

Interview: Erol Kiresepi - Chairman & CEO, Santa Farma - Turkey



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The chairman and CEO of Santa Farma discusses how the Turkish pharmaceutical landscape has evolved in response to the government's healthcare transformation programs. He also enumerates various strategic initiatives the company is pursuing to bolster its competitive positioning the market such as constructing new state-of-the-art production and R&D facilities, penetrating foreign growth markets, and entering higher value-added segments such as biopharmaceuticals.

When we last met you in 2005, you praised the Turkish pharmaceutical sector's production capacity and highlighted the need for more R&D to produce higher value-added products. Now a decade later, how has the Turkish pharmaceutical landscape evolved, especially with respect to the government's healthcare transformation initiatives?

From 2013 to 2014, the pharmaceutical industry has experienced an increase of 8.8 percent in value, but only 2.7 percent in units. By comparison, Santa Farma grew in line with the industry average—also an 8.8 percent increase in value—but outperformed in volume with a 6.25 percent increase in units. This is the problem faced by the local industry today. Our prices are low, and the products we're offering on the market are primarily generics. The market increase last year has mainly been a result of high value, low volume products coming from multinationals.

Given the current climate, especially with respect to the reference pricing system and further devaluation of the lira, steadfast growth for pharma players is by no means guaranteed. Companies need to focus on building up exports, reinforcing R&D, and restructuring portfolios to account for changing market dynamics. Cost-cutting initiatives, whether it's through layoffs or decreasing marketing budgets, have been pervasive across the industry. At Santa Farma, we've pursued several portfolio management strategies, including restructuring our sales team, implementing new systems and streamlining internal processes for greater efficiencies.

We've also started to invest in many projects that will ultimately help us better serve the needs of our customers and increase market penetration rates. The introduction of the family practitioner role that has been initiated with the transformation of the healthcare program has increased access to specialist physicians and hospitals. This change means that specialty doctors have gained greater importance. We've had to change our own strategies in response to this. Our sales force now has access to a larger number of physicians, but we use portal communications for different therapeutic areas including CNS, radiology, pediatrics, orthopedics and physical therapies, and cardiovascular disease. We created portal forums concerning the conditions relevant to our therapeutic areas, call centers for the pharmacies that cannot be accessed directly for our chronic portfolio, and also devised internal smart phone applications that our medical reps are now using in conjunction with our distribution channels. We've also re-designed our sales and marketing techniques and harmonized both conventional and alternative methods by putting the emphasis on the patients and customers.

Under the general framework of vision 2023, the Tenth Development Plan aims to have 60 percent of pharmaceutical products consumed in Turkey produced domestically by 2018. How would you evaluate the feasibility of this goal?

One of the government's primary objectives is to close the gap on the import and export deficit. In order to do this, of course multi-nationals will have to produce locally. Aligning with the government's initiatives, many local players are focusing heavily on domestic production and increasing production capacity. As a prime example, we've recently invested in a new production facility, which will start operating in September 2015. This new plant is located in an 80,000 sq meter area outside of the city, with a closed area of 42,000 sq meters. It has a capacity of 150 million units per year on a single shift. This is, as we speak, by definition the newest and most modern facility in Turkey and already has received the Turkish GMP. We have invested in this facility to support our export targets, but more importantly the EU and the United States. We've been working with two international advisors to design the production facility in compliance with

the anticipated changes to the FDA and EU GMP changes coming in the next few years. This new plant will be used to attract business not only from Turkish companies operating in the local market, but also international companies looking for superior and cost-effective manufacturing capabilities combined with the geo-strategic advantages of Turkey-based operations. We're currently in the process of transferring the manufacturing from the old facility, and will soon be able to apply for the European GMP certification. In short, we are aiming to become the regional manufacturing hub of international companies, especially those seeking high quality, high value production capacities. So, we are certainly contributing to this goal's achievement.

What are the key considerations for Turkish pharmaceutical companies, such as Santa Farma, in entering a market such as the US or Europe?

