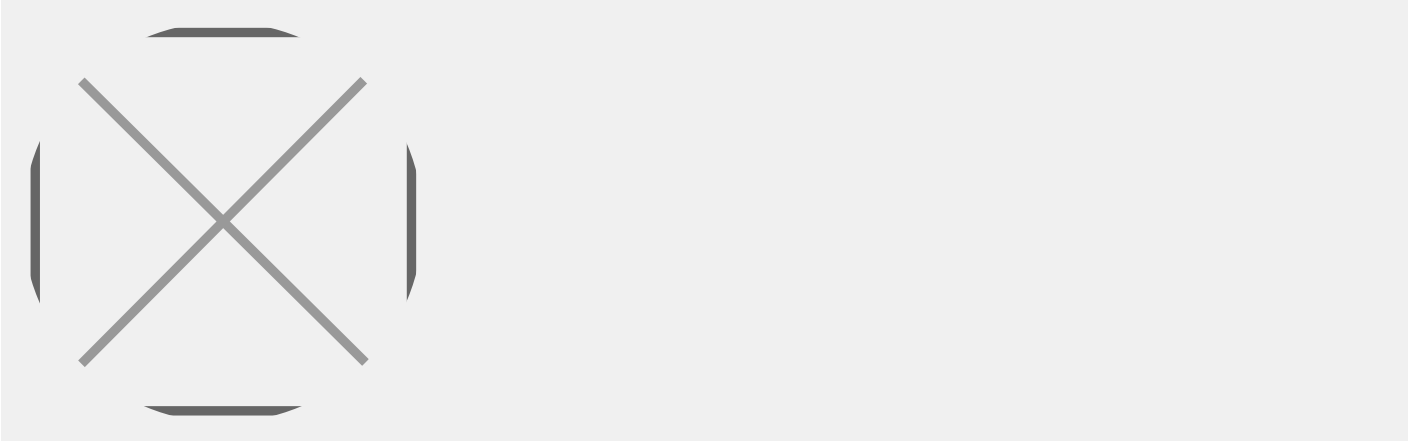
Interview with Hans Josef-Schill, President Director, Bayer Indonesia



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Many multinational companies have chosen to forgo establishing production facilities in Indonesia or have even shuttered their facilities, as did Janssen-Cilag. With the recent 10/10 decree, it seems the environment may become even more hostile to foreign companies. Why has Bayer always had such a strong commitment to the country and even chosen to use Indonesia as a production hub for the Asia Pacific region?

Bayer was the first German pharmaceutical company to invest in Indonesia after the country was opened to foreign investment during the Suharto era. Bayer was granted pioneer status as the first German manufacturing firm with a presence in the country. The company has never withdrawn from the country, even during the Asian financial crisis, because Bayer held the philosophy that the company should produce and sell in the same location. Bayer does continue to invest, while others withdraw from the country. However, these investments are targeted at consumer care, meaning non-prescription products and especially vitamin products. Existing production capacity proved insufficient to service the growing demand in the Indonesian market.Indonesia was chosen as a manufacturing base for the surrounding region for a number of reasons. First, Bayer has extensive experience with manufacturing in Indonesia, having begun production in the country in 1969. Second, the cost benefits in Indonesia have proven significant. Indonesian facilities are manufacturing products for Australia, many countries in the Asia Pacific region, and last year there were shipments to France.

Is export to France and Europe part a strategic plan, envisioning Indonesia as a global manufacturing hub or was that an isolated occurrence, utilizing spare capacity to fill a momentary need?

The status of Indonesia as a production hub is certainly part of a strategic plan. Shipment to Europe last year was a result of a particular situational need, and not part of a strategic shift. The strategy is for Indonesia to be a regional hub for these kinds of consumer care products in the Asia-Pacific region.

What is the plan in terms of expanding penetration into the Indonesian market and growing market share?

It is our aim, as with Bayer's competitors, to increase market share and grow the business. Bayer is the market leader among multinational companies in OTC, while this is not yet the case in pharmaceuticals. The strategy is to look for new products in both the consumer care and ethical markets. Bayer has these kinds of innovative drugs in the worldwide pipeline, though there are no research facilities in Indonesia. Product selection and targeting are done at the head office, as part of a global strategy for new ethical drugs as well as OTC products. The task in Indonesia is fitting that strategy to the particulars of the Indonesian market.

Do you sell all global products in Indonesia, or do you pick and choose what you believe will be most successful?

All global products are not currently on the Indonesian market. It can take time to register products in the country and product registration can be more of a challenge than it was previously. This process is especially difficult when a company is not producing the drug in question locally. At the same time, Bayer is working to introduce as many innovative products as possible into the Indonesian market. The Indonesian market has low per capita health care spending.

What is your strategy for penetrating the large bottom segment of the market?

The bottom segment of the market represents a booming opportunity and average spending is actually fairly significant. This segment of the market is focused on primary care rather than more expensive, sophisticated products such as those found in the oncology market. However, this market is not as developed yet as in Europe and North America.Bayer is also present in oncology and other sophisticated segments, but it has lower market share as compared to its position in Europe and the U.S. The second major focus in Indonesia is on women's health, and much of this business came to Bayer through the acquisition of Schering. One common issue in a market like Indonesia is lax ethical standards in marketing.

