

Interview with Jan Slob, President, Akrikhin

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You took over this company in 2007, which was the pivotal year when a group of investors assumed control of Akrikhin and the main strategic investor was Polpharma. Since then, from 2007 to 2010, the company has more than tripled its turnover. It is now one of the top five leading Russian producers. What was your development strategy when you first arrived, and how did you achieve these kinds of targets?

It was quite simple in the beginning; simply analyze the portfolio and decide what you can drive. With the products it was simply a case of looking at what we had, both on the Polpharma side and on the Akrikhin side, and then building up a competitive sales and marketing strategy. So we built up a sales force, built marketing competence, built field force competence, and built commercial competence. This involved quite a heavy investment on both the sales side and the marketing side.

So it was easy to triple your turnover?

Relatively, yes. Sure, the first years were difficult because there was a lot of investment and returns always take time. However, since then, our trajectory has been quite straightforward.

And we have the same ambitions for the coming period. But growth will be more difficult in the coming period, I believe, than it was in past years.

What do you find are the similarities between the Russian market and the Polish market?

The similarity is that they are both branded generics markets, but that is where the similarity ends. After that it is a question of the scale of operation, sophistication, and the development state. These parameters are all on different levels.

What has been the contribution of Polpharma to this company?

Polpharma knows the business of branded generics and as I have mentioned already shares this expertise with Akrikhin. Also I think the biggest contribution of Polpharma has been in technology and competence transfer on the production side. Consultants from Polpharma have been visiting us and installing the right quality systems and the right production systems during all these years. There have been substantial investments in production.

It is interesting because when you look back to the history of Akrikhin, the company initially did a very good job after the economic privatization in 1994 – for example, they developed a licensing agreement with Bristol-Myers Squibb. But then the company stalled. There were two financial investors at that time – first AlphaBank, and then HTC – for whom the intent was simply to make

money: not in the long term, but more or less in the short term. In terms of business development, that makes you act in a certain way.

Actually Polpharma business on the Russian pharmaceutical market, at the time, was in a similar period of arrested development. As a result, both companies lost out on the first boom from 2004 to 2007, which was the first growth phase of the pharmaceutical industry here. Both companies more or less missed out on that growth and on building leadership. Other companies grew very fast during that period. So we really had to catch up.

Today the company has quite a diversified portfolio. You have OTC drugs, generics, branded generics, and you have a focus on socially important medicines. What are the main businesses for you today, and what should the growth drivers be?

We will continue to maintain a diverse portfolio. We will continue to have both generics and branded generics. Certainly we want to develop the OTC sector because it is less dependent on government control, and it is a nice cushion if anything goes wrong. Then we have our socially important drugs; we are quite active in the TB area and in the diabetes area.

OTC is our growth driver, although our OTC emphasis will depend very much on the future development of the federal reimbursement system. Our branded generic business is also growing quite well, but that is not an endless business and will not continue forever. Globally, in five or ten years, I believe that the branded generics business will disappear altogether: we will only see unbranded generics, innovative drugs, and OTC products. This is how the market will shape itself in due time in my way of thinking.

107 out of your 150 products are on the Vital and Essential Medicines list. Why do you offer so many such products, when the government puts pricing restrictions on this list and many companies try to avoid it altogether?

Firstly, nobody knew how this issue would be shaped when it was introduced! In Akrikhin we always focus on disease areas that are important for public health in Russia. At one point it was TB, now it is also cardiology and diabetes. These are real problems for Russian healthcare. Hence, we entered these areas. When the EDL list was developed, the majority of our products were listed.

But look at the global scenario. It is always easier to make money somewhere outside, but in the end we all have to make money using the governmental system. Look towards Western Europe: there, reimbursement systems control about 80 percent of the market.

Of course with 70 percent of our business in EDL, I would probably prefer to have the same size of business in a different area! But these are facts of life. We try to focus a little bit more on the acceleration of the OTC business, to compensate. But for our prescription products, because of our concentration on socially significant disease, we will always be subject to government restrictions.

The company is constantly launching new drugs—more than 10 new medications per year! What is the key to launching a new product successfully in Russia?

