Interview: Paul Melekhov – Vice President Eastern Europe, Pharmascience, Ukraine



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24.08.2017

Tags: Ukraine, Pharmascience, Pharma, Generics, Manufacturing, Strategy

Dr. Paul Melekhov, vice president Eastern Europe at Pharmascience, Canada's third largest generic company, provides insights into the unique history of Pharmascience in Ukraine and the pioneering market approach that he has been implementing in the country over the past 25 years. Leveraging its long-standing experience of the Ukrainian market, he also provides us with an assessment of the current market dynamics propelling the local pharmaceutical market - at the moment Ukraine's economy shows signs of recovery.

Pharmascience was one of the first international companies to enter the Ukrainian pharmaceutical market following the country's independence at the end of 1991. What was the market opportunity that you identified at that time?

Ukraine holds a long-standing experience in pharmaceutical manufacturing that actually goes back to pre-independence history, when Ukraine was seen as the "breadbasket" for medicines production within the USSR. Although APIs and other raw materials were mostly produced in Russia or in other parts of the Soviet Union, the manufacturing of finished products was essentially conducted in Ukraine's main pharmaceutical hubs – the Kiev and Kharkiv areas. As a matter of fact, data show that Ukrainian pharmaceutical factories were producing over 70 percent of all medicines distributed across the USSR and the satellite states. With the disintegration of the USSR in 1991, the Ukrainian pharmaceutical industry however lost its historical access to raw materials, while the country started moving from a planned to a market economy.

I was then sent to Ukraine to identify how Pharmascience could help Ukraine's pharmaceutical industry to successfully complete this transition and – in the meantime – seize opportunities to expand Pharmascience's business internationally. At that time, unfavorable currency rate and the low purchasing power of the population prevented Ukrainians from accessing medicines manufactured in the West. We then considered this challenging context as a great opportunity to localize the production of our highly needed medicines (through contract manufacturing) while leveraging Pharmascience's raw materials and excipients which we imported from Canada.

How have the company's activities evolved since this time?

This initiative rapidly proved itself being extremely successful: our products swiftly became highly demanded not only in Ukraine, but also in neighboring countries. Two years after we established this pioneering approach, we were already manufacturing over 10 different pharmaceutical products in Ukraine, which we also exported to Russia, Belarus and Moldova, Kazakhstan or Turkmenistan.

However, the strengthening of Ukraine's economy and the rising purchasing power of the population led us to adapt our business model, as the Ukrainian market became mature enough to start exporting foreign finished products from our Montreal plant to Ukraine.

[Featured_in]

When transforming our operational approach, we again chose a different pathway than the vast majority of international companies operating in the country at that time, which only established a local representative office in Ukraine and were then directly exporting products from their regional and international hubs into the local market. At Pharmasicence, we registered in 1994 a full-scale pharmaceutical company in Ukraine, which holds the license for the whole cycle of the pharmaceutical business. As a result, Pharmascience Ukraine is entitled to handle customs and sales clearance by itslef, while we can store our products in our own, local commercial warehouse and sell products in local currency. This specificity provides us with a heightened level of control and flexibility in the management of our operations, which has turned itself as a critical competitive advantage when it comes to modulating our pricing strategy to better face the ups and downs of the dynamic but volatile Ukrainian market.

Many industry observers have highlighted to us Ukraine's competitiveness in terms of pharmaceutical production. Would you consider reestablishing a manufacturing footprint in the country?

Although the model I just mentioned has brought us satisfactory results since its implementation in 1994, we do consider the opportunity to partially switch (again) our production to Ukraine, whether through a greenfield project or the acquisition of an existing plant.

The title of our Ukrainian report is “A New Era”, as we believe that – after the deep geopolitical and economic crisis that broke out in 2013 – Ukraine is now showing promising signs of recovery. What is your assessment of the situation?

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Although the 2013 Revolution and the economic crisis that followed have undoubtedly had a deep impact on Ukraine’s pharmaceutical market, it “only” stands as the latest in a long line of crises that the country has already experienced since its independence. New disruptions will probably happen again; nevertheless, I feel the overall business context has been greatly improving over the past twenty-five years and I expect that the intervals between the crises will continue to increase.

In this regard, my experience of the Ukrainian context leads me to be carefully optimistic – and not utterly optimistic – regarding the early signs of recovery that Ukraine’s pharmaceutical market has shown over the past twelve months. So far, the first signs of stabilization and market growth are not substantial enough to prompt us to operate a strategic shift in our operations. The military conflict in the east and the overall geopolitical situation has not yet fully stabilized, and this still threatens the country’s economic recovery in the short term. It is true the Ukrainian population’s purchasing power has significantly increased since mid-2016, which is particularly interesting in a country where out-of-pocket expenses make up 85 percent of all medicine spending. Nevertheless, one should also take into consideration recent measures implemented by the government, which will increase household and daily expenses – and automatically cut back private expenses allocated to healthcare.

