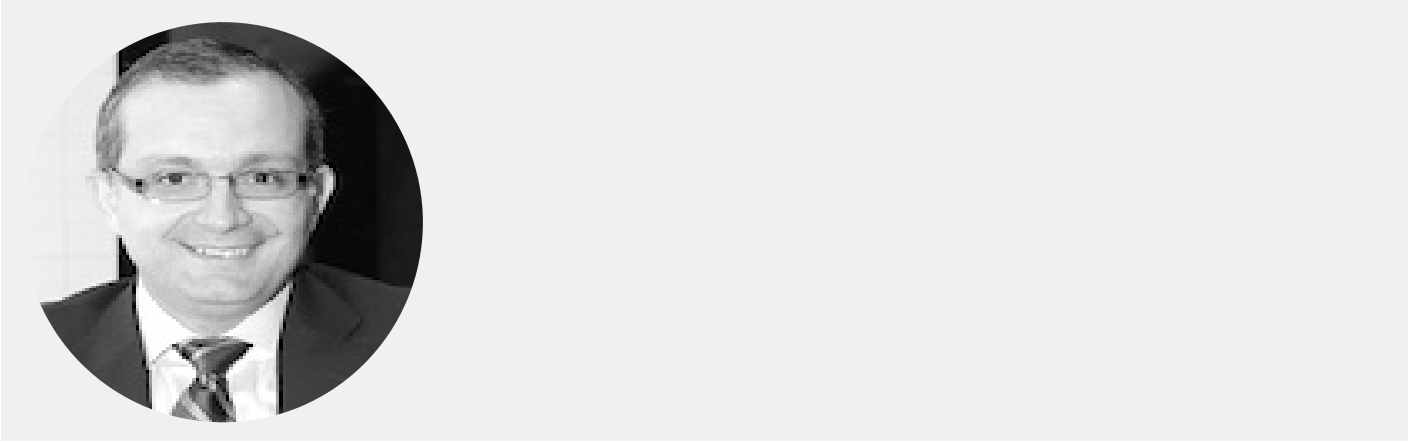
Interview: Cem Baydar – Senior Principal of Turkey and Near East, IMS Consulting



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IMS's top consultant in Turkey discusses the common pattern that companies in Turkey have and must follow to adapt to today's market, and the importance of heeding market signals, such as the growing specialty drugs segment and shift towards the hospital sales channel.

What changes have you seen in the industry over the last five years as it has adapted to the price discounts over the years?

The pricing situation is now a fact of life; companies had to adapt and implemented change management programs that are now mostly completed. Of course, this took some time because the increase of the discount rate from 11 to 23 percent in December 2009 was unanticipated, and after the first the industry assumed it wouldn't happen again; it was increased to 32.5 percent in December 2010 and then 41 percent in November 2011. Now, after half a decade, the companies have changed dramatically; if you look at the sales forces of the top ten companies, you see they have decreased their size by 44 percent. They are now approaching the market differently, targeting high potential areas and prescribers and focusing on relationship management to improve effectiveness and efficiency. In the last two or three years we have also seen the rise of alternative channels such as eDetailing, call centers, and so on.

Also, at the same time, its not that different globally; Spain and Ireland have also undergone drastic price cuts recently, among other countries. The changes we expect moving forward are

minimal, and are in line with best-practice initiatives in other developed countries, such as rational drug use initiatives.

The one remaining concern is the fixed exchange rate used to calculate the reference price of TRY 1.9596 per EUR, while the market exchange rate is now approximately 2.9. This movement has further increased the effective level of discounts by another 20 percent, so that in EUR terms Turkish prices are roughly 40 percent of the lowest price in France, Greece, Italy, Portugal, or Spain, and the industry remains exposed to the risk of further exchange rate changes. We are the sixth largest market in Europe, but we also have the cheapest innovative drug prices. There was recently a court appeal and the court ruled in favor of updating the exchange rate, however given the governments fixed global pharmaceutical budget I am not sure what will happen; even if they update the exchange rate, they will still have to stay within the global budget.

Alternative payment models are being discussed, such as a hospital tender process for oncology products. Do you feel that introducing multiple new mechanisms to suit different purchasing categories is an effective way to address the current pricing situation, or does the system need a more comprehensive reform?