That depends first on the drug. With OTC, it is simply a question of whether it is a niche product.

In the OTC area it depends on the segment where you launch the product. It is always marketing competence that is important, but sometimes you also need deep pockets to invest. For example, when you come to the flu and cold areas: to build a brand there is quite a challenge. At times with OTC it is a question of whether it is a niche product. For example, we have Sopolka, which is a patch by drug form and quite unique in the market. When the right consumer is served—and with this

patch I have never seen such positive consumer researchâ??then business becomes quite easy. Because then you just need the right distribution and sufficient support.

For prescription products, if it is a completely new drug and not generic, then it is about marketing techniques. And then it is also a question of your medical reps, and whether you are number one or number two or number three. Of course when you are number eight in the market and everyone is already heavily promoting then it will be very difficult. If this is your positioning, I would say you should launch new drugs in a segment that is not already highly competitive. And then it is more an issue of field force competence.

Do you find it a challenge to launch so many new products every year?

I actually believe that, as a generics company, you should launch 25 products a year!

When you consider mature markets, like the United States, the first generics take 40-50 percent market share overnight. Why? It is all about key account management. It is not marketing to doctors; it is not marketing to consumers. It is only marketing to healthcare authorities. It is like in Holland these days: you go to the healthcare insurance companies; you make one deal. You have to win the tenderâ??but then you have the market.

This scenario is of course still totally different in Russia, where launching a product these days, including in the branded generic area, takes a lot of effort. It entails visiting doctors, and going to the pharmacies to get the backing there. And finally, again, you need field force competence. Like in OTC, feet matter.

This was one of the issues with Polpharmaâ??they were too small. You need a certain size, in this country, to operate efficiently. When the system changes, then everything can change. But in the present system, those in the OTC and prescription areas need size. To be profitable and to build an efficient organization, I would say that you need at least \$100Mn in revenue. Otherwise the size of the country kills you!

Are the dynamics of marketing here similar to what you have seen in other countries? The way that the field force actually operates?

Yes. But the challenge here is the geography. From an organizational point of view, this is an issue. This is another reason why the size of your business matters. Here, it is very difficult to be a niche companyâ??at least when you have a big subscriber base.

Akrikhin has the structure to reach from Moscow to the Eastern end of Russia?

Yesâ??but we stopped at Irkutsk more or less. We reach Vladivostok through a distributor. We have about 350 people employed, currently; a good number of feet.

We notice that you are investing \$28 million in expanding and upgrading your production facility. What is the strategic reasoning behind this line of investment, and why are you investing when so many companies are refusing to put anything physical here in Russia?

First, of course, we will never escape the need to have the facilities up to GMP standards. When we look at the long term, it is not just about getting up to GMP standards by 2014 because of government initiatives. It is simply about quality. If we want to look toward the future, and become flexible, and consider exporting from Russia to other countries, we need GMPâ??it is a necessary investment.

Of course when we came in 2007 there was quite a big investment program already on the shelf, which I decided not to execute immediately. I believed that we should first build sales and then invest in production, because from a cash flow point of view, investing in both sales and also heavily in production is quite a drain.

However, Russia is not an easy manufacturing country. There is a lot of bureaucracy—everyone can knock on your door and ask for a paper.

Looking forward is also a challenge. Because when you compare cost of production here, because of the bureaucracy, the environment and the demands, compared to the price that Indian or Chinese companies can produce products for, there is an issue. In general I would say cost prices in Russia are 50 percent above India and China.

How can you be competitive?

One of the investment drives is certainly to reduce production costs. Efficiency involves concentrating production. Our intent is to introduce higher efficiencies, higher speeds and more concentrated production. And reduce overhead costs. And this is one of the objectives of Akrikhin large-scale investment programmes.

One of the greatest assets a company can have in today's Russian environment is local production, because as the government calls for the localization of the industry, more and more multinational companies want to produce in Russia. Akrikhin has some room to be able to choose its partners. What do you look for in collaborators when you sign manufacturing agreements?

With contract manufacturing, it is not a strategic business for us. We also have limited production capacity for the time being, so we are not interested in contract manufacturing.

