

Interview with Jurgen Konig, President / Representative Director, Merck South Korea

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You have been in South Korea for several months, following some time as Merck's President in Pakistan. In your opinion, what do you find as the most interesting aspects of the Korean pharmaceutical market so far?

South Korea is the 12th largest pharmaceutical market in the world, making it a complex, interesting and challenging place to operate in. It has the highest growth rate among the developed economies and has a huge potential for further growth thanks to an ageing and affluent population. Another interesting feature of the Korean market is that a very large part of the total drug consumption in the country is located in the Seoul metropolitan area (60%). The other 40% is still poorly attended and the government is implementing strong policies in order to change that; naturally, this represents a great opportunity for the pharmaceutical industry to find new areas of growth.

What are the main issues that research-based pharmaceutical companies in Korea such as Merck are currently facing?

I was recently elected as the Chairman of the EUCCK (European Chamber of Commerce in Korea) Pharmaceutical Committee. Under this umbrella, I have noticed that among the multinational corporations, independently from size, platform or work strategy, the mindsets are very similar and all companies have to face the same issues in the Korean market. There are bottlenecks to be resolved by the government related to the lack of organization of the health sector, conservatism and long delays. There is also room for improvement in terms of achieving greater transparency and predictability on the pricing and reimbursement issues. This situation has brought a certain level of uncertainty which is discouraging companies to launch new products in the local market, since they cannot have a clear picture of the returns they can get. In such an environment it becomes more unlikely to see investments from multinational companies. The lack of clarity has also resulted in misunderstandings about what it means to behave in an ethical manner in the Korean pharmaceutical market. In this regard, the EUCCK is organizing a seminar in May 2009 with the participation of the Ministry of Health and other sponsors on the subject of ethical marketing. The seminar aims at improving the skills of product managers from European, American, Asian and especially local companies. Working together with all the relevant stakeholders, we hope to enhance the quality and responsibility of product managers, which are ultimately those most responsible in ensuring ethical practices on the market.

One of the main topics of the moment for European companies based in South Korea is the Free Trade Agreement (FTA) being negotiated between the two commercial partners. How is this process moving along, and what are the particular expectations of the pharmaceutical companies in this

regard?

The conversations between the government officials responsible for the negotiations and the organized sectors of both South Korea and the European Union have been very intense. After meetings with the EU special commissioner and the local presidency, we are confident that an agreement will be reached sometime in 2009. Besides, the South Korean presidency recently reiterated their will to sign all the FTAs currently under discussion, adding that most of them would be ready by the end of the first semester. Indeed, it is not only with the EU; South Korea is clearly engaged in a free-trade strategy, aiming to sign agreements with other important commercial partners as well. According to the president, big emerging markets such as Brazil also offer many opportunities for South Korea and trade agreements help in this regard. For the pharmaceutical industry in particular, a very important issue is the elevated price of generics in South Korea. They are considerably higher than in most other countries, generating an imbalance between the incentive to develop research intensive products or to simply do generics. Most countries would agree that the market forces are the best to fix the prices of generics, but the support needed to implement this view normally stays in the rhetoric. If a government was to really apply policies in this direction, it would guarantee that the best producer is the winner. I believe the South Korean government is finally realizing this. The FTA alone will increase the globalization of the local industry, promote its transparency, lead to reasonable prices, and improve the market's forces and incentive efficiency. In sum, the FTA will be extremely important for the South Korean EU relationship as business partners. Of course there are challenges, but in my view South Korea is truly committed and an agreement should ultimately be reached.

As a very large company with diverse business lines, how would you define Merck's positioning and key activities today on the market, especially in Korea?

First of all, the Merck Group finds a great part of its strength in its unique experience. It is the oldest family-owned pharmaceutical and chemical company in the world, with more than 300 years since its foundation. A second particularity is the fact that the family has decided to keep the chemical and pharmaceutical business under the same umbrella, thereby uniting their strengths. The third reason for the company's lasting success is its ability to reinforce its six main values throughout these 300 years without the need for artificial management strategies. In Merck we live by these values and lead through example. In terms of the pharmaceutical division, Merck has two main business lines: Merck-Serono and OTC products. After deciding to sell the generics business, Merck is now more than ever focused and carrying out R&D in order to ensure sustainable growth, based on a combination of recent blockbusters like Erbitux and new products. Merck currently has three main businesses in Korea. In the chemical area Merck has the life sciences business and also liquid crystals for the display industry, for which the company has a manufacturing site in Poseung. In terms of pharmaceuticals there is the Merck Serono division, but we do not have the OTC line in Korea. In addition, Merck has been increasing the number of clinical trials locally conducted because we understand the growing importance of Korea for global studies.

To what extent is Merck engaged in R&D partnerships and other collaborations in the Korean context?

Merck has a strong relation with R&D in Korea, not only in the medical area but also in the chemical field. Currently, the company owns research centers in Korea for Liquid Crystals and other emerging technologies. We are also supporting students and young scientists through different local projects and initiatives. This illustrates Merck's unique approach to social responsibility which is more in terms of establishing partnerships in each country where we have a presence. Some countries may require direct medical assistance or drug donations, but in other cases like Korea the best we can do is help people develop themselves and their communities by supporting research activities. Another

example of the strength of Merck's values is given by our Korean employees that have voluntarily decided to support an orphanage near the company's plant at their own expense, another illustration of our genuine commitment to the communities we work with. Generally speaking, many people around the world maintain a negative image of the pharmaceutical industry.

How would you explain the fact that this industry has not managed to get the recognition it deserves?

In my view, this is due to a lack of ability from the industry to properly communicate all the positive aspects of what we contribute to society. We see that when we manage to send out proper communication, there is a change in mindsets. Unfortunately, the image problem is also the result of the sensationalist way that the press tends to deal with isolated cases, unjustly harming the image of the whole industry. During your career you have had the opportunity to work in places with very different mindsets, such as Pakistan and Korea.

How challenging is it to work in such different cultural environments is and what are the main lessons you learned dealing with the Korean particularities?

Naturally, each country has its own history and culture which differentiate it to a certain degree from others. However, I believe that Koreans are not that much different from people in other places, especially in the business environment. Some people insist on the huge differences among Asian cultures, but they don't realize that the same cultural differences occur between western nations. When I arrived in Korea I had to adapt to their habits, notions of respect and politeness, but this also applies anywhere else. Moreover, it is striking how globalization is quickly shaping local habits in a country that only 15 years ago was still closed to foreign culture influences. Indeed, I think that if there is one distinctive feature of the Korean people it is their incredible ability to adapt to changes. This helps explain their ability to achieve fast, strong and consistent growth in the past decades.

What piece of advice would you give to a newcomer to Korea's pharmaceutical market?

I believe that one of the keys to success is not to focus on the differences, but on the many similarities that Koreans share with the rest of the world. Of course, the country has a history of invasions and struggles, which explain why they are so restless and competitive nowadays. But in a context of crisis, Korea offers a great example of how to face and properly overcome it. Their word for crisis, pronounced "wigi" combines two concepts: threat (wi) and opportunity (gi). This way of seeing things is a lesson that Koreans can give to the world, and explains why even in tough moments, Korea will always be a land of opportunities.

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