Interview: Pedro Merlini, Country Manager, Aurobindo Portugal



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When Indian generics company Aurobindo established itself in Portugal in 2010, the affiliate was faced with some difficult choices. As the latest company to enter the Portuguese generic market, Aurobindo had the lowest prices in the market, which was not attractive to the pharmacy channel. Pedro Merlini, country manager of Aurobindo Portugal, details the unique strategy he took to adapt to a challenging environment.

What factors have lead to the instability surrounding generic drugs in the Portuguese market?

Portugal has a history of doubt surrounding patents. For 20 years, the lack of generic regulation in the country lead to a market of copy products that avoided problems inherent to the generic business. In 2002, the introduction of a generic market in Portugal created many changes. However, compared to other European countries, Portugal still needs to develop this market, even after 12 years. Understanding the concept and implications of a generic market takes time, and in that sense Portugal is still not a mature state yet. For example, some legislation gaps still exist, especially in relation to patent protection. While a new methodology for patent issues was recently implemented in court, I do not think it is working as well as it could. There is room for improvement, but it will take time.

What kinds of specific improvements need to be made?

The Portuguese market needs clear timeline definitions. Companies need to know exactly when an originator is launched, registered, when changes are made to its indication, and when its patent protection ends. Without that clarification, a fair market is almost impossible. Nonetheless, companies continuously violate patents and launch products, and this is not right. Violating patents kills originators, which can lead to greater problems in the future. We need to protect originators for future business and for generic companies' profit.

Portugal is also missing penalties. Patent violation should be strongly reprimanded. If patent infringement jeopardizes originators' business, it will completely spoil the future of the generics market, and will damage patients and the system overall.

What is the general perception of generics in Portugal today?

In regard to the population, it is still a disaster. Generics are often generalized as having lesser quality, and no more than ten percent of the population understands the true concept behind generics. Doctors and pharmacists also have doubts about generics' concept and quality. Even in the Portuguese pharmaceutical sector, the generic business is perceived as the garbage bin of the industry. Working for a generic company here is seen as a last resort. Even multinationals that create generics divisions identify generics as sub-products. This will also damage generics' evolution in Portugal if the current perception does not change.

What are some examples that demonstrate this unenthusiastic perspective of generics?

However, the law grants an exception to use a brand to block a substitution at the pharmacy level. Simultaneously, lawmakers are pushing doctors not to use this exception. The whole situation is completely absurd. One of Infarmed's latest reports about prescription and medicine delivery in Portugal indicated that the use of that exception has increased from one percent to eight percent in six months. It was a national scandal.

The same report concluded that 57 percent of products in pharmacies given to patients were not among the five cheapest products, as the law requires. This has gone by virtually unnoticed. At the same time, the state established objectives and incentives for medical doctors to prescribe the least expensive products in order to comply with new budget restraints. These objectives are mandatory for all medical doctors working in public primary care. Concurrently, doctors' performances are evaluated based not on what they prescribe but for what is given in the pharmacy to the patient. That value is then inputted into doctors' accounts. Without the use of this

exception, doctors must prescribe by international nonproprietary name (INN), believing that they are providing one of the five cheapest drugs at the pharmacy level. But because the pharmacy earns 20 percent of the public price, they will give the patient the most expensive medication. Not only will they earn 20 percent of the most expensive drug, the most expensive drug can allow as much as 50 percent in discounts. Pharmacies are actually earning ten times more than if they give the cheapest price available to patients. It is a complete distortion of the market and the law, and this deeply affects all generic companies with low price products. The last companies to join the market are penalized more, even though patients and the state pay less for their products.

For example, in 2002 I launched Simvastatin in Portugal, a pack of 60 20mg tablets with a public price of €53. In 2003, I moved to another company and launched the same pack at €42. At Aurobindo, I am selling the same product at €2.07. I cannot compete with companies selling the product at €10 because they provide a 50 percent discount, and the pharmacy earns €6 for selling the pack. Even if I gave my pack for free to the pharmacy, the pharmacy would only earn €2. Pharmacies will always choose products with the highest prices, and this is symptomatic across southern Europe.

