

# Interview with Marina Veldanova, Country Manager, Ipsen Russia

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03.05.2011

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**announced the acquisition of a Russian pharmaceutical license. Even before this license, Russia was already one of the largest affiliates. of the group, as of 2010. The company is clearly digging in for the long term. What does this additional step imply for operations here?**

You are right, Russia is the sixth largest affiliate for the group. But in terms of growth rate, we are in top-3. That is more or less the general trend all over the world—that emerging markets have the highest growth rate; this is clear.

To expand our sales, we have to go deeper into the market and deeper into the regions. Before, Ipsen operated without real commercial activity here in Russia—just promotional operations. We had to work with national distributors, who bought all of our products from Ipsen in France.

It is a usual path for any company here, when they reach a certain level of sales and are thinking of how to improve performance, to activate a Russian legal entity with a pharmaceutical license. This means they gain the right to sell products by themselves. This gives us a chance to be closer to our final customer, to take part in regional tenders not through our distributors but through our own entity, to be more flexible in commercial policy and price policy, and to increase the market share of our products in given regions.

So yes, we received the pharmaceutical license. Now, we have submitted documents for an import license and we have a plan to very shortly activate an OOO—which is the Russian equivalent of an LLC. We anticipate that this will be finalized in the months to come. Generally, the incorporation of the Russian subsidiary means the start of localization. It is a big trend in the market right now to localize. Localize means to open this legal entity and then to perhaps take further steps. That is why we are in this stage.

**Let us then talk about the next step. Everyone is indeed talking about localization and the government is pushing for it. They have announced that they want to reduce reliance on imported medicines, especially in the state procurement programs. In an earlier interview, you mentioned that before you will take steps to invest in a physical facility, you would like more long-term predictability from the government. But their position seems to be that while they welcome the investment, they will provide no guarantees on returns. What do you tell your headquarters about the best strategy to take, given these facts?**

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We provide headquarters with different possible scenarios: conservative scenario, favorable scenario, aggressive scenario, etc. The conservative scenario, which is not risky from a short-term point of view, is to maintain operations as they are, and to develop the organization with routine tools already existing in our portfolio.

But the government, as you said, has given us a very clear message that they would like to see investment and the localization of foreign companies in Russia. After one or two years of discussion, they set up the now-approved Pharma 2020 strategy. In this strategy, there are very clear numbers regarding: the proposed overall local product share in the market, the local product share in the reimbursement programs, and what the share of innovative products should be within the locally produced segment. The numbers are 50, 90, and 60 percent, respectively, by 2020.

This is far from the existing situation, especially if we are talking about the reimbursement programs. In those programs, the biggest share is represented by international companies. The innovative share in local products is far off the goal, as well, as the market is dominated by generics and branded generics. Innovative products have a very, very small share.

The government's clear message is that they would like to develop the pharmaceutical industry. They would like to encourage the substitution of imported products in the reimbursement system. They would like to secure the pharmaceutical sector and safeguard it from world trends. It is all very sensible! We have a big country with a big population.

As I mentioned, the numbers exist. These numbers are indicative of tactics that the authorities would like to see from us. For example, when they are asking for the increase of innovative products, it is a signal for Big Pharma or for truly international pharma—as Ipsen is—that they welcome us. We are producing innovative products.

**But on these points, there is a lot of discussion, and a lot of uncertainty. First of all, there is no official explanation of what "local status" will legally imply. Does it mean just packaging? Or formulations? Which stage of production must be completed in Russia so that a product may be called "locally produced"? Thankfully, discussions on this point are ongoing, and some ideas have already been published. Nothing is approved yet, but at least the government is aware of our concerns about status.**

Another very important contention, given the globalization trend in today's world, is this: international pharma companies that are producing innovative products, especially biopharmaceuticals, need only so many plants to supply their products all over the world. Their production, though high-value, is small-volume. These are niche products and these companies do not have thousand-square meter plants. Companies that have this kind of production are discussing the reasonability of production of high-tech medicines in Russia because, from a financial point of view, there is no clear reasonability.

**How do you resolve this contradiction that the government asks you to produce locally, but it is not necessarily economically attractive?**

It is more or less our understanding that, before the announcement of this message, a deep analysis of the attractiveness of Russian production for high-tech products hadn't been done. The announcement was more of a strategic declaration. In the beginning, the multinational pharma community was a bit surprised, because there was no clear economical rationale visible.

But then, after long discussions we realized that, as I said, the general reason why they ask for this investment is to rebuild this industry. This is wholly acceptable. Our position is that it is now the goal, or challenge, of the international industry to explain, to help, to consult Russian authorities regarding

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how this can be done in the best way.

They have to give you incentives to build.

