Interview with Ben Haneveld, Managing Director, Apotex Nederland BV

26.02.2011

Tags: Apotex Nederland BV

We do not often meet companies that have been successful at retaining their manufacturing facilities in the Netherlands. How and why did former Katwijk Farma -and now Apotex- succeed to do so?

Katwijk Farma’s history goes back to 1914 and was traditionally a family-owned company. Yet, in the nineties it became clear to everyone that it was crucial to connect to an international company in order to survive. Everyone was therefore already open-minded for this international move. However, the company has its roots in the fisherman’s town of Katwijk. The cosy family culture had to be changed into a more business-oriented corporate culture, which was done in a gradual manner. This is also why Katwijk Farma’s name was only changed into Apotex in 2008, while the acquisition by Apotex had already taken place in 2004.

Apotex is not only the biggest pharmaceutical company in its country of origin Canada, it is also among the top ten generic players in the world. Before changing the name officially, Apotex also had to make sure Katwijk Farma was ready to show what the brand name Apotex had to offer.

From there, you are right; we have been able to maintain manufacturing in the Netherlands, while others have not. There are two reasons for this, the first being the speciality of the products. There are a lot of newer molecules being produced in low-wage countries, like India. Older and smaller products are more difficult to obtain from these locations, which generated the opportunity for

Apotex to stay here. The second reason, having our own manufacturing here, meant being closer to the market and has given Apotex more flexibility. The entire supply chain for products coming out of India and China requires customers to build up stock levels in certain areas.

Apotex therefore focuses on two categories: high volume products, (such as Paracetamol and Ibuprofen,) or older smaller molecules. It is thus the extremes of two worlds. Especially for high volume products, Apotex has a highly automated process which requires a minimum capacity of labor. As a result, the labor cost is very low, which in turn allows us to compete with companies from normally low-wage countries.

The Netherlands is a market with one of the highest generic penetration rates in Europe. We also see the market is to a large extent dominated by a few large players. How do you position yourself within the market?

The Dutch pharmaceutical market, especially the generic one, has changed drastically over the last three years. The influence of the healthcare insurance companies is increasing day by day and has created a very complex and challenging reimbursement structure. The players who are now able to have a strong position are traditionally those companies with a very broad product portfolio, or those companies that can supply products at the lowest possible price. For Apotex, it is thus extremely difficult to position ourselves in the middle, because we are neither the cheapest nor the biggest in terms of portfolio.

What Apotex is focusing on right now, is bringing the business back to normal. We are therefore talking with healthcare insurance companies, pharmacists, industry partners and government to see how we can normalize the current situation again. The fear within the healthcare insurance companies is that prices will increase again if they stop the current policy. However, we believe that in the middle to long term prices will go up again anyway due to the creation of monopolies as an increasing number of players are taking products off the market. It is almost impossible to produce a box of Simvastatin with 30 tablets, a leaflet and a carton for less than EUR 0,30 in the long run.

You’ve been able to establish very strong relationships with your customers. Can you do the same with the insurance providers? Which arguments do you bring to the table when you are now going into discussion with them?

The main argument I have for them is that it is “penny wise, pound foolish”. If it is not possible to sustainably manufacture products for EUR 0,30, and you offer new entrants the possibility to do so, the existing players will destroy their products on the market. At the end of the day, you end up

with a monopoly situation, which will always lead to an increase in price. Moreover, if the new entrant is not able to supply, it will lead to a shortage of generic presence. That, in turn, will lead to the generic being replaced by a branded product, which is automatically much more expensive. The current situation may look like a short-term gain, but in fact it is a long-term increase of cost.

On the other hand, the total cost of generic medication is at this moment EUR 2 per inhabitant per month. Squeezing out another 20 percent thus only relates to EUR 0,40, whereas the total money paid for healthcare by the individual is over EUR 100. Squeezing this 20 percent out thus generates a higher risk. While everyone agrees that the discount levels at pharmacies were too high, we now need to find a mechanism that is acceptable for everyone. The current mechanism is not acceptable and costs an awful lot of money in administration at all levels (industry, pharmacy and healthcare insurance companies). This cost is not reported anywhere, as the mechanism only focuses on the price of the box of medicines.

My ambition is that by January 1st 2013 there will be a normal system in place again that is acceptable for everyone.

Do you feel the willingness is also there from the insurance providers?

The willingness is there, but they need strong arguments to do so. Every healthcare insurance provider is afraid to make the first step out of fear to jeopardize its own competitive position.

Every year, Apotex organizes a pharmacy congress in November. There, the tendency from government and healthcare insurance companies seemed to find a new mechanism. Yet, there does not seem to be a natural force in place to turn the system into a more attractive position.

It has been argued that ever since the implementation of the preference policy in the Netherlands, there is a war going on in the generic industry. Would you agree to that? How did the preference policy impact Apotex?

The role of BOGIN (Association of the Dutch Generic Medicines Industry) is to protect the generic industry as a whole. Without mentioning the few smaller players, the generic industry here exists of 8 or 9 major players. Without making price agreements, which are obviously not allowed, groups as Bogin can still decide together which direction they can head for as an industry. I believe we failed to do so. While we mutually agreed not to follow the request of the healthcare insurance companies, this was contradicted by a subsequent deal between the insurers and two or three members a few days later. This was the reason for Apotex to step out of Bogin.