Laws mean nothing if they are not strictly enforced. However, I am optimistic because there have been improvements in recent years. But it is critical for the authorities to start implementing penalties for these problems to stop.

You established this affiliate in May 2010. What were your initial objectives for Aurobindo Portugal?

For the Portuguese pharmaceutical market, the crisis essentially started in August 2008, when an announcement was made that there would be a 30 percent decrease on all prices the following month. In 2009, there was another 30 percent slash on prices. When I started here in May 2010, the objective was to build a structure and to launch the brand in the Portuguese market. This was a painful task in a declining environment, mainly because the rules for establishing prices are defined by the government; the last company to enter has the lowest price. I had a relatively limited number of products to start, and with these conditions I did not have much room for maneuver. The majority of generic companies are almost completely oriented to the pharmacy channel, providing discounts and bonuses. My prices were so low that I could not compete. I had to create an alternative to promote the 63rd generic brand in Portugal that made the company viable in terms of volume and turnover. I adopted a strategy abandoned by everybody, which was to focus on medical prescription. In an environment where the business is more focused on channels than prescriptions, I decided to orient Aurobindo’s strategy towards medical promotion, given our

late arrival in the market. In doing so, I had to invest in top-quality salespeople and technology, which are both very important in any business, but are also very costly. I bet almost everything on these two resources. It was a huge investment because we needed to develop our communication, CRM and market information in digital formats.

Before starting this business, I had already expended a huge amount of capital. The perspective was not bright, being the last company with the lowest prices in the market. But those low prices will be needed in the future, and I wanted Aurobindo to be the company that creates awareness of this necessity. We started to explain the company and strategy to medical doctors, and how they would need to use the lowest priced products to afford money for the state, and to reimburse high price R&D products using low price generics. This strategy allowed medical doctors to look at Aurobindo in a different way compared to other companies providing countless discounts and bonuses to pharmacies.

This unique approach is starting to provide some results. At the moment, less than one third of Aurobindo’s prescriptions have turned into sales, while the remaining two thirds are substituted by more expensive products. However, this situation will improve if severe penalties are enforced in response to this substitution.

This strategy will work in Portugal only because of our strong investments in people and technology. With the lowest priced products in the market, we must have the lowest manufacturing cost of goods. The strategy itself is not brilliant, but it can work. Ninety-five percent of companies operating in the Portuguese market do not have the opportunity to use such a strategy because the cost of production will not allow it.

What is the strategic importance of Aurobindo Portugal in relation to the entire organization?

Aurobindo Portugal is important within Europe since there are only a few affiliates on this continent. Worldwide, Portugal is small; sales only amounted to €3.5 million in 2013. But Aurobindo is only present in a handful of countries, and thus Portugal becomes much more important than the traditional 0.5 percent that this country usually represents to the worldwide turnover of a pharmaceutical company, or any company. For Aurobindo, Portugal represents much more than 0.5 percent in commercial terms. As this affiliate grows, the company will become even more important for Portugal and for the Aurobindo organization.

What is your vision for the next five years?

As we are now acquiring the operations of Actavis, the next six months will be vital for merging the two operations. Looking solely at Aurobindo, in five years I would like to be among the ten biggest generic companies in Portugal. It is definitely possible. When we started commercial operations two and a half years ago, we were comparing ourselves to generic companies between 40th and 60th place in Portugal. Today, Aurobindo is ranked 22nd, and we will be in the top twenty very soon. This is an impressive achievement in such a short timeframe and with so few molecules. The Actavis acquisition will most likely place Aurobindo among the top ten.

I am benefiting from a series of conditions that my competitors do not have at their disposal. All things considered, with the lowest prices in Portugal, I hopefully have the conditions to create something unique through our orientation towards medical prescription.

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