Interview with Young-Jin Kim, CEO, Handok

21.09.2009

Tags: Handok

Please introduce Handok Pharmaceuticals to our readers, and in particular how it has evolved through partnerships with different multinational companies throughout its history.

Handok has developed in a very unique way over the last 54 years on the Korean pharmaceutical market. Created in the 1950s, Handok soon established a long-lasting joint-venture with German company Hoechst AG in 1964, though it kept operating like a local player for most of the time. This was until 1995 when Hoechst underwent a restructuring process in which the pharmaceutical business became the core, leading them to increase their shareholding participation in Handok from 33.3% to 50% and therefore turning it into a company which would follow more multinational-type practices in South Korea. During this period, Handok became one the first Korean companies to implement SAP R/3 ERP system and was a pioneer in adopting other international practices with global standards. Later in 2000 things began changing for Handok after Hoechst merged with Rhone-Poulenc Rorer to form Aventis, and once again in 2004 following Sanofi's acquisition of Aventis. Initially Handok and Sanofi-Aventis Korea tried to share supporting functions together, but eventually in 2006 it was decided to formally separate the management and operations of the two companies even though Sanofi-Aventis owns 50% share of Handok. Now, Handok Pharmaceuticals is operating with complete independence on the market and is free to pursue the objective of increasing partnerships and collaborations. In the meantime, Handok and Sanofi-Aventis are still keeping very strong strategic partnership.

How clear is Handok’s identity today to the rest of the pharmaceutical community after so many changes in just a few years?

Indeed, the last 10 years for Handok have been particularly full of many changes, and in consequence it has been challenging to have a consistent positioning. The company has gone through the experience of making an acquisition of MMD to form HMR, of being a part of a merger with RPR to form Aventis, and of being acquired by Sanofi recently. Now we are decidedly a Korean company with independent operations, but many of the other local players keep associating Handok with Sanofi-Aventis. On the other hand, the foreign players in Korea tend to see us as somewhere in the middle between a local and a multinational company. So that is part of the work to do, to keep working on our identity and make sure everyone understands what Handok is about today.

How has Handok performed on the Korean market in the midst of so much transformation?

Despite the successive changes, Handok experienced high levels of growth in the 1990s and into the early 2000s, outperforming the overall market. I believe that the main reason for this success was Handok’s ability to be ahead of the other local companies, and even multinationals in Korea, regarding scientific marketing practices. Indeed, upon my return from Germany in 1986 after spending 2 years with Hoechst we started to implement the first medical department in a Korean pharmaceutical company. Handok was a pioneer in this regard and thus it was not easy to implement the concept at first, but eventually we developed the biggest and best medical department in the country’s pharmaceutical industry. This has allowed us to have great success by approaching the medical society in a different way than what was done before. The primary example of this is what we achieved with Amaryl, our biggest success story. Handok carried out registration trials in 13 different centers, something never done before in South Korea. Initially many people were skeptical, but this approach soon proved its merits by allowing us to penetrate the market in a very quick way. Major hospitals which had taken part of the clinical trials were very willing to adopt Amaryl once it was available on the market, and this was the key to this huge success for Handok. However, the situation with Amaryl became very difficult in 2004-05 when the drug came off PMS protection in South Korea. There are now over 100 generics of the compound on the Korean market. In response, Handok launched Amaryl-M in 2005, our own in-house development of fixed combination of Amaryl with Metformin, which has been performing very nicely. With the combined sales of both Amaryl and Amaryl-M, we hope to get back to the Amaryl’s peak sales level in 2009.

How successful has Handok been in establishing licensing agreements with other multinational companies?

Handok has always conserved its independent licensing activity with third parties, even throughout its different periods as a joint-venture and a semi-consolidated part of a multinational company. However, during those times the magnitude of that business was obviously reduced and only really started to take off in the early 2000s. It was after the Sanofi takeover that Handok significantly intensified its licensing activity, particularly since 2006. Indeed, over the last two years we have recruited many people and built up our business development team to this aim. As a result of these efforts since the beginning of the decade, we have established partnerships with R&D oriented companies such as Altana (now Nycomed), Solvay and Actellion. Handok also has entered to co-promotion agreement with Novartis for a new DPP-4 inhibitor, Galvus in Jan 2008. We have also been very active recently in partnering with bio-venture companies like Bio-Alliance in France, Pneuma Partners and Amplimed in US, and Gentaris in Germany. In 2008 alone we have signed new licensing agreements, which is quite an achievement for us.

In which way does Handok stand apart from the rest of local companies in South Korea who wish to become licensing partners for foreign players?

One of the key issues for the pharmaceutical industry today is compliance. This is true not only for the local players, but also for the multinational companies which must take it into account in whatever they do. In 2007 the industry was signaled out by the Korean Fair Trade Commission (KFTC) for certain practices deemed unfair and anti-competitive, so the Korean Pharmaceutical Manufacturers Association (KPMA) decided to adopt a Compliance Program (CP). Handok prepared itself and began fully implementing the CP immediately, true to our tradition of being ahead of the rest in compliance matters since the 1990s. Unfortunately the rest of the local companies in Korea have been much slower to get serious about the compliance issues. This is disappointing but I am still convinced that it is the way of the future and it is good for Handok to be at the forefront. I realize that those multinational companies who are interested in Korean market take the compliance issues as the key measures for the future partnership in Korea. I believe Handok should be their first choice in this regards. In addition, one of Handok’s other important advantages as I mentioned is our medical department. It has the longest experience in all of South Korea and is capable of carrying out multinational studies. We have already shown our ability to participate in global clinical developments, for partners such as Pneuma Partners and Actellion.