Yes. Incentives are important as well: some preferences, some guarantees.

**Do you see that happening?**

**For the moment, not yet. But this is a very fresh initiative—it is something that happened only last year. Pharma 2020 was approved just recently. We have changed our minds a bit, and started to look at this initiative not as something unrealistic, but rather as something that is clear, reasonable and strategic. Together with the authorities, we—and by we I mean the company, as well as the AIPM, as I am the chief of the AIPM taskforce responsible for government and public communication—have to build realistic strategies for implementation. We would like to be partners in dialogue. We would like to share competencies. We would like to show that we can help the government to develop tactics for execution. Because the strategy is clear and now we are building tactics: what products will be localized? What products will be reimbursed? What is guaranteed? Will there be universal medical insurance?**

So, interesting step: strategy selected, tactics under development!

We are in this moment. I have nothing negative to say. Just, again, that we have to act together in developing these tactics—this is extremely important. Because from my point of view, without competencies gleaned from international pharma, the process may not be as effective. We acknowledge, of course, that we are guests here, selling products in this territory—we have to respect the rules of the game. But we have to try to build good dialogue.

**With the constant changes happening in this country, how are companies able to navigate this environment?**

The market is indeed very turbulent. I have been in this industry for 18 years, so I have been here from the first years that the modern market was built. Every day, every year, there is turbulence in Russia. This is no surprise for our headquarters. We are building a new society—a new country—and these challenges are normal.

If a company has selected to be here, they have to accept the turbulence. They have to accept changes in the rules, according to the changes of the environment. All of my colleagues, sooner or later, receive flexibility from their headquarters; they receive the right to change how they operate, to change their investment profiles, and etc.

But, at the same time, last year, and in the year ahead, things are perhaps extraordinary in terms of turbulence. Because it is the first time, in the last twenty-year history of the Russian pharmaceutical market, that a new player appeared: government. This is a very big new player! Of course, the government played some role before: regulatory functions, customs, certification, etc. But now they took the main violin in this orchestra. They decided to set up rules for each segment of our activity. The pharmaceutical industry is not difficult, but it is complex. We have many different segments: production, logistics, commercial, marketing, field force activity, medical activity, etc. Before, each segment was regulated separately by different agencies, or not regulated. Companies were bringing their own expertise and trying to do business based on their own understanding. Now, the government has decided that, on the federal level, they would like to set up a few big laws. For example, last year, the first such law appeared: the drug circulation law. This law describes many of the various segments of our activity in one document. Now we expect the next big law, which will be

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a healthcare protection law. The draft already has appeared, and the authorities expect to approve it in January 2012. Now is the discussion process—this is why I said to you that now is time for dialogue. The draft is there to be read. One can go online and read it, discuss it with peers, and send a letter to the Ministry of Health if they have contentions.

This law will be huge. There are 99 articles in it, regulating a great many things, including the activities of pharmaceutical companies. For example, for the first time in Russian life, we are expecting the regulation of promotional activity. All over the world, these things are already regulated: the rules of medical rep visits, rules of sponsoring events, rules of gift-giving. In our country, these things were only regulated by civil law—for example, the limits of giving gifts to doctors. Just civil law and ethics code; not special law. Now, they would like to regulate the number of visits, the possibilities of visit during working hours, the possibility to give samples, everything.

For us, this means that the government is really beginning to focus on every detail of our activity and they are not just giving recommendations; they are setting up rules.

This is a new paradigm; a new, main player has appeared. The pharmaceutical industry has come under the focus of our president and prime minister. At least monthly, both of them will mention something concerning our industry in their speeches and their meetings. This is a signal of their attention and the seriousness of their intentions. That is why there is no room for doubt regarding whether the industry will be regulated or not. Yes, it will be regulated. Again, the strategy is clear, and now is the time for discourse on realization. Discourse with them and with headquarters.

As I mentioned, we present several scenarios to headquarters—assessing the risks and opportunities of various investment strategies in Russia. I think that everybody—not only Ipsen—is conducting an analysis of the next step in the localization process. Of course, we need time for that, first. Second, we have to wait until the final rules are announced about local manufacturing status, price registration procedure, etc. Now, it is not easy to build strategic planning and numbers because we are awaiting a final message from regulators.

It is an interesting moment. We build many scenarios, to prepare ourselves to be as fast as possible in the selection process when the government ultimately announces the final rules. And we have to respect their rules; let them make them clear, and we will execute our plans based on those directives.

**We have been talking about the conditions needed to invest here for Ipsen's future. Let us backtrack a bit to 2009, to when you joined the company. In that same year, Ipsen Russia, as many other companies, was affected by the financial crisis. Before you could think about investment, you had to overcome this hurdle