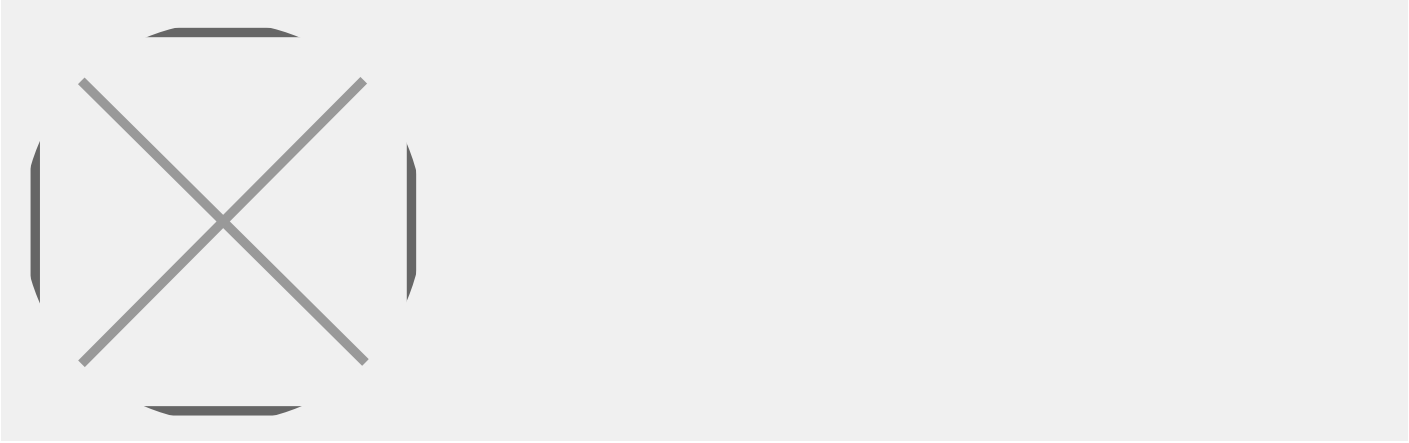
Interview with Robert Karl, Managing Director, MSD Russia



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You have been in Russia now for a bit less than a year, having come from the former Schering-Plough's Hungary office to run the Russian MSD affiliate. In our conversation prior to the interview, you mentioned that there has been a bit of a transition and adjustment period. How is the Russian landscape different from what you expected, both on a personal and professional level?

I worked with Russia, as a market, from 2004-2007: I was operations head for Schering-Plough's Central and Eastern European region, based out of Switzerland. From a business perspective, I saw then that the potential of Russia was tremendous. Everyone was talking about the BRIC countries, and everyone was talking about where to go in order to grow. Of course, the world's focus is turning to the BRICs more and more now.

If there is one thing that I expected to be different when I arrived here, I must admit that I expected that the pace of change would be greater. There are many initiatives up in the air: rolling out GMP, for example. But I have been here, as you said, close to one year, and it seems that it will not be possible for change to happen as quickly as I had anticipated. Russia has great potential as an economic power, but the slow transition puts it at risk of loosing competitiveness to the other BRIC countries—specifically in the sphere of the pharmaceutical industry.

From a personal standpoint: the weather is not as bad as I thought! Russia is a highly educated country—that is very impressive. In Moscow, specifically, I admire the inhabitants, because for the average person, it is not an easy place to live: if you look at the cost of living, the distances and the

size of the city, and etc.

The difficulty of living in Moscow actually drives one of the differences one might notice between Russia and Western Europe. The country has a certain necessary, protective level of individual egoism. The team effort is not as established, because everyone must take care of themselves first. I hope that this team spirit, and the ability to work as groups, will be enhanced as the middle class grows.

What similarities do you find between Russia and the other markets where you have worked in the past?

Firstly, it is the same competitiveness!

The biggest similarity from the perspective of the pharmaceutical industry is that the models of working are quite analogous. Of course, there are certain specifics of distributorship and commercial structure in Russia that are far stronger than in Europe—because in Europe, the distributors are pure logistics providers, and it is very different in Russia. But the business model is very much the same.

Obviously, Russia is in a different stage of pharmaceutical development. Whereas I think that many of these models are largely outdated in the European Union, for example, they are still functioning to some extent in Russia.

In just a couple of years, universal health insurance will be established in Russia. Health economics and other models will begin to have a bigger influence, and obviously will impact how we operate.

The budget pressure is the same everywhere. The pharma industry runs from the center—out of innovation and R&D. Because global companies are present here.

Where do you see opportunities for MSD?

One obvious opportunity is always to build on your starting point. Today, MSD is number 12 in Russia, while globally, we are number 2. We have some work to do! We should take this as an opportunity. We have essentially the same product portfolio that MSD has globally. So many of our products are under-represented, and there is significant opportunity to develop them.

