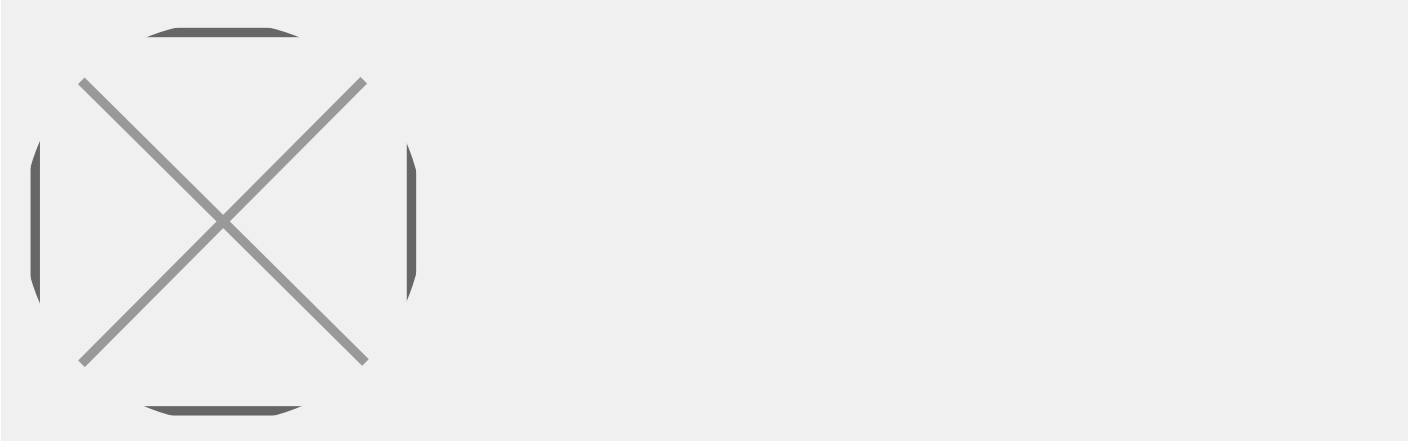
Interview with Pavel Chistyakov, General Manager, Pierre Fabre Russia



15.07.2011

Tags: Pierre Fabre Russia

You were responsible for merging Pierre Fabre's activities in Russia in 2008, and heading the new legal entity and 100% subsidiary. What is it like to set up a new affiliate in Russia? What challenges did you face and how smooth did you find the process?

We faced two significant challenges. First of all, we had to cope with the complexity of Russian bureaucracy. Administrative barriers are quite heavy here. Secondly, and related to the first issue, is the fact that our French headquarters was not fully aware of the specificities of this market when we entered. I will give you a concrete example: to set up a legal entity in the Russian Federation, we were asked to present a set of 12 or 14 official, notarized documents along with the application form. You must present all of these documents together. If one is missing, you may not submit the application. While in some countries you can submit what you already have, and some time later compensate for missing documents, it does not work like this in Russia. This was difficult for our headquarters to understand.

The initial plan was to set up a legal entity within two months. This was before I joined the organization. I started in the middle of November of 2008 and the legal entity was set up on paper at the end of January 2009. But for me, having confirmation that the company exists is not enough. What is important is the true start of operations and business. The business started at the end of May 2009—so it took us six months. Even when operations started, it still did not mean that everything was on track. For example, we were moving offices and we did not have a telephone or computers! In parallel, we were recruiting many new colleagues. It was quite a challenging

beginning.

Compared to other European players, Pierre Fabre's Russian affiliate was incorporated very recently. Can you give our readers an idea of why the company created a Russian office so late in the game?

Pierre Fabre is a French company, still owned by the man that founded it. The company, by the way, is quite young—this year marks our 50th anniversary. Mr. Fabre started our international expansion in the beginning of the '70s, with the opening of business in neighboring countries such as Spain, Italy, and Portugal. Pierre Fabre chose those countries because of the model of distribution in their pharmacies. Mr. Fabre himself is a pharmacist and the model in those countries is quite similar to the French model.

But if you look at the model in a country like the UK, the U.S., Germany, or Russia, you will find that it is very different. This is likely one of the answers to why we were not particularly active in Russia in the beginning. Perhaps local experience was missing—the understanding of how to conduct our activities in environments such as this one.

