Interview with Jean Paul Scheuer, General Manager, Sanofi Ukraine

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What were the factors that led to Sanofi's decision to establish an LLC in 2009 in Ukraine, and how has it changed your operations?

Most of the major foreign companies have an LLC now, for two key reasons. Firstly, it is risky to become too big and visible while continuing to operate as a representative office, which could be qualified as a commercial establishment.

The other main reason was that being local makes you better able to see what your clients really need and to have the capacity to provide for the market. As a representative office, we would have to wait to invoice the mother company for an order, have it transported here, and wait for customs clearance until we could finally have it ready for local distribution. For the best companies, it takes two weeks, on average three weeks. For a company that is becoming big and with a fast product turnover, this is no longer acceptable.

As an LLC with local stock, when a company is paying, you receive the money the day after, and the day after that the goods are picked up. Delivery time is hence decreased from two, three weeks to two days. It allows a company to guarantee advance payment. Three weeks is a long period for advance payment, leading to difficult discussions with wholesalers each time; becoming an LLC means tackling this problem. Also in terms of stock management it is advantageous to be an LLC, as well as in terms of currency payment: companies are buying in local currency, and as an LLC we are selling in local currency.

In conclusion the main reasons are: to be closer to our clients, to better manage stock and to be more efficient. The impact is tremendous, especially in times of crisis.

This is also in line with what Mr. Aghanian in Russia told us; Russia and CIS are no longer markets in which one can wait and see what happens, as in the past. What is the significance that the Ukrainian market represents for the group, and what has been your performance from 2010 compared to 2011?

In Ukraine our sales total 100 million euros. On the 30 billion sales for the group in total, it is hard to say that Ukraine is a major contributor to the group. But Ukraine holds significance within the group of emerging markets, a group that became the number one contributor to Sanofi sales in 2011 with 32%, even overtaking Western European markets. The reason is that sales in Western countries are decreasing for well-known reasons, and emerging market sales are increasing fast.

Sanofi traditionally has a strong position in many of these markets; we have been around for a long time in China, India, and Russia, which is not the case for most of the top companies, especially the American ones. If we take the emerging markets as a separate group, Sanofi is probably the market leader. As part of the group of emerging markets, Ukraine has its importance. Not many countries are able to generate a cash uplift of 11 million euro – in this regard we are important, as well as in terms of growth potential. Ukraine is bringing additional sales to the group, which is good news this difficult time for the overall industry. Ukraine has a population of 45 million and a market of 2 billion euro; it could be five times more, which explains why the group is willing to continue to invest in this developing country.

The Ukrainian pharmaceutical market knows a number of challenges – continuously changing market environments and government policies, as well as a population that shows a certain disregard for its health. What are the specific challenges for Sanofi in Ukraine?

Ukraine is more European than we think, and I do not think there is another European country with such great potential. A country like Poland, with a similar population and background, has already reached a certain level of development and a certain saturation of the market. For the next year, the Ukrainian economy is expected to grow five percent, which is considered low. France would only dream of that percentage.

We also see a growing attention for health care, due to media attention and the fact that the government is now actively bringing the subject up. The president spoke about it in his inauguration speech, in particular about priorities like tuberculosis. What has been done in practice is another important question, but at least it raises awareness. The realization of market potential depends on the government as well; given the modest size of the market, health care reforms, especially reimbursement and private insurance, can provide major incentives.

Reimbursement has been non-existent and private insurance is poorly developed; big companies like ours are providing it now, and a few big Ukrainian companies offer it, but it is a drop looking at the whole population.

Another challenge comes from the country's aging population, which is actually declining. Luckily not as severely as in Russia, where it is a real catastrophe, but in Ukraine the problem is growing bigger. Contrary to common belief, this is connected mostly to low birth rates, not migration. And let us not forget the particularly low life expectancy for men: 61 years is an incredibly low number for a European country.

Particularly now that you have been elected chairman of APRaD, how do you address the government in directing it towards taking the right steps in health care reform?

There is a gap between what you can say and what can actually be done. The financial situation of Ukraine is not that brilliant – with a large budget deficiency and many other key priorities such as gas purchases' prices and the stability of the currency, the means available for healthcare remain fairly limited.

The frequent changes of healthcare ministers presents another hurdle for the implementation of long term health reforms and is one of the major reasons for the failure of efficient healthcare reform in this country. A health care minister is rarely in place for more than a year in Ukraine. I believe there were 15 ministers over the past 20 years.

But at last the government made the right diagnosis of the most urgent healthcare needs, including family care, primary care. Today, more than 60% of Ukrainian patients are going directly to a specialist. That means they diagnose themselves to determine which specialist to visit. When a Ukrainian has a cold and a running nose, he goes to see an ENT specialist for the nose and a pneumologist for the cough. Treatment in this way is expensive and a great waste of resources.

