

Interview: Michel Vounatsos - General Manager, MSD

China



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MSD China's Michel Vounastos gives his initial impressions of the opportunities and challenges inherent in the Chinese healthcare market, and highlights how MSD's offerings are able to address specific gaps in the country.

You just arrived in China in February. The country managers we've met have all been here for some time, so I'd be interested to know how you prepared to enter such a unique and challenging market?

I tried to distance myself from past experiences and market specifics in order to come to China with an open mind and assess the situation as objectively as possible. I meet with employees, clients and customers to constantly get their feedback and input on conditions across the country. After 13 years of general management positions in different parts of the world, the temptation and risk is to enter a new market with preconceived ideas. I did my best to cut myself from these constraints and come with an open agenda based on the real, local conditions in order to do what is really required for China.

Its been six months since you arrived, the honeymoon period is coming to a close, have you started to see challenges emerge in the last months that you didn't expect before you arrived?

I see a balanced risk and opportunities profile moving forward. Risk in terms of policy exposure to price erosion for products with expired patents, risks also in terms of delays in market access. A third risk is the challenge in identifying the right talent for the right position and building an organization on a solid and balanced foundation and organizational capacity. There are also, of course, plenty of opportunities from healthcare reform, enlarging market access, mature products, essential drugs lists, new products and vaccines in line with the epidemiological profile in China. I think the biggest opportunity is the policy shift with the healthcare reform.

How are you adapting the operations here to deal with this policy shift, which is still in an early to medium stage where conditions on the ground haven't yet dramatically changed? How do you see things changing in the near term?

The reforms are very well coordinated, planned and exceptionally well implemented. This is not solely for healthcare but for the overall governance of the country where priorities are carefully set and well communicated and well implemented. It is spectacular from macroeconomic, social, environmental and healthcare points of view. Healthcare is critical for continued economic growth. This is very well documented in the literature, particularly the OECD forums. There is a correlation between healthcare and the ability of the society to maintain its productive output and GDP growth. The Chinese leadership has understood the need for healthcare very clearly and science and technology spending is seen as an investment and not as a burden. I've been working in other parts of the world where we did try to force such thinking, but here in China its already a part of the political discourse as part of expanding the social safety net addressing the inequity in access to services that the rapid growth has generated. Healthcare reform comes logically as a key priority and I have absolutely no doubt that the implementation of the reform will be flawless. This is compounded by the impact of economic growth and urban-rural migration. In the next 25 years China's cities will absorb the equivalent of the US population, approximately 350 million, to become a country with an urban population of 1 billion. This urban population will have a higher education, better access, and higher GPD per capita, making a very strong stratum of middle class with an extremely high literacy rate. The elements of literacy and a strong middle class is a key differentiator between China and other emerging countries. These elements are also critical success factors for economic growth in addition to the pharmaceutical industry. Over 300 million new households will be better educated and demand access to treatments,

Additionally there is an ageing population that has an epidemiological profile that is increasingly aligned with the Western profile. These are elements that favor global pharmaceutical companies in providing treatments to fit unmet needs. However, there are huge gaps between the current conditions on the ground and what we as MSD can offer. In fact, MSD belongs to a very small group of global pharmaceutical companies that brought to primary care and specialist care products in new categories with landmark studies that have changed the way we approach primary

care in many countries.

These fundamental changes in the marketplace are opening many opportunities to accelerate operations and launch products faster. MSD has historically invested in other markets, such as in Singapore with USD 1 billion over the years, as well as investments in India and Japan. Do you see commitment to China increasing over the coming years?

