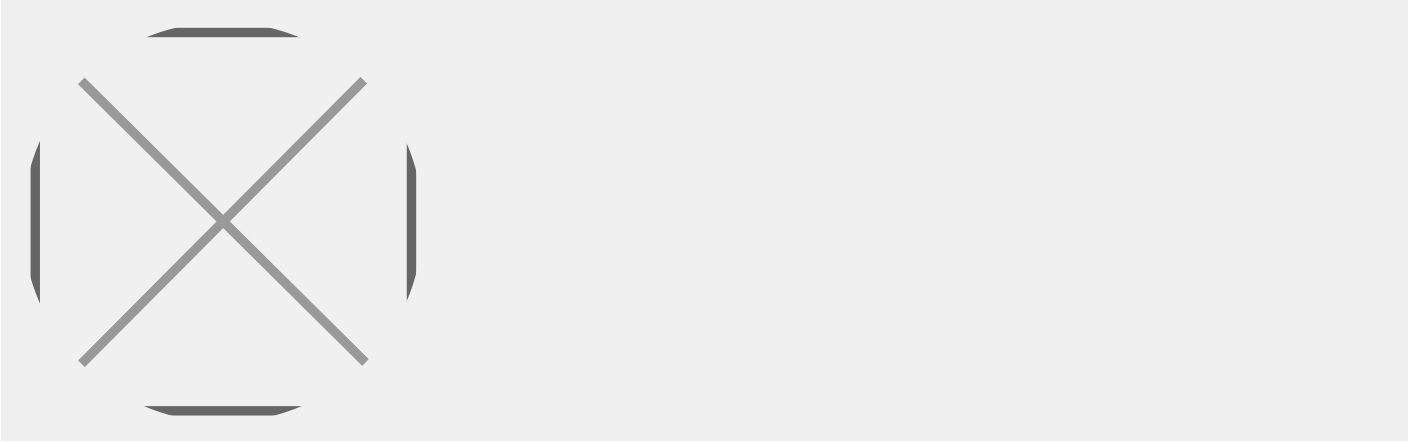
Interview with Wei-Li Shao, General Manager, Eli Lilly Taiwan



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Traditionally and historically, Lilly is very strong in the Asian region. The company has placed a great deal of emphasis on the region for many years. How does Taiwan fit into that Asian context for Lilly? What's exciting in Taiwan for Lilly right now?

In an Asian context, Taiwan has played different roles depending on different periods of time for Lilly. Previously the company ran the regional business under one umbrella, including Taiwan, Hong Kong, and Greater China. We have since moved to separate Taiwan and China into different businesses for the purposes of focusing on advancement of business in both countries.

Previously, when Taiwan was managed along with China, the smaller of the two countries was constantly competing for investment and resources. Now that both have been separated, we are finding renewed interest and focus here in Taiwan. Unlike other markets, Taiwan is a specialty driven market, and because of this Lilly's focus is predominantly on smaller customer groups. As a result, the actual size of the opportunity relative to degree of investment is rather attractive, especially compared to other Asian mid-size countries, or less developed markets.

Taiwan also has a very well developed healthcare system and is a mature market for Asia, dating all the way back to the mid- to late nineties when the National Health Insurance (NHI) scheme was developed, providing a structure that covers every citizen here in Taiwan, and provides Lilly a good opportunity here as well.

Another exciting aspect of the market for Lilly Taiwan is the attractiveness and capability of the both basic and clinical research here. We are blessed with a lot of very highly qualified, highly skilled researchers in the country, and as a result Lilly has invested significantly in all phases of clinical trials in the country. At any given time we have between 20 and 30 active clinical trials ongoing here. That is a tremendous number given the relatively small size of the country.

You mentioned that this is a specialty-driven market for Lilly, so where is the company most focused and how did this strategy come about?