What is the importance of contract manufacturing activity within Handok’s business portfolio and strategy?

Though contract manufacturing is not a fundamental part of Handok's operations, it is very important for us to maintain our factory with high production volumes in order to achieve efficiency. Actually, thanks to Handok's visionary decision to build our new factory in Eumseong up to international GMP standards already in early 1990's, the company has succeeded in establishing several toll manufacturing agreements. It took many years of hard work to achieve this global standard in manufacturing, because not only did we have to change the hardware but also the software. We had to convince all of our people that they needed to change their mindset, and this was particularly challenging since the GMP standards themselves were progressing during that time, so we had to take not just one but two big steps at once. Since it was originally conceived to be a tactical regional plant to supply the Asian market for HMR, we continue exporting small quantities to the Philippines, Thailand and a few other countries in the region. It was during the Aventis time that the strategy changed to focus more on toll manufacturing, which was helped by the trend of multinational companies withdrawing their production since 2000. Our GMP facilities have allowed Handok to establish agreements with leading companies like Bayer, Boehringer-Ingelheim, Pfizer, GSK, and of course Sanofi-Aventis. We are also doing toll manufacturing for some local players. Recently, Handok has gone into a new related business – toll QC – for multinational companies that are importing finished product that still require quality testing in South Korea. Handok is supporting players such as Novartis, Roche, Sanofi-Aventis, GSK and BMS, and despite the expansions we are almost reaching the full capacity.

What are your expectations regarding the changes that the eventual ratification of the Free Trade Agreement (FTA) between South Korea and the United States will bring to the local pharmaceutical industry?

There are lots of worries among the Korean pharmaceutical companies that FTA will have a quite negative impact. I agree with these worries to certain extent, but we should also look at the positive side. At the moment, the real threat to the pharmaceutical industry is price containment measures by the government. Therefore, the industry should loot at the future focusing more into new products out of own R&D activities and transparency in their operation to get the support from the government and eventually from the public. As for GMP, this is not addressed in the FTA and has to do with the Korean government's own initiative to get local companies to upgrade new factories up to global standards. As a result, now many Korean companies, regardless of their size, are pouring most of the money they have made over the last several years into new factories. The problem is that we are not sure that South Korea needs so much new pharmaceutical manufacturing capacity, so if this strategy proves wrong many will suffer. And if consolidation takes place in the next few years as some predict, the question is what will happen to those

redundant factories.

In this context, how do you see the years ahead for the industry and for Handok Pharmaceuticals in Korea?

There are tough times ahead for the industry, particularly as a result of the cost containment measures. Though the Korean market may not go back to growth rates of over 15%, it still has a lot of potential for the future. The country’s ageing population and changing lifestiles will continue generating a high demand for medicines. I believe that in the long run the generics market will lose some of its attractiveness as prices and traditionally high margins will have to decline. For new products there are concerns related to the pricing policy being implemented and we hope that it will once again become reasonable. Last year we misjudged the market trend by expecting more companies to become more compliant and transparent, but this did not happen yet. The KFTC has some ongoing investigations so we will have to see and assess the extent of its results. So it is difficult to predict what will happen exactly, however I firmly believe that it is only a matter of time and eventually the pharmaceutical industry in Korea will have to move towards real transparency. And as this materializes, we believe that Handok will have a clear-cut competitive edge over all the other companies. From the R&D point of view, Korean companies have potential but need to make big efforts to be truly innovative. Many bio-ventures are starting to make important progress, so foreign companies should look closely at these players where there are any opportunities for collaborations.

You have been distinguished with several prestigious awards for your management, and are also director of the Korean Management association.

What do you think is the most important quality a good manager must possess in order to succeed in the pharmaceutical industry?

I believe that particularly since we are talking about producing and selling medicines, any good manager should have quality on the top of his mind. In the current context in South Korea there should also be a strong commitment to put transparency as a real priority for the company as well. Moreover, as the pharmaceutical industry evolves and has companies constantly looking for partnerships, inspiring trust is a fundamental factor. In this regard, Handok’s remarkable track record of maintaining the longest joint-venture in the country is a prime example of the importance of trust. This long lasting partnership was one of the key success factors for Handok to deliver positive profit more than 50 consecutive years. And this reputation and record are great strength that will help us to continue succeeding with more partners in the future. Corporate Social

Responsibility (CSR) is also very important. Handok has been contributing to the development of medico-pharma society of Korea through industry-academy collaboration programs including scholarships for the young talented students over decades. Coming back to early 1960's, Handok opened the first and only medico-pharma museum in Korea, which is now being operated by 'Handok Jeseok Foundation' that was established in 2006, which is also providing the society with scholarship programs and research grant.

What is Handok's vision of the future?

In 2006 when Handok declared independent operation, we established Vision 2016 and 5 values, the company's new vision and core values. Our vision is to become one of the top 3 local players in South Korea by 2016, and to be the company of choice for the top talent.

Beyond this statement, what I try to communicate to Handok's employees is that we will build a company of which everyone is proud to belong.

What is your final message to the readers of Pharmaceutical Executive?

Honestly, the general image on pharmaceutical industry worldwide is deteriorating. Therefore, pharmaceutical executives should reconsider the business model so that we can turn around this negative image and regain the respect as an 'industry for the life of people'.

See more interviews