However, we are of course interested in licensing opportunities. Our agreement in the 1990s with Bristol-Myers Squibb is a fantastic example of such collaboration. We produced the product, and co-marketed it together with BMS. We therefore received the contract manufacturing fee, and also received revenue from sales and marketing. This is our strategy for future agreements—but at the moment we are limited because we do not have the capacity. As a result, we can only make forward-looking deals after we finalize our investment in production facilities.

Do you have the demand for added capacity?

First of all we will try to fill it ourselves! You always earn more with your own products, whatever co-manufacturing or licensing deals you have.

Let us consider the future of your own products. You recently signed a Memorandum of Understanding with the Chemrar development center for joint projects. In Russia, agreements between private enterprise, and development incubators, and academia, are starting to happen more and more. Do you see this kind of collaboration as the new way forward for Russian science and Russian innovation?

I think innovation should definitely come from close cooperation between scientific institutes and the industry. If you look to the pure Russian industry, though, there are very few players. In fact the only truly strong enterprise is Pharmstandard, which does not have a strong base in research and development. There are a number of smaller companies with development programs, but not really a lot of innovative drugs.

Our cooperation with Chemrar is for the co-development of the so-called "generic plus" drug, and we will try to develop one innovative product not completely from scratch, but bring in something off-site. But certainly if you want to develop innovative industry, the only possibility for R&D in Russia is through close cooperation between a research institute and the scientific community.

This is the kind of model that has been very successful in the West.

The question is how many scientists do we have left. So many have escaped to the West!

Do you think the "Brain Drain" is still happening?

There is refocused attention on scientific developments. And there is a new finance stream building up for doing research in universities. For a long time this was not the case, and universities were hardly capable of doing anything.

On the other hand, scientists are quite liberal-minded. There is also a question of politics it is not simply about having the money. So Russia must foster the right kind of environment.

You have to be a little bit prudent about innovative medicines, with regard to how many research scientists are working on a product, and how much money is spent, and what the outcome of that is. You can always say the healthcare system needs innovative drugs. But the existing drug base in the world can cure 90 percent of all existing diseases.

I think this is more industrial policy than healthcare policy. With healthcare policy, the question is how to supply drugs in the cheapest possible way to the population. So you might say that we should buy everything from India!

Still, it is a key priority for the Russian government to have import substitution of strategic medicines and to create a research base.

It is a political decision to abandon imports. That is fully understandable. And then it is a question of industrial policy. Do you want to diversify away from your commodity base? You have to choose where you want to innovate and in which industry.

How does the company view itself? How do you define the corporate culture here? What makes Akrikhin different from the other companies in Russia?

Akrikhin is a local company with international management, business practices and technologies! I came to Akrikhin 4 years ago. While you bring your own management style, you also have to look at what you have. So you look to see what are the common values and common practices. Akrikhin was clearly a Russian company. We decided it should be an open company, and open-minded. Not too much structure, with easy access and easy communications. I believe this is the best way to make maximum use of the human resources that you have in your company. You have to free the people in order to let them act.

The company is celebrating its 75th anniversary this year. What are your hopes for the future of this organization? What targets have you set for yourself?

In terms of market position, the target we have set is that we want to double sales again in the coming period of five years. We also want to establish Akrikhin as one of the leading local companies. When you look at where the company was in the early 1990s, it was a very famous Russian company. A lot was lost towards early 2000s. We decided we wanted to restore the

reputation of Akrikhin as a local leader.

You come from quite a unique background, having worked in consumer goods and utilities. What have these experiences brought to you, and how you are working to restore the famous Akrikhin name?

True, I have no pharmaceutical background—although the last job I did was in clinical nutrition and hospital products, so that helped. The biggest issue you have in the pharmaceutical market is because of development and registration times moving business forward is relatively a slow process. Maybe on the general management level you do not need to know all the details, and sometimes it is good not to know all the details: to have the broad view, and not the detailed view.

With regard to Akrikhin, it is nice to be a part of history again. There was quite a discussion about whether we should rebrand the company—but we decided to keep the same name. Some people said there is a negative connotation for Russian products, but I said I have seen the same in Poland. Over time, that will disappear, because people go for quality, and they will understand that Russian products can have excellent quality as well.

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