We have touched upon this story in several different projects, and as far as reforms go, you have to start somewhere; this seems like a good start. To move forward, someone has to come up with innovative approaches, either new payback systems, alternative reimbursement models, or tenders offers, and in this case the government has asked companies to develop proposals to discuss. Now it is up to the players in the industry to find innovative approaches, and then to convince the authorities to implement them. While this probably won’t cause any fundamental shift in pricing due to the single payers purchasing power and budget concerns, introducing new payment models for specific categories would be a positive step in the sense that it may improve the agility and flexibility the reimbursement system so that it can better adapt to changes in the market.

Has much progress been made towards developing these proposals?

The work has just started, and the industry must wait a bit because of the elections happening in June. Also, in our annual executive survey we saw that a top agenda item for managers is building public-private partnerships in the area of market access; there are a number of initiatives being planned and lobbied at present. Hopefully we will see some movement by the end of the year, in the fourth quarter, after the transition to the new administration is complete.

What is some of the most common advice that you are giving to multinationals in Turkey?

From the multinational perspective, the most important thing I can say is “don’t get depressed”. It’s the market, you are playing the same game as other players, and there is positive growth potential at present. Last year we saw ten percent growth, and the first quarter of this year again we saw a little bit more than ten percent. Mostly this growth is happening in the specialty care area, and this is an indicator for the direction that the market is moving. Of course some players are not doing well due to portfolio structure, and complain that the market is highly genericized, but there are growing market segments and the signals are there to be read for those who are able to adapt.

The other thing is that the market is not as transparent as in many other countries, including other pharmerging markets. Investment incentives are not clear, and communication and relationships are very important, so you must have close communication with people in government. This are also not likey to change dramatically unless there is some urgent reason behind it, so companies shouldn’t anticipate a change in the OTC law for example, which has been on the table for 25 years now.

The final thing is to recognize that the market has changed and is going in a new direction; past performance is not an indicator of future performance. The reason I say this is that we are still seeing several launches in the cephalosporin market, which shrank by 15 percent last year, and saw the launch of eight new brands. From that perspective, it is important to pay attention to market signals, the main one which is that specialty care is on the rise; you have to adapt your organization to that, focusing your resources on the specialty areas of your portfolio and finding ways to collaborate with specialty pharma players. Another indicator trend is that the hospital channel is outpacing the retail channel; sales in the hospital channel increased by 20 percent last year, while retail only increased by eight percent, and we see will continue with the growth of private hospital chains and the opening of new public hospitals.

How does the advice you give to local companies differ?

Again, I would say to strengthen and reshape your portfolio to fit the current needs of the market, especially looking for in-licensing opportunities in specialty care. The fact that a company doesn’t know anything about a particular disease area doesn’t mean that they shouldn’t take an opportunity to get involved in the area; local companies don’t die overnight, but slowly day by day, and in terms of restructuring you have to start somewhere. The other trend in the market is the growth of biological product sales, and some companies are getting involved in this market by introducing original or biosimilar products to their portfolios.

On the subject of investment incentives, what is your assessment of Turkey's attractiveness and sustainability as a manufacturing hub?

Well, truthfully the competition for investment is quite strong, with global rivals like India, China, Brazil and Mexico, and even regional rivals like Saudi Arabia that have very good incentives programs. Right now we are seeing lots of manufacturing facilities being developed in the middle of the Arabian desert, Saudi companies without any pharma experience are building empty production facilities hoping to sell them to the pharma industry, and the prices are relative good as well.

That said, I think that companies should still come to Turkey for production, but the question is for what and on what scale. Turkey is the largest market in the region except for Russia, so it does make sense to produce here and supply nearby countries. This makes a lot of sense for many companies on its own, particularly in the generics business, but at the end of the day multinationals want something in return for their investment. The government has committed to offering incentives, and from what I understand an "offset program" is being discussed, which is something similar to what they did in the defense industry to attract the localized production of F-16 fighter jets.

At the end of the day it's a big and growing market, and the market is very attractive in terms of limited but sustainable growth opportunities. Politically, the country is quite stable, and while there are relatively few structured incentives Turkey is a flexible, relationship based business environment; if a company comes up with an investment proposal, it can be brought to the government and used as a starting point for discussions and negotiations.

How is IMS Consulting positioned in Turkey, relative to the big consultancies and professional services firms?

