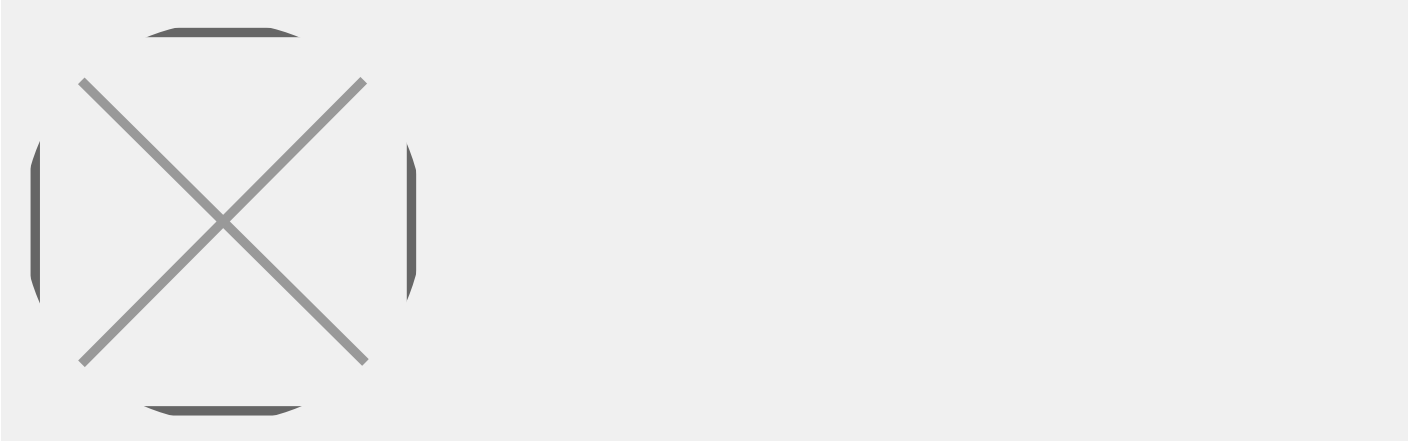
Interview with Niels Hessmann, Managing Director, Bayer BV Netherlands



08.11.2010

Tags: Bayer BV Netherlands

As much as this report is about business trends and insights, we also like to portray the personalities of the industry in the markets that we cover. What has been your professional trajectory that led you to the head of Bayer Schering Pharma here in the Netherlands?

I am originally from Belgium with an educational background and training as an economist. I began my career working for Schering in Belgium in 1992 where I first started with commercial functions and market research before eventually rising through to product management. Wanting to broaden my horizons and gain different, but equally valuable, insights and experiences, I was eager to move abroad. My work abroad took me to various countries such as Romania, Kazakhstan, Uzbekistan, and eventually Greece where I was based from 2001-2006. In 2006 Bayer acquired Schering and in January 2007 I came here to The Netherlands to become the country division head for Bayer Schering Pharma; added to that role are other functions such as Bayer HealthCare Representative and also as Managing Director of Bayer in Mijdrecht.

In the compilation of other reports our colleagues have had the privilege of meeting your managing director counterparts elsewhere in the world who explained the local content of the common global objectives of Bayer. What are the unique dynamics and specificities of the Dutch market that shape Bayer's strategy here?

That is a very complex question, mainly because The Netherlands is an extremely complex country for pharmaceuticals. There are many aspects and specificities of the Netherlands to look at. One aspect pertains to the open and straightforward attitude of the Dutch people. On the other hand,

there is always room for discussion. People want to agree on terms in order to have a concept which is supported by many stakeholders. In this regard, I think that The Netherlands is quite different from other countries where things go in a less complex, but more directive way.

The second aspect is the high quality of work delivered in the Netherlands. This is a very attractive country for any company wanting to perform clinical studies. We know that the quality of the study will be high and that its implementation and patient enrollment will go very quickly. The main issue here is that the starting phase of a study is very time consuming due to the various approvals needed, and different conditions have to be met in order to proceed with the study. Moreover, the low level of appreciation government expresses towards R&D-investors does not add attractiveness to The Netherlands.

Looking at it from the opposite perspective, the complexity of the market means that there are indeed many different stakeholders. You see a very small pharmaceutical market in The Netherlands. As a result, there is no over-consumption of pharmaceuticals like in some neighboring countries. There is also an extremely high generic penetration rate, in excess of 60% in volume – if you go to a pharmacy, there is a 60% chance that you will find a generic drug on the shelf. Another factor is the country's very stringent and harsh cost-containment measures which, to a large extent, are guided by the health insurers. While government ministries, the reimbursement authorities, and registration bodies have their roles, you see increasing power given to the health insurers. The insurers are private companies which have created an oligopolistic environment in shaping the healthcare system. If looked at from a regional perspective – dividing Holland up four ways with each insurance company establishing its position – the market even tends to be more monopolistic.

How have these challenges forced Bayer to adapt its sales and marketing approach to successfully bring products to the commercialization stage?

