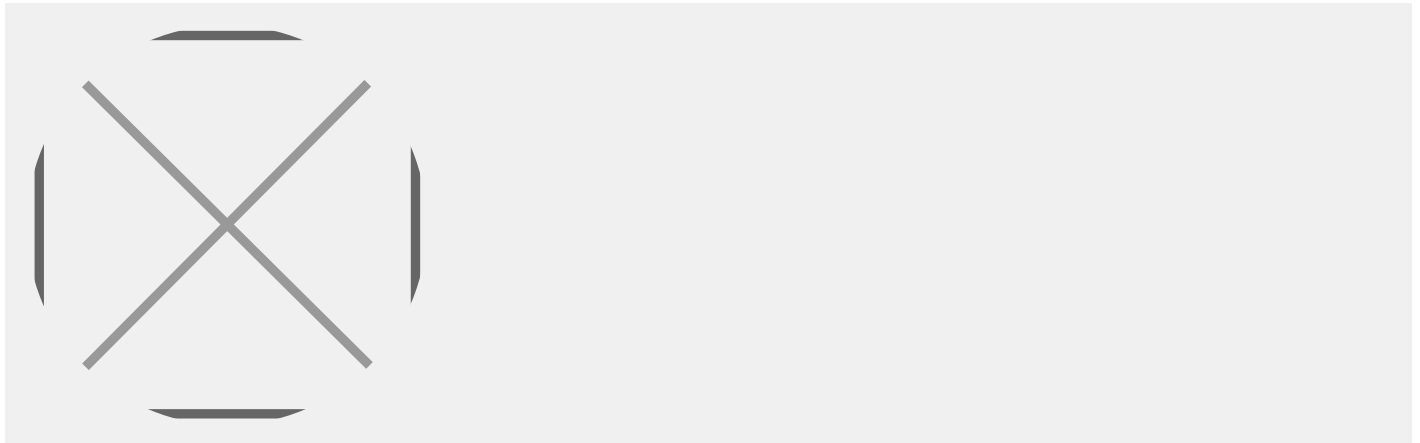


Interview with Serdar Sozeri, General Manager, Biofarma Turkey



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Mr Sözeri, Pharmaceutical Executive's readers are keen to discover, through our reports, prominent industry personalities, and they like to hear their stories. You have an outstanding career, having worked for both international and local giants – Deva, Abdi Ibrahim, Actavis, Astra Zeneca...- Can you tell us a little bit more about you?

I have been in the industry for about 25 years. I am a medical doctor but practiced Medicine for four years only, then came to the industry. As you described, I have worked on both sides of the industry, original, generic, national, multinational, and I also had a assignment in another country as the company's marketing and sales director.

I am specialized in turnaround projects of companies. That is how I see my career, and that is how I deliberately try to develop it. I am generally taking the companies in their change processes, when they need radical changes, or in case they are going through some strategic difficulties, I then try to give them a new shape. Biofarma is the sixth company that I am with as the Chief Executive Officer or General Manager.

This gave me the opportunity to see many different companies and environments, which is valuable considering that the main issue for the generic companies in Turkey has been their difficulties to adapt to market conditions.

Besides that, from a personal perspective, I am also an executive coach. I have coached a General Manager of the pharma industry at the foundation of his company, and am still coaching some

senior people in other industries in Turkey. One of them is managing today a 5 billion dollars company. When you are coaching, you are on the other side, but you learn a lot about yourself as well as from other industries. I do not coach in pharma at the moment; I am in banking, Fast Moving Consumer Goods (FMCG), and chemicals.

After managing six different pharma companies, what would you say are the characteristics that a General Manager should have to be able to take the lead right away? You just took over the operations of Biofarma, what personal methodology do you implement when taking the first steps in your new position?

My personal style is initially to make a clear observation of the needs, and make the decisions very fast. I believe that giving a tempo of change is much more important than the speed. It is important to create a momentum of change.

