Interview with Willem Dekker , Regional Director, Nycomed Australia

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What impact have the PBS reforms had on Nycomed?

As most mid size Pharma companies that operate in a setting of mass market prescription medicines, Nycomed is also experiencing the real impact of the PBS measures that have been implemented in recent years. The PBS reforms introduced in 2007 are complicated and based on a set of rules that need further clarification and refinement to be effective and not damaging the interest of the public at large and that of an already highly (self-) regulated Pharma industry. It is my view that the full value impact of the PBS Reform for the healthcare sector has not been objectively assessed: value expressed both in monetary terms as well as in terms of innovation. The Reform rules stretch well into the future where the real impact will only become visible and most likely need considerable adjustments. Under the new rules products are categorised based on patent status, discounting practise and interchange-ability. The Reform rules applicable for the Nycomed products are a result of a series of discussions with the authorities that have recognised partly the products specific situation eg patent status. The outcome is deferring the serious short term impact but not the overall long term effect.We should realise that the PBS reform came on top of an already impressive set of existing pricing regulation tools eg. WAMTC, Therapeutic Group pricing and most importantly a 12.5% compulsory price decrease at launch of the first generic of a molecule (single or as part of a therapeutic group) a measure introduced in August 2005. All PBS pricing measures together have resulted in a considerable value loss for Nycomed over the last 4 years (approximately 60 Mio AUD). This is particularly frustrating and disappointing as Nycomed products are patent protected and has not been involved in discounting practices that were one of the elements in defining the rules of the PBS. The new set of rules under PBS Reform will present Nycomed with further challenges in the future to protect its value and will certainly have impact on strategy and change of the Australian organisation. With pricing levels of medicines well below that of EFTA countries it is important that the government supports innovation strategically and realises that with to-days turnover we invest in innovation for the future and access to exciting new medicines designed in a different way that do not necessarily follow the rules of conventional medicines neither clinically nor financially. If that option is not open the innovating pharmaceutical industry will not be able to fully leverage its intellectual property and there is a risk of gradual erosion of therapeutic services in Australia. With the PBS Reform the government is attempting to recoup earnings in the trade channel. Not only are they running the risk of loss of credibility by sending conflicting messages “support of innovation vs reducing the earning power of the innovator ” but as they are now a declared player in the market and they have interfered in a delicate competitive eco system without replacing it with a new and sustainable system for all stakeholders. As a Pharma company, we have to respect not only the primary interest of patients and that of the healthcare professionals but also that of the Government as the funder of 83% of value of the reimbursed prescription medicines. This is not unique to Australia and happens in many first World countries with a sophisticated healthcare system. Nycomed as an individual Company wants to work with the government as a true partner in the best possible way by offering cost effective products that matter to patients, the providers and the funders of care in Australia.

What kind of frameworks would you suggest to supplement or replace the current structure?

A change in the financing of medicines in the healthcare system would require a complete rethink and an overhaul because it will ask all of us to depart from certain entitlements as reflected in the constitution.A framework where all stakeholders each play their role in a financial as well as in a treatment/prevention way; this includes the government, suppliers, distributors and patients. At the moment it seems that the financial answers always have to come from the same players. This in the end may become not sustainable and drive organisational re-invention. The direct cost of healthcare to the patient is compared to many other first World countries is still modest. It will be a challenge for a government to test the willingness of patients who take their own responsibility in the co-financing of the care. I still believe that a system which at its core has a free market principle will benefit patients and funders with good quality, modern and affordable medicines. For Pharma companies it is important that we can operate in a fair competitive environment; you can expect from entrepreneurs and managers to find solutions and be successful in such an environment. When one of the stakeholders decides solely on the commercial rules it no longer is an open and fair game and small and medium size innovators may chose not to compete. This would result in a poorer environment with less variation in offerings for patients and healthcare providers. I would certainly advocate a model that would see a more balanced interfering by government. I am concerned that the level of interference by the government, as one aspect of economic performance has not helped Australia's competitive international profile. This can be seen in some of the global surveys around this topic eg in the Year Book produced by IMD (an independent business school in Switzerland). Since 2004 we have seen Australia slip in the competitiveness ranking from position 4 to 12 in the world.