I think that we have established a very strong base. Our team in Turkey consists of 20 people specifically dedicated to consulting, and we do projects in Turkey, the Middle East, Africa, and sometimes Eastern Europe. As a platform, it has been very successful with great penetration of the Turkish market; we work with 18 of the top 20 pharmaceutical companies in Turkey, including locals and multinationals. From the growth perspective, when I came aboard we were only few people and relatively unknown, and now our team of 20 is the largest and strongest life science consulting group in Turkey.

What is the breakdown of your client base in terms of locals vs multinationals?

It changes a lot every year. Usually, business from our multinational clients comes in waves as they all join a trend towards organizational restructuring or doing projects in portfolio strategy, and after a while the locals catch onto the trend and begin to follow. So, this year roughly 70 percent of our business is for multinationals, with thirty percent for locals, whereas last year it was closer to 50-50. In general, multinationals are more open to getting outside consultancy services, but this local companies are slowly breaking the habit of doing everything in-house. We have worked with all of the largest locals, all of the top locals are clients, but comparing business volume multinationals still tend to make up more of our business.

How has your business in Turkey been affected by the Cegedim acquisition so far?

As of the first of April, Cegedim and IMS are legally one company and the integration has technically begun, but we are still in the very early steps. We are seeing strong signals from our clients however, as an acquisition of this sort is something they have been waiting for us to do for years. IMS's core business is the information we provide, but as we grew the company developed a service business. As this happened, the company ended up with a gap between the information and services, a gap that needed to be bridged by technology. While we had made a few small acquisitions in this area, we still lacked a top CRM platform to integrate into the business.

Going forward, we have a strong brand and now a strong full service business; we can now deliver the information and services along with the technology they need to use it to the best effect. Clients are already asking what new value we can bring to them in terms of integrated solutions that they can use to work more efficiently. Furthermore, by being a one stop shop for our clients, a single provider of a versatile ecosystem, we will save our clients a considerable amount of time.

How can IMS support the export development of the Turkish pharmaceutical industry?

Our consulting group has been working in this area recently. We have been helping many of our local clients develop expansion strategies. Where to play, how to play, how to win; these are the three questions that we answer. Where to play is selecting the right market, how to play is deciding on a business model, including whether to develop a local affiliate or work with a partner that already has established operations. How to win is basically providing an implementation road map or strategic plan.

Which markets are the most attractive for Turkish companies overall?

Saudi Arabia is an interesting market as it is growing rapidly, and has attractive prices. Other gulf countries such as Qatar, Bahrain, and Yemmen are also very attractive, along with some Easter

European countries like Romania and Bulgaria. North Africa was previously one of the most attractive markets, but now in terms of Algeria's new localization policies it is becoming difficult nut to crack.

What will be the story that IMS Turkey will tell us when we return in three to five years?

I hope that in three to five years we will be strengthening our base again. We have three pillars right now; information, technology, and services. These three pillars support the ecosystem very well, I do not see a fourth pillar that could be as crucial. Now, we have deepen the services we can offer in each area; for information, I think that being able to provide more real world data and anonymized patient data will become more important, along with in depth prescription data. This will be very useful to measure the market and develop the strategies for the companies. From technology perspective, Cegedim's CRM platform was the first major acquisition but we did also make a few smaller ones a few years back; going forward, we will become more and more of a technology company, providing everything tied around CRM to things such as social media services, monitoring and business intelligence tools, and other tools to improve productivity. In services, we are doing well with management consulting, doing a range of activities from commercial due diligence in M&A to daily technical consulting, but we could expand into consulting, erhaps in key process outsourcing which has been a strong trend in other industries.

After working in several industries as a consultant, including financial services and IT/telecom, why did you make the decision to join a company firmly rooted in the life sciences industry?

I studied mechanical engineering to the doctorate level, but I started my profession as a strategy and management consultant in the US with Accenture almost 15 years ago. Over ten years I worked in different industries including technology, finance, telecom, and so on. In 2007, I came back to Turkey and took a position at a different consulting firm, and five years ago I was thinking I had done everything in consulting, there is no industry is left, but then I realized I had to keep my mouth shut because I hadn't done anything in the pharmaceutical industry! An opportunity came up with IMS, and from this perspective it was a very exciting opportunity because pharma or life science in general is an area where innovation fuels the whole industry day by day, not only from the perspective of innovative drugs, but all of the regulations and innovative ways of marketing and sales. It is very exciting and open environment, particularly in emerging markets, and given the opportunity to help establish a hub in Istanbul, I jumped at the opportunity.

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