

Interview with Kalman Petro, Managing Director, Actavis BV

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A very strong phrase that we recently came across describes a “war going on in the generics industry” as a result of the preference policy, which people have claimed has had a detrimental effect on generics companies in the Netherlands. How has fallout from the preference policy revolutionized Actavis’s operations in Benelux?

We have to first distinguish between Belgium, the Netherlands, and Luxembourg since they are all quite different. While we are facing some tenders in Belgium, overall, it is a much less complex market than the Netherlands. We have been facing the preference policy in the Netherlands for many years, but since January 1, 2008 it has really been extended and accelerated. One company reduced the price of Simvastatin below the 5% bandwidth, meaning it would be the only product reimbursed. Suddenly, a small company became preferred for the entire fund and, despite its then less than 1% market share, was responsible for supplying 80% of the total market. It was at that moment that the preference policy really came into action.

After the health insurance companies decided to extend the preference policy into more products the game became completely different for generics companies. We had to submit our prices to the health insurance companies – the first major tender being in July 2008 – which was entirely new back then. We were accustomed to doing business with a different set of stakeholders – wholesalers and pharmacies. To this day health insurance companies are very busy with their preference policy arrangements which has changed every organization involved in the generics industry.

So today you would say that the highest priority stakeholders who you communicate with are the health insurance companies?

They are certainly very important stakeholders these days. In the past, the insurance companies and pharmacists would have a casual meeting to discuss the following year’s contract. Today they have to sit at the table together to discuss fees for service, contract extensions, and to determine if products being dispensed are the right preference products for reimbursement. Clearly, many financial repercussions come from buying a product and not getting reimbursed. Before the preference policy, the Netherlands always had low prices for generics with rebates going towards customers. Now the cheap prices are not going to pharmacists or wholesalers, but instead to the health insurance companies. The whole game is completely different.

The natural connotation of a preference policy suggests that the “preferred” is the favored and, essentially, is the “winner.” Who do you consider to be the “winners” from this policy and has the game changed for the better or the worse for Actavis?

It is always difficult to determine if you are “winner” when awarded a product tender. Actavis is neither the biggest nor the smallest generics company in the Netherlands. Depending on the

product, our market share is between 12-15% (for some Tender products even up to 70% market share) whereas when we started in 2007 that figure was around 8%. We have grown quite rapidly.

Generics deal with volume and margin, which are different arenas. Companies like Actavis, that invest a lot in R&D, safety, and quality in the Netherlands have a different set up than the smaller, newer ones. We have a 60 person staff which includes a pharmaceutical affairs department with quality control personnel. We mainly work for Actavis Benelux, but also for the Actavis Group. For example our European Logistics Center, dealing with the procedures to ensure that products coming from outside the EU are checked in the proper way to safely and efficiently clear them through customs. A lot of work is involved in those processes and safety is very important for us. The costs that we incur to ensure that our products are as safe as possible are much different than smaller companies, which makes it operationally difficult if the prices of generics go down. Prices were already low to begin with, but dropped even further than many expected. This was the "success" of the tender business for health insurance companies and "the Netherlands BV." Similarly, I see many more problems developing in the future because of continually decreasing prices.

Actavis is a strong company that is still focused on wholesalers and pharmacists. We have a broad portfolio with over 425 different types of SKUs. We are producing oncology products with our own manufacturing. Four years ago we bought Sindan in Romania, the largest oncology manufacturer in Europe, and we also acquired Nerviano in Italy a 300.000m² manufacturer allowing us to produce oncology medicines not just for us, but contractually for many others. We are market leader in Europe in oncology products and we also sell our products to many of our competitors.

Pharmacists in the Netherlands usually have one main generic label with a few sub-labels. If they choose Actavis, it therefore means that they choose all of our products. Pharmacists have always focused on wholesalers making sure that we close a good deal with them and that the wholesalers are able to ensure that our product range is available for their customers. However, this model has changed with the onset of the tender business. We cannot sell some of our products since they have not been chosen as the preferred ones by a health insurance company. If the system continues like this, then gaps in supply will occur more frequently. There were instances when we chose to submit for tender because if you do not do anything then you lose a significant market share; that, of course, is a problem for us given that generics are about volume and fair prices.

Does the need to tender at times pose certain threats to the high quality, uncompromising manufacturing standards that Actavis places such a strong emphasis on?

Safety for us is absolutely a standard that will always remain as high as it does today. For example, we have a special, patented system for vials that we produce called a "VialShield". It is a plastic layer that ensures that the vial remains intact should it fall on the floor, which is a safety feature because in the event of breakage the system contains the cytotoxics, preventing spillage. Furthermore, when a vial does fall it most often drops on its thickest part. We therefore manufacture an even thicker plastic bottom to reduce the chance of breakage. We have been very successful in selling these protective elements to hospitals. Hospitals are tender businesses in the Netherlands so we frequently see tenders requesting both the VialShield and additionally the thicker bottom. We are completely focused on safety.