I now see more influence from the EGA in trying to achieve a shared European philosophy. There is quite some contradiction going on, with EGA expressing the willingness to move to generic versions because they are cheaper, while at the same time healthcare insurers in the Netherlands are taking measures to protect the patent of a product by the tender policies they currently have in place. This in fact gives research based companies an extension of the patent.

The Netherlands is one of the toughest generic markets in Europe. The rest of Europe has been observing the achievements made by healthcare insurance companies in reducing prices in the Netherlands. They gained EUR 0,5bn per year in the Netherlands, which is remarkably high.

Considering Apotex within its global context, what is the importance and the contribution of the operations here in the Netherlands?

First of all, Apotex Netherlands facilitates other affiliates in Europe, particularly in Belgium, Spain, the Czech Republic and Poland. We act as a sort of hub to the European market place. We do the release for the European market from here, do analytical tests, take care of logistics and supply, and so on. Moreover, because of our facility here we can take over production from other parts of the world when needed. This can be for any location where there is a specific request, ranging from India, to Canada, etc. We are slowly taking over some activities from India and Canada for secondary packaging. Rather than a structural decision, this relates to taking over production due to emergency capacity issues elsewhere.

As you mentioned, you do facilitate logistics for other affiliates in Europe, which means you have convinced the headquarters that you are able to do so. How do you convince them that the Netherlands is the place to be for such activities?

First of all, the Netherlands serves as a gateway to Europe. With our harbour and airports, this really is the case from a logistical point of view. I also believe we can add value because we are closer to the market. When you buy goods from China and Canada and look at the lead times, stock levels will automatically be higher to cover for unexpected interruptions in supply. This all comes at a cost. The easier and shorter distribution via the Netherlands has proven to be of added value to Apotex worldwide.

The next generation product rollout for Apotex worldwide, what do you see this bringing to Apotex Nederland?

Apotex has been a very strong research and development company for many years. This does not only relate to generics, as the company has also developed innovative products. Apotex has all the

ingredients to keep itself in the marketplace.

At the moment, the next generation of products Apotex is working on are the biosimilars. There is a lot of potential in that area, especially once the patent cliff is over in roughly five years. The complexity of manufacturing biosimilars will require significant additional investment. This will probably take another four or five years because the lead times for development are very long and the regulatory procedures have not yet been clearly defined.

One of Apotex’s breakthrough innovations has been Apo-Atorvastatin. What does the launch plan look like for the Netherlands?

The patent expiry date in the Netherlands is November 6th 2011. From then on, we will start reaping the benefits. In the Czech Republic and Poland for example, patent regimes are different, which is why the product is already for sale there.

What do you see as the key strengths of Apotex to come up with such a breakthrough product?

There is a lot of investment taking place in finding out what an interesting product looks like. Once identified, Apotex looks into the possibilities to challenge the patent, followed by an identification process of the markets where our own version can be sold. If you are the first to market, the effects are incredible. If you are able to be the sole generic supplier, you reach levels of 99 percent of market share. You can benefit from that for a very long time. Even once other players come into the market, it takes time to take away that market share.

Performance-wise, 2010 was not an easy year in the backlog of a difficult economic climate. Nevertheless, how satisfied were you with the performance here?

I was satisfied, which mainly has to do with the fact that aside from the purely generic business, Apotex Nederland also has a very strong OTC channel. Apart from that, we also do contract manufacturing where we produce for our competitors. The purely generic channel, the sales to pharmacies, showed a tough year in 2010. Yet, because of these alternatives, overall performance was balanced out.

How did taking on these various tasks affect this affiliate in terms of human capital?

Apotex Nederland has a dedicated group of people working for Apotex services, taking care of ordering, invoicing, warehousing, finance, etc. Because these functions are embedded in our normal operations, this group is rather small.

What are we going to see from Apotex Nederland in the next 5 to 10 years?

The focus will remain on generics, although OTC and contract manufacturing is also important. Apotex strongly believes in its contribution to society. In the Netherlands, 60 percent of all prescriptions is generic, while less than 8 percent of the value is generic. Here, you see the importance of generics for the total cost of healthcare in the Netherlands.

I also believe there will be a normalisation of the business, where we will go back to normal market conditions. The Netherlands is sometimes considered as the pharmaceutical drain of Europe, implying that products can still be sold in this market, as long as you offer a very low price. Moreover, the penalties for not being able to supply is very low.

We are actively working to change this image. We have engaged a company, which helps us to lobby at all different levels and helps us to try and change the mindsets of people. The current mechanism is impossible to control, monitor and influence, which is why a change is urgently needed. Everyone says they are aware of this, but now is the time to act and execute.

Do you have a final message on behalf of Apotex for the international community?

For years, healthcare insurance companies have lobbied for a market mechanism with sufficient competition. However, the current mechanism has reduced competition levels. Therefore, we need to go back to a normal mechanism where the generic industry can give a sustainable contribution to the total cost of healthcare in the Netherlands.

You can try to squeeze everything out of the system to save costs, but this will eventually lead to no innovation at all. A culture of “live and let live” needs to be put in place. Long term returns are so unpredictable, which leads to companies reducing their efforts to come up with new innovations. The risks are not in line with the potential money that can be made. If this does not change, the generic industry will disappear from the Netherlands.

See more interviews