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China is for MSD, as with all multinationals, a key driver for growth in the coming years. IMS reports that emerging markets will generate 50% of the pharmaceutical industry’s growth in 2009 and China is by far the number one emerging market. For this reason, investment is required from organizational capability and HR to infrastructure and partnerships. Partnerships and alliances are the model that will help us make inroads to a very fragmented market in a huge country with sharp differences between various provinces. The number one company in the market has 2% of the market, unlike any other emerging market. Thus investments are absolutely important, but must be managed with the correct priorities. For MSD, these priorities are primarily focused on organizational capacity before external growth. Thus the key challenge is access to the right talent pool, which is subsequently trained in using and maintaining processes, outputs, compliance levels, and services.

Can you please give us a brief overview of MSD in China in terms of sales, growth, and the organization’s overall industrial capacity?

In terms of sales turnover, MSD has a second tier position compared to the top three in China. We have experienced very rapid growth compared to the market over the last few years. Headquarters are in Shanghai, we have a manufacturing joint venture in Hangzhou, and scientific collaboration agreements not to mention regional and global capabilities in data entry and biostatistics.

Many partnerships with local firms have fallen through and multinational firms have bought back ownership, even in other industries where they weren’t forced to enter JVs, as were firms in the pharmaceutical industry. Do you have a different approach to partnerships and what has MSD learned as to what is a good partnership in China?

One cannot associate the challenges involved in partnerships and alliances simply with one country. Partnerships are a challenge in any market, and it comes down to leadership aligning the organization along the right priorities and values necessary to engage in positive partnerships.

Three years ago MSD awarded WuXi as an outstanding strategic collaborator. Could you elaborate on this and on what precisely caused that partnership to be so successful and on

how you would like to replicate that success with MSD's other partners in China?

Many of the company's partnerships are going extremely well. In fact its hard to think of one partnership that hasn't been a success. For that reason we are looking to extend the partnerships that are already in place. On the other hand, there are parts of the business where we do want to build in-house capacity as opposed to using a partner. There is no single model for partnerships in a general sense, and they do need to be adapted to local conditions. These contributing conditions involve market forces and opportunities from varying market demands, product lifecycles, health care policies, and market size and outlook. China is as diverse as all of Europe when comparing regions from the East, West, North and South.

From a managerial point of view how do you adapt to such complexity?

I was privileged to work in extreme conditions across the world. China is a fantastic place to be and I am very confident that we can make a positive impact in the country. Our organization needs to be simultaneously global and local – that is our greatest challenge as well as our greatest opportunity.

One of the challenges involved in working in the Chinese market is getting products registered and onto reimbursement lists in a timely fashion. What is MSD doing to work with the government and improve regulatory turnaround time and efficiency?

As an industry, we have a good dialogue with the authorities. However, one should not be in China to change China. One should come to this country to understand China and be here to support the policy priorities already established in the country. These priorities are very sound and are good for the population, not to mention a way in which the pharmaceutical industry can make a huge contribution. On the other hand, the industry requires respect of intellectual property; otherwise there is no innovation and no investment in research.

Many developing countries ask multinational pharmaceutical firms to relax pricing on new, innovative drugs arguing that they already make money in developed markets and that in the long run, contributing to healthy developing markets helps establish a presence for the future. This presence should prepare the multinationals to earn better margins once the markets are further developed. What is your position on this topic?

I have worked in developed countries as well as developing markets and the government's position tends to be fairly universal. Finding the right price for market access is challenged in every country and is the number one challenge of the pharmaceutical industry. Based on GDP per capita etc, developing countries are looking for more affordability. However, many developed markets are facing budget deficits and other constraints, which is increasing price erosion there as well.

A key disease that raised attention in the pharmaceutical industry was HIV/AIDS in South Africa. Both MSD and China have shifted their policy and recognize the need to confront this disease with full force. Can you speak about MSD's activities and programs targeting HIV/AIDS in China?

MSD has a program in cooperation with the government in the Sichuan region investing US\$ 30 billion over five years in order to aid in prevention, education and treatment of the population. We also work very closely with the CDC across the rest of the country, participating with the improvement of market access for antiretroviral drugs for the HIV population in China. There still remains a lot of work to be done in this area.

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