It is clear in The Netherlands that if your product comes off patent, then your sales dramatically decrease and you lose 60-80% of your revenues within three months. How we adapt is part of the whole business model behind the pharmaceutical industry: innovation. We need innovation to grow and our strategy is for innovation to power the output of our pipeline. The second step for us as an industry in The Netherlands, not an individual company, to convince authorities and stakeholders of the importance of giving room for innovation to grow. Yes, we accept the fact that patents expire and products ultimately compete with generics and face extreme price pressure. But before that stage, one should also give room for innovation, since it is with innovation that we finance our future.

Globally, Bayer Schering Pharma's sales in 2009 grew by a healthy 4.4% from the previous year. As this year draws to a close, what has 2010 looked like for this Dutch affiliate? How has The Netherlands been contributing to larger group growth?

The well-being of a company is related to its portfolio and organizational management strategy. Bayer Schering Pharma here in The Netherlands went through a difficult period in 2008-2009 due to generic erosion and the fact that health insurers decided that some of our products would not be reimbursed anymore, as we did not go down with our price in order to become the cheapest. The matter of copayment by the patient does not even enter the discussion as you see in other countries; there is no reimbursement at all, which to me, is discrimination. However, we are performing quite well in 2010. The market so far is down 1% and we are growing by 4%. This is a very positive trend and we believe that the gap will further widen in the future because of our attractive pipeline with major products coming, each of which have substantial potential.

The same cost-containment environment still exists in the market today as last year. What drove that change in growth?

There was the external impact of generics erosion and the internal impact of how you want to move your company forward. That involves getting the right know-how on board and generating the right spirit in the company – a spirit of forward-looking and growth-oriented ambition. We try to foster a working environment that generates as many ideas as possible on how to grow. For example, we organize various brainstorm meetings where our employees collaborate on action plans on how to further grow the company. In the end it always comes down to the same result that we want to achieve – our products and services must leave the patient better off and serve the healthcare provider well in their treatment of the patient.

You speak very highly about the potential of Bayer's pipeline. What will the future mix look like between mature and future blockbuster products?

I would split our mix into three parts. First are the off-patent products in which we have a continually decreasing market share. Second are our already settled products, which are not yet off patent. The third, and most important because it represents our future, are the innovative products. To give a rough estimation, globally, our company expects that 1/3 of our turnover will come from new products launched by 2015. In The Netherlands, however, newly launched products will play an even greater role. We expect 50-60% of our revenues to come from new launches. This is extremely important as we have already lost a lot to generic erosion. On the other hand, what we want to reach and what we are on a good track to do, is creating sufficient headroom for innovation. The products that we have are truly innovative which drive a lot of potential.

Which therapeutic lines will play the largest part in this 50-60% revenue mix?

The "hottest" up-and-coming product is Xarelto – an anti-coagulation product with multiple indications. Basic indicators have been the prevention of venous thrombosis due to knee and hip surgery. But new indications will also be for stroke prevention, the treatment of thrombosis and pulmonary embolism, and for the medically ill who are very often immobile. Patients who are

immobile and forced to lie down for long periods of time often increase their risk of a stroke. If everything goes well with the studies, then Xarelto can be a tremendous benefit for those patients.

A second product is Riociguat for the treatment of different forms of pulmonary hypertension.

Our pipeline will also move into new therapies such as ophthalmology with the development of Eylea for the treatment of age related macular degeneration. Older patients can tend to develop a growing black spot in their visionary field of focus due to the formation of new blood vessels; we are now working on medication to treat this symptom and to slow down or reduce this process.

Of course, due to our historical product strengths, we are also working in the field of women's health and diagnostic products. Finally, we are concentrating on our product life-cycle management – examining how we can enhance our already-available products and ultimately improve the lives of our patients.

Given the dependence that this company has on new products and the boost to revenues that new products will bring to the Dutch market, would you say that the Netherlands is becoming an increasingly important market for Bayer, at least on the European level?

All of the products that come from our pipeline do so globally, so the perspective for Bayer Schering Pharma is very attractive. I always say that other companies really envy us because we have an attractive pipeline. Also, our danger globally for generic erosion is much less than in other companies. In the years to come, many top companies face substantial patent expiries, which will result in a fast loss of sales, and in some countries it can reach even more than 50 per cent within a month. These types of losses are systemically much less prominent for the Bayer Group. The biggest companies have a $60 billion turnover, whereas Bayer Schering Pharma is a €10,5 billion euro company. If a product like Xarelto reaches €2-3 billion in sales, then it will signify 20-30% growth for us. A €2-3 billion product for the largest MNC's is only 4-5% growth. Taking our size into account, we are a big multinational, but not one of the industry's giants. Looking at our pipeline, we are also launching products with the same absolute revenue potential as the industry's giants during the same future time span. We are in a very good situation globally, which affects also our position in The Netherlands.

Bayer recently announced plans to strengthen its branding by uniting various sub-company product lines under one corporate name. How do you see that solidifying the company's presence in the local market?

We need to look at history to understand this. We have three separate divisions at Bayer: Bayer HealthCare, Bayer CropScience, and Bayer MaterialScience. Then in 2006, Bayer Schering Pharma was created through the acquisition of Schering. It is important to bring the Schering people on board with the greater Bayer organization. After all, a name means a lot to employees.

