

Interview with Milos Petrovic, General Manager, Roche Moscow

20.04.2011

Roche is the leading company in the ONLS (high-technology reimbursement) segment of the prescription drug market, and also the top oncology company in Russia. As the General Manager of the Company since 2005, can you explain how you achieved this leading position?

It was quite a natural process once we established our positioning. If we look back on the days of 2004-05, when the reimbursement programs were first initiated, we were quick to spot the opportunity. We reacted very quickly to secure our presence in those programs, thus providing Russian physicians and patients with access to innovative products that have changed the standard of care, especially in oncology.

In addition, we made sure that our messages were heard, so the benefits of our products were clear, differentiated and understood. Consequently, there is high demand for them. We also made substantial investments in clinical trials, which enabled physicians to gain first hand experience of our products while addressing important medical questions. Indeed, Russia remains a key strategic hub globally for Roche's clinical trials.

Finally, the organization also needed to develop in line with its sales growth. In particular, we always had strong marketing and sales, but in order to build a fully effective company, we needed to strengthen our capabilities in areas such as H.R., procurement, administration, and so on. Today, we are considered to be a mature subsidiary, operating within the same world-class standards that Roche expects from each member of its family of companies.

Within the global corporation, you have the so-called E7 structure — the 7 strategic emerging markets for Roche. These currently represent 13% of global sales and are expected to grow substantially. Having matured operations here, what is the significance of the Russian market to the global corporation?

Today, Russia represents about one percent of Roche turnover worldwide. So, it is still not as significant to the Corporation as we would like for it to be; indeed, as it needs to be, if more Russian patients are to benefit from internationally-recognized standards of care.

If you look at OTC products, Russia is becoming increasingly important, as spending per capita in this segment reaches levels similar to those of Western Europe. However, for prescription drugs, the potential remains huge but largely untapped, because spending per capita is not even close to Western European levels, and far removed from leading countries such as Germany and France.

Realizing the opportunity of increased expenditure for prescription healthcare is not just good for top-line pharmaceutical companies like ours! Why should Russian patients receive inferior, second-tier products instead of the best, most modern treatments with proven advantages in improving and extending patients' lives? In my understanding of the situation, and the initiatives of the President to modernize healthcare, I think it will come. To what extent, we still do not know. But it will be better. What we hear and what we see points to the fact that the process is truly ongoing, and every year conditions improve more and more.

What have the reimbursement programs meant for Russian patients with complex and specialized illnesses?

Clearly there is an unmet medical need, which is why there is such a high demand for these medicines.

I remember that when I first joined Roche in 2000, there was a massive gap. This was immediately after the crisis, and although there were doctors and professors who knew what was new and effective, they were sadly unable to provide these products to the vast majority of their patients. In 2005, with the introduction of the DLO program, many more people gained access to effective treatment. Then came the 7 Nosologies program—another major breakthrough that further expanded patient access. This program meant that for the first time, most patients who had one of the specific diseases covered could be treated with advanced treatments.

We do still see challenges. The problem with the DLO system is that the funding is simply inadequate to ensure that patients routinely receive the most effective treatments. Furthermore, access depends too much on where a patient lives: for instance, Moscow has much greater financial resources than many poorer, outlying regions, so Moscow patients have much better access to advanced treatments. Nevertheless, even in the more powerful economic regions, we

often see that only five, ten, maybe fifteen percent of the patients in need actually receive these treatments. So clearly there is a large gap of 80-90% between the number of patients who could benefit from treatment, and those who actually receive it.

Despite setbacks and deficiencies, the government seems to be putting significant effort in developing these programs and is serious about healthcare modernization. Is political will the most important factor for driving change in the healthcare sector?

Even during the crisis in 2008-09, although we effectively decreased our prices—not in actual Ruble terms, but by maintaining pre-inflation prices as the Ruble was devaluated—we did not see a decrease in our overall revenues. Like many other companies who were successful during this period, we responded to the environment. We overcame the decline in per-unit value by increasing volume—by increasing the number of people who received our medicines.

But the real question is: “Was it enough?” In my view, it is not. There are still many patients who need our treatments; and consequently, there is significant unrealized demand. The unmet medical need is something that the Government should address by putting more funds into healthcare—thereby improving both the quality of healthcare provision and making it more accessible to the population.