The dynamics of foreign markets such as the US and Europe are completely different. On the manufacturing side, we will have to produce according to their quality standards, while exhibiting significant cost competitiveness. To this end, the US has a substantial generics market, usually characterized by its significantly discounted pricing environment. In large part, our new production facility will help our ambitions in penetrating this particular domain. We have large-scale machinery with the ability to accommodate different sized batches, something we couldn't do in our old plant. In terms of economics, small batches on a per unit value basis, incurred larger operating costs in fulfilling bulk-sized orders. Now our fully automated facilities allows us to compete with the demanding standards of the US, and Europe as well.

R&D is important for the global standing of a country like Turkey, but even more so for pharmaceutical players such as Santa Farma. Can you elaborate on some of the R&D projects that the company currently has in its developmental pipeline?

In line with the more innovation-driven focus of the pharmaceutical industry, we have also constructed a new R&D center that occupies a space of 3,500 sq meters and accommodates 75 highly qualified scientists and other personnel. Local companies typically produce generics, which are more commodified by nature with prices exhibiting a more downward trend recently. Therefore, aiming not only at the local market, this facility will also help us drive our export ambitions. Studies will focus heavily on generic-plus products, developing new galenic and new delivery forms. Our projects will also facilitate new product development and clinical studies to support those developments.

In the past, our portfolio consisted of half licensed products and half proprietary products. Today, while we are still working to increase our in-licensing business, we've effectively shifted more

heavily to developing our own product lines, now accounting for 67 percent of our portfolio, and we see that dynamic continuing further to effectively accommodate export demands. Personally, I believe the future of local producers will lie in specialty products, OTC, and exports, in all of which we're currently building up our capabilities.

Can Turkey really become a top 10 economy for healthcare services by 2023? What key areas will drive the progress of this vision?

This is an ambitious, but reachable goal. The success of this vision is contingent on areas such as exports and OTCs, and the high value area of biopharmaceuticals, which we're now starting to enter. Contrary to the model of some other Turkish companies, Santa Farma has a much larger scope, with Europe as the primary target, and therefore, much more long-term. For this, we've formed a working group of local scientists and experts from the US and EU biopharmaceutical sectors advising us on this project. We have to target not only the Turkish market, but also the international markets such as Europe, Asia and the Americas. With a long-term approach, we're thinking beyond the current availability of today's molecules because first-move advantage will be paramount for succeeding in this particular segment and, in turn, the Turkish economy as a whole.

How do these foreign markets stand to benefit from the import of products from Turkish manufacturers such as Santa Farm?

Turkey has the manufacturing capabilities, intellectual capacity, and skilled human resources to effectively compete against what other "pharmerging" countries such as Mexico or India might be able to offer. Santa Farma, for example, is re-organizing the company in line with our growth ambitions. As I said, we look for FDA approval for our products, and to achieve that, we need to invest significant resources in research and development—both from a financial and human resources perspective. We're remodeling our structure according to the needs of our strategy, which is currently heavily dependent on recruiting the talent found locally. We have stated in our company policies a set of values that focuses on respect for the individual, continuous improvement, rational power, work ethics and positive work environment, and respect for the society — and this is our driving force.

In terms of reputation, capabilities, and performance, where would you like to have positioned Santa Farma when we come back and do the next report in 5 years?

Our medium term goal is to position Santa Farma among the top three domestic pharmaceutical companies in Turkey, have our exports account for 20 percent of our annual turnover, and service the needs of our neighboring countries by becoming the primary manufacturing hub in the region.

The key objectives in progressing towards that vision will center on reinforcing R&D activities, penetrating foreign markets, and expanding our product portfolio. Of course, these goals will not be realized without capable people, which we're in the midst of recruiting to further enable our growth ambitions.

Professional interests aside, my personal goal will involve strengthening Santa Farma's leading positioning when I eventually transfer the company to my son, the third generation. I see this as a duty not only to my family, but also my colleagues and all relevant stakeholders, who believe in the principles and aspirations upon which this company was founded.

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