

Interview with František Györfi, Managing Director, Gedeon Richter Czech Republic

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n Richter is a 111-year-old company that is synonymous with the Central and Eastern European pharma industry. The business has been present in Czechoslovakia since 1956, and has acted independently in the Czech Republic since 1992. Can you give our readers a more detailed idea of the history of the company's engagement with this market?

We certainly have a long history at Richter. Last year we celebrated 110 years as an organization, and 55 years on the Czech market.

Before World War II, Richter was present worldwide. However, after the war, a decision was taken at the political level that all Eastern European companies would focus mainly on the Comecon states. It was also decided that each country would focus on a particular industry. Czechoslovakia, for instance, was charged with the development of engineering and the heavy industry; Hungary was focused on agriculture and the pharmaceutical industry. For this reason, in Hungary, pharmaceutical development was highly supported by the government.

As you mentioned, Richter has been present in Czechoslovakia since 1956. However, this was not a direct presence. At that time a foreign-trade company – Medimpex – was representing the segment. Medimpex was in charge of all interests and activities abroad for Hungarian pharmaceutical organizations.

Medimpex had offices in Prague and Bratislava. After Czechoslovakia was divided into the Czech Republic and Slovakia, these offices became independent from one another. However, after changes that occurred approximately 20 years ago, Hungarian companies started to become privatized. Many of them were sold to foreign pharma giants. Gedeon Richter was the only company that remained independent. The company offered an IPO on the public market in 1994.

In 1995 Richter decided to leave Medimpex, and established an independent, direct office in Prague, as well as in other countries.

Richter once had a very broad portfolio: not only human medicines, but also veterinary products, chemicals for agriculture, cosmetics, and etc. However, after privatization, all of these segments were sold, and only products for human medicines remained in the portfolio. Our first original product was registered in Czechoslovakia in 1963. Our first well-known original product, Mydocalm, was

registered in 1970, followed by Cavinton. Thanks to a very strong cooperation with a few Western companies, many licensed products were able to appear on the Czechoslovak market. Base stone of currently so successful gynecological line has been established in 1970 when first hormonal contraceptives were launched.

As a company that produces both generic and innovative medicines, do you believe that the Czech market is more attractive for generic products, or innovative products?

Pharma market is absolutely dominated by corporations focusing on original products with more when 2/3 share. However a lot of them also operate in generic segment.

Today, in the Czech market, approximately 25% of our portfolio consists of original drugs, with the remainder consisting of branded generics and licensed products. Attractiveness, however, depends on the specific therapeutic segment.

The Czech market is quite small in the context of the global market, and within the E.U. itself. And yet, because the Czech Republic is, from an economic point of view, quite stable—with mid-range inflation, regular payments, etc.—the market is attractive as a whole.

However, the generic market, for instance, is quite saturated, and there is a lot of competition among companies. The authorities also do a lot to push down prices. Unfortunately, we must follow these price cuts—but in some cases, when the cut was too significant, we decided to withdraw the product from the market altogether.

You first came to head Gedeon Richter Czech Republic in 1992. When speaking of the early 1990s period, some of your colleagues likened the market to the Amazon, citing little oversight or regulation. What has been your own experience of the maturation of the Czech pharma industry?

This characterization is true not only of the pharmaceutical segment, but also of all Czech industries in the early post-communist period. Privatization was quite a wild time. Actually, the pharmaceutical sector was perhaps less unruly than some other industries.

The reason for the turbulent nature of this period is the fact that there was no prior experience in running pharmaceutical businesses in a privatized economy. Everything in the previous regime was regulated and planned 5 years in advance. When Richter decided to build up its marketing processes and other standard operational elements, we had less experience to draw upon. For Western companies, implementing their business model was easier, as they already had all of the guidelines in place.

It was a very interesting time and we learned a lot. Today, the Czech Republic is harmonized with all European regulation. We have a very similar legal environment to neighboring countries.

As I have said, due to its relative economic stability, the Czech market is today an attractive market for pharmaceutical companies. The only problem is the prediction of the regulatory and legislative developments affecting the industry.

We spoke, prior to the interview, of the fact that the pharma market value in the Czech Republic is close to 3.0Bn EUR. In fact, the real figure may be considerably less. There have been rounds of very strong price and reimbursement cuttings, and this has made parallel export very attractive. SUKL has officially stated that 10-15% of market value are being re-exported; some products even have practically disappeared from the market. For some companies, however, parallel export is a major problem—firstly, because of reputation, and more importantly, because of the ethical

considerations towards patients. Some representatives of the Ministry of Health, a few weeks ago, confessed that the main problem is not the price, but rather the availability of products.

Dr. Zorner of the CAFF has stated that, due to the difficulties in the environment, he expects market consolidation; he expects that certain players will not survive. However, this does not seem to be the case for Gedeon Richter. Your growth reached 2.4Mn EUR in 2011+10%+which is considerably faster than the approximately 1% growth seen in the Czech pharma market at large. Why do you believe you have been able to grow so much faster than the market?

Indeed, IMS figures show that over the last four years, the Czech market has stagnated in value, and actually decreased in volume. Richter has been able to overcome stagnation by continuously implementing a strategy to launch 5-7 new products a year. Another key element of our success is to stabilize our staff.

In the Czech Republic, it is difficult to predict the time, when a product will be given the go-ahead for launch. Access of product is not predictable—we can only estimate. However, the registration process itself is very predictable. Furthermore, the new drug law allows generics to enter the market earlier than before. A generic drug can be registered relatively quickly today. But the price and, especially, reimbursement negotiations, take anywhere from one month to a few years, depending upon the product. For instance, this year, we settled with the authorities upon price and reimbursement levels for a simple generic product within one month. However, for original products, the period has taken up even one or two years.

Do you believe you will be able to maintain this impressive double-digit growth rate over the medium term?

Indeed, this is our trend in several past years, and I hope we will be able to keep it.

As I have mentioned, the two important factors in achieving these ambitions are, first, a stabilized staff—motivated, enthusiastic, loyal people—and, second, new products.

We do not plan to cover all therapeutic segments. We are putting a lot of efforts, for instance, towards women's health, and we have an excellent chance to become a market leader. Our second area of focus is neurology, where we have a few original products and a new one — cariprazine — is in the pipeline, as well as biosimilars. Finally, we have a strong position in cardiology as in a very attractive segment.

You remarked several times upon the stability of your staff. You yourself are quite a stable staff member, with 20 years in the company. What do you believe incentivizes Richter employees to remain with the company?

Staff longevity characterizes not only Gedeon Richter Czech Republic, but also the organization as a whole. It is well known that Mr. Richter personally knew all his employees and he had an individual approach to them. I mean this is still characteristic for the company.

We try to be competitive, and attractive for employees, because they are the company's treasure! We have detailed motivation and personal development path policy, related to keeping the staff enthusiastic and involved. We are very social, and yet we expect much of our people.

What have been the greatest lessons you have learned about how to operate successfully in this unique market—especially given the fact that you had the opportunity to work for Gedeon Richter in Poland as well, allowing you to juxtapose Czech needs with those of its

neighbors?

As I have said, the conditions are the same for all players on the market. Hence, my advice is this: be optimistic, and handle obstacles as personal challenges. What does not kill you makes you stronger. You must be patient, and have the endurance to overcome difficulties. Only this way we are and will be able to fulfill our mission â?? to deliver quality therapy through generations!

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