

Interview: Michal Bichta, Managing Director, Merck

Poland



08.05.2014

Tags: [Biotechnology](#), [market access](#)

Merck's managing director discusses the importance of diversification to succeed in Poland by saying: "Nowadays, in such a dynamic environment the healthy level of diversification that Merck offers is becoming a critical factor for sustainable growth."

Despite the fact that the Polish business environment has changed significantly, access to innovation is still a challenge. This is not because Poland can't afford innovation, but rather because there is no recognition of the value of innovation. Do you share this view?

As a result of EU integration, benchmarking and an improving economy, Poland is opening its doors to innovation, especially in the field of biopharmaceuticals. It is a slow yet steady process. Today's budget limitations of course present a problem in terms of raising expenditures. There is still too much discussion on available budget, and too little on outcomes and indirect costs. As a result, number of new molecules entering the market places Poland at the forefront of other CEE countries while overall value of innovations puts us rather at the end. Many stakeholders with different expectations and objectives, such as the MoH, NHF and HCPs, can sometimes create barriers to efficient dialogue as well. I personally feel there is lack of long-term perspective in our discussions with health service authorities. They are still very much driven by the here and now.

We also tend to limit discussion on innovation to just products. Today's pharma offers a much more holistic approach that includes technologies and services. We are still quite a ways away from discussing integrated solutions. Products are easier. Nonetheless, compared to the situation existing four or five years ago, I see clear progress and a certain willingness to address and discuss access to innovation.

During our first encounter you mentioned that Poland was a sleeping giant. Has this giant awakened?

The giant is not awake, and one should not expect a revolution in terms of healthcare spend or market access. It is a step-by-step process. However, Poland is the sixth largest pharmaceutical market in Europe and by far the largest in the CEE region. We have always been a payers' market and I do not believe that Poland is different than other countries in the CEE region in that respect. The pharma market is maturing and we are becoming much more similar to the established economies in the EU, which is a good sign, but there remains a long road ahead of us.

It's not only about the size of the market but also its structure. Growth is not fuelled by absolute spend alone. Let's use the Merck Serono portfolio to illustrate this. Poland represents around 50 percent of sales of our off-patent products in Central Europe (Baltics, Poland, Czech Republic, Slovakia, Hungary), which corresponds with population and economic indicators. Our biotech business, on the other hand, contributes less than 20 percent. This is a result of limited access to financing. I believe that many innovative companies would display similar numbers. There is, therefore, big room for growth, and it doesn't have to come from growing budgets. A shift towards innovative treatments is inevitable.

***The giant is not awake, and one should not expect a revolution in terms of healthcare spend or market access.* Merck has been in Poland since 1992, and has managed to create a great and dynamic entity by integrating its pharmaceutical and chemical businesses. How are the two dimensions helping create new synergies in Poland?**

Merck has traditionally been a pharmaceutical and chemical company. The difference today is that we share a combined vision towards innovation. Acquiring Serono on the pharma side and Millipore on the chemical side has made us a true player on the life science market. Thanks to a clear focus on specialty driven areas, we have managed to develop substantial synergies. Both businesses can support each other in terms of understanding the business, trends, information and new ideas. Merck does not see the product as an end in and of itself; we believe our business is solutions that help patients, customers and partners live a better life.

Nowadays, in such a dynamic environment the healthy level of diversification that Merck offers is becoming a critical factor for sustainable growth.

We have been discussing with the leading players how to implement the best diversification strategies to succeed in Poland. How is Merck balancing its diversification strategy?

Merck has built its nearly 300-year history on diversification. Let's look at the pharma business – OTC, Biotech and Off-patent products. The market shares of those businesses in Poland are well balanced, and we know we can rely on them to outperform. We believe this three-pronged setup gives us stability and flexibility in the short term, making us less dependent on the business environment. Nonetheless, as those are quite different businesses, in the long run they require a completely different approach and mindset. This is reflected in our strategy offering much more independence to the various businesses.

The biotech component offers the biggest organic growth potential. Consumer Health, as an independent division, is recovering after some struggles in recent years. The off-patent segment provides stable, market-beating performance. We are proud to see Merck pharma showing double-digit growth. This also means that our focused strategy within our diversified business is working. In other words, by giving more space to each business and allowing a certain degree of independence, we are achieving results.

Merck has made a bet on biotechnologies, as have many others in Poland. What is Merck offering in this segment that gives you such high expectations?

The situation of biotech in Poland is slightly different, as the portfolio that we offer here is still considered a novel one waiting for broader exposure, whilst at the same time it has already become a standard platform treatment in Europe, and even in neighbouring countries.

Merck Serono is a two-part biotech player. Our first area is driven by innovation and the development of new molecules. Our second area is biosimilars, where we can offer high quality products, and this area has greatly benefited from the group's know-how and expertise.

The Merck group is entering into a new era, where innovation is located at the core of our business to help us develop our products, molecules (phase two and three) and ultimately new services and solutions. Of course this requires time to get results, but in the long run it will give us an edge.

When we refer to these innovative services and solutions we are in fact speaking about patient and customer centricity. Our products realistically only represent one element of the focus on the

patient. Additional value is provided through education, monitoring, support and adherence to the treatment. We believe that not enough attention is being placed on patients' lives in their homes, and this is where Merck wants to build its competitive advantage. By understanding patients' behaviours and consumption habits, we can develop a whole new world of solutions to help patients live healthier, longer and more affordably.

We see many companies capitalizing on Poland's attractiveness for clinical trials. What is the importance of clinical trials for Merck Poland today?

Poland has long been a key country for clinical trials. This results from both the quality of medical professionals and infrastructure as well as from unmet patient needs. I see it as mutually beneficial for both the industry and patients that the latter are offered access to innovative molecules beyond the current limitations of our health care system.

***Local innovative companies such as Selvita have a significant role to play in Poland, and we believe that their entrepreneurial spirit, creativity and agility gives hope to the R&D segment in Poland.* Could you give us some details on the local partnerships Merck has established in the area of R&D?**

It is a very exciting period for Merck Serono in particular. In the last couple of years we have established several key partnerships. Around the world Merck is demonstrating a strong commitment to partnering with small drug discovery and R&D-driven companies. One great example coming from Poland is our collaboration with the Kraków-based company Selvita. Local innovative companies such as Selvita have a significant role to play in Poland, and we believe that their entrepreneurial spirit, creativity and agility gives hope to the R&D segment in Poland. The pressing issue, however, is funding and what is sometimes called 'Big Pharma' know-how. This is where such strategic partnerships can drive innovation and generate mutual benefits.

Where do you see the future of Merck in Poland and how will the company grow?

Merck in Poland will certainly grow. Of course, there will be differences between our business segments and some years will be better than others, but our revenues will increase, this is a certainty. Particularly in the biotech area, both on the pharma and chemical side, the growth will be the strongest.

Today we are a mid-tier company in Poland, yet if we look at our current portfolio, just better market access could double our revenues. I strongly believe that there is room to triple our biotech business. Merck has delivered sustainably outstanding results in Poland over the past twenty years

and looking at our achievements, support from our group and the solutions we are bringing to Poland, this gives me a lot of confidence in the future.

The off-patent market will also grow in terms of volume. We are improving the ratio of diagnosed versus treated patients in many therapeutic areas, although price pressures will continue to increase. The Polish market is maturing as EU standards and processes are becoming more widely implemented in Poland. The health care system still retains a consumption structure from the past century, with an overblown hospital segment for example. That is our heritage. I am sure that it is only a matter of time when the NHF budget shifts towards improving outcomes. This is where innovation will find its place.

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