Does this change represent Australia going down, or other countries going up?

Which criteria are being used in these measures?

Overall, Australia is scoring lower than expected based on its strong economic performance even in to-day's challenging global environment. Over 300 criteria are applied in this Survey around key topics: economic performance, government efficiency, business efficiency and infrastructure. In the criteria that measure government efficiency we have slipped from position 2 to position 7. Likewise, business efficiency has dropped from 3 to 7. It's not so much the exact position that's important, but the trend. When outsiders come for the first time to Australia, they notice a country where rule of law and legislation has a high level of importance. It has to do with culture and the level of empowerment reflected in the responsibility and accountability of individuals and also of companies.In our environment of providers of medicines it is of great importance that we not only recognise the traditional role of the medical profession but also that of the pharmacist, the increasing role of patient as an informed citizen and that of the government as funder.That brings me back to the issue of the system based on shared responsibilities for health.Increased patients own contribution to the cost of medicines would provide greater economical power and therefore decision making power for the end-user, the patient. I don't think the Australian setting will change soon with a new government only in place since the end of 2007. Your past experiences include India, Malaysia, and South Africa.

Can you tell us your personal motivation for moving to Australia, and the milestones since your arrival?

Australia is the only first World market in the southern hemisphere, with a high level of sophistication in medical education and hospital care and it has developed over time into a leading country in the medical field for the Asia Pacific Region.The primary reasons for the move from the Regional Office in Malaysia to Australia are centred around the realisation of the Australian business opportunity as part of a global corporate expansion strategy which includes countries with growth potential, where we can realize the full potential of our products and build a product portfolio through our pipe-line and partnerships. Australia is a considerable contributor in revenue and profit to the overall Nycomed performance in the Asia Pacific Region which in itself is expanding through a presence in rapidly developing markets eg China and India. When Nycomed decided to enter the Australian market in 2000 the prediction was that a stable market growth would continue at the level at that point in time of a regular 8 -10%, a great perspective for a new entity.Setting up a Company here demanded somebody with international experience and to do it relatively quickly. As I had set up companies elsewhere, I was given the responsibility which was a great opportunity, to realize a project from concept to operation and manage its growth. The first steps of Company incorporation happened in 2001 with R&D operations as a bridgehead for future commercial activities. The development until 2006 was done under the banner of ALTANA Pharma and subsequently since 2007 as Nycomed.The Company today represents a turnover of around $100 million and ranks in the top 25 in the country, and I see Nycomed to be a good midsize Company with approximately 140 employees and a solid financial performance. The growth of the Company happened on the back of Nycomed's lead product Somac (Pantoprazole). Realisation of the growth from a "Start up" to a Mid Size Pharma Company was based on the business models that allowed for flexibility in a carefully selected and timely applied strategies of partnerships and sole accountability. These strategies were applied in 2003 and respectively in 2007. The most recent milestone in the Nycomed growth strategy is the launch of a Consumer Healthcare Division which forms a 2nd business pillar which reduces the risk profile and creates opportunities for life cycle management projects as well as that it contributes in building global brands for self medication. Despite the challenging market conditions (PBS Reform) Nycomed's current performance with a growth of high single digit is a great basis for the future. With a promising pipeline of products in its core therapeutical fields and core capabilities in 2 commercial divisions Nycomed has a great opportunity to realise its vision for Australia.

After experience in less developed markets, was it easier to come to a first world market like Australia?