What has been your strategy for overcoming this challenge?

The IPMG has been issuing ethical standards for multinational companies operating in Indonesia. There are also standards issued by the European pharmaceutical industry. Bayer is one hundred percent obliged to follow all of these standards, and that is exactly what we are doing. The clear global message is that Bayer will always follow both international and local standards, even in cases where the company may loose turnover to unethical competitors. This commitment is in Bayer's mission statement itself. Bayer has been awarded the 'Most Admired Pharmaceutical Company in Indonesia" from Businessweek five times now.

Has this respect among the business and pharmaceutical community translated to increased brand appeal in the country?

Forty years ago, the slogan of the company was established as "Bayer, Jaminan Mutu" meaning 'Bayer is guaranteed quality.' The Indonesian consumer relates to Bayer, and when they buy Bayer products, they know they are buying quality. This is a challenge for the company, because now it is necessary to fulfill high consumer expectations and continue brining the highest quality products to the country. Bayer has an excellent image in Indonesia and consequently the company needs to constantly maintain and improve that image. The image is that Bayer is a not an old fashioned company, but rather a dynamic and modern company. One of the criteria measured for the Businessweek award was employees' desire to work at the company.

This rating was extremely high at Bayer. What makes Bayer different from the rest of the industry?

The primary attraction is Bayer's highly positive image in Indonesia. Secondly, Bayer is known both in Indonesia and worldwide as a reliable company, a company that rewards excellent performance, supports career development, and engenders a positive business environment. These factors guarantee that the company attracts the right people, that they like working for Bayer, and are motivated to be productive employees. Bayer does attract a tremendous amount of talent. There are many employees working here who want to start an international career and there are Indonesians successfully working in the Bayer Group abroad. Bayer is well known internationally for corporate social responsibility and has had a number of initiatives in the country from education to community health to disaster relief.

What community program are you most proud of and why?

I am proud of practically all the CSR initiatives that we've done here at Bayer Indonesia. I'm most proud of Bayer's actions during the tsunami in Aceh in 2005. Both Bayer Worldwide and Bayer Indonesia were quite generous in contributing a substantial sum of money to help build houses, re-electrify the region, build kindergartens, and establish water draining systems. For me personally, it was a very satisfying experience to help people in need and see how our contribution improved the lives of this disaster stricken population.Another initiative that was very personally satisfying was

building a technical school in collaboration with GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit, German Technical Cooperation). This school was built in Klaten, Yogyakarta region after the earthquake in 2006, and was constructed with earthquake resistant techniques.Two of the company's factories are close to residential areas in Jakarta and Bayer also runs CSR activities in those neighborhoods. Community health awareness programs are conducted through the University of Indonesia. These are grassroots programs tailored at addressing people's needs to change their health behavior from child health educational to senior health programs. The company's role is more as an advisor for the program, and it is not directly involved in day to day operations.

Given your extensive experience in Indonesia, what advice would you give to someone setting up operations in the country for the first time?

I am not only the President Director of Bayer, but I was previously the Chairman of the European Chamber of Commerce and I am currently the Vice-Chairman of the German-Indonesian Chamber of Commerce. These organizations often advise foreign investors looking to set up organizations in the country. Unfortunately Indonesia has a less then perfect image, but the reality in the country is much better than the image abroad. There are a few key points, which are necessary to comprehend before setting up an Indonesian company. First, don't expect to become rich overnight. Also, be sure to check the negative list and verify that your business is actually open to foreign private investment. Second, know how much ownership a foreigner can actually have in your industry. When it comes to the pharmaceutical industry, a manufacturer can only have 75% ownership and that distribution side of the business is practically closed. Since one can only own up to 75% of their entity, it is vital to take on the right partner. The right partner is not necessary the one who has the best political connections in the country. Rather, the right partner is someone who knows the business and has the financial capacity to start a joint venture.It is also extremely important to find the right employees. This can be a challenge for someone new to the market, especially if they don't have a known brand name. It's not possible to run a business with a few expatriates – Indonesians run local businesses. Thus it is vital to have competent employees with the right technical skills. However the Indonesian educational system is not yet on par with developed countries, so its necessary to make some compromises, and yet one can't make too many compromises.Finally, it is important to find the right distribution company. The country is very large, with a diverse geography. It is necessary to find a national distributor if one wants to sell to the entire country. There are many challenges in this market, but the rewards are also immense. According to a statement from The Investment Coordinating Board, companies may make 30% income before taxes. This potential upside is much higher than in many other countries. Indonesian's greatest advantage is in cost containment, and that is particularly true in manufacturing.

Where would you like to take Bayer in the next five years?

Bayer's aim is to gain as much market share as possible. The company is moving in the right direction with the overriding goal to grow faster than the market and increase profit margins.

What is your final message to peers here in Indonesia or colleagues in the pharmaceutical industry worldwide?

The image of Indonesia is not as good as the reality. Don't be afraid to come to a developing country with the world's largest Muslim population. Indonesia has huge potential, which is largely rooted in the Indonesian people with a population of 240 million and growing. The middle class is rising and these factors contribute to the country's great potential.

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