Secondly, Merk is an R&D leader. It has been the ‘R&D jewel’ for decades. We did have some erosion in our R&D pipeline, but we still have a great reputation, which generates assets that we are also trying to bring to Russia: for example, educational programs and research partnerships. We are looking at localization of production, and we are localizing to some extent; but, as of now, we focus more on these kinds of collaborations rather than setting up a manufacturing site. There are many manufacturing opportunities—but I am not sure that packaging and tabletting is going to

change Russian healthcare.

You arrived in the early days after the merger of MSD with Schering. How did you find the state of this merger in Russia, and is the integration fully complete now?

I started 5 months after the merger was announced. The interaction between the two companies was limited, because the former MSD was a representative office and Schering-Plough was a service entity. Russia was the second country to do the legal entity integration by July 1st, creating one company.

We were pretty good at identifying talents and we were able to find decent opportunities for people—thanks, in particular, to a high vacancy factor. For this same reason, 1/3 of our people are new. These new people bring the culture together as one company. A merger takes a long time, and we see that when certain decisions are taken, the question of legacy remains in the heads of certain colleagues. For me the best example is that after the integration of Organon (that Schering-Plough acquired in late 2007), some of our colleagues indentified themselves as Schering-Plough employees, and others as Organon employees.

I find that it takes about three years for people to start building a common history. I would like for this to go faster, and we are undertaking several projects to speed up the process. For example, we have what we call our DNA (Drive New Aspirations) program, wherein we empower colleagues to change this company bottom up. Eight regional leaders and eighty colleagues are involved in driving the change, and they have meetings all over the country to try to see what is going well and what is not, and how to improve the situation. In this way we are trying to build one culture, and people can help the company develop in a way that they think is meaningful.

We also run ‘the product of the month,’ which brings people together by demonstrating the strengths of the company.

How do you explain the discrepancy between the company’s positioning as number 4 on the global market, and number 12 on the Russian market?

If you look at the ranking of pharmaceutical companies in Russia, you will notice that the top companies are European and Merck is the leading American company, ahead of Pfizer.

European companies are more used to varied geographies—which is not the case with American companies. In the past, U.S. pharmaceutical organizations rarely delved outside of mature regions such as Western Europe, Japan, and their home market. It is not until very recently that emerging markets have appeared on the business landscape in a major sense. When you look back at 1998, you see that some U.S. companies left Russia altogether—they favored a more cautious approach. So, American companies are historically not as entrenched as European companies in markets such as this. Neither have they been as quick to consider acquisitions here.

The company is ranked quite highly in hospital and DLO sales, but its share of Russia's largest segment, the out-of-pocket retail segment, is somewhat lower. Do you plan to retain this mix for the future, and what, in general, are your plans for growth?

We will continue to focus on hospitals and the DLO sector, where we are already strong today. There remains opportunity in these segments, because we have products like Remcade, which still have huge unmet potential. There are thousands of patients on waiting lists to get access to Remicade.

Our immediate strategy is to improve our retail position, and that is one of the reasons why we have started to build a pharmacy feed force—we are building a structure of around 80 people. For the first time, we are now adding the pharmacy as a customer.

We are also looking for the first time at the general practitioner because we now have cardiovascular and pain products that are driven by GP practice. Previously, we had always stayed at the specialist level.

We have a separate women's health project, because we would very much like to establish Merck as what we call "the partner of a lifetime"—in this sphere, we would like to start very early, and stay with the customer until the late stages of life.

Definitely, we would like to achieve in Russia a ranking comparable to that of the global company. But we also must be realistic at some point. We cannot reach number 4 very easily.

In looking to close the gap, we are spending a significant amount of time on trying to bring early stage assets into Russia for further development; we are discussing R&D partnerships, and localization partnerships in terms of production. For the latter, we try to keep an overall strategy in mind—because the obvious thing is to do local packaging, and benefit from local status until 2014. But again, personally, I do not believe this helps the Russian pharmaceutical industry, and it is a short windfall for a company. We must build therapeutic concepts around production.

One area that we are very interested in is HCV/HIV, because there is a huge disease burden in Russia in both areas. We are looking at partnering with all stakeholders to eradicate HCV and to participate in curbing HIV via localization of manufacturing—but also via our promotional approach, and our approach to government stakeholders and key opinion leaders. We would like to create a more integrated concept. I believe that if we can do that, we will be very successful.

What will company operations look like in 5 years?

This is a difficult question to answer. Perhaps it would be easier to envision how the Russian healthcare system will develop over the coming years, and draw a conclusion from there.

The basic operations will not change dramatically; because of course the core functions will remain—sales and marketing of pharmaceutical products.