Lilly's product portfolio lends itself to more innovative or unmet needs, focusing on building relationships with endocrinologists, neuro spine specialists, orthopaedic surgeons, oncologists and pulmonologists. We're not in the market for anti-hypertension, high cholesterol, earaches and bronchitis or the 'flu. Our markets lend themselves to a specialty driven market, and with a population of 23 million in Taiwan, we are not in a situation like in China or the US where you have got 24,000 orthopaedic surgeons to target: instead there are only a couple of hundred. That makes for a very efficient and productive business.

We've met some multinationals with a more broadly spread portfolio that have really struggled in the last few years. You have been general manager in Taiwan for two years: how have you seen the business grow over this period given this strategy?

Business for Lilly Taiwan has been very good in this period: for the last four years, Lilly has been the fastest growing of the top ten pharmaceutical companies. We believe that this will be true again for a fifth year.

The next generation of the healthcare insurance system is currently being discussed. How do you view the way that the discussions are going at the moment? Are you optimistic for Lilly's business here?

Your report is being written at an extremely interesting time because we don't know what the result of the reforms will be. It spans the spectrum from 'nothing will happen', because of the upcoming elections and being tied up with ECFA as another major issue, to being potentially the most significant policy reform this country has seen since the inception of the National Health Insurance.

I would say that I am cautiously optimistic. I lean towards this conclusion for a few key reasons. The first one is that I think there is widespread acceptance and understanding that if something is not done then the solvency of the system will be placed in jeopardy. The system today is racking up close to U$ 1 billion in deficit and that figure is growing year after year. If this is addressed in the second-generation law reform it will release the system from deficit issues for years to come. That is good for patients, business, hospitals, and good for Taiwan, which has one of the highest population satisfaction rates for its healthcare system: more than 75% at any given time. I'm

optimistic because there is widespread acceptance that something needs to be done.

The second reason is that there is a specific article in the reform currently being considered called a drug expenditure target (DET). I'm optimistic for the DET from an industry policy perspective, because if successfully implemented, it potentially removes the most damaging aspect of the system to the pharmaceutical industry, which is a biannual price cut. Last time it happened, the price cut created a 15% average reduction in prices.

Anther reason to be optimistic is because there seems to be some stakeholder support for the introduction of DET. What is clear is that if left unchanged, price cuts outweigh any potential alternative. I hope that stakeholders understand this issue, and that one of the aspects that contribute to the satisfaction in the healthcare system is access to new innovative medicines.

On the flipside, if not passed, the situation will only worsen. The last price reduction was 15%: if there are two more price cuts of a similar nature, a medicine that may have cost $10 would only cost $6. It would be a 40% reduction in weighted average price over the next four years. The industry will not be growing enough by volume to compensate for this. So if not corrected, not only will the pharmaceutical industry suffer, but as a result the system will suffer as well.

How do you think the price cuts and changes have affected the way Lilly's global headquarters view Taiwan and the strategy that it adopts with the country?

Simply put, it depends on the product portfolio mix a company has. Lilly is in an interesting position right now: around 90% of our sales are for on patent products. Our strategy, discipline around negotiations, and portfolio has enabled high growth over the last four years. However, both Lilly in Taiwan and globally is coming to a situation where a number of our products are losing patent protection. We estimate that where this year we are 80-90% on patent sales, next year we may be as much as 40-50% off patent sales.

Globally and regionally Lilly has been optimistic and bullish about the market given the company's product mix, strategy and discipline. Other companies that have the exact opposite product mix, with up to 80% off patent, are faced with significant generic competition as well as the biannual price cuts.

Lilly will continue to invest in Taiwan, not only in trials but also commercial investment. Other companies are actually reducing investment here because of their product mix and the price cuts. So I think it depends on lifecycle of your product portfolio, and then also the strategy you employ to run the business.

The relationship between Taiwan and China has changed dramatically since 2008, and businesses are now looking at Taiwan as a gateway to the Chinese market. Given Lilly's current strategy of separating Taiwan and China, how are you hoping to be able to take

advantage of potential shifts in the relationship between Taiwan and China?

I think things will change rapidly. Taiwan is a mature market and China is the number one emerging market and so naturally, not only pharmaceutical companies are interested with degrees of trepidation and excitement when looking across the strait at the opportunities in China. I would characterise how Lilly looks at this situation in a couple of different ways.