The government set the right diagnosis – but to start the actual reforms is tough. They are looking at European systems, but it is difficult to gather the proper information and determine which system suits Ukraine best. There are several trained experts working with the government, but it is an unstable situation: when one minister leaves, they have to start from zero.

First and foremost Ukraine needs the financial means to set up reimbursement. The current situation is abusive: people have been dreaming of it for years because of the continuous promise that it will be introduced soon. But the government seems to be serious this time. Last week during a France-Ukraine meeting in Paris, led by French Foreign Trade Minister Pierre LeLlouche and Ukrainian Vice-Prime Sergei Tigipko, the issue of healthcare was discussed. Tigipko mentioned that one of his key priorities is to implement the reimbursement system, and France naturally proposed its support. To have a real reimbursement system, the health care budget needs to be doubled however – today it is between 3-3.5% of GDP, when it should be between 6% and 7%.

How have you adapted the strategy of Sanofi considering that this is a generics market – how do you cater to the needs in tenders, while the company is globally more interested in innovative medicine?

Globally, 75% of the market consists of generic products, mostly produced by local players. Innovative companies like Sanofi are used to fighting for 15% of the market; only 5-10% of the population can afford to buy innovative medicine.

Sanofi has an extremely diversified product portfolio on the Ukrainian market, even before we acquired Zentiva. We had expensive treatment compared to the welfare level of the country, because we have been launching all of our innovations in this market. At the same time we had some of our own products of the group, with prices which were extremely low actually. So we have two categories of products.

The second way in which we developed ourselves is with the consumer healthcare products, which today represents 50-52% of total sales. These products are inexpensive, one euro for a box of twenty tablets, and it is meant for every day treatment. A product like Essentiale is also very important, and today it is the third top product in Ukraine. With a price of 5 euro per box it is affordable as well. So our portfolio is not exclusively in the sub tier of the market; it is well-adapted to the local needs.

We became even more diversified when we acquired Zentiva. We were already developed in the top market in Ukraine, and today we are diversifying and we have a lot of different platforms on which we can base our growth. There is not one in which we invest more than the other; all three segments (CHC, generics, innovative) have a huge potential to grow in Ukraine. The level of income is increasing, people are more and more prepared to pay for expensive treatment to receive quality and innovation and improve their health, and this is one of the reasons why the market is growing much faster in terms of value than in terms of volume. In volume the growth has been +5%, and in value +19%, mainly because of price increases and more expensive treatment. We have been able to count on a strong consumer healthcare portfolio and are now also developing our generic portfolio quite ambitiously.

Sanofi was one of the few foreign companies that decided to take the risk and localize manufacturing in Ukraine; particularly a big step now that big pharma around the world is scrambling to protect patents and market share because of the loss of patents. How did the company reach the conclusion that it was safe to localize manufacturing here?

First we carefully choose the product – if I would ask top management that I would like to locally manufacture Multaq, I am not sure I would receive a huge hurray. We decided to produce human insulin here, which is not an exclusive product. We only had to worry about bringing the know-how here.

There are two reasons why we decided to do it: market access reasons – import substitution and total exclusivity to local products are key issues in Ukraine. I am a bit disturbed that now in France we are doing the same. Given that European countries are also implementing similar measures it might not be totally fair to complain about the situation in Ukraine. Ultimately, if it is done in a clear way then it can be workable; if in a tender you have a chance to proposition in a transparent and clear way. To have proper access to the Ukrainian insulin market you need to be local. We localized one step of production to start with – local packaging – but we of course hope to take further steps. This would allow us to participate in tenders by 2012, allowing us access to a big market of 40-50 million euro.

The second reason is that, if we want to develop our activities in Ukraine, at some point it is ethically inevitable to choose to go local. A company cannot systematically take from a country without giving something back in return. That is at least my philosophy and the philosophy of the Sanofi group. At one point we need to be ready to transfer and share technology and knowledge and be presented in society. Furthermore, if a company wants to be among the top and enjoy the market boom, which is still ongoing with 20% market growth this year, it is necessary to be local.

The patients need to have access to quality treatment. Today I believe that for most diseases Sanofi offers good treatment – for breast cancer, for example, we have a product in our portfolio, Taxotere, that has the potential to save the lives of thousands of women. As a company we also have the mission to make this product accessible to women who need it. This can be done through price decreases, which is part of what we are doing, but it is not enough. The same story goes for insulin. We want to improve access to treatment for the local population. This is part of the value of the Sanofi group.

Your dedication to patients and the accessibility to treatment is also demonstrated in the social programs that Sanofi offers – educational purposes to fight about unawareness.