Nevertheless, I have no doubt that the current situation will ultimately stabilize. Actually, it is now the best time for international companies to invest in Ukraine. From a regional standpoint, I also expect Ukraine’s attractiveness to soar within the upcoming years – especially in comparison to its eastern neighbor. Despite Russia’s market being significantly larger than that of Ukraine, it has now become particularly difficult for international companies to enter, set up, and develop their Russian business, while the level of protectionism that these companies face in Russia is substantially higher than in Ukraine.

Do you feel that Pharmasicence’s long-standing presence in Ukraine has paid off in terms of brand recognition?

Pharmascience’s Ukrainian business gathers together around 100 employees throughout the entire country. In this regard, we remain a relatively small player in comparison to other multinational companies operating in Ukraine; nevertheless, we have developed and built very strong brands. We are particularly strong in the OTC segment, which is absolutely critical in Ukraine given the country’s high prevalence of self-medication practices and the population’s habit to go to a pharmacy rather than visiting a doctor when they feel sick.

In this regard, I am particularly proud to see that some of our main brands benefit from a very strong reputation among both Ukrainian doctors and patients. For example, Pharmascience’s Pharmacitron proudly stands as Ukraine’s highest selling cold and flu preparation as well as the incontestable leader in its market niche. The same applies to our probiotic Yogurt, a product which has been extremely successful since its launch. In the grand scheme of things, I deeply believe that the further development of probiotics will open a new era in modern medicine as a very promising, utterly safe, biological treatment approach for critical diseases – including Irritable Bowel Syndrome (IBS), depression and even Autistic Spectrum Disorder (ASD).

Overall, we hold a very balanced portfolio comprising more than 35 medicines, including both OTC and prescription products, which target crucial therapeutic areas such as oncology and CNS, as well as gastroenterological and many other disorders.

Since the crisis broke out in 2013, pricing has become a key success factor in the Ukrainian pharmaceutical. What is your approach in this regard?

Our pricing strategy is closely aligned with the country’s purchasing power – especially in comparison to other international companies operating in the country. In this regard, our focus is not on clearing mind-blowing gross margins, but rather on displaying very competitive prices without generating losses – and this strategy has allowed us to survive many different crises throughout the years while some companies had to leave the Ukrainian market.

Nevertheless, one should not overlook the impact of the past crisis, which entailed the lost of around 45 percent of our turnover, while the value of Ukraine’s pharmaceutical market decreased by over 50 percent overall. In 2016, our revenues amounted to around USD17 million, marking a slight improvement in comparison to 2015 level. As I said earlier, the recent signs of recovery of the Ukrainian pharmaceutical market are not significant enough to prompt me to set a double-digit growth target for 2017, and our objective is to grow 2.5 percent in 2017.

Leveraging your deep and long-standing experience of the Ukrainian market, what would be your advice to newcomers and foreign investors interested in setting up

business in the country?

Do it now, if you don't want early movers to pick up the best opportunities! Ukraine's pharmaceutical market still displays a significant number of underdeveloped niches, where newcomers could rapidly gain interesting market shares, so conducting a comprehensive market screening and being focused on the niches you have identifed as the most prospective is absolutely fundamental.

In this context, what will be the (new) market niches you will focus on in the upcoming months?

Within the next five years, I want to create business units specifically dedicated to oncology and infectious diseases. In the meantime, Ukraine's healthcare capacity still displays worrying frailties with regards to palliative care. To say it bluntly, in Ukraine, people are dying without being able to access analgesics. Pharmascience being among the leading companies in this area in Canada, we can definitely contribute to change the Ukrainian paradigm in this regard.

How do you explain that Ukrainian patients still struggle to access painkillers? Is it only related to a lack of products available in the country?

This is actually a multi-dimensional problem. For example, current regulations are so constraining that patients cannot easily access available, prescribed narcotics, and the situation is even worst in rural areas and small towns. The level of red tape that healthcare professionals and providers, as well as patients have to deal with in order to get these products is hardly imaginable. As a result, doctors often hesitate to prescribe these products. Furthermore, the product offering is indeed limited and many modern treatments are not yet registered to Ukrainian patients – or not available in a large number of pharmacies throughout the country.

Nevertheless, a company alone cannot succeed in improving standard and access to care in such a sensitive product category, and a heightened government support will be absolutely crucial to guarantee the security of the medicine supply across all Ukrainian regions.

What would you highlight as your proudest achievements at the head of Pharmascience Ukraine?

We were one of the first companies to identify Ukraine's potential and to substantially invest into the country. As a matter of fact, I was the first Canadian businessman to set up a company in Ukraine. Since 1992, we have managed to survive several significant crises and worked with countless Ministers of Health *[in Ukraine, 17 different Ministers of Health have been appointed in*

the last decade, each of them lasting between half a year and three years, e.d.]. Our tireless efforts have turned a bold and somehow risky decision taken a few months after Ukraine’s independence into a true success story – for Pharmascience in particular and Canadian business in Ukraine in general.

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