Interview: Ashley Pearce â?? Managing Director, Adcock Ingram Rx, South Africa

04.11.2015

Tags:

pharma, pharmaceuticals, South Africa, Adcock Ingram, Ashley Pearce, prescription, biosimilars, generics, manufacturing, Myprodol, Synaleve, antiretrovirals, executive insights, access,

The managing director of Adcock Ingramâ??s prescription business, Ashley Pearce highlights the divisionâ??s strategic placement within the groupâ??s overall activities, and how he plans on leveraging partnerships with various multinationals, expand into biosimilars and grow the generics business into a market leading position.

Adcock Ingram has undergone several strategic changes recently both in terms of leadership and divisional structures. How is the companyâ??s prescription business now better positioned for future growth, and as managing director, how will you go about facilitating this growth?

The change took place in July 2014, where Adcock Ingram went into a divisional structure. We now have five separate divisions that run in a self-autonomous wayâ??an over-the counter division, a consumer division, a critical care division, a distribution division, and the prescription division that I currently run. I am responsible for all products within the prescription portfolio together with the supply chain and have a factory now under my responsibility. We ensure the manufacturing of our products and determine how we get to supply them. I now have a much greater autonomy to make decisions about the products and determine where the opportunity lies based upon the product itself but also the margins. The prescription division has basically three core areas. The first area is our generics, which contributes approximately a third of our business. We then have our own IP products that we have had for many years like Myprodol and Synaleve for example. And our last area covers our relationships with various multinationals, where we look after sales and marketing of various categories of products for some companies such as Novartis, Novo Nordisk, Roche, Shire,

With this new set of leadership and responsibilities, what are you focusing on to keep the business moving forward?

We continue to focus on getting registration of the more than hundred dossiers sitting at the Medicine Control Council, we are looking at opportunities for biosimilars, which we did not have before and also to be growing our antiretrovirals (ARVs) business in both the public and private sectors.

What role will the prescription business play in the groupâ??s overall long-term strategy?

The prescription business is currently generating R 1.8 billion and represents about 35% of the groupâ??s total turnover. It remains in the short, medium, and long term a critical component for Adcock Ingramâ??s success. We aim to grow faster than the market over the next four to five years by developing and strengthening our current relationships with the multinationals, as well as bringing on board new multinational partners to carry more products from our partners. We also want to significantly grow our ARV presence and aim to become first or second in the market in the generics space as more of our pipeline products come through the registration pipeline. Indeed, we see in South Africa an even stronger growth in the generics side because they play a crucial role in improving access to medicines, especially as innovative drugs become more expensive and more limiting in terms of affordability.

Given that the business has been historically centered on South Africa, do you have any ambitions in growing the companyâ??s presence beyond South Africaâ??s boarders and perhaps beyond the continentâ??s borders?

Adcock Ingram made a decision about six months ago to focus back on South Africa in order to develop and strengthen the local business. Our Sub-Saharan African business is going to be scaled back and as publicly announced recently we have placed our small Indian operation on the market as it was felt at this stage it lacked the critical mass required to have a true sustainability within the large and very complex Indian Pharma market.

Considering the more low-value nature of the ARV sector, how would you evaluate the importance of this sector, generally public tenders in commercial strategies?

In the private sector, we are looking to grow our fixed-dose and triple dose combinations substantially over the next couple of years. However it is the substantial volume within the state sector that is key to our future growth in the ARV field. We did not get the fixed-dose combination award in the last tender about a year ago, but it is certainly part of our near term strategy. We are developing and improving our factory and its capacity to manufacture ARVs and fixed dose combinations in particular. Our goal over the next two years is to be a leading tender supplier from our Wadeville factory and ensure weâ??re producing at the right prices and volumes.

How would you evaluate the current competitive landscape and market demand for biosimilars in South Africa?

The biggest issue for biosimilars and biologics in this country is affordability. There is a real concern among funders such as Discovery about the number of biologics that are actually coming through and the disproportionate costs of these products to their overall funding affordability. However, the private sector offers substantial opportunities to lower the price for increased access, with prices probably structured at 20 to 30% below the price of the originators. This will invariably improve patient access to novel medicines, while also creating a major revenue stream from our point of view.

How can we expect the value chain within Adcock Ingram to improve, especially when it come to your relationships with the stakeholders, retailers, pharmacies, and hospitals?

The most important aspect is to offer consistent and uninterrupted supply to the customer and allow access to a broad range of affordable medicines. 70% of our products are imported from different suppliers across the world, and we currently manufacture 30% locally. We are strengthening our relationships with those suppliers and ensuring that the demand is balanced with their capacity capabilities .

Leveraging your extensive experience in the industry, South Africa has in the last decade undergone significant changes both in demographic composition, disease burdens, and its economic status. How have these changes affected the way pharmaceutical companies effectively approach and conduct business in South Africa?
There has been a significant difference in the structure of our pharmaceutical market in the last ten years. However, there is a two-tier approach towards healthcare and this has not changed. 80% of the money is spent on 20% of the population and vice versa. Hence, 80% of the patients have to be treated with 20% of the money. What will change moving forward are the policy platforms, particularly in regard to the Minister of Healthâ??s National Health Insurance (NHI) initiative, although thereâ??s still quite some time before this comes to fruition.

