

Interview: Hatem Safei Managing Director, Bayer Egypt



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Bayer broke into the top ten multinationals in Egypt this year, after achieving a remarkable 110 percent growth over the last two years. General manager Hatem Safei discusses the developments that drove this strong expansion, and the overall potential he sees in the healthcare market going forward.

What are the key signals that the Egyptian pharmaceutical market has strong growth potential, and is a good investment destination for multinationals?

The Egyptian pharmaceutical market has undergone high single digit growth in USD terms over the last few years, ranging from six to nine percent, driven by the market's fundamental strengths; a large and fast growing population of 90 million people, and relatively low per capita spending on healthcare in relation to GDP per capita, which is increasing. These fundamentals are driving sustained growth in the pharmaceutical market, which has continued despite the challenges and difficulties arising from the revolution. Thus, it is reasonable to expect around eight percent growth in Egypt as a baseline for growth of the pharmaceutical market, given the economic and political conditions of the last few years.

However, there are some recent and relevant positive economic and political developments to take into consideration. With the opening of the new Suez Canal, a variety of large scale industrial and investment projects, and of course the recent discovery of the largest gas field in the Mediterranean by ENI within Egyptian waters, Egypt will begin to see an influx of hard currency in the coming years. Once gas production begins in several years, this will reduce Egypt's need to import gas, generating further hard currency savings for the country in the future.

Considering just these confirmed developments, it is clear that they will positively impact economic output and bring more hard currency into the country. With more funds available for investment, the government will have the flexibility to refocus its investment strategy, and the president has made it clear that increasing public investment in education and healthcare are high priority issues for this government. Thus, it is clear that public spending on healthcare, and thus on pharmaceuticals, will be increased significantly in the next few years as new cash flows from these economic developments arise.

How would you describe the current reality of doing business in Egypt to your colleagues and counterparts abroad, whose perceptions may largely be shaped by the events that are covered in international media?

It is important that companies take precautions to ensure the safety of their employees, however, issues arise when headquarters reduce investment in a country like Egypt more than the actual level of risk warrants. Isolated incidents of violence can encourage perceptions that there is some fundamental instability or poor security in Egypt, which is not a fair assessment, and if headquarters choose to redirect investments to markets where the perceived risks are lower, it undermines the ability of multinationals to make the most of opportunities in Egypt.

Within Bayer, this mentality is already changing. Due to our recent success, they have already seen the benefits of investing in Egypt and we have earned a degree of confidence from our headquarters. They now better understand the benefits and potential in Egypt, and being more familiar with the market, they are beginning to see the risks from a more realistic perspective. However, generally I would tell executives outside of Egypt to "keep calm" when discussing the situation here, and reiterate the immense potential of this market.

It is also important to appreciate that key members of the government, including the president himself, are taking significant steps to improve facilities for foreign investors and improve Egypt's competitiveness as an investment destination, because attracting hard currency is a top national priority at present. The president has held several meetings with executive managers of multinational companies and has insisted on signing several deals himself, which is something that has not been seen under previous governments. This has set a strong example for ministers, and given the turnover of ministers in the last two years it has been made clear that those who do not perform will not retain their position for long; this also should be perceived as a positive development by foreign investors.

When considered within a regional portfolio of countries, what is Egypt's unique position and what are its defining features?

Within Bayer, Egypt is part of an "Egypt Plus" sub-region which includes Sudan, Libya and Yemen. In 2010 Egypt accounted for roughly half of the sales within this region, however over the last five years there has been a significant decline in turnover from Libya and Yemen. Thus, given regional targets for the region, there was significant pressure to compensate for these decreases by driving sales in Egypt, which luckily was possible; Egypt underwent a revolution as well, but unlike in these other countries the political developments had minimal impact on the real growth of the pharmaceutical market. As such, Bayer has been able to more or less maintain the level of turnover for the region but with a much greater proportion coming from Egypt; we have adapted our organization and strategy already assuming that Egypt will represent 95 percent of turnover in the region going forward.

More generally, Egypt is an out of pocket market, which means the dynamics are completely different from a market with strong institutional payers. Looking at cardiology, we can say that about 70 percent of sales are in the private or retail business where nearly all spending is out of pocket, with 30 percent of sales in key accounts to institutional clients, either in private care accounts or to the Health Insurance Organization and the Ministry of Health hospitals. While we expect institutional sales to increase in the near future as the government develops new income sources and prioritizes investments in healthcare, the majority of growth is still expected to come from the private side, which will also benefit from positive macroeconomic developments.

