

Interview with Ranjit Shahani, Managing Director, Novartis India



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Right after you started heading the India operations roughly 15 years ago, you had to oversee one the biggest mergers in the industry at that time. How challenging was that moment for you?

Any merger has its set of challenges and opportunities, and I think you will always look more at opportunities. We were 2 big Swiss companies with complementary strengths. The merger created the largest life sciences company in the world. It was no longer about pharmaceuticals and healthcare alone, but also about agrochemicals and seeds for example. It was one of the most far-reaching decisions taken by our global board, which created one of the most innovative powerhouses with a great pipeline of products.

It was a great time, especially in India where Ciba-Geigy and Sandoz were well established brand names, with a presence in the country since 1947. Today, we have a great pool of talented people here. It is a visible and well-known company, and a desired place to work.

Was it a challenge for you to integrate the different entities?

Any integration of different entities is always a challenge, but the great thing with Novartis is that we did so very speedily. We got the distribution and field force to act together very fast. We successfully managed to get the front-end, the teeth of the business, working very fast. As a result, we immediately grew far ahead of the market, even doubling the market rate for a number of years. It was a great merger, as we managed to get our synergies growing very well, both in purchasing and distribution, as well as in marketing. We made sure we would have a very strong field force in

place, and focused on the mantra QTQ: Quantity, Targeting and Quality. Quantity meant that we wanted to meet the largest number of doctors in a day. Yet, there is no point of meeting so many doctors if you do not target them correctly. In turn, there is no point in targeting correctly, if you do not have a quality time with them. A lot of training went into this QTQ philosophy.

With double the market growth rate, it was clearly a job well done. Today, Novartis takes up the 20th position in India's domestic market. Was this in line with the ambitions you had 10 years ago?

If you look at the market share growth of Novartis, which is the most important thing, this has been consistently improving over our last 18 quarters. We consider this as a very positive progress. Looking at the IMS data, you will find that, on average, Novartis has been growing ahead of the MNC market growth in India.

The latest results were also splendid: Third Quarter net profit up by 75%, while the Fourth Quarter marked another 22% increase. What drives your growth today and how do you see the outlook for 2011?

Novartis operates through multiple entities, and several product launches support our growth. Novartis basically operates through 3 levels in India: the domestic market, sourcing for the group (export), and offshoring through global centres of excellence. We have an OTC research centre, a global generics development centre, global manufacturing through Sandoz, etc.

A lot of these offshoring and outsourcing opportunities were not there a few years ago. Such potential has been one of the reasons for MNCs to increase their presence in India. Would you have expected this to happen a decade ago?

While I did not really expect this, Novartis already started to become involved in such activities in India about a decade ago, in 2001. It is a fact that India has got a strong demographic dividend, and that the estimates for 2020 already project a huge surplus in labor. While countries such as China will have a shortage of approximately 50 million people, India is set to have a positive balance of roughly 47 million workers. The shortage abroad will inevitably require the offshoring of operations. It is important to plan ahead of such trends, and Novartis clearly understood the value of India's potential.

Was it yourself or the group realizing this?

We have had strategic plans to work through, with ideas being pitched from both the group and our team here. Obviously, the group has a global picture that will be factored in. It is not each country for itself for an MNC like Novartis.

With 32 NCEs in various stages of development, 10 companies in India involved in basic research, the innovative power of India has been on the rise. Do you see potential for your India operations to drive up Novartis' innovative character worldwide?

Novartis' predecessor company, Ciba-Geigy, was the first company, way back in 1964, to have a global research centre in India. In a record time of 6 years, Ciba-Geigy discovered a New Chemical Entity (NCE) at that time. However, as the law changed from product to process patenting, Ciba-Geigy closed down its research centre in 1982.

In 2005 it again became clear that India will be heading on the path for innovation, as the new product patent law came in. The fact remains that, for 35 years, there has been no innovation. Companies have also come to realize this, as a large number of domestic companies have started to invest in research. There is still some time to go before we will see success in this area, the reason being that they only spend approximately 8 to 10% of their top line revenues in research. This is very small in absolute terms, as 10% of a top 10 company in India will only represent less than USD 350 m.

Ultimately, these players will have to align with global players, a trend that has started to take place. Whether a global company will set up an R&D centre here right now, the answer is still negative. One of the main reasons behind that is the fact that India still does not have a data protection law in place. From 2005 to date, 8 global companies have set up an R&D centre in China, including Novartis, Roche, GSK, sanofi-aventis, Pfizer, and AstraZeneca. Once such centers have been set up, there will obviously not be a great hurry to set up a similar centre in a neighboring country, especially when the ecosystem is not yet complete to encourage innovation.

The many local players we have been speaking to, are all interested in tying up with multinational companies. What opportunities do you see there, and what strategy do you have to tap into their willingness for cooperation?

Historically, Novartis has been one of the first players to tie up with Dr. Reddy's Laboratories on a diabetes molecule. There will be partnerships of various kinds with various companies in the future too. Two joint-ventures, Bayer with Zydus Cadila and MSD with Sun, speak for themselves.