We maintain the same committed focus on safety in the retail business. But prices are dropping so severely "through the basement" as it translates in Dutch that almost no one can produce a pack of 30 tablets for the market price of 29 cents. Generics companies must either take those low-cost products out of their portfolio or sell them at a loss and hope that it gets compensated by other products. There was a time when we temporarily stopped selling Simvastatin. However, when our customers "the over 400 pharmacies we supply" reached out to us asking us to put

it back in our assortment since it is an important product for them, we were able to find an acceptable price level to bring the product back in stock.

The preference policy, with all of its complications and complexities, seems to require a different operational strategy and a different thinking cap than what would be required in Belgium, despite both countries being managed by the same office. How do the approaches differ when it comes to managing both country markets?

In the Netherlands we are quickly becoming more of a pharmaceutical company than a traditional generics company. Our main business is still, of course, generics in which we distribute to pharmacists and dispensing doctors. We also have a big hospital department in the Netherlands where we sell to Hospitals and buying groups through wholesalers, which requires its own completely different approach.

We have a big OTC department with a large range of OTC products; generics and branded products. Our key branded product line is a skincare line of 12 products that is completely focused on dry skin. This range, Decubal, has existed in Scandinavia for the past 35 years and currently there is hardly any pharmacy in Denmark or Sweden that does not sell Decubal. We introduced Decubal in the Netherlands this year and we are now selling it to 1,200 drug stores and pharmacists throughout the country.

Being a pharmaceutical company, we cover Rx, Hx, and OTC. Besides generics we also have branded prescription products such as ones we bought from GlaxoSmithKline and Roche. Our new business units are growing quite rapidly which I am very happy about since the retail business is a very difficult area to earn any money in at this moment.

Actavis has a new CEO, Claudio Albrecht, as of June 2010. A change in executive leadership usually comes with a new strategic direction, to varying degrees. Given your position as managing director of a very unique and complex Dutch environment for generics and your special advisor role to the European Generic Medicine Association (EGA), to what extent are you involved in shaping the direction of the company?

I was invited by BOGIN and FeBelGen to take part in the organization that is focused on the tender business. I am also a part of the tender working group within the EGA. â??Unfortunatelyâ?• I am a specialist in this area because the Netherlands is a tender business so I know a lot about it. The focus is to concentrate on the threats facing the system and what might go on if things persist as they are now. We have to focus on the risks.

Claudio Albrecht came on board in June 2010. He is an entrepreneur who is changing the company quite rapidly in certain areas. He is focused on making sure that we have products on-time as they come off patent and that we introduce them quickly and efficiently. That objective is easy to say but complex to implement. It is also important to make sure that we introduce the right products, but not necessarily all products.

The next several years are very game-changing for the global pharmaceutical industry given the expiration of many blockbuster patents.

What are the main priorities for new product roll-outs for Actavis and what does the future product mix in the Netherlands look like to you?

One of the big products for our retail business is Atorvastatin which is the biggest one coming off patent next year that everyone is focusing on. But I am quite sure that it will be a tender product. Imminently expiring patented products have been in our pipeline for five years since it takes that long to bring a product to market. We therefore targeted those products five years ago much like most of

our big competitors.

To be honest, it is not sure whether we will continue the process as such. Barring any market change, I am not sure whether my CEO is willing to invest a lot of money in products five years before they come off patent knowing that they stand the high chance of being lost when they go to tender in the Netherlands. Those are the big risks that we face in the future and I do not blame him for looking at it with a critical eye. Little money is earned for generics companies and the prices are too low. It is not a sustainable system that we operate in.

New products are coming which we are focused on. However, the hospital market is quite different. Every oncology product that comes off patent is interesting for us. At the moment we are introducing an important one, Docetaxel, which went off patent last Friday at midnight and was here on Saturday morning. We made sure that our offers were promptly on the table and we just recently delivered the first doses of Docetaxel to hospitals.

What is your central strategy for sustaining this business in an often-described unsustainable system?

Holland is a volume market with generics accounting for 60% of the volume but only 10% of the costs. I would estimate that an average Dutch person pays only €25 per year on generic products. Since it is a volume market, it is still a very important market for Actavis since the world market trades on volumes. Many people ask me, "How long do you plan on staying in the Netherlands with Actavis?" Or, "Why are almost no generic companies stopping their business in the Netherlands?" The answer is: because it is a volume market and many organizations are part of global companies. Of course you have to reshape the company to be ready for the future which we are doing here by readying ourselves with OTC products, hospital products, and business-to-business sales.

In 2008 Harvard Business School published a case study about Actavis and its then-CEO entitled "Robert Wessman and Actavis's Winning formula" which examined the company's rise from humble Icelandic routes into a global generics player. If you were to write a case study on the generics market in the Netherlands, what would you assess to be the "winning formula" to succeed here?

