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Timmo Andersen, general manager of Boehringer Ingelheim in Spain, explains how the affiliate has managed to achieve market-leading growth rates, the challenges and opportunities of the Spanish pharma market, and why BI is investing heavily in a new facility in Spain.

Boehringer Ingelheim in Spain grew an impressive 9 percent last year, clearly outstripping any of the other top 10 companies ranked by market share. What is the secret of this success?

Absolutely. The Spanish affiliate has enjoyed two to three very good years for the human pharma business. This year’s performance looks decent too and will continue that development path trajectory. We’ve actually entered an unprecedented phase for the company, having launched more products in the past four years than in the entire decade before. Given our stature as a mid-cap, you could even argue that we have over-performed: launching 6-7 molecules and 10 indications within the space of 3-4 years constitutes really operating at the limit. Our ambitious target was to expand the local business from a 300 million euros operation to 400 million by 2020 and we are already well ahead of schedule in reaching that objective. I would also like to draw attention to the fact that we have grown not only on the financial side – through a substantial increase in turnover and sales – but equally in terms of enhanced capabilities and human capital.

To get to this point, has obviously taken a serious amount of effort and astute planning, but the local market conditions have also been favourable. Spain is a great country to be operating in at this moment in time. Growth in the local pharmaceuticals market is outpacing much of the rest of the national economy at around 3-4 percent and this is happening on a consistent basis. Spain is also nowadays offering above average access to innovative medicine compared with much of the rest of Western Europe. We are no longer subjected to some of the lowest prices and the operating context has been surprisingly stable.

Which product categories have been most driving this growth spurt?

At the moment, at total market level we’ve reached equilibrium between our hospital and retail sales. The expectation, however, is that demand for hospital products will continue to accelerate for the next few years as the recovery of the Spanish economy gathers pace. There is momentum in the retail sector as well, but the scope for doing more is somewhat limited owing to structural factors. As you will be aware, Spain has a very peculiar generic model driven by a historical environment in which local indigenous producers had an interest in maintaining generic prices abnormally high and this continues to distort the dynamics of the local marketplace.

Looking back, to what extent has the Spanish pharma industry rebounded from the dark days of the financial crisis?

Overall the Spanish pharma industry has exhibited great resilience in the aftermath of the financial crisis. Back in 2009, the local industry suffered a massive blow, which really set the clock back: forced price reductions, sluggish market access, and even products being ejected from the reimbursement list. Thankfully, though, recent years have been characterized by a good sense of partnership between the PP-led government and the industry, whereby we have witnessed controlled growth in-line with or just above the GDP rate.

In contrast to the political turbulence in Spain marked by a series of inconclusive elections, the operating environment in the pharma market has been one of great consistency and continuity. I think it is fair to say that there has been a great mutual understanding between the government and private enterprise over the enabling conditions needed for business to thrive. I believe the Ministries of Health and of Industry both properly acknowledged the value that the pharma industry contributes locally in terms of quality job creation and technological prowess. We were one of the few industries that didn’t run away in the fact of price cuts and have been one of the most resilient parts of the national economy.

Are you at all worried that the freshly installed Socialist government might start to act differently?

That is certainly a risk. There is a danger that the collective memory of how together, government and the pharma industry, have successfully navigated a path to recovery through compromise and the consistent application of well thought out policies might be forgotten. It is our duty to ensure that it is not. If you look at the track record of the incoming Minister of Health she has made a great show of undoing and reversing the privatization of health services in Valencia, which suggests a somewhat anti-business mindset. That said, we must give the new administration a fair hearing and properly engage with them. Historically we’ve always had the will to seek partnership agreements with the administration in favour of the sustainability of the national health system while offering innovative solutions to patients.

How much of a concern was last year’s Catalan crisis?

We took the Catalan unilateral declaration of independence very seriously. It was a concern both here at the affiliate and at global management board level. We held extensive discussions with the Spanish authorities and made it crystal clear that our two priorities were to remain within the single European market and to ensure business continuity. Catalan independence, if actually implemented, would place us in a rather complicated situation because, although we obviously operate under the close supervision of the Spain’s medicines regulator, we are simultaneously subject to Catalan local legislation. This meant we had to start putting contingency plans in place such as renewing all our export licenses and putting in place the paperwork for a possible relocation of certain functions. Unlike a bank, which can easily reconfigure its headquarters, it would be much more difficult to engineer a move for a company like us that has a heavy on-the-ground manufacturing footprint.

