Interview with Peter C. Feldinger, General Manager, Novo Nordsik South Korea

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You have a very long track record working with Novo Nordisk in Asia. What is your perspective on the Diabetes explosion that has been taking place in this part of the world in recent years?

First of all, the explosion is real. We know from data in both Hong Kong and Singapore that the prevalence rate of diabetes has risen to above 12%. It has come from a level of 5% or 6% just a few years ago. In the major Chinese cities such as Shanghai, Beijing, Guangzhou, and Chongqing we see the same thing. We've gone from a level below 1% fifteen years ago, to something that looks like 10% now. Regarding Korea, the country has gone from having almost no diabetes, to an average prevalence of 8.3% to 8.5% and probably 10% in Seoul and Pusan, if not also Daegu. The diabetes explosion is here as well, there is no doubt about that.

The overall problem in Asia is that this is unexpected for the medical healthcare system. We have the confluence of longer life expectancy, economies that are growing but not quickly enough to cope with an ageing population, and the increase in chronic disease. So we have healthcare systems that will probably get overburdened with chronic diseases because the population is able to live longer than it was just ten years ago.

Over the last twenty years, any difference between what we used to call the 'developed world' and the 'developing world,' has gone away in terms of longevity. Life expectancy in Asia is the same as in Europe with a few exceptions. In Korea, Japan, China, and most parts of Southeast Asia, reaching

eighty is not a problem. Disease profiles are changing and you're going to get many more chronic diseases. The sooner the healthcare system wakes up to this challenge and addresses these chronic diseases upfront, the better off they will be in the long run. If they continue to treat diabetes as a mild disease, then that's going to be a burden in terms of amputations, loss of eyesight, renal failure, any many other dangerous complications. These are things that are avoidable and we know how to avoid them – exercise, proper diet and medication.

The core of the diabetes problem in this part of the world is under-treatment and unsatisfactory treatment. It is probably because the healthcare system was not ready for the explosion. We need to get it under control as quickly as possible, otherwise the situation will be a huge challenge for the healthcare system.

You've managed Novo Nordisk's operations in many parts of Asia – in China and Southeast Asia. What are the main particularities of Korea in this context in terms of how they are managing this Diabetes explosion?

Korea has an excellent healthcare system, where patients choose to come to hospitals and hospitals have an abundance of doctors. I think if Korea has a challenge, it's that people think they have to go to hospitals for proper care. The primary care system needs to be developed so that the family doctor becomes the focal point of these chronic disease treatments. If people feel worse than a cold, they go to the hospital. The role of other health care professionals, nurses and assistants, needs to be promoted. For example, the nurse can take educational roles, which they do to a certain extent today, but at nowhere near the levels in Western Europe. The other challenge is to get the patients used to the fact that the doctor might not be the best educator.

Novo Nordisk is known around the world for having an active role in raising awareness and working with the government on the issue of Diabetes in particular. What is the situation in South Korea?

Our South Korea office is no different than the rest of the world in that regard. Novo Nordisk acts in the same way across the globe. We have a uniform brand and a uniform approach to the market. We strongly believe that building awareness and working with the stakeholders is the best way to accomplish this goal. We work with doctors, nurses, and patients and when we're allowed to do so, with government officials and associations.

However, the situation in South Korea is difficult. Korean society is extremely sensitive to corruption and this hinders much potentially fruitful collaboration between government and industry. Government officials are afraid of bribery attempts. This coincides with a drive by the government to eradicate corruption in the pharmaceutical industry through the Korea Free Trade

Commission. Recently there were 17 Pharmaceutical companies put under investigation, five of which were multinationals. There always tends to be fewer of us in these cases because we try to institute strict controls.

A real problem we've run into is that it's almost impossible to sponsor government officials to attend knowledge seminars abroad suach as a recent event focused on health economics. We just wanted to pay for the ticket and let them come to their own conclusions after the seminar. We just want to build capacity and knowledge in government. Our proposal fell flat. However, we have been able to attract both doctors and government officials to international meetings on diabetes awareness.

For instance, we have an initiative where on a global basis we establish a diabetes barometer, which is a yearly report on the status of diabetes care. This was launched two years ago and we've been able to invite doctors because the event is non-promotional. The invitation is from IDF, although it is sponsored by Novo Nordisk. But, getting dialogue and collaboration on a local level has been incredibly difficult. There is a real scare on the government side that this is an attempt to gain undue advantage, but we have absolutely no intentions in that regard – it's an awareness and capacity building exercise. We're used to doing this in all other parts of the world, but here in Korea we have found it very difficult to get into the necessary and important dialogue.

Another big issue for multinational firms is pricing policy and the Korean government's Drug Expenditure Rationalization Program. Novo Nordisk is in a very particular situation with its niche focus on Diabetes. To what extent does this cost containment policy affect your business in the country?

There are too many mechanisms for price adjustment in Korea. There are four or five different mechanisms. Constantly, every three months, we get a new surprise with small price cuts of half a percent, then one percent. It's a constant erosion of the pricing model. On top of this the government is trying to push prices even lower. I'm not so sure that pricing is really a problem because prices are actually fairly low in Korea. Korea is under the OECD average. Korea is the world's 13th largest economy, so it is hard to left having cheaper pharmaceuticals than all other developed countries. So in my humble opinion it is a short term focus that needs to be replaced with building an efficient health care system that invests in early localized quality treatment and focuses on long term outcome.