Also, despite being an out of pocket market with low per-capita spending on pharmaceuticals, there is also a strong market for innovative products in Egypt. Given Egypt's large population, there is a reasonably sized higher income population segment that can afford higher cost pharmaceutical treatments. For example, oncology products are not fully covered under the Health Insurance Organization, yet innovative pharmaceutical companies, including Bayer, still sell reasonable volumes of innovative oncology products in Egypt as some patients can afford them without the support of public insurance. Thus, Egypt is overall a volume driven market for all product types, including innovative products.

However, there have been a few instances of reimbursement being provided for innovative oncology products; could you tell us about Bayer's recent deal with the Health Insurance Organization to reimburse Nexavar (Sorafenib)?

Last year, Bayer and the Health Insurance Organization came to an agreement to improve Egyptian hepatocellular carcinoma patients' access to Nexavar. Bayer extended a 50 percent discount to the Health Insurance Organization, who agreed to pay the entire cost of the treatment for hepatocellular carcinoma patients approved by the HIO's High Commission for Oncology. Given the large number of Egyptian patients in need of this product, Bayer considers this agreement to be very significant in terms of reaching patients in need, and we are very glad that the result has been

one that was a win-win for all parties involved; more patients got access to a treatment they needed, the health insurance organization received a very favorable price and will realize other savings on the cost of treating hepatocellular carcinoma patients, and with these institutional sales Nexavar now ranks among Bayer Egypt's top five selling products. We are also very pleased to have already made a similar deal with the HIO to treat MS patients with Betaferon, offering the product to the HIO at a 50 percent discount and reaching a high number of patients.

Over the last two years, Bayer's sales increased by 110 percent, the highest growth of any multinational. What were the key steps to driving this expansion?

In 2014, Bayer established a legal entity in Egypt for the first time; in the past the organization's presence in Egypt had just been as a scientific office. This investment has signaled Bayer's commitment to the Egyptian market, strengthened our image and the visibility of our products amongst our distributors and agents, allowed us to become marginally more independent from Bayer headquarters in Leverkusen, Germany, and finally has put us in a stronger position to continue our growth going forward, as we will now be able to register and import products in Egypt ourselves.

One of the factors limiting Bayer's growth in the past was that the company was only working with one agent and distributor, which was limiting the availability and visibility of our products given the fragmented and highly pluralistic distribution structures in Egypt. Since I joined the affiliate, we have signed agreements with two other major distributors, and this has supported our growth a lot; our products are now more available in remote regions in Upper Egypt and the Nile delta, competition between distributors now helps to increase speed of delivery to pharmacies, and visibility of our products and Bayer's image is now much stronger within the pharmaceutical industry.

We have also been able to dramatically expand our portfolio with the launch of 5 new products over the last two years. Most of the files for these products were introduced to the authorities quite some time ago, but the follow up from our side had not been strong enough. By encouraging our regulatory, medical marketing, and sales departments to work closely together to follow up on these products, we were very successful in getting these products through registration.

Of course, the main asset behind any organization's success is the team that achieves it, and it is the team that I have worked with that is responsible for achieving this fantastic result; Bayer has more than doubled its sales in two years, yet there have been very few additions or changes to our staff over that time period. Today our headcount is roughly 200 people and we have a turnover of over USD 60 million, or USD 300 000 per person; several other top ten multinationals achieve just over half of that.

How did you achieve this remarkable increase in productivity?

One of my highest priorities since joining Bayer Egypt has been to increase my team's motivation and loyalty by changing the atmosphere around this organization. Since Bayer's old office was located near Tahrir Square, and had been there for nearly 25 years, the first step was to move into a newer office here in New Cairo. During the revolution our employees frequently could not get to the office due to the security situation, which inhibited commercial operations and prevented the company from maintaining a supportive and healthy atmosphere, and it was necessary that we move on and leave this period in the past.

I have also made a variety of changes to ensure that our team feels that they are valued, and treated fairly when compared to the top five multinational companies in Egypt, to encourage company loyalty. Primarily, this involved increasing investment in training and professional development, demonstrating that the vast majority of vacant positions will be filled via internal promotions, and adjusting our salary and incentive structure to be more competitive.

Looking forward, now that Bayer ranks among the top ten multinationals in Egypt, what are your goals for the organization over the next five years?

Our current target is to double our sales again over the next five years, which would mean breaking into the top five multinationals. We have a strong pipeline with several product launches coming up soon, including Eylea this December, that will have a great impact on Bayer business performance in Egypt. Overall, it will take a combination of achieving organic growth for our current portfolio, continuing to strongly drive our recently launched products like Xarelto, and launching new products.

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