Last June it was announced that you would be investing 130 million euros in a new facility and extension in Sant Cugat del Vallès. What benefits will this big-ticket

investment deliver?

Boehringer Ingelheim already manufactures ampoules products such as Nolotil at the Sant Cugat del Vallès complex where we currently employ some 900 personnel. What the new investment will accomplish is the integration of the production of Respimat, the cartridge and the applicator of a medication for the treatment of respiratory diseases, which will be distributed worldwide. This is a very strategic product that will give us sustainability for the next 15 or so years. Right now, we have some very mature products like ampoules being manufactured in Catalonia so the time is right for an upgrade that makes our Spanish operations more forward looking. All in all, this is an immensely exciting development and will involve the creation of a further 250-300 jobs.

We've also been making a series of other high-profile investments locally. Three years ago we decided to establish one of our global IT support centres here. The initial idea was to put in place a classic, low-value support operation of 60 people, but over time that workforce has been increased to 400 and handles the global development innovation and maintenance of Boehringer Ingelheim's IT platforms. It other words, it has become a centre of excellence charged with driving the company's embracement of digital disruption. Meanwhile, we've established two of our global regulatory affairs centres (for mature products and documentation respectively) as well as a third dedicated to supporting new product registrations.

Why is it that Boehringer Ingelheim is betting so big on Spain? What makes Catalonia the idea location for these manufacturing and support functions?

Spain offers a unique constellation of factors. One of the main pulling points, however, relates to the great pool of skilled human capital. If you look at the macroeconomic parameters, Spain is afflicted with exceedingly high youth unemployment. However the country simultaneously possesses some of the best business universities, technical schools and hospitals. This means that it is very easy to source affordable, but high-quality talent. If you consider the cost-quality ratios, manufacturing in Spain is significantly cheaper than it would be in Switzerland or our home country of Germany, and yet we can still produce top notch, reliable products suitable for export all around the globe.

There is also a social dimension. We are a German company, but with a very European identity and flavour. We strive to become part of the fabric of the socio-economic identity of the markets where we conduct a high performance business. Spain falls into this category. It is a good market for us and we seek to repay the trust the market places in us by investing in jobs creation wherever we can afford it.

You also have to bear in mind, shifts in global supply chains in line with our “From Volume to Value” corporate strategy. For highly strategic projects like flagship research sites or biosimilars production facilities, the tendency within Boehringer Ingelheim is increasingly to perform those tasks out in the heavyweight markets of tomorrow such as China. When you look at our global sales ratios, Europe is gradually losing some of its relevance. Among European countries, however, Spain stands as one of our most high-profile investment destinations.

Where do you identify the challenges and opportunities ahead within the Spanish pharma market?

Right now, market access is acceptable compared to many of the other European member states many of which have public health systems that are experiencing severe financial pressures. There is therefore much to be optimistic about and I think the Spanish affiliate’s successful results and performance over a sustained period reflect that confidence.

I am concerned, however, about the long-term implications of some of the Spanish market’s structural anomalies such as the pricing of generics in Spain.. Because everything has been working well so far and Spain is emerging nicely from the big dip, there is perhaps a sense of complacency around properly dealing with this issue. The brute reality, however, is that in most markets generic erosion works well in freeing up money to invest in innovation. Right now, the pharmacists and retailers are content because of the higher margins, but the moment will come when expenditure on innovation reaches a ceiling.

Then there is the devolution of decision making to regional and sub regional levels. Up until now, this has worked because we negotiate with the full range of stakeholders from the regional authorities and communities down to the hospitals. Everyone receives a percentage or concession that they feel is acceptable. The danger is that, over time, this can spin out of control and result in a loss of transparency and predictability. Maintaining predictability is critical. If there’s one thing that global management boards like less than being below budget it is wildly fluctuating results and uncertainty.

The other issue to watch will be developments in shared purchasing between countries. Spain appears to be moving from being an observer and listener to becoming an active promoter in the Valletta agreements, so we will have to watch this space.

What potential do you see for Biosimilars in Spain?

There has certainly been some impetus to get biosimilars working in Spain. So far, I have been surprised by the relatively low local penetration rates in the areas in which they are currently present. In oncology, they register around 5-8 percent, which is really rather low and way under potential. There is certainly space for some high price tag therapies to be substituted with biosimilars, but I think many people have underestimated the sluggishness of the authorities in being able to modify the regulations. The best solution is probably to be lobbying for new legislation at the EU-wide level, which Spain will then be obliged to comply with.

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