At the beginning we took a more cautious approach. We had a strong, exclusive distribution partnership, which in the beginning produced good results. But to go faster we decided to be present directly.

Having now established your operations, this is an exciting time for the Russian office! Can you provide some specifics regarding your current structure and commercial standing today?

We now have approximately 150 people working for the company in Russia. When we opened operations the country was in the midst of the 2009 financial crisis and we were restructuring our business model here. So for me, we remain in the early investment stages at the moment, because our turnover is still below expectations. But we have only been at work for two years and we need time to build the basis for our future growth.

The current time period is quite demanding. The dermo-cosmetics niche is still suffering from the effects of this crisis. If you consider the pharmaceutical market in Russia, you would find that the events of 2009 did not cause a particularly large gap in sales—I think most companies would agree. So our pharmaceutical business remained largely intact. But dermo-cosmetics has yet to recover as a niche. We expected recovery last year, but the market continued to diminish.

We have a classic front office-back office structure. In the front office, we have two separate marketing departments, because pharmaceuticals and dermo-cosmetics require different approaches. We have a dual supply chain structure as well, because in dermo-cosmetics we operate as a legal entity, and we import products from France that we sell in Russia from our own

warehouse. For pharmaceuticals, we still operate as a rep office—we still have a direct shipment from France to local distributors. This is because the size of our pharmaceutical business does not yet justify us to go to the next step. If we would like to import and sell pharmaceuticals ourselves, we will need a pharmaceutical license, and this will require additional resources.

For your dermo-cosmetic products, what potential do you see? How developed is this segment here?

It is a very niche market—very interesting, but very niche. If we look at DSM figures, it is estimated that dermo-cosmetics represents between 150 -200Mn EUR of the total Russian market. But I believe that dermo-cosmetics has a very promising future; not only in Russia, but globally. Why? Because these products are not simple cosmetics, nor are they medicines. Many people have quite sensitive skin, and many of us also live in large cosmopolitan centers¬¬—and while they are quite dynamic, they are often not very comfortable. They can be very aggressive, and invoke a lot of stress. At the same time, they are ecologically noxious. This kind of atmosphere will have a negative impact on our dermatological health.

Pierre Fabre can provide the answer. We are a pharma company and what we do is proven to be safe and effective. Our products are produced at GMP standard. This is why I believe that globally, this segment will develop.

Speaking specifically of Russia, we are very late to market relative to our main competitors. They have very well-established brands. They did a good job here, and were the first to develop the market. But Pierre Fabre is a challenging company. We are very ambitious, and in many traditional, mature markets, we hold the leading position. Pierre Fabre is a highly innovative company, and has many new products; and this, of course, is coupled with a sense of tradition.

So our ambition in Russia is to establish a positioning that is worthy of our name.

What is the strategy that you have developed to capture market share away from market-leading competitors?

We must be number two within three years; today we are number three, and we are a long way off from the market leaders. In the long term, we would like to be number one. To this end, we are investing in human capital, and marketing.

One of the strengths of Pierre Fabre that differentiates us from competitors is that, once again, we are a pharmaceutical company. We have all the rigor of a pharmaceutical company, in terms of production and pharmacovigilance; we follow the same procedures for procurement and sales. Our strategy is to develop a field force that will work directly with pharmacists in the dermo-cosmetic sphere. We only need time.

And what about your pharmaceuticals business? Do you aim to develop this segment to the point of a legal entity?

Yes, it is on the agenda. Russia is a pharmaceutical priority and there is a need to develop this business here. Pierre Fabre's top management has ambitions not only for our derma side, but also for pharma. Our portfolio is established. Our objective is to find a way to develop market share quickly; perhaps through licensing opportunities or a partnership. We are already looking at such possibilities for a couple of projects under construction.

Pharmaceuticals is a bit of a different story, because while in the dermo-cosmetic niche we would like to attain market leadership, in pharma, our portfolio is a traditional one, and the idea is to be within the top three in each segment where we are present. Our plans are long-term and we wish to establish profitable growth for the coming years.