Now, four years later, every Schering employee knows the Bayer culture very well. For practical reasons, it makes a lot of sense to shift more towards the use of the Bayer name and the Bayer logo. It is sensible for development purposes because the Bayer brand is very strong. Of course everyone knows Bayer Schering Pharma in the field, but the greater Bayer name has a broader reach. Similarly, looking at what other companies do, they also promote their lone company name.

Bayer consistently ranks as a top-50 global employer – across all industries. What makes this such a great place to work?

We mentioned pride in the company name but I have even more pride in Bayer, the company itself. The way that we at Bayer deal with issues is very straightforward and clear. We demonstrate to our shareholders a commitment to a long-term perspective. This, I believe, clearly differentiates us from Anglo-Saxon companies which are focused relatively more on quarterly approaches. While quarterly and yearly performances are of course important, we ground ourselves in long-term perspectives since that is ultimately where we generate our growth from.

Every company has its own values. If you put the values of 10 companies next to each other you naturally see many overlaps. The differentiators are how you implement your values. At Bayer we give room to the individual to come up with their own ideas. We have many avenues for employees to come up with new ideas and we encourage them to push forth creative thinking in meetings in order to enhance the working environment. We have set up initiatives here in The Netherlands to evaluate Bayer as an employer – where we stand now and what we think we can do better in the future. We participate in “Bayer Cares” days in which our staff helps out with the renovation and restoration of homes for the less privileged. Internally, we offer flexibility to our employees through sliding working times and opportunities to work at home. As a manager you can force people to do something or you can convince them to act. If they are convinced, then they run much more to reach their goal.

Similarly, what is your managerial approach to training future leaders? Werner Wenning, for example, recently retired from Bayer after 45 years of service in which he rose from the ranks of a trainee to become Chairman of the Board of Management. What philosophy do you adopt to feed the talent pipeline and bring about future success stories?

I give room to people and empower them with the chance to demonstrate their capacities. At the same time, I help them to reach their targets. “Help” means providing support through training, mentorship, and ample room to express their ideas. As with many companies, we focus a lot on our daily business and can lose site of the importance of taking the time to think. It is good sometimes to come to the office and sit at your desk in front of your white piece of paper and jot down your ideas about how to solve problems. From time-to-time we have brainstorm groups either in the company or externally in order to not be distracted by our office environment. These activities

incorporate the entire hierarchy from the Sales Representative to the Field Sales Manager, the Product Manager, the Business Unit Manager, and myself included. The basic idea is that nothing that you say is wrong (except of course if it gets personal!). There are so many ideas generated from this activity that are beneficial to the company and the product for which the brainstorming is done.

It also gives people the chance to express their ideas and demonstrate their capacities. Finally, it gives them the chance to learn from others. In the end, the outcome is always a project with a certain action plan that you want to implement. We also have talent management which follows people through their careers and guides them in making strategically important moves within the company. We have several colleagues from The Netherlands working in our German headquarters which is interesting for them and also motivating for the staff here to see that shift.

What is your future vision for the positioning of this affiliate as it enters this very critical, and exciting, 5-7 year window?

Vision can be seen in different ways. You can express it through your position in the market where we currently are #16. But personally, I do not care much about total positioning. I am more focused on our position in the individual markets, where we want to be among the top-3 and preferably #1 through the quality of our products, services, and the know-how that we offer to physicians. For example, our sales representatives go through very intensive internal training programs. At the end of their two months, when they visit doctors and other industry stakeholders, we want them to go beyond reciting information and become discussion partners to physicians. That will show the added value of a company and how serious we are to our business.

Throughout your professional international travels, what are some of the most important lessons you learned and how are you applying them here?

An important experience that I had was in Greece in 2006 when going through an integration process for the first time. It was tremendously interesting to see how it was managed and guided. Cooperation and a positive attitude were essential because without them there would have been a lot of internal friction and many things would have gone wrong.

I managed a similar experience here in The Netherlands having to integrate both companies when I first arrived. We integrated very quickly which was expedited by the fact that we had no dismissals during the process. Second, we had a very open approach to informing people about the different steps in the process and what to expect from it. Such a process should be done as fast as possible since what interests people most is whether or not they will be with the company and where they fit in accordingly, as well as who will be their boss. The sooner you can answer these questions the sooner people will focus again on their work.

It was a very interesting and challenging experience having to think of something that you do not do often. But these approaches and the open attitudes of Dutch people created a very smooth process here in The Netherlands. After just six months we no longer discussed Bayer & Schering separately; it became a collective mentality on moving the business forward.

What would be your final message to our readers both here in The Netherlands and throughout the international pharmaceutical community?

Our business model is based on the power of innovation, which finances our future. Bayer is extremely well positioned in this respect. A request I have for authorities is to give room to exploit this innovation. Do not impose restrictions on innovation and tighten up regulations, since they do harm to both, the country image, and to the industry in particular. If innovation comes through to the market then everyone benefits: governments, patients, healthcare providers, and companies as economic players.

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