You also need to find the right person in place to manage that change, and do whatever is necessary in the first year, as you do not have so much time. In the first six months, you need to finish all the infrastructure changes and the systems. In the first year, you have to step up a new company culture. Otherwise it is difficult to change a company, especially if they are companies with old habits. If you really find the right team, create a visionary environment, with a good result oriented culture, and if you keep the momentum of change, the turnaround will be a success.

I am quite experienced in these turnarounds. I do not mean change as a reengineering process, where you do everything on a blank page. You have to make everything on the core competencies of the company, respect these competencies and fix the ones that are failing.

You need to be sure of the culture you want to create, and when I say culture it's not something soft, it's the way to do the business.

You have to do all that while running the business and getting results. Even on the first or second month, delivering results is a very important part of the momentum of change. Results cannot wait. It is like fixing a train while it is going, and in some cases it is more like fixing the ship while it is sinking.

Besides, I value people very much, and there is always a high level of human aspect in companies' turnarounds. By valuing people, I get the best out of them. I'm more in favour of the new managing style of which the basic assumption is that people are good in nature.

I do make some downsizings according to the situation, but I do not make radical changes in the teams, as I first try to get the best out of available people. There is always a curve in a company, where 15% to 20% of the people are poor performers, 10% to 15% are good performers that you will keep anyway; as for the others, you need to make them fit into the new management philosophy and new culture ; you need to take them on your side.

Looking at Biofarma, how do you keep the momentum of change in this structure specifically? How do you assess the company's current strengths and weaknesses?

It is a company which in fact I already knew from outside. Biofarma had a good capability in regulatory activities, very strong manufacturing capabilities, with high quality production – European and UK approvals. Although we are small, we are flexible and can deliver high quality products.

We had problems in setting our marketing competencies, which is what we started to fix in the first hundred days along with infrastructure, sales, marketing, finance, and top management.

We have switched from a business unit structure to a sales force structure. A business unit structure is common among the Turkish industry, because companies have quite similar products to manage, so they assume they do not need a different sales force to go and see doctors and pharmacists. As Biofarma, we are trying to address the changes in the industry dynamics.

Turkey is going to be a branded generic market. It is going to be a hybrid type of branded generics, with some aspects of company branding, and some aspects of non branded generics. The doctors are not going to prescribe the International Non-Proprietary Names (INN), but at a pharmacy level, in some therapeutic areas, the switch is going to be important, because the margins are coming down, due to a strict control from the governmental institution SGK on biopharmaceuticals. Pharmacists are encouraged to switch to the cheapest products.

Even the doctors are strictly followed not to defend their prescribed brands. The reimbursement agency under the Ministry of Health is following the prescriptions from doctors, and sending them monthly reports. The same happens at a pharmacy level. Big brother is watching.

In the past, the margins were higher. We used to have high numbers of sales forces on the field, which we used for every product, both for doctors and pharmacists. Now as the margins have decreased, and the selling costs – the sales representatives – being the highest cost level in this branded generic market, we have to control those cost and use sales forces for the most effective products. It comes out that certain groups of products should be really promotional products, and therefore there should be a prescription business unit. On the other hand, the promotion of non prescription medicines, often old and genericized, is becoming a new business unit issue.

Although this situation already existed, it is becoming more sophisticated. Almost all the companies have understood this dynamic, but none of them has a dedicated pharmacy and commercial strategy. Turkish companies do not have pharmacy marketing plans, they only have the commercial set of normal prescription business.

Historically, there has been a very strong wholesaling system in Turkey. Although we have dedicated the pharmacy management to that, it has become too expensive. Instead, companies

should actually develop their own pharmacy marketing systems.

The goods are going to go through wholesalers, but wholesalers should only be considered as physical distributors like a DHL, and companies should be managing the pharmacy business themselves as an account, wondering: what percent of the products the pharmacy buys from me? What is my promotional activity to doctors?

I have to provide profitable packages, and show the pharmacist that if he continues to buy from me, he is going to make more profit than if he buys from the competitors. It is a different account discipline, which is happening in the field sometimes spontaneously, but it is not in the strategies of the companies as such.