We have decided to not bet on one horse. This market is in a massive transition period. Last week I attended a big conference for various stakeholders. We talked about the preference policy and for the first time we dared to discuss that there might be an end to it. The purpose of the preference policy was to drive prices down. Now that that target has been reached, we need to turn our attention to sustainability. What we did with Actavis was not focus on the tender business from the start. It was sometimes inevitable from a strategic basis to submit for a tender because, again, if you do not do anything, then you are guaranteed to lose everything. But we are focused on the broadness of the portfolio which I think is a good, albeit difficult, choice. Back in 2008 it was not an easy moment to choose whether or not to submit for prices. I chose to not entirely go for the tender business, but to keep on focusing on the cooperation with health insurance companies in a broader way and with wholesalers and pharmacists.

Achmea, an insurance company, chose a fixed price model – a fixed price for all Gx products, regardless of the therapeutic line – which we supported from the beginning since we have a broad portfolio. I am happy that we went with this model as opposed to other companies who did not and lost market share. We chose a certain balance between preference policy and the fixed price model which until now was the right thing for Actavis to do, but not for the longer term.

What you see now is scarcity in the market. To give an example, we brought Simvastatin back into our portfolio at the request of our customers with a lead time of five months to get it into our warehouse. A situation occurred in which the preferred Simvastatin company ran out of stock. The pharmacists then went to the biggest player for supply, but this player also ran out of stock. They then turned to the second player who, as you can guess, also ran out of stock. They then came to us and we had enough stock for five months to supply our own customer. But for the whole market this stock was suddenly just enough for a couple of weeks.

Companies are not going to order products in advance anymore if they are not preferred, which makes things very dangerous. The customer – the patient – is suffering at this moment through the tender business. Pharmacists now have to say – several thousand times per day to patients because they do not have the same product that they used to. I am afraid that if we remain under the preference policy for longer than 2-3 years, then scarcity will be the main problem in the market and patients will suffer even more than they now already do. This is even more alarming when considering the ageing populations in the Netherlands who are using more than three kinds of medicines for chronic diseases which are the products most susceptible to the tender business.

However, I am happy that we are starting to have an open debate with health insurance companies. The discussion at the recent conference provided a ray of light for the future.

Being spread out amongst three very different markets, what is the unifying corporate culture that you try to instill amongst your staff and within this affiliate?

We are a young affiliate that has grown very rapidly. When I started in 2007 we had about 30 people. Now we are around 60. This is a youthful feeling organization with a new flavor and a new view which I have tried to sustain not just within our group but also in how we present ourselves to the market and communicate with our customers. You can sense from the way we advertise in magazines and present ourselves at various fairs that we do things differently than other companies. The generic pharmaceutical market in the Netherlands was a bit old fashioned. To give a simple example, we do not want the men here to always wear a tie in the office because we are all about how you act, not how you dress.

When our people go home every day I want them to think – could I have done it differently? Could I have helped anyone in a way that I did not? – We want our people to think every day about the things that they have done and if they could have done them differently, not just on an individual basis, but in a collective sense.

I do not mind if people make mistakes. But I want them to learn from their mistakes and not make the same mistake twice. I make mistakes everyday; but I am eager to learn from them. The active, spirit to work hard and learn is present everyday and embedded in our values.

In Belgium, the culture is completely different. My first task was to make sure that our Belgian colleagues feel happy in the Netherlands since the two countries are so different. I can tell you that Belgians are different from the Dutch and we take a lot of effort in bringing these cultures together, with good results.

An example? In Belgium our staff addresses me as – Mr. Petro, – whereas I am just – Kalman – in the Netherlands. Belgium is a dining and eating culture compared to the Netherlands where in fact we have no dining culture. One of our values is – be connected – not only to our customers but connected internally. We have developed several projects this year for our staff to get better connected with each other. We had an internship project where staff could work in a different department for several hours or a whole day to see the type of work outside of their role; this included working with me. It was a whole process in which staff had to apply for a

position, present their reasons for wanting an internship in a different department, and assess how it makes them better for their job. We now feel that people are aware of the complexities of each others' work. If you understand the work of your colleagues then you better understand the interrelated nature that affects your job. The team spirit is even better now because we all understand each other a lot better.

Within Actavis we strive for open doors, short communication lines, and minimal barriers to reach the management team. The flexible dynamic of Actavis is truly different and you sense it from the customers.

It all comes down to being connected. For example, we also have an extranet on our website. There is a special space called 'Actavis4U' which is open 24/7 for our customers where they can find information and pictures of our products. You can imagine in the tender business that it is very important for the end user to see what a product looks like. The assistant in a pharmacy can look up a tablet's color and physicality and explain it to the customer. Both internally and externally we are always open and accessible.

What would be your final message to the readers of Pharmaceutical Executive?

The market is in a massive transition. We are happy to talk about competitive prices that is fine. Not only is the Netherlands a volume market, but it is the nature of the generics industry, and we are used to it. But there comes a certain point where we can no longer drive prices further down, and this point has certainly arrived in the Netherlands.

We at Actavis are completely focused on safety and I take part in many forums and symposiums to communicate that we must make sure that safety and sustainability stay key issues in our business.

Therefore, my message to all industry stakeholders is to please not only focus on price but make sure that you see the whole picture.

Patient safety comes first. We can produce whatever we want, but if patient safety is compromised, then we have achieved nothing. We must make sure that patient safety remains the most important priority.

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