The mission that I received as a General Manager of Sanofi in Ukraine and what we do worldwide is to make sure that Sanofi becomes a key actor in health care. This means that we are not here just to sell products and provide medical treatment, but to support health care as a whole.

I’ve been in the pharmaceutical industry for 16 years; I’ve seen the good times of the 1990s, they are over now, and I think today we need to refocus our mission. This is the most valuable input our global CEO Chris Viehbacher gave since he joined Sanofi: a patient-centric approach, which revolves around the idea that we are not a company that solely provides treatment but a company that is close to patients and that deals with diseases in all stages. The aim is to provide the capacity to propose a full set of solutions from educating patients and doctors to social components such as access to medicine programs. If we take diabetes, a patient needs insulin, but he also needs information about his disease and secondary prevention to avoid blindness and amputations. Today we are responsible to help him manage his disease, not to hand him a part of the solution, and this is what we want to implement.

What we are doing regarding diabetes has never been done on such a scale. Every company organizes charity and raises awareness, so does Sanofi. But to put it in the frame of an organized, global project for a specific disease that touches all the actors of health care– I don't think this has been done by any other company before. This is what we did in diabetes and it is what I want us to do in breast cancer – one of the first causes of mortality among women in Ukraine.

A lot of the companies we have been seeing have told us about introducing patients to innovative treatment by the way of clinical research and trials. There is a willing population present and a great opportunity to grow this activity. What prospects do you see for clinical research so far and what are you undertaking so far?

We are not the biggest but one of the leading companies in clinical trials in Ukraine, and I see more and more opportunities. It is a sensitive topic that can be presented either as very good or very bad. I deeply believe – Sanofi, Pfizer, Novartis, we are all working according to the same compliance rules – that Ukraine is a real opportunity to lead and conduct clinical research. The need for patients is bigger and clinical trials are a way to provide untreated patients with access to innovation.

Because Ukraine holds more and more certified centers and more and more certified doctors, it is possible to conduct clinical studies with a high level of professionalism and scientific compliance that can be part of international trials – which was impossible twenty years ago, not even ten years ago. Ukraine is included in major trials today, especially for Phase III and IV trials, for which Ukraine has the level of competency. On top of that the costs are lower than for a trial, for instance, in France. All in all this makes Ukraine a very attractive country for clinical trials.

Cost is not the main reason however for the increasing popularity of clinical trials, for the simple reason that developing a new product is such a costly process in itself that failure has to be prevented at all costs, and saving money on a clinical trial is simply not an option.

Sanofi is the second biggest pharmaceutical company in Ukraine. What is the difference between the number one and number two?

People often ask me: “Why is Sanofi not number one?” In the global perspective, it is not uncommon that a local company is market leader in its national market. I am not surprised about it here in Ukraine, with such a strong local industry. Four local companies are ranked in the top ten, and they are improving in terms of quality.

Sanofi was number one for the first nine months of the 2011 though. We switched places with Farmak because that company has a huge portfolio of cough and cold products. As soon as the season for cough and cold product arrives, it is difficult to compete with them because we don't have those products in our Ukrainian portfolio.

We have the wish to consistently become number one. However, taking in consideration that we are the highest ranked foreign company, the former number one, and the fastest growing company among the top 12 in October and second fastest in the first ten months of 2011, I don't believe we are doing a bad job. With such a huge presence and portfolio – and without a major launch in the past year nor any significant price increases, I can only give compliments to our team.

Three years from now, what will you have achieved as the head of Sanofi in Ukraine, and where would you like to see Sanofi by then?

We have recruited over 200 new people in the past three years, with the company staff now totaling 480.

I took a job interview just before our interview, and I outlined very clearly the mission to the candidate. I freely tell candidates that, if they are looking for a soft job in a perfect organization with a lot of free time and not much pressure, it is better if they do not come to work for Sanofi Ukraine. If that is what they prefer, I of course respect that. But the other side of the coin is, and I also tell candidates this, that we have a great project and a fantastic adventure.

We spend a lot on people development, and between 25 and 32 percent of our staff gets promoted annually. This is something we actively prepare people for through English lessons and additional training not aimed at improving skills for their current position, but for future positions.

We have very little turnover with our personnel, because people know what to expect. The team is excited about the many different projects we are developing, and new employees are quickly sucked into the machine.

The Sanofi team wants to do well. We really feel that we have a responsibility in society. Part of the success that Sanofi achieved in Ukraine in the past three years comes from our belief in our mission to do something good for people and the idea that we are not here only to do business. We are here for patients but also for the people of the company.

When I see what we do in diabetes, children whose lives are improved thanks to Sanofi's medicines as , it is the best reward we can have. We take kids to a sanatorium as part of one of our programs. I joined and it was the best day of my professional life.

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