The Government has declared that they will fill the gaps, with the recently announced “modernization” program. They have conducted surveys and recognized that the level of satisfaction with healthcare is generally very low in Russia. Indeed, most people engaged in the survey expressed that they were unhappy with the healthcare system—not only at the time of the crisis, but still today. Consequently, it is named as a key government priority to increase the population’s level of satisfaction with the healthcare services that they receive.

What is Roche doing to help improve healthcare within Russia?

We are very active in the fields where we have expertise: oncology, hematology, rheumatology, and hepatitis. We are engaged in a variety of activities from the medical education of doctors, which includes provision of relevant materials, to more sophisticated initiatives like preceptorships for young practitioners. With the latter programs, we give doctors the opportunity to gain knowledge directly from leading world experts in countries such as the U.S, Switzerland, and Germany. We also offer similar programs within Russia. For instance, we give regional doctors a chance for a preceptorship or master class in, say, a leading oncology center in Moscow or St. Petersburg, where medical knowledge may be more sophisticated compared to some regional locations, in part due to better access and greater experience with advanced treatments.

Also, since we are one of the top innovative biotechnology companies in the world, we are very much involved in product development and have even started conducting early-phase clinical

research programs in Russia. Inclusion of Russia in this type of groundbreaking research is still in its infancy, but about two years ago, Roche initiated several pilot projects of this kind. I think this is very important.

For me, research is the key to progress! Establishing manufacturing may provide some jobs, but I do not see it as the primary vehicle for driving progress. My colleagues at other companies may not agree with me, but while I think manufacturing is quite important for building a viable, thriving pharmaceutical industry, for an innovative company establishing research capability should be the top priority.

Bringing manufacturing here is in line with governmental policies. And yes, one day manufacturing should come. But does it make business sense or add significant technological value or skills? As it is closely related to the size of the market, just building a factory for the sake of building a factory is not a long-term solution. Indeed, taking an approach based on this logic may lead to the construction of facilities that then have to be closed a few years later, because there is no business for them.

But if Russian authorities have declared that they aim to purchase the majority of reimbursed medicines from local producers, what does it mean for Roche if you do not have a plant here?

There are two options for local production—you do not necessarily have to build your own factory. You can also collaborate with local manufacturers. If there is a high probability of reaching a critical sales mass, coupled with the political desire to provide funding at levels which approach true underlying demand, then it make sense for us to build something of our own. Otherwise, again, it is often simply not a good investment.

You also have to consider the specifics of the Roche portfolio, which is largely centered upon biotechnology products. If you are producing something that is cheap, and sells packs by the millions, then it may make sense to manufacture it here. If, on the other hand, you are only selling 50 or 60 thousand packs per year of a highly valuable product, this quantity does not justify the building of a separate factory. For monoclonal antibodies, which are complex to produce and sold in relatively small volumes, Roche has just a few manufacturing facilities which supply all of our countries globally.

However, even given these constraints, we are actively collaborating with local companies in Russia. Ultimately, it might also lead to some localization of manufacturing for us.

You have recently licensed several pre-clinical HIV assets to the Russian start-up Viriom, which will develop and commercialize them. Such collaboration is not only a commitment to Russian R&D, but also a strategic move that will expand your footprint in the country, if and

when these compounds come to market. What is your view of the importance of this collaboration?

My personal view is that if you are doing business in a country, you should give something in return. It should be a win-win situation most of the time. If Russia gives us an opportunity to sell our products—to be one of the top companies in the market—we should return something. I think in the long-run, research activities are what we do best. Consequently, this is where we can really make an important contribution. Because it means jobs for new scientists and it means help for universities; in short, it means development of local capabilities. Who knows, ten or twenty years from now, Viriom could become a big regional or even global player.

Not all countries are interested in developing research capabilities. Russia, on the other hand, historically has a rich scientific pedigree. We believe in Russian science, and want to contribute to returning Russian scientific prowess back to levels comparable to the U.S., Europe, and Japan.

The government wants this as well. The ultimate goal of Pharma 2020 is the development of local R&D. Victor Khristenko, Minister of Trade and Industry, has said that “when we say localize, we do not just mean build. We mean create.” Viriom is a first step; what comes next?

The point is to find the right partnerships. The point is to build, first of all, understanding on all sides. And then you must bring results. My experience, so far, is that in Russia we have some basic science that does bring some interesting new molecules.

Then, you have to have hospitals and institutes that are familiar with doing the full spectrum of clinical research. There is a huge gap between studying a new molecule and bringing it to later stages of clinical research—Phase III clinical trials. The early development phases—Phase I and II, the designs of the trials, and even assessing commercial potential of new product—is something that Russian companies lack expertise in.