These two business units are drawing new dynamics, which are not new but sharpening. It is simple to understand, but companies have failed to adapt to it so far, and keep spending too much for promoting their products, with much of the resource is not going to the right place.

Is there any model in other countries in the world where you are eyeing upon, where this shift of this necessity of implementing a strategy dedicated to pharmacies has been understood in the past?

In non branded markets, there are such strategies with regard to pharmacy change. In the branded generic markets, it is always in the air. It is a hybrid model, so this is what we have to do.

In non branded markets, in Germany for instance, very large selling companies run their business with maybe 20 to 30 people. Growth margins are low, prices are low, but selling costs are also low, so EBITDA is better than here.

In Turkey, because of the level of selling costs, we have to be clever about controlling these costs and focus on the most effective products.

When you go and see doctors, you talk about the benefits of your drugs, how effective and how safe they are, whereas when you talk with pharmacists, you need to talk about another aspect, which is their margins. How different is it to sell to doctors from selling to pharmacists?

Yes the approach is different, and the level of training required for those who approach pharmacists and those who approach doctors is different, this is what we are struggling with. Today we cannot differentiate the pharmacists sales people from the doctors sales people. It is not easy to find the two features in the same people. That is why companies are forced to do things in a very complex method. I want to separate both, and put the right people in the place for two different business models.

For the chronic diseases, for prescription based diseases, we still need to do our branding activity. We need to do our sales effectively so that we don't need to support them with commercial discounts. My belief is that if you are promoting, you mean it, so you can minimize the commercial support to this branding activity.

For a company like Biofarma, does that mean reducing the number of brands?

Indeed, we already have reduced the number of brands we are focusing on for promotion, we have reduced our sales force, and we are about to develop a new pharmacy management system.

Whereas Turkey was promised to a significant growth by all forecasts in 2009, total market shrunk by 13% last year, not only because of the economic crisis, but due to government pressure on prices. Some say Turkey is still attractive in relative terms compared to Europe, some say they have no choice and must remain a partner in Turkey, as Turkish 'citizens'. What is your position with regard to this challenging context? What do you say to your shareholders and employees about the right attitude and strategy to adopt?

Turkey still has potential. According to IMS forecasts, the country is going to be in the top 12 or even the top 10 pharma markets in the world. Relatively, it is going to be a good pharma market. Is Turkey going to be a good pharma industry in the future? That is another question.

Although it is deteriorating, pharma remains a good business in Turkey. The bad part of it, is that every company is not able to cope with the strategic changes. When you look at it from a local perspective, there might be a feeling of obligation. Even if the market is not promising, there is nothing to do. But what this reveals is the strategic weaknesses of the Turkish pharma industry. The industry has been really weak to open up early.

There were two trains for the generic industry, one was the multinational generic train. We missed this one. We are exporting now, but we do not have an Actavis, a Teva, a Dr Reddy, or even a Egis or a Gedeon, with Turkish origins. Our major company is Abdi Ibrahim, and it's only exporting 20 to 30 million dollars.

The second train is the bio-similar train. Turkey has not been able to catch this one either. In the last year, I was having a seat in the board of IEIS, I pushed very hard for a strategy report in collaboration with the Boston Consulting Group. This report was important to change our minds and Ankara's perception of the industry.

If there is a third train, we need to collaborate with the authorities, organize support activities, run common R&D projects, to make sure we don't miss that one.

Belgium is selling much more than turkey to foreign markets.

So, as a market, Turkey is going to be interesting; as an industry, I'm not sure. We have production capabilities here, but how differentiated is it? What different can we manufacture and sell to the world? We have only a few companies here able to do it, and I believe Mustafa Nevzat (MN) if the most successful of them, but they are not very aggressive. They did not use the opportunities of the domestic market to the same extent as the others did, but focused on getting FDA approvals for their drugs, to be able to export to the states, especially Active Pharmaceutical Ingredients (APIs) as well as finished products. They are now putting in place in Turkey a platform for packaging activities of bio-similar products before reselling them to the world.