Novartis is one of the few companies to have had a complete life cycle strategy. We have innovator pharmaceuticals, generics through Sandoz, preventive medication through vaccines, self-care through OTC, and now with Alcon we also have eyecare. Most of the other companies realize that there are two markets in one country, and have started embarking on a similar strategy. GSK, Pfizer, sanofi-aventis, etc. similarly follow an innovator strategy and a branded generics strategy.

Pricing is a big challenge in India, a country where the majority of the population still lives on USD 2 per day. What makes a successful pricing strategy here?

It is not a big issue for us, as we have this dual innovator/branded generics strategy. For products where alternatives are not available, such as Glivec, we have access programs. This access program is one of the biggest in the world, of which India is one of the largest beneficiaries. We have given away more than USD 1bn for free in India alone.

Through the Novartis Foundation, we also work in leprosy, where medicine is completely free to every single leprosy patient.

Novartis was also one of the first companies to make its foray into India's rural market with its access program Arogya Parivar. Around 50 million people have received access to medicines as a result of this programme. We now operate in 11 states, and are very actively making sure that products are available, accessible, affordable and that people are aware of them. These are our 4 "A"s of Arogya Parivar.

Many other MNC have only just started to address the rural markets. How do you explain that Novartis was that early?

The Arogya Parivar program came out of an idea put forth by Professor C. K. Prahalad and his book "The Fortune at the Bottom of the Pyramid". The Arogya Parivar model has been so successful that it is now being exported to other countries, including Kenya, Indonesia, and Vietnam. Rather than CSR, this is a commercial-social model that managed to break even in 18 months. At the same time, you educate people about diseases and well-being.

How did you manage to break even in such a short time?

Some of the key success factors have been the active access of the distribution network, creating smaller and more affordable packages, creating understandable communication in the local language, etc. We have made some mistakes, took these as learning opportunities, and generally managed to progress very quickly. We are also quite happy that other companies have taken this program as an example, and started to deploy a similar strategy.

Besides rural access, what else remain some of the key challenges in India?

There is obviously the issue of counterfeit medicine for all the companies. While the extent is not fully known, it does not really matter for me whether it is 0.5% or 3%, it is a tragedy that a product that is supposed to cure you, may actually kill you. As an association, we were instrumental in introducing a tough legislation with huge penalties of up to 10 years imprisonment. Another deterrent has been the raids we have been carrying out as an industry.

Do you see the possibility to have this completely disappearing?

I do not think it will ever disappear fully, but we will not allow this problem to grow and mushroom the way it has.

Further to that, there is of course the people aspect. You said you have been able to attract and train significant numbers of people, yet how did you manage to retain them in an industry with such high attrition rates?

Attrition is generally a reality in a growing economy, particularly when it grows at double digits and beyond. Moreover, the attrition does not only take place in the pharmaceutical industry, but overlaps the IT, retail, telecom, etc. industries too. There is always the challenge of trying to make the working environment a fun and interesting place. Flexible timing, children daycare, training, and so on, are all initiatives to improve the attrition rates at Novartis. However, an attrition rate of zero is also not required, as we do want to have some input from outside. Novartis has one of the lowest attrition rates in the industry, and represents a place from where other companies would like to recruit new candidates.

For you personally, your time here surely has been exciting. Yet, what is it today that is still giving you sleepless nights?

As a company, we face challenges of growth, of innovation, of making sure the products reach the markets where they were not present before, ... We are in the caring and curing business, and we want to make sure that those people that need medicine most, can also receive it. We also want to ensure that we launch highly innovative products, and have been doing so recently, with products such as Galvus for diabetes, Diovan for hypertension, Lucentis for AMD, and so on.

Apart from the successful launch of these new products, we also have our old products to capitalize on. Voveran, for example, is now a number 3 product in India, but has been the number 1 product for a long time. This is a strong performance, considering the fact that it competes with approximately 160 branded generics in the market. In general, the OTC segment has been performing very well. We have an exciting future, with around 147 new products in the pipeline globally. Whenever there is a good business case, we will not hesitate to launch these global products in India.

In 5 years from now, what will Novartis India look like?

You will see a healthier, stronger and more vibrant Novartis than what you see today. It is really the brand that you want to make very valuable. It is the top of mind recall you want to achieve with the consumers and practitioners. Rather than market share, it is the mindshare that is more important.

Where do you see the Indian pharmaceutical industry in a few years from now?

I see the double digit growth continuing, particularly as most companies are looking at two thirds of the pyramid that has not yet been accessed. As these new markets are being addressed, it is projected that the market will be growing at roughly 18%.

The big challenge remains health infrastructure. Today, the government spends less than 1% of the GDP on such infrastructure, which should rise to at least 2 or 3%. Developing countries have

been spending up to 6%, so India still has a long way to go. Yet, in India everything happens in the richness and fullness of time.

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