Interview with En. Leonard Ariff Abd. Shatar, CEO, Chemical Company Malaysia (CCM)

13.10.2010

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Would you start off by giving our readers some of CCM's background?

CCM started in Malaysia as part of the ICI group of companies in 1930. In the 1960s ICI localised and sold off a percentage of its shares to Permodalan Nasional Berhad (PNB). In 1995 there was a management buyout of ICI and so CCM became fully localised, but PNB maintained its shares. Following the buyout, management reduced their shareholdings and today PNB now possesses 60% of the shares in CCM group. As for CCM Duopharma, CCM acquired this company in 2005 and now has 75% of its shares.

CCM as a group has a fertilizer division which is the largest compound fertilizer manufacturer in Malaysia. There is a chemicals division with an organic chemicals plant in Johor. The pharmaceuticals division operates from three sites: Klang (the Duopharma office), Bangi and Glenmarie which carries out the R&D work.

In terms of value CCM has approximately 22% of the pharmaceutical market in Malaysia. This makes the company the largest pharmaceutical manufacturer in the country.

The pharmaceutical market is divided into those companies that focus on ethical pharmaceuticals (including OTC) and those that are focused on the traditional medicine side. CCM is achieving around $260 million in turnover and around $230 million is derivesd from the domestic market with $30 million coming from exports. CCM has therefore become the largest local manufacturer by a significant margin. Growth has mainly been achieved through acquisitions including the Warner

Lambert brand and assets and Duopharma. Where CCM differs from a company like Pharmaniaga for example is that our main revenue share derives from manufacturing.

Regarding the acquisition of Duopharma how has CCM integrated the company into the its pharmaceutical section?

The pharmaceutical section division within CCM operates under a single management team which runs all three facilities. However as Duopharma is separately publicly listed there are separate management meetings for governing this part of the company. The CCM Pharmaceuticals Division has been successful in this consolidation process in terms of manpower and the rationalisation of product offerings. Where there is a possible need of further consolidation is in terms of equity structure. CCM is currently evaluating whether or not a merger of all entities under one umbrella would be beneficial to shareholders.

You were made CEO of Duopharma in January 2008. What made you the right person for the job and what was your mission statement when you took over?

Part of the reason was that I had worked for CCM previously, managing the pharmaceutical retail front. I left to take on the role of managing director at ICI paints and I stayed there for four years. CCM Pharmaceuticals was increasingly exploring biosimilars and was looking for someone with previous experience in pharmaceuticals and a degree of familiarity with the group.

When I was asked back in 2008 I was tasked with consolidating the management structure. Up until this stage Duopharma and the Bangi site were operating as two separate entities. My second principal objective was to develop a strategy for all of CCM’s pharmaceutical business. I was to analyse the particular direction the company was taking and whether changes needed to be made.

In the last three years we have successfully restructured the management team and in terms of equity we have produced a six-year strategy paper which roadmaps how this might be achieved.

2010 has witnessed a tentative economic recovery and the government purse strings are being loosened. As a GLC how much of CCM’s product portfolio is directed towards government tenders and how is this balanced with activity in the private sector?

In terms of revenues, approximately 25% is derived from government tenders. The company is therefore not reliant on the public sector. Around 65% is from the private sector and the rest comes from exports. Where the company differs from a standard GLC is that historically CCM’s growth has always been private sector driven. Whereas some GLCs have monopolies, CCM operates in an open market in all of its activity. The pharmaceutical section however has the largest percentage of revenues from government of CCM’s three sections. This is mainly due to the success of the company in obtaining government contracts due to its competitiveness in open tenders.

With growth historically coming from the private sector what strategies does CCM employ to optimise its business in this part of the market?

When I took over I consolidated the management team, but not the sales team. There remain two separate sales teams and CCM currently has the largest sales team in the Malaysian pharmaceutical industry with around 130 people in the field. This is a clear advantage in operating in the market.

CCM manages distribution entirely on its own with distribution and storage points in Johor for the Southern market and Penang for the Northern market. We are currently looking to establish a distribution point on the East coast, giving us a pan-Malaysian peninsular distribution network. Although it is hard to substantiate, I believe CCM also has the largest customer base in the Malaysian pharmaceutical business. In terms of numeric penetration CCM is probably in the high 70% range. In terms of private, hospitals and chain pharmacies I would say this penetration is at 100%. In private pharmacies penetration is also in the high 70% range.

One aspect of the Malaysian market is that consumers are highly brand conscious which forces companies to adopt high manufacturing standards to develop a trusted image. At the same time companies need to keep prices down because they operate in the generics market. How do you reconcile these elements?

One large difference between the Malaysian or even Singaporean markets and others is that both governments have implemented a generics first policy. This is of significant benefit to CCM and when the company’s drugs are seen in government hospitals it adds credibility to the brand. This has in turn sparked further generic penetration.