In my view, the core problem here is inefficiency in the system. One problem is the cost of generics which is much higher than what you find in the US and Europe. I understand the desire to promote

the local industry, that’s completely fair. However, the problem is that the local pharmaceutical industry is not using the additional income they’re getting from overpriced generics to invest in proper R&D that will give them a future. Instead, they’re investing in sales. That feeds the vicious cycle with doctors getting paid and offered cars and flat screen T.V.’s when it is extreme. Then some doctors start to expect this from all pharmaceutical companies and refuse to prescribe your product if you don’t engage. We refuse to go anywhere near these practices and we know it affects our business to a degree. Reform and enforcement towards both the giver and the recipient will be necessary to stop these practices.

At the same time, the government is trying to attract R&D investment from multinational pharmaceutical companies, especially in clinical trials. Do you see a contradiction here between a severe price containment policy and the desire to lure foreign investment?

This policy builds capacity for local companies to utilize a high quality clinical trial environment and encourages international companies to invest. The problem is that the local industry is not taking advantage of the opportunity to build up its own R&D capacity and the focus on lowering prices on pharmaceuticals may temper the interest in launching new break-through drugs in Korea. It is not possible to both expect and want increased investments and to be unwilling to pay a fair price for break-through innovation. This is unsustainable policy. There does seem to be some new drug development and that’s good news. We need some local competition. There are so many talented Korean scientists; it’s a shame that they don’t get to utilize their skills.

Another inefficient part of the system is that there are far too many companies doing the same. Consolidation is necessary in the manufacturing industry and in the distribution system. In the US there are less than 100 wholesalers across a vast country with a population of 300 million. In Korea there are around 1600 wholesalers. The system needs to be consolidated into something that makes sense.

The government also takes a long time to refund payments back to hospitals, 3-6 months for a sustained claim. The hospital then takes a long time to pay the wholesalers. Wholesalers generally don’t get paid until 6-12 months after the patient was treated. This produces a number of financing costs which can be quite burdensome. It could be so efficient with a computer system that files all the documents and filters it out for hospitals, wholesalers and the pharmaceutical companies. This would save a small fortune for all the players involved.

How does Novo Nordisk evaluate the importance of the Korean pharmaceutical industry in the Asia Pacific region and the world at large?

Korea is a strategic market for Novo Nordisk for many reasons. It’s an important pharmaceutical market with a sound healthcare system. This allows us to develop diabetes care and treatment in Korea. There are a lot of good things we can do here and it’s a very interesting market for us. However, the under-treatment of diabetes makes Korea a potential market and not a mature market.

Novo Nordisk bucked the negative trends in 2008. We see nice growth year on year, but if we measure the strength of the economy and the size of the healthcare system, then there is no doubt that diabetes is under treated. The advance towards using insulin as the primary drug is a slow march, but we have a lot of development potential. It’s a developing market that has a lot of potential and we want to be here and we want to grow.

The Senior Vice President of Novo Nordisk International Operations HQ recently came to visit the Korean office. What was the main motive for the visit and what impressions were brought back to Denmark?

His motive was to visit the Korean affiliate and the colleagues here to personally assess the development and the challenges in Korea.

I think everyone who comes here is impressed by the dynamism and the hectic round the clock schedule. It’s basically a 24/7 society. There are many educated, affluent and well-groomed people who can obviously afford our products. If you live here for an extended period, as many of my colleagues and I do, you come to see that Koreans are very kind, forthcoming, polite, hard working and proud of their society and how far Korea has come. Overall, people are impressed when they come here with these things and with the cleanliness and general efficiency of the society.

What are your ambitions for the coming years and what is your strategy to unlock the still untapped potential here in Korea?

We have related our own local mission statement. In order to drive the commitment and willingness of our local employees to engage in our overall enterprise, we decided to shape a mission statement around Korea. Our mission is to change Diabetes in Korea. All our internal efforts on developing people, and our external efforts on creating awareness and helping education are all vital for changing how doctors, patients and nurses see diabetes. We want to stop doctors and patients and friends from saying that it’s a mild disease at any point in time.

Diabetes is never a mild disease and it needs to be taken seriously from the beginning. A phrase that I’ve been using more and more often is that ‘if you treat diabetes as your friend, you will be

rewarded with a friend. If you treat it as an enemy, you will have an enemy.' The sooner you take care of it, the sooner you will be rewarded with a long healthy life. Otherwise you could be inviting trouble.

You have been working for Novo Nordisk for over 30 years. What is it about Novo Nordisk's corporate culture that's kept you here for all this time?

I believe that the major reason that many people, including myself, stay at Novo Nordisk and enjoy working in this company is the people focus. It's a global organization and you can get opportunities; I've certainly had mine. More importantly, it's a culture that has tremendous passion for people. This is expressed in the core portion of our mission statement. Our vision statement is to be 'the worlds leading diabetes care company.' However, I think our core statement is that 'a job here is never just a job.' The way I interpret this is that you are part of a movement, an organization that actually wants to change the outcomes for diabetics.

It's not just a job, but a passion and commitment for life. We take this very seriously in how we work with our stakeholders, with whom we engage in an open and honest dialogue. You can believe what the company says and it is fantastic as an employee when there are no hidden agendas. This builds a lot of commitment. Finally, Novo Nordisk is an organization that attracts excellent talent so it's a very intellectually stimulating environment to work in.

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