Indeed, I came from markets where it was relatively easy to realise a new set-up with common business sense. For developing countries timing is everything which again is determined by your value offerings. When you take that as a given and with limited regulation however the challenge in markets such as India or South Africa is to make the right strategic decision eg partners to supplement your local knowledge: determining your direction is the other CSF eg. the allocating of resources for opportunities that are presented in large open playing fields. For India Nycomed was one of the first to set up a research unit and manufacturing plant that provides the building blocks for its core product pantoprazole. Our choice to work with a joint venture partner has proven successful. It's difficult to compare such a venture with entering Australia: an established market well serviced and often with saturated segments. The approach is indeed different. The problem is about penetration. Flying under the radar in Australia is not possible because the market provides good quality market data and market intelligence. So from day one you are exposed to strong competitive forces in claiming your own new domain in customer ownership, reputation and specific identity. It has taken a lot of effort but Nycomed has been successful in building over a 3 year period a reputation of high quality at the interface with customers. You mention one of Nycomed's first tasks was establishing R&D activities.

Can you speak about Nycomed's R&D commitment to the country?

Nycomed has been performing clinical trials in Australia and New Zealand and has undertaken these research activities in approximately 170 trial centres.With an emerging Nycomed pipeline Australia will remain an important option in a global set up of a development program. The new and streamlined Nycomed research concept with a strong therapeutic focus on gastro-enterology, respiratory, pain management and osteoporosis with scope for explorative partnerships in research provides a real potential for activities down under. It is important to mention in this context that Australia presents companies with a challenging hurdle of market access, which is a key factor for the long term commercial sustainability in Australia. The outcome of this equation will be one of factors that determine whether Australia can retain a competitive position vs other options in the Nycomed world. It would be a pity if we cannot capitalize on the local capabilities, experience and expertise in Australia of the critical audience of a highly technical, evidence-based medical society. This presents as much a risk as an opportunity, especially for a young Company. So the question is how to manage such risk and opportunity. When I came to Australia in September 2002, one of Nycomed's goal was to create a new and unique business culture that would create a distinction in the market and provide to staff an identity that would resonate with them as well as our customers. It became a Pioneering culture. A culture that was low in complexity, high in innovation, both in terms of business as well as R&D, where people are open and willing to multitask and are performance driven. All this is easier said than done. With hard work by everybody in the organisation, a step wise approach and clear goal setting for each year since incorporation, pioneering has helped us to get to our current position of strength. Pioneering as we always say is not a stage of development in the early life of the Company, but a continuum. So Nycomed in Australia wants to be pioneering now and into the future. To retain the momentum in this capability it is essential that we attract, via a careful selection process, a certain type of person and manager that fit in this type of environment of a mid size organisation. The business culture develops into a business concept and it becomes a managerial strength. We believe that this is not the average management stile and one of the reasons people find Nycomed attractive as an employer and like to join such a work environment. If you would ask around in the market, this is an image Nycomed has created for itself, and an image that we are all proud of and promote in the market. You don't consider the management stile in Nycomed Australia run-of-the-mill.

How do you go about fostering this pioneering culture; what is your management stile?

One of the things that we work on as a leadership team is the management of a high level of transparency. We share as much as possible for everybody to see what, why and how we are doing in our business activities, and choices that we make that determine our directional strategy. People are relatively surprised with the level of openness and transparency they find in the organization. The communication of information is a strategy and helps build trust and builds strong motivation. If one were to ask one of the representatives out in the field what is Nycomed Australia's direction, they would be able to answer. This stile fits very well in the day to day practice of the Nycomed values: Courage, Empathy, Trust, and Motivation, which allows us as managers to operate in an open and transparent stile. Another element in our management stile is to stimulate business innovation by promoting challenge to drive improvement, better decisions, quality and higher efficiency. If someone has better ideas to change existing processes and to do the day to day routines in a less complex, more efficient, more productive and customer focused manner with an improved business outcome, then we encourage to communicate and share it at all levels in the organisation. And then more importantly execute it. Business innovation and transparency are concepts I'm asking and stimulating people to achieve. Nycomed did an internal climate survey in November 2006, and one of the findings was that people are allowed to be creative and innovative in this working environment. It does not matter whether a person is a sales force member, sitting in a support role or a sales and marketing director. These notions are indeed independent of role, and if you make one big team with one big target, it becomes quite powerful. It's not conventional but it's something Nycomed staff in Australia feels comfortable working in.