In terms of Asia, Malaysia has one of the larger generic penetrations. In value terms, up to one third of the market is composed by generics and the rest is in innovator drugs. As patents expire, generic penetration is forecasted to rise sharply.

The government’s concentration on quality has also been a boost to the generics market. Twenty years ago there were many backyard operators. These have now been phased out as such operators cannot afford the cost of running a GMP facility. This has led to generics in Malaysia having a good reputation. Local companies have therefore never had to promote generics too much thanks to the government’s quality assurances.

Clearly the company has to be cautious regarding the OTC range. The OTC market in Malaysia is strange in its composition. Direct selling is very popular. Malaysians seem prepared to pay three times the amount in a one-on-one interaction than they would for the same product on the shelf. CCM manufactures for many of these direct sellers.

The only challenge in managing image is that the company needs to ensure that its products match the standards of ethical products. Obviously the herbal industry is large in Malaysia and CCM has its own herbal range. However, CCM’s entire herbal range is only manufactured from standardised extracts and not raw extracts. This is one of the ways the company manages quality perception among consumers.

There is a growing convergence between MNCs and local companies in premium generics. What do you see as the main opportunities and challenges in terms of cooperation with MNCs for a company like CCM?

There are two main forms of collaborations: equity and contract manufacturing. From a contract manufacturing perspective the opportunities are significant given the high GMP standards in Malaysia. The only issue for MNCs is that they seek single-point registration for distribution in the region. There are obstacles in terms of the different regulatory environments between the various countries of the region. Harmonization is not occurring at the pace MNCs desire. However, as a point of manufacture there is much potential.

One challenge for local companies is that they are currently importing around 60% of the variable costs of manufacture: mainly APIs. Malaysia does not have an API industry in the same way that it exists in China or India. CCM is also positioned at the tail-end of the supply chain in converting these raw components into products. However, as this element of the production chain is highly regulated and high-quality this is still an attractive option for MNCs.

In my opinion, acquisitions are less of an opportunity. Many of the MNCs do not want to accumulate assets but do want to take advantage of the high-quality production in Malaysia. Contract Manufacturing would therefore appear to be their preference.

Alongside increasing opportunities for collaboration there is increasing competition. How do you assess this competition and how can CCM emerge on top?

Competition is increasing with almost every MNC developing a generics arm. This is simply the nature of the pharmaceutical market. Companies have to be more competitive and must be prepared to reinvest to maintain a competitive edge. CCM has invested $150 million in the last three years. Little went into income generation and most went instead into meeting high GMP requirements.

In terms of overcoming the competition, being a GLC is not that much of an advantage. However CCM has a specific department dedicated to acquiring government tenders and the company is experienced in this business which allows it to price accurately. This particular department within the company has grown at a CAGR of around 20% over the last three years. Of course other players including MNCs can choose to compete, nonetheless they do not have the experience of

CCM in bidding for government tenders.

Looking ahead at opportunities for CCM, the Halal trade exceeds $7.2 trillion and has a forecasted growth of 7% per annum how will CCM capitalize on this market to become a leader in Halal pharmaceuticals?

CCM began obtaining Halal certification for its products 11 years ago. Currently around 110 of CCM’s 800 products are certified Halal. From a marketing perspective, the market for Halal pharmaceuticals will be growing and probably even faster than 7%. Through an accident of history most pharmaceuticals were developed using porcine materials. The BSE scare in the UK meant that pharmaceutical producers moved to the next available animal source for developing new paroducts. There is now however growing sensitivity towards the Islamic market and the use of porcine products is being reduced.

Surprisingly, the country most advanced in Halal pharmaceuticals is probably the UK. A few years ago, the government conducted a survey which found that only around 15% of pharmaceutical products purchased were actually subsequently consumed. The government conceived that the reason was down to consumers being ill informed about these products and therefore launched an information campaign. In this education drive materials were provided to prescribers about which products were Halal and which were not.

At CCM we have always believed that Halal pharmaceuticals are not too difficult to produce and there is no real cost disadvantage. Although it makes the work a little more difficult in terms of conveying to suppliers Halal requirements CCM is well on the way to achieving Halal certification for many of its products. I believe the market will continue to grow and this is an opportunity for the company.

Certification of course depends on the authority which labels a product Halal. This authority needs to gain the confidence of consumers. I cannot simply declare my products Halal as these claims need third party verification. In this sense, the work the government is doing to market the Malaysian Halal logo is very important for CCM.

With 11 years of experience in the Halal pharmaceutical industry, CCM has recently been involved in drafting a set of Halal pharmaceutical standards for Malaysia. Malaysia will have the first provisional Halal standards for the pharmaceutical industry within the next three months. These standards are built on the back of EMEA and PICS standards. Manufacturers therefore need their GMP certification before applying for Halal recognition. In a way Halal standards are a type of ‘GMP plus’.

How can CCM contribute to making Malaysia a hub for the Halal industry?

