Interview with Manfred Paul, Director, Naari AG Russia/CIS

10.08.2011

Tags: NAARI AG Russia/CIS

Since our last report on Russia in 2007, there has been much emphasis placed on developing local industry, and reducing the nation's reliance on imported pharmaceutical products. How do you believe the game has changed for foreign companies looking to play in Russia?

Firstly, it is necessary to specify the kind of business that we are discussing, because each segment has its own characteristics. If we speak about the hospital business, or the EDL business, then times have certainly changed since 2007—the role of local producers is dramatically increasing in those segments. The DLO program, the 2020 strategy, and related initiatives have a politically driven, strategic imperative to improve the positioning of local producers.

If we speak about the retail, out-of-pocket segment, however, then I would say that the shift toward local production is not nearly as dramatic.

There are few local producers that specialize, for example, in the female health area of the retail segment. There are certain domestic organizations that produce female health products, but when you speak with physicians and gynecologists, these organizations' presence turns out to be quite limited. The consensus seems to be that their field forces are relatively weak.

At Naari, we understand that a strong field force is very important for a medical business's success. Field representatives are the face of the company. My target is to establish, for Naari, a field force that is very well educated, and that is able to become a true partner to gynecologists and discuss

serious scientific topics—and, certainly, to explain the uses and advantages of our products.

From my point of view, this is the big difference between the hospital segment—which is not as reliant on field force and to a large extent is controlled by local producers—and the retail segment, that is dominated by foreigners and their experienced representatives. This reality, and this difference, is stronger today than it was three or four years before.

Let's delve further into Naari. Since leaving your position as country division head of Bayer Schering Pharma in Russia, we understand you retired and took up residence in your native Germany. It seems, however, that you could not stay away from the Russian market for long. What is the nature of your involvement in the Naari Company?

I absolutely agree with you—anyone who has worked in Russia will always come back! This is a fascinating market, which is advancing at an extremely quick pace. It is difficult to find another market that has this kind of double-digit growth. You would have to turn to one of the other BRICs; but in Europe, you can forget about it. If you want to work in such a dynamic market and remain close to Europe, Russia is it. I was quite happy to be contacted by Naari in order to support their entrance into this region.

Naari was founded in 2007, and is a really young, start-up company. They have decided to specialize their business in the field women's health. Compared to other companies that specialize in this segment, Naari has, from my point of view, a huge advantage: they produce and sell both hormones and herbal products.

If you look at the former Organon company, or Bayer Healthcare, they only concentrate their activities on real pharmaceutical products. They do not offer herbal products. However, we understand that female consumers are quite interested in herbal products. If you look, for example, at the company Bionorica, which is very active here, you will find that they have quite a strong position, yet only offer herbal medicines. This is an indication that it is sensible to focus both on ethical pharmaceuticals and herbal products. Both should feature in a strong portfolio that considers the full range of female needs. Naari decided to develop such a portfolio, and this was a strong decision.

The company has invested a large sum into new manufacturing plants, the purchase of licenses, and the development of molecules that are out of patent as well as herbal compliments.

Allow me more remark regarding my relationships to Russia: anyone who has met the people in Russia, who has seen the beauty of the country and who knows the cordiality and soul of the Russians – always wants to come back.

For a company that was founded in 2007, to already have four facilities, and to have a hand in so many projects, is quite remarkable. How do you secure the necessary funding?

The Naari company is a family-owned enterprise, and is the private investment of its founder. There is no investor group, nor government involvement, behind the business.

What is the ambition of the founder? With Big Pharma companies like Bayer and Teva very much involved in the segment, is staying independent in the women's health field sustainable, or does Naari plan to reach a certain level and sell the business?

Selling the business is not the intention. The aim of this company is to sell products in a niche where we see particular need. According to our founder's market research activities prior to launching the organization, specializing the business in this direction should prove lucrative.

We have the advantage of being generics producers. Our cost and pricing structure is quite different relative to innovators; the reasons for this are clear.

I do not wish to draw a black and white picture, but nonetheless we can consider some simple truths. Innovators are always necessary, because they drive progress in therapeutics. However, for any healthcare system, and for the inhabitants of nations, generic producers are also important, due to their low pricing strategies. This need can be a strong advantage for Naari: one way we can compete, certainly, will be in price.

In May 2011, Naari initiated product registration in Russia and Ukraine. What do you feel are the key specificities of the women's health sector in Russia, and how well positioned is the Naari company to penetrate this market?

The question for Naari was where to start with the business. Again, one of the most dynamic markets in the world, and a market that is close to our headquarters in Switzerland, is Russia.

It is quite difficult to start a new business in Europe, due to the very, very low—and even negative—market growth rates. Furthermore, in the Russian region, the number of competitors in the hormone segment is quite limited. Who is active currently in Russia? Bayer—by a large margin, number one—MSD, Abbott, and Gideon Richter. Teva, too, is coming.

In contrast, if you look at Germany, the number of fingers on two hands would not be enough to count the number of players saturating the generic hormone segment!

Is this perhaps indicative of the fact that the demand is not present in Russia—that there is limited opportunity here to succeed in the segment?

This is a very interesting question. Bayer, the former Schering Plough, Organon, and a few others have invested quite a bit of money in Russia in order to bring about a change in the mind of female patients and physicians. However, their efforts have led to little change.

The best parameter, and indicator of opinion, is the user rate for women's health pills. In 1985, or 1990, the user rate was approximately 3%. Today, the rate is 3.5%. This is despite the fact that millions of dollars were spent on the education of physicians, users, and so on.

