Interview with John Montgomery , CEO, Alphapharm

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Tags: Alphapharm

Alphapharm recently celebrated its 25th anniversary. In light of this significant milestone, would you give us a brief introduction to the company?

Alphapharm started in 1982 in Brisbane with a handful of products and a handful of people. Twenty-five years later, we celebrated our silver anniversary, coming from nowhere to being the leading company by prescriptions on the Government subsidised Pharmaceutical Benefits Scheme (PBS), and accounting for approximately 20% of prescriptions in Australia.

How have the PBS reforms impacted Alphapharm?

It’s a mixed bag. I was chairman of the Generic Medicines industry Association (GMiA) for six years, and presided during the time of much debate on the PBS. At the time the industry was not a supporter of the so-called PBS reform, and thought it was basically a hodge-podge of different measures. That being said, one must play the cards dealt, and the reforms are now upon us, and as of 18 July 2008 prices for most generics dropped 25%. The good news is that pharmacists, for the first time, will have an incentive to dispense premium-free products, which for the most part are generics. We believe the 25% price cut is a very blunt instrument, but on the other hand, we now have the beginnings of a generics policy from government.

As part of the PBS reform, there was also a promise for a $20 million advertising campaign to make consumers aware of generics, and also to address some lingering issues around quality and sameness of generics versus branded drugs. The government said it would like to get more value

from generics, but on the other hand, will put measures in place to stimulate their use, which consisted of the $1.50 incentive to pharmacists each time a premium-free product is dispensed, and the $20 million advertising investment. The new government came to power last year and reduced the $20 million campaign to $5 million. We are now left with a very modest advertising campaign. It's basically a warmed over version of an old campaign that aired in 2007 by an organization called the National Prescribing Service, or the NPS. This literally happened in the last couple of months. The industry is disappointed that, quite honestly, the government has reneged on a very important part of its commitment.

Alphapharm medicines are the most preferred by consumers, yet the 4th most prescribed. Where's the disconnect?

There's no disconnect. Generics are generally not actively preferred by doctors. In Australia, doctors have never been particularly pro-generic, and I would like to think Alphapharm has had a big hand in moving the sentiment from being fairly negative about them to being neutral about them; neither for nor against. Alphapharm has a doctor detailing force, which is unique in the Australian market. Our sales representatives call on doctors every day to talk about generic products and the Alphapharm philosophy on quality and value. It's unusual for a generic manufacturer to have the 4th most prescribed brand, and the most dispensed brand by a wide margin. A number of Alphapharm's individual brands are by far the leader in a particular molecule, including Noten (atenolol), Lovan (fluoxetine), Diabex (metformin).

An important part of the strategy is explaining the Alphapharm philosophy. Could you elaborate on that for our readers?

Alphapharm has a three-pronged approach. Obviously, the pharmacist is very important in Australia, and in many ways the gatekeeper to generics. Consequently, the company has a very strong pharmacy presence, with the largest sales force and a lot of value-added services many other companies don't have. For instance, Alphapharm's philosophy is to increase substitution, rather than focusing simply on market share of the existing generics market. Therefore, Alphapharm is more interested in its market share of the entire substitutable market, and is the only company in the Australian market focused on increasing generic substitution overall. As part of our strategy, we focus on three stakeholders, pharmacists, doctors, and consumers. Regarding pharmacists, there are a lot of value-added services delivered to pharmacies that are unique to Alphapharm. For instance, the company's substitution specialists work within a pharmacy store to help pharmacists improve their generic substitution. Regarding doctors, there is a separate selling force that details generics. Finally and uniquely, there is a consumer strategy that has been honed

over the past seven years. Alphapharm is the only company in the industry advertising our corporate name on TV radio and in print, and informing consumers about the benefits of generics. Recently, we also started a major new campaign reinforcing the opportunity that now exists with the $1.50 pharmacy incentive to kick-start generic substitution.

You talk about increasing substitution, but at the same time your competitors are looking for a piece of the Alphapharm pie. In an aggressive and competitive market, how is Alphapharm staying ahead to maintain its leadership from an arguably defensive position?