CCM has never looked at Halal medicines in terms of gaining a marketing edge. The company started making Halal medicines purely because it was producing medicines for a Muslim-majority population. CCM has always been happy to advise other companies on entering the Halal market. Malaysia has put a lot of work into developing the Halal logo. Malaysia in fact made a promise to the Organization of Islamic Conference that Malaysia would take the lead in developing Halal pharmaceuticals. This in itself will create additional demand for the company on the export side.

Globally consumers are becoming more sensitised to the product origins of pharmaceuticals. Manufacturers are therefore adapting more and more to these demands.

I am a strong supporter of the government's push for Halal pharmaceuticals. The trouble is that at the manufacturing level, all CCM's products are replicable. Producers in other companies could easily copy our formulas and brand their products Halal. Therefore what matters to CCM is the national certification body and the marketing they do around the country logo. Potentially this is the key differentiator for a company like CCM. In other countries Halal standards are not necessarily assessed across the entire supply chain. In Malaysia the entire chain is audited in order to obtain national certification. This is the type of assurance which will set Malaysian products apart from their competitors.

When people discussed Islamic banking fifteen years ago many thought it was a waste of time and now it is one of the fastest growing sectors in the banking industry. I feel that if Malaysia can get organized then the Halal pharmaceuticals could be a similar success story.

When you wore your MOPI hat you said that local companies should look to exports for future growth. What are your ambitions for the expansion of Halal exports for CCM?

Around $230 million is currently exported from Malaysia in terms of pharmaceuticals. CCM contributes around $30 million to this figure. The Muslim Diaspora is very spread out around the world but they often set up in localised communities. There is great potential for these communities to drive demand for Halal pharmaceuticals in their respective countries.

In my opinion, the pharmaceutical industry in European countries for example will not see the cost-benefit ratio favouring production of Halal medicine for small minorities in their own populations. On the other hand, for CCM, which already has a large Muslim base, exporting to these markets would be worthwhile. The potential for growth is therefore very large. However awareness of Halal alternatives still needs to be generated. The only potential barrier to these markets which I can see is the cost of registration.

CCM has been focusing its exports on ASEAN and Northern Africa. Next year the company will focus on the Middle East and Australia. In two or three years the company will look towards the European markets.

With CCM increasingly looking towards exports what potential is there for the company to become a regional leader?

CCM is already a top ten pharmaceutical company in the ASEAN region but there is room for improvement. The first step for CCM is to expand our asset base within ASEAN. The primary target is Indonesia because of the size of the market and the second is Vietnam. The company is expanding beyond the shores of Malaysia cautiously. As I said earlier, CCM operates at the tail end of production where there is plenty of competition in other markets. With this in mind, Halal could be used as an edge to differentiate CCM's products.

In the short term exports will drive growth however for true revenue returns it is necessary to establish assets in other countries. CCM is therefore exporting globally out of Malaysia and simultaneously expanding its asset base in ASEAN.

In terms of your ambitions, where would you like to take CCM in the coming years?

One of the most interesting areas for me would be biosimilars. Because in traditional pharmaceuticals competitiveness has always been dependent on the cost of manufacture, availability of API's and so on, biosimilars are now emerging as a very attractive option. With biosimilars if you have the right cell lines and yields it is unnecessary to have a large local API manufacturer in order to compete effectively. These products may become a game changer in the pharmaceutical market.

CCM has not sought to manufacture biosimilars because it does not have the skill base. Where the company does have a skill base is in manufacturing injectables. Therefore three years ago CCM launched a fill and finish facility as part of CCM Duopharma specifically for biosimilars and inert vaccines. This has been commissioned in April this year. Three years ago, there were no biosimilar products in Malaysia. CCM is attempting to get the first biosimilar product registered in the country within the next twelve months. Once registered in Malaysia, CCM will import this product and fill it domestically. The economics of biosimilars dictate that the manufacturing costs are only 30% of your variables with 70% going into finishing. CCM has therefore invested in the finishing element to obtain faster returns while developing localised skills.
There is a CCM team looking into manufacturing biosimilars in Malaysia. In the meantime CCM is engaged with some Korean and Indian companies to provide bulk products for finishing in Malaysia.

For Pharmaceutical Executives who are located around the world and do not necessarily know Malaysia, what should they understand about Malaysia as a pharmaceutical market and CCM's role in this market?

The pharmaceutical market in Malaysia is vibrant mainly because the government has actively promoted the industry. CCM has been at the forefront of this industry with a 22% market share. In most other countries excluding the Philippines it is rare to hear of other companies with that type of market share. The Malaysian market is highly accessible. However, prices are low, there is a lot of competition and very high standards are maintained in terms of manufacturing.

Within the Economic Transformation Programme pharmaceuticals is key sector. One of the elements I strongly agree with is that as a high-quality manufacturing base Malaysia has a lot of potential. Malaysia produces around 900 pharmacists per year so even among local players including CCM the profile of their staff will change with more pharmacists and high quality human resources coming into the industry . There will be a quantum leap in the talent available in Malaysia.

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