Pierre Fabre has historically been a company quite focused on its own French market, but it now appears very serious about international expansion. As you implement your development strategy in Russia, what do you believe will be the significance of this market to the global organization?

Since the company's creation 50 years ago, Pierre Fabre has turned towards markets outside of France. In these markets Pierre Fabre has been very successful with innovative concepts in both the cosmetic and pharmaceutical sector. Europe as a whole is very quickly become a domestic market for the company. Today Pierre Fabre is present in more than 130 countries around the world and realizes more than half of its turnover outside of France.

We have now identified a number of regions throughout the world where there is room for us to better institute our business. A deep analysis was done some years ago regarding expansion, and Russia was selected as a priority country—where Pierre Fabre believes that we have huge potential, both in pharmaceuticals and in dermo-cosmetics.

How do you define the unique Pierre Fabre culture in Russia as you grow and come into your own as an affiliate?

There are two aspects of Pierre Fabre culture that I find interesting. During my recruitment process within the company, I was invited to France, and when I visited our headquarters for dermo-cosmetics, I was struck by the fact that Pierre Fabre succeeded in building a very modern office, and incorporating it into an ecological, environmental framework. Pierre Fabre's first products came from plants and we have kept this the core of our business. Mr. Fabre's aim is to preserve nature, and this is a great aim. On one hand, we are a pharmaceutical company looking toward innovation and modern development; but on the other hand, we think about how to coexist harmoniously with the natural environment. I have worked with other pharmaceutical companies, and they always

spoke only of business—which makes sense, because we are here to do business. But sometimes, their offices are quite cold: grey, modern. At Pierre Fabre, there is a very warm and ecological approach.

Secondly, for Pierre Fabre, people are key. Mr. Fabre has personally met many of the people in the organization, and he is extremely open and personable. There is a very familial attitude within this company.

In Russia, we try to take a similar approach. We try to create an environment that is aesthetically somehow close to nature, and somehow warm. And we try to put a premium on people and the relationships we foster within the affiliate.

I think one thing that is attractive about the current state of our company is that we still do not operate in the guise of a large multinational, with convoluted procedures and processes. Perhaps it is my perception, but in such a company, it is not very easy to understand what your personal input is as an employee. You come to work, you have your ideas, and perhaps they are implemented, but it is difficult to see the individual impact that is made on your company's results. Here, at Pierre Fabre Russia, each employee is able to make a personal impact. For instance, my marketing department came to me with a business plan, we analyzed it, we implemented it, and now we are able to watch the results unfold! This is what makes our organization different.

In a start-up culture, employees usually feel that they are building something and they feel inspired. As the company grows and things fall into their more permanent places, how will you keep this kind of spirit alive in your workforce? As their manager, how will you keep them from stagnating?

This is a very valid question, and I am afraid that I do not yet have a clear answer. I lived through such a period when I was a GM in my previous company. I arrived to a point where I was constantly asking myself what we could do to maintain our motivation and our drive. It is not an easy question.

As of today, I believe that for at least two or three years to come, we will remain in a very interesting period and employee motivation will not be an issue. People will be too busy! Going forward, perhaps new motivation will come from the further synergy between the pharmaceutical and dermo-comsetics business. Because to put these businesses together is a new approach for Pierre Fabre—not only in Russia, but worldwide. There are many possibilities, and many opportunities, over the coming years, for very talented people to bring novel ideas to our organization.

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

Do not be afraid of Russia! A friend of mine who has had great experience here once said that: it is a big mistake to believe that in Russia things are done as they are in other countries, but it is a bigger mistake to believe that things are done in a completely different way.

Of course, this is a specific market with its own complexities, but there are many international approaches that could well be applied here. Once again, business is all about people. The drive is the same whether you are in the U.S., or France, or Russia. What do people want? They want success, perspective, stability, safety, and etc. Russians are the same.

So do not be afraid. Be active. And importantly, be flexible! In Russia, you must take decisions, and you must take risks, as well. Russia is a developing market—obviously, there are risks. But to gain, you must sometimes accept risk. Multinationals often over-evaluate. Sometimes you must act, even if your decision is wrong, because then you have time to do something else.

Finally, do not get nervous; keep a level head, but move quickly.

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