This statistic often surprises people: the difference in size of the pharmaceutical markets in China and Taiwan is currently around 3:1 or 4:1, not the 10:1 or 20:1 ratio that people expect. Then when you look at profitability, and what it takes to manage the vast expanse of the business in China, the gap is even greater: Lilly's China operation employs thousands of people: the company only has 150 people in Taiwan. This puts the relationship from a business perspective from Taiwan and China in an interesting perspective.

What does that mean going forwards? Very recently China replaced Japan as the world's second largest economy: the Chinese government has injected huge amounts of capital into developing the healthcare system; the country's GDP and economy are growing exponentially, and this is compounded by warming relations between China and Taiwan.

From my personal perspective I see a growing opportunities between Taiwan and China. The first is human resources: Lilly Taiwan has the benefit of having developed a blend of eastern and western talent for the last 40 years, having been present in the country since 1966. This human capital could benefit China a lot. China has a massively growing talent base, but if you put the two talent bases together it would benefit both sides tremendously. Of course there cultural and political considerations that need to be addressed, but we are increasingly optimistic that the talent we have here can not only be useful to Taiwan and China, but for the world as well.

The other opportunity is in clinical trials. There are two viewpoints: right now some people in the industry are very pessimistic, because China also wants to develop its clinical trial capability, which may actually close the door to harmonization of clinical trials between the two countries. The other side (which I lean towards) says that perhaps there will be eventual harmonization. If that harmonization occurs then there could be certain degrees of regulatory harmonization between the countries as well. If that were to occur, it would represent a massive opportunity for ongoing investment here in Taiwan and regulatory, medical and clinical trial investment. If that occurs, every company in the industry will be looking at how to resource Taiwan appropriately in the context of a much larger growing opportunity in China.

You mentioned your focus right now is not just building up a human resource base for China but for the world as well. Coming back from New Zealand to become General Manager of Lilly Taiwan, what are your ambitions in terms of developing skills here that can help you around the world?

It is a well-held notion that in years to come there will be increasing pricing pressure by every government around the world, and that the power of the payer will increase exponentially. New Zealand is the first or second most restrictive access environment in the world. I have now come to Taiwan, where eventually the vast majority of medicines will be reimbursed. If you are a general manager and you don't have these kinds of experiences, I don't believe you can be successful in the future. It used to be the belief that if you knew how to run the US business then you could run the global business. I don't believe that to be true any more, because if anything the US represents the tail of the reform situation. Then it became the belief that if you ran the EU business then you could run the global business: however today the EU is in decline and there is a trend of research investment being pulled out of the EU to different parts of the world. Now we're shifting to a paradigm, which states that if you can run the business in Asia, you can run the global business. The combination of Asian experience with the fierce eastern method of negotiation and politics is a requisite experience for any president or general manager.

What are your personal ambitions for the next few years as general manager of Lilly Taiwan? What do you want to achieve?

The first thing I want to achieve has to do with our people. I see tremendous talent here in our Lilly Taiwan organisation. There are individuals here in our affiliate that have the opportunity not just to be successful in China, but to be successful around the world. That is something that I fundamentally believe in and we are working very hard from a development standpoint to prepare them for these positions.
Secondly, Lilly has been the fastest growing pharmaceutical company in Taiwan for the last four years. I certainly have my sights set on that for a fifth year, and for another five years as well. Eventually Lilly Taiwan has the opportunity to become an Industry leader in sales, which will be a significant milestone.

My third objective relates to Lilly's focus on patient outcomes. We are at an important transformation tipping point with our organisation here. We have focused previously on sales objectives, business plan objectives and marketing objectives, but are now focusing on a larger target, namely how we can begin to define our success, measure and run our business based upon lives saved or outcomes improved. This is what our patients care about, what our fundamental mission as a pharmaceutical company is about, and what the payers care about when they are faced with making trade-off cost decisions. This one central measurement objective point is the model for our business model and transformation.

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