In taking this pioneering spirit forward, what's your vision for Nycomed in the next five to 10 years?

Pioneering is an essential element in building partnerships. It is not only embedded in our business concept and the stile in which we cooperate it is also the core element of our growth strategy. It encompasses many different forms of partnerships: with healthcare providers, in R&D, in pharmacy, in delivery, in business development, and in new careers. "Partnership" has become an important word in our organization. We can find the same in corporate initiatives. In Nycomed Australia, we have made this into a pioneering partnership culture. Nycomed aims to become the preferred business partner in Australia in our fields of expertise and strength. I believe we need this type of business culture to be successful and survive in the very challenging and competitive environment of the Australian Pharma market.We can expect to see new business models emerging in the coming 5- 10 years with a change in the interaction between distributors, pharmacists and in particular the generics companies. I also expect that we see a positive development in collaborative care by all healthcare providers. This requires a different type of communication and interaction with all stakeholders inclusive of the most important of all the patients, the public of Australia.They deserve a high quality affordable therapeutical pharmaceutical care with a balanced mix of innovative new generation medicines and conventional medicines. I remain concerned about the degree at which government is involved through PBS/pricing regulations, support of generics and through the (self-) regulation of the constant medical education provided with great care by the industry in the collaboration with and for the benefit of the healthcare providers and therefore the patients. A good level of self regulation is important but we should be careful not to remove competition and isolate an industry that drives progress of medical care through innovation. All these measures have an impact on pricing and patients, and it cannot be excluded that it drives a development of competitive limitation in the market. If we keep stigmatizing the contribution of medicines to healthcare as a cost burden to society, there will always be the risk of having 1-dimensional budget savings as a priority, rather than focus on how we can make our healthcare system better. Make money in the supply channel, work to achieve efficiency, quality, and productivity. A pure cost focus could result in a downward spiral which to a degree we have seen happening in New Zealand. With all this in mind Nycomed with a strong focus on prescription medicines is required to make strategic adjustments.CHANGE drives STRATEGY.Nycomed in Australia, with corporate support, will work on changes that create a foundation for the future with a reduced risk profile.The foundation is built on 3 pillars of growth.1. Prescription medicines for retail 2. Prescription medicines for hospitals.3. OTC /Self medication medicines for Consumer Healthcare in the pharmacy channel. Nycomed in Australia has built this year in a very short period the Consumer Healthcare division from scratch and we aim to launch products before the end of 2008. One of our challenges is to build the Nycomed brand and the reputation of quality and service with a new group of customers. This is part of our vision and new face to the market. The next pillar is prescription medicines to hospitals and niche, specialist markets. Depending how we progress with the current diversification strategy we could see this initiative starting in 2009. The diversification strategy could help to reduce the impact of PBS reform measures and the loss of exclusivity of our main revenue driver. We look for specific strategies that are suitable in the emerging new business models.We have an ambition in the coming 3 years for Nycomed in Australia to maintain a revenue base of approximately $100 million and build our future on a much stronger foundation. In the challenging and changing environment we will have to find ways to survive and retain a profitable business based on value innovation that we can offer to all our partners. Nycomed's Vision of aggressive growth in Australia in the coming 5 years can only be realised if we invest in the future by executing our strategies, introducing new products and being very active in our business development activities. Here the key is to find the right partner which could also include acquisition of products and companies in a responsible manner.

What is your final message to the readers of Pharmaceutical Executive about Nycomed in Australia?

Nycomed, as a pioneering partner, will be an attractive partner in bringing products that matter not only to patients but to funders. In the Australian market, Nycomed will be able to become and remain a top performing Pharma organisation. This standing can be achieved with sound business initiatives and goal setting that will attract anyone who wants to partner with us, whether it be industry colleagues, government as funder and employees that want to join our business culture of performance.

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