Having two thirds of the market, it may look as if Alphapharm is an easy target. However, in the context of a market where there is a government policy on generics and an incentive to dispense generics, I would argue that it's the smaller companies that are thinking about their reason for being. Alphapharm's reason for being has always been to increase generic substitution, and now that the government realizes it has to do something from a financial incentive standpoint to increase generic substitution, we feel our long-held strategy is being validated by government policy. In this sense, the company certainly has a clear focus on increasing generic substitution, and is very much on the front foot. Smaller companies are caught in the price game. I'm referring not only to financial incentives, but to all the non-financial things Alphapharm does as a company to increase generic substitution. If anything, the smaller companies are very much on the defensive, never having increasing generic substitution as part of their strategy. Pharmacists are asking them, "What are you doing to increase generic substitution?", and they won't be able to answer.

What is your management stile?

I try to create a climate where the business can grow because people are allowed to grow. The thing I really enjoy about this job is forging a special and different culture. This is not stuffy Big Pharma. Alphapharm takes the best of Big Pharma and generics and makes a culture that is quite different. The company is very empowering, and not bound by narrow roles; there's a lot of flexibility as well as a very high-performing culture. Most people who come here stay for a long time. Most of Alphapharm's senior team, for example, have been here between 10 and 25 years. Some of the founder employees of the company, particularly in Brisbane, are now the heads of manufacturing, quality, and R&D. Alphapharm actually lives our values. The business structure is also very flat and not hierarchical. I'm very involved in the day-to-day business, not micromanaging, but rather working alongside people and allowing creativity and people to flourish.

Alphapharm has made continued investments in building and upgrading its Australian infrastructure. What makes the country a competitive place to continue such spending?

Alphapharm has a large manufacturing facility in Brisbane, which makes 2.5 billion tablets and capsules annually, exporting half of those to more than 50 countries. One of the global Mylan R&D sites, co-located in Brisbane, employs roughly 80 people in R&D. Alphapharm likes Australia because there's a good source of highly qualified people, although with the very low unemployment rate, the skills shortage has become a real challenge. I would consider this one of the key issues in Australia: the competition for skilled people. For example, Alphapharm has difficulty finding chemists, there's not enough coming through the system. Alphapharm has increased investment in Australia in recent years, including $25 million to bolster our supply chain to satisfy growing local and overseas markets.

Alphapharm's exports account for roughly 50% of its production. How is the company remaining competitive to such a degree being close to so many "low-cost" countries in the region?

Most of Alphapharm's exports are to North America and Europe. Alphapharm develops products in Australia, supplies direct into the US market, and competes very well. Far from being a great distance away in a supposedly high-priced manufacturing hub, Alphapharm has scale, and if there's one word that defines the generics game, it's scale. You've got to have it to succeed. Scale is what the smaller competitors don't have, along with their own supply chain. Without this, they become subject to the slings and arrows of outrageous pricing as they go forward. If you control your own destiny and are making most of what you sell, and doing so at a scale that makes sense on the manufacturing, API, and R&D fronts, then that's a formula for success. Teva recently announced the intention to buy Barr, Mylan bought Merck Generics, and the reason for both is the same: to gain scale. At this time, Big Pharma is examining whether bigger really is better, whether $7 billion or $8 billion in internal R&D is still viable, and asking questions about the value of scale. But in generics, where prices never go up, the only way to compete is to have a relentless focus on the cost of goods. And this can't be done by buying product from other companies. Going back to our competitive advantage, most of, what we sell we make ourselves in Australia or source through the Mylan network. Most raw material will be sourced from Matrix, one of the largest active pharmaceutical ingredient manufacturers in the world. This gives us a tremendous advantage.

How will these advantages manifest themselves in the next five to 10 years? Where do you want to bring Alphapharm?

The big question is how, or to what level, can we drive generic substitution? About 55% of all prescriptions on the PBS are substitutable, yet, only 33% are substituted. Alphapharm has 22%, and other companies have 11%, with the other 22% not yet being substituted. Alphapharm could significantly increase its size if it can penetrate that unsubstituted 22%. And this 22% is what we are really excited about. We're focused on the 22% we don't yet have.

What is your final message to Pharmaceutical Executive readers?

Alphapharm has a good future in Australia. Already more prescriptions are filled with Alphapharm products than any other. Our focus is on the large prize that is there for the taking, the unsubstituted market. Our firm place in the Mylan stable provides us with scale, access to the broadest range of high quality products and certainty over our supply chain from API to finished goods.

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