical mass in this market.

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