The biggest success that NGOs, physicians, and foreign companies have reached in this country is a significant decrease in abortions. On the other hand, the increase of the use of oral contraceptives is, as I've explained, next to nothing.

We are left with an interesting calculation. Of the inhabitants of Russia, 55% are female. 60% of those are females in reproductive age. If only 10% of them would use oral contraceptives, then business would be absolutely marvelous! This is one of the motivations for companies like Naari to enter the female health field in Russia and the CIS: there is a certain need in the territory for hormonal medicine, and this need will grow in the future.

As the sector expands, surely it too will grow further saturated with competition—notably, Big Pharma competition. Can Naari really compete if this happens?

One competitive advantage is, again, our portfolio: Naari has both herbal products and traditional pharmaceuticals.

Secondly, our ability to compete very much depends on our own competence, because, as I have said, everything comes down to sales force. The selection, education, and motivation of our sales force is on our shoulders.

The third point is price. Price is of course a strong driving factor in drug marketing.

You are well poised to compete on price, with production sites in India.

That is correct. On the other hand, Indian production has a certain image problem globally. Hence, while our Indian manufacturing locations give us the opportunity to produce at the lowest cost points, we always emphasize that our headquarters is Swiss-based. The quality requirements in Switzerland are some of the strongest in the world.

But in any case, I believe the Indian image problem is an unfair stigma. Yes, perhaps 20 or 30 years ago, there were some cases of deplorable quality. Today, the situation is much different. Our own facilities, certainly, are modern, high-standard sites.

Ultimately, what kind of revenue contribution does this company expect from Russia and CIS?

As you mentioned, we started registering our first products in May. The question for us is: when will we reach the point of return on investment? In the beginning phases of development, revenue generation is a difficult calculation. This is also the reason why Naari has decided against

immediately establishing a representative office here. With one or two products, we cannot justify the financing of an affiliate. If the company reaches a critical mass of products, and a critical level of turnover, then of course we can spend it on founding a subsidiary organization in Russia. For the time being, we are looking for strategic partners who have strong sales forces already visiting gynecologists. Therefore, it is a bit early to speak about revenues. We must invest first; after some time, we can speak about returns.

On the subject of partnerships: when you last met with Focus Reports in 2007, you mentioned a Russian proverb that states that people know each other when they have eaten one ‘pood’ of salt together, and that it would of course take quite a long time for two people to do so. That is, it takes a long time to cultivate relationships in Russia. What does this mean for new entrants on the Russian market?

This is indeed a very difficult challenge! First of all, we have to introduce the company as a serious organization; we also have to convince the decision-makers, the physicians, and our female end-users about the quality and efficacy of our products. This is the main task we see currently, and we are actively working to construct these relationships.

You personally have a strong track record of building confidence amongst stakeholders: you have been credited with launching and creating the market for some of the biggest female health products in Russia, including Yasmin, Valette, and Mirena. How will you measure your success here, given this kind of past accomplishment?

The answer is very simple. In 1992, I organized the launch of the first hormonal product to treat menopausal symptoms. This product was produced by the middle-sized company Jenopharm. This middle-sized company was able to position this product as the leading medicine in its class in Russia, Poland, Slovekia, and a number of other countries in Central and Eastern Europe. This was, for me, a huge success. The hope for Naari is that it too, as a middle-sized business, will be very successful in Russia. If I did not believe in the possibility of such success, I would not have become involved with the organization. We cannot have the same kind of success as Bayer—they are much larger—but nonetheless, in a couple of years on this market, I believe our products will have double-digit market share. I am convinced that this will happen—and, of course, without targets, there is no motivation!

What is the biggest difference between your former position as head of Bayer Russia, and your work with Naari?

There is now much more freedom for me. I have the status of a consultant—with all of its advantages and disadvantages.

My personal financial success depends on the business success of the company. At Bayer, I had a salary, and etc. And a very high pressure to achieve the targets which were agreed. This is one of the differences.

For me, it is a big advantage to work with a family-owned, middle-sized company, in which decisions are made very, very quickly. The bigger the company, the more levels of management, and the longer and more convoluted the decision process. When I worked with Jenopharm in the 90s, it was a middle-sized company, and I had a direct connection with the general manger. In case of any questions, I could contact him personally, and receive an affirmative or negative answer to my query right away. In a huge company like Bayer, there are many more levels, and matters take days; sometimes you will never get an answer! Therefore, the opportunity that I have at Naari—to receive decisions very fast—is a great advantage.

An advantage of Bayer, on the other hand, is that they have the financial resources to invest in certain activities from the early beginning of the business that Naari cannot invest in. At Naari, we have a strong, calculated budget, and we must adhere to it, because we do not yet earn any money and are only in the investment phase. For example, at Bayer, I could organize a local educational symposium for gynecologists; Naari does not yet have the opportunity to sponsor such an event. However, perhaps by 2015, the situation will be quite different!

What is your final message to the readers of Pharmaceutical Executive?

The final customers should believe in newcomers, and they should especially trust newcomers that know the market, understand its needs, and understand the behavior of the nation and its inhabitants. Big players are not the only ones that appreciate the domestic needs of the healthcare system and the people.

This is my role. I feel that I am an ambassador between the needs of the market, and the decision makers within Naari. I can help select the correct products to bring here, and to decide upon which marketing activities will be necessary to win market share, and make us successful.

See more interviews