On the other hand, we see that in the U.S. and Europe there are many start-up companies and projects, bringing many more molecules into Phase I and II. In the end, not many new products make it to a commercialization stage. The risks of our business are high, which may deter investment. Another factor that may contribute to Russia lagging behind in early product development experience is the size of the market, as this makes it less interesting to develop products here.

Today, the Russian market is not as big as Germany or France or the U.S. As it develops, this will offer additional incentives to bring the necessary investment here, to fuel the discovery and development of new products. There are 140 million people in Russia—and if you take a look at Kazakhstan, Ukraine, and Belorussia, that is additional 80 million. So, in a way, what you have is a

compact market of 220 million people. And the potential of a regional market with this size of population, with underlying economic growth—you cannot dismiss.

In the years ahead, how will Roche Russia develop?

We are part of the global organization and what happens to the global organization will definitely have an impact here. But we are in a relatively good position compared to our colleagues in so-called “mature” markets, because we still have the potential to bring additional growth to the company. That is the good thing about being in Russia.

When we take into account all of these governmental initiatives, there will be some changes in the way we do business. More and more, we will focus on local partnerships, with local players. The idea of Roche as a lone rock in the sea, passively facing and then responding to whatever weather comes, is fading. It is about proactive collaboration and integration.

In my view, there is nothing wrong with that. Coming from the former Yugoslavia, I saw that except for very new products or products that are needed by only a very limited number of patients, all companies had local partners. This encouraged strong sales; plus it developed local capabilities. One example of this formula for collaboration was Pfizer and Pliva and their partnership for Azithromycin. This brought quite a bit of money to both parties—but without simultaneously developing local capabilities of Pliva, the success would not have been possible.

Collaboration between Russian companies and big Pharma can actually bring rewards for both parties. However, the business models for mutually-beneficial collaboration, including “rules of engagement,” need to be well-thought and refined. This is because, quite frankly speaking, the levels of expertise and knowledge are not equal at this point. On the other hand, if there is a clear desire to establish a winning business model, we will invest in developing not only our business, but also our partners’ business—their field-force, marketing capabilities, and etc.—in parallel.

Sharing our expertise is what we are doing and it is what we are good at. We are among the leading companies in Russia and among the leading companies in the world—number five, globally, in terms of revenues, and the leading company in most of the therapeutic areas where we have an interest.

In the next few years, I think that Roche Russia will maintain its leadership in oncology, while entering some promising new indications—like psychiatric medications, for example. So, four to five years from now, it will be a new game for us. I believe in our capabilities; I believe in our portfolio.

You have an interesting view. While some companies are thinking of conventional short-term investment, you are talking about integrating more into the market, collaborating with Russian companies, bringing the expertise that will develop the science and industry here.

This is all investment. When you invest time, expertise, and knowledge, it costs money. Sometimes, you will hear that a company is putting 10 million or 15 million dollars into some project, and some may say that that is what counts. But without expertise, without knowledge transfer and experience transfer, it is not worth it in the long run. In my view, we are bringing much more than some of our colleagues, who are just declaring, “Okay, we will invest now.”

I am proud to say that, if you read Minister Khristenko’s address from December, Roche was the only company mentioned by name in a very positive context. It was called a company that really commits to collaboration with Russian science. And this is appreciated by the Government. The Viriom project was something that was done quite rapidly; we gave them the molecules, the expertise, the scientific board for help. It was a real commitment, and it was beneficial to all concerned parties.

As a company with full commitment to this market, what would be your advice to international companies that are nervous about the constant changes and challenges of Russia?

The key is keeping a long-term perspective. My advice is for a company to not only look at one-year results. Make your plans for at least three years, and be flexible! This is an issue that many international companies face when, for example, talking to their headquarters. Short-term planning is important, but to really have an idea of what to do, and how to do it, you need to also look at the bigger picture.

What is your final message to our international readers ?

Comparing today with five years ago, I would say that Russia has not disappointed us. We have stable growth here and, in my view, over the coming years Russia will get ever closer to more established markets, such as those of Western Europe. In some areas, Russia could even become more sophisticated than many European countries—simply because if there is the right investment and the right commitment, matched by political will, then Russia’s great potential can be realized and significant progress which will surely come. This is a country definitely worth investing in.

[See more interviews](#)