What will be the major drivers of the future operational model? First, I think that medical departments will work more closely with government stakeholders and the ministries of health in developing treatment guidelines—because the question of standard of treatment is only now developing here. In many areas today, there are recommendations on how to treat, but they are not harmonized, and they are not clearly structured. I think that market access will become far, far stronger, because reimbursement decisions will ultimately be based on pharma economics. Healthcare access will widen, and the cost in certain areas will have to be reduced. Broader access will also increase price pressure: not only for manufacturers, but for the whole chain. Optimization of this chain will make healthcare more affordable.

Many are saying that the whole distribution landscape will change, and will be more in line with European models. Distribution, in Europe, is limited to the physical distribution of the product. The evolution of this model is why many important players in the distribution market are going into different areas—to diversify their own business model.

All of this will drive how pharma companies are structured. It will be less necessary to have commercial structures, and more necessary to have market access structures and strong medical structures.

Some elements are very difficult to predict: for example, the question of field force access to healthcare professionals. This issue is in the draft law. The draft law contains many good ethical elements, and ethical companies, specifically, have an interest in strengthening the ethics of this industry in Russia. However, the proposed ban on interaction with healthcare professionals is obviously an issue. How this will impact the future business model is unknown at this time.

Another thing that I am unsure of is how the geography and the governance of healthcare systems across Russia will impact the future. We may see a more regional approach—like in Italy or in China—or, we may see a more central approach like in France or some of the former Soviet Republics.

We are speaking largely about how prospective government initiatives will affect pharmaceutical companies. Let us consider the evolution of the relationship between these two parties. MSD has certain social care programs: for example, in St. Petersburg, MSD gave out free IVF treatments. Social programs have traditionally ensured a positive relationship with government authorities. Do you feel this recipe still works?When I mentioned educational programs, I was actually referring to this kind of cooperation.

Specifically looking at our program in St. Petersburg: we are very thankful to the people of that city. I have worked with perhaps 80 countries, and it is impressive and very positive how we are perceived as a company in St. Petersburg.

We are establishing programs for the sake of healthcare and for the sake of patients. We are not necessarily interested in simply donating products, but rather cooperating in treatment algorithms—developing how disease is treated in a holistic sense. We have an excellent relationship with our colleagues in Petersburg. If can be executed elsewhere, we would love to do that in other regions, because it adds value to all stakeholders. This is not always possible in Western Europe, because the perception of the pharma industry is unfortunately not always positive.

When we interviewed Mr. Davidsen at Nycomed, he mentioned that with the modernization of the healthcare industry here, the perception of the pharmaceutical industry in Russia is similarly deteriorating. Do you disagree?

Some of the opinions that are shared publically in Russia are also not very positive. We can debate if that is fair or not. I can say that in the public press, yes, there is a trend to castigate international pharma, as an industry not willing to invest enough in Russia, but is profiting from it. We must consider this opinion cautiously, because I do not believe that this is what is really happening.

On the other hand, we see that the scientific leadership and the healthcare professionals—I am not speaking so much about the political dimension, and perhaps not even the economic dimension—are very open to cooperation. For example, in the question of the ban on physician access for field forces. Because there is a need to develop a better standard of treatment; there is an interest in cooperation to establish modern treatment algorithms in hospitals and in the retail sector.

So I see both! The one part is, in my view, still very positive. On the other hand, the political and economic pressure is there from the public—but that is to localize, to invest, and, obviously, to reduce prices.

The international pharmaceutical industry can certainly be an invaluable partner in developing this healthcare system. As a manager representing this industry, that has now spent 11 months in Russia, what is your advice to a newly arrived head of a local multinational subsidiary?

When you arrive in Russia, it is important to listen—more so than in any other market where I have worked. The main reason for this is that Russia is not a market with particularly obvious structures, and less is written than in other places. It is a very people-driven market.

If we speak of people, perhaps one of the biggest surprises I have experienced—to return to our initial discussion—is that I expected Russians to be far less emotional. But it is quite the contrary: Russia has a very proud and emotion-driven culture.

It is all about whom you talk to, and when—and you must put the pieces of the puzzle together. This takes time, so patience is always needed in Russia.

How are you defining the MSD culture within the Russian context? How would you like to be perceived?

We are trying to position MSD as a leader in innovation, which brings cutting edge medication to patients. That is why our ambitions, and all of our strategies, are targeted toward innovation and R&D leadership.

The way that we consolidate that within our company is that it is a part of what we do every day. It is part of how we structure the organization, and it is also where we invest. For example, our medical and research departments consist of almost 100 people—which is a high share out of our total 900 colleagues. We focus a lot on internal communication regarding innovation, and the added value of our medication for the patient.

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

Be well!

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