Weâ??ve also seen a substantial growth in generics, especially in the private sector. This has been in large due to the mandatory generics substitution, which would encourage pharmacists to offer a generic alternative to innovative medicines, whenever the originator drug has lost its patent. Certainly by intervention on the retail side, the generics will always come up as the alternative or the first choice. For patients, the biggest difference will come in the form of affordability in the form of co-pays. In the private sector, the rising costs of medical insurance are become a much larger burden for even the reasonably well off patient , but even in a pharmacy, the amount of out-of-pocket expenses will drive the choice of medicines more and more.

Looking back over the last five years ago, we can see substantial reductions in the size and number of Multi National field force sizes, where we see growing field forces for local and generic players, which would include ourselves.

Given all these changes, has there been a shift in terms of consumer demands and behavior?
I have not seen huge changes in terms of consumer behavior; we still have a model where patients seek doctors for medical advice, and the practitioners are still generally quite brand loyal. However, we can observe that patients are now more open to persuasion about the value of a generic or the role of a generic as an alternative to originator drugsâ??which can be witnessed by the sheer growth of the number generic pharmaceutical companies.

From your perspective, what more can pharmaceutical companies do in order to improve the access and quality of healthcare for the majority of South Africaâ??s population?

We would like to see more of a partnership with the Medicines Control Council (MCC). A significant numbers of companies, including Adcock Ingram, have a substantial amount of products stuck in the regulatory process, some of which have been there for four or more years.. In order to increase the access to medicines, we would need to have more medicine available, because with competition, prices go down, and there will be more flexibility in terms of product availability and pricing.

Although eventually transformation into a new structure called the South Africa Health Products Regulatory Agency (SAHPRA), the current form of MCC has a severe capacity issue in terms of staffingâ??with at least half of the staff voluntarily assessing dossiers. The quality of dossiers aside, there is always going to be multiple reasons a registration might be delayed. But, as it is currently, we need to improve the ability of the MCC to speed up drug registration timelines. Mutual recognition of products that are available in other countriesâ??whether thatâ??s in the EU or Singaporeâ??and allowing those products to be fast tracked through registration could significantly help streamline the process.

Given your extensive career in leading multinationals, how are the operating challenges different from the perspective of a prominent local manufacturer?
In a local company there is a higher exposure to risks such as exchange rates, utility costs and factory costs, and the lack of full control when sourcing products from International sources. With multinationals, the issue for a local subsidiary is more about market access and market development than local costings or exchange rate fluctuations,. At a local level, we have a much greater exposure, especially with the rand depreciation: in the last three months the rand has weakened by 20% and in the last three years it has weakened by 50%. As 80% of my costs are imported and all either dollar or euro based this offers real uncertainty about margin erosion. My cost input has therefore substantially increased, and the challenge here is the single-exist price, which is adjusted only once a year and based on historical exchange rates. Since itâ??s historical, the single-exit price doesnâ??t take into account the very current fluctuations in the randâ??i.e. the 20% devaluation. This has a large influence on the type of products I manufacture to deliver the expectations of profitability from the perspective of a publicly listed company.

What hurdles are ultimately preventing the country from establishing a stronger domestic manufacturing base and seeing the rise of more local champions like Adcock and Aspen?

There simply isnâ??t enough demand or capacity within the local market to sustain secondary manufacturing operations. A great success story is Aspen, which has gone global and which utilizes its local factories to supply in terms of its Australian and South American markets. That is a fabulous example of what is possible in this country. For more companies to get involved, they would need to have an international subsidiary, which will allow them to build factories and achieve economies of scale. In terms of API factories, South Africa is nowhere near big enough to obtain a favorable return on the investmentâ??especially considering the more niche nature of this segment. Furthermore, there are already huge manufacturing facilities in India and China, where the operating costs are much lowerâ??allowing them to comfortably acclimate to the constantly evolving nature of therapeutic treatments.

What sort of opportunities do you envision for the company?

With over 30 years of experience in multinational pharmaceuticals, I believe healthcare and the demand for healthcare will always be a prerequisite, and something that is going to be wanted. With aging populations and technology improvements, people will start having access to newer methods of experiencing longer and fuller lives. My position here Adcock Ingram allows me to take advantage of opportunities in different disease areas and use the companyâ??s base to further the advancement of affordable and quality healthcare treatments for South African Citizens. Adcock Ingram is 125-year-old South African business, the second largest pharmaceutical company in South Africa, and I can only hope to help preserve that legacy for another 125 more.

Looking forward to the next three to five years, what are the three most fundamental things you would like to achieve as the managing director of the prescription division?

Number one is to build the generics business to be at least the second biggest player in South Africa in terms of value, the second is to build, develop and grow our multinational partnerships, and the third objective is to expand into new therapy areas such as biosimilars within new few years.

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