With regard to export activities, there is also another element. Mr Bal of ARIS was telling us how Turkish players are perhaps 'lazy' to focus on any market than the home market. Biofarma ranks 20th in the total market in Turkey. How much attention do you pay to foreign markets, and with Biofarma's current production capacity, what is your growth potential outside Turkey?

We are going to turn to exports progressively. The vision for Biofarma is to sell the company in a three years time, which is why our strategy is different. But even in the mid-term strategy, we have to switch from an export strategy, which is fragmented product-wise and market-wise, to a non fragmented system. In other words, we want to sell less products to less markets, and make more profit.

For example, we are among the two or three hormone producers in Turkey, and we are selling to Europe as well. We want to increase this specific business, as producing more of the same product is going to create economies of scale. This is the shift I want to see happening, at least for the hormone arena as far as Biofarma is concerned.

Today, I do not think any of the Turkish companies is really profitable in the typical export markets, such as India or China. Again, for MN, there is a difference because the company is selling large quantities of a small number of products to the world markets.

How important should export be for the company in the future in terms of share of revenue?

It should be around 15%. However, it first needs some fundamental changes; we have to develop some product categories for the developed markets if we want to increase that percentage. Exports cannot exceed that level of 15%. Even companies such as Abdi Ibrahim or Nobel, which sell to many countries with local offices and sales reps in each country, do not have export with double digit share of their revenue.

At the end of 2010 and beginning of 2011, a potential deal between the current shareholders and pharmaceutical giants such as GSK, Abbot, or Sandoz would have made history in Turkey, as estimates valued Biofarma more than what Eczasibasi was sold at the time to

Zentiva. But the deal was aborted. This is not the first time we see this in Turkey, a place that goes against the worldwide trend which consists of having many M&A operations in the pharma industry. How would you explain that it is so difficult in Turkey for MNCs to acquire local players?

It is difficult but it is improving. Fifteen years ago, you would not imagine that any of these companies would be sold. Yet over the last decade, a few local companies have been sold to foreign firms, i.e. Fako, Dr Frik, Eczasibasi, etc.

Most of these companies have been inherited from fathers or grandfathers, and there is a company prestige as well. Prices seem to be high from the investors point of view, low from the sales point of view. There is going to be a common understanding soon, so we will see more and more of these transactions. The expectations are very high in terms of market growth, 1% market share has a value of 300 or 350 million dollars in Turkey at the moment.

Company value will be indicated by different parameters such as market size, market future prospects, but on the other side, margins limitations, pricing regulation, have to be taken into account.

You talked about an exit strategy for three years. What are the objectives that need to be reached by then?

When defining the objectives, it is much more relevant to consider the company value rather than its market share. A company may be worth 700 million dollars with one percent market share.

In our case, we are going to add value to the company before selling it, to reach a value higher than the average assumption of what it is worth it.

This company is going to be profitable, this company is going to be efficient, and it will have a good pipeline, with good regulatory and manufacturing competencies.

After working for Turkey's best performing companies, you are now heading a company ranked in the top 20. What advice can you give to young managers in the industry who would like to embrace a career in pharma, about how to stay focused and how to always keep a motivation for the next challenges?

They have to unlearn what they have learned. We have to keep our strengths, sure, but we also have to be able to do things in different ways. Our patent of behaviour is that we only have one way to do things, such as put more reps to the field in order to sell more, dismiss people when things go bad, etc.

These are strategic changes and strategic alignments. We can do research and development to some extent in Turkey, we can change some molecules, we can add some benefits to our

customers through our products. Strategic adaptations to the situation does not necessarily mean downsizing and cost cutting.

We should be able to think out of the box, and have a more offensive approach. We need to leave bad habits of the old industry style. How can we be differentiated, in production, in marketing, and in development? Those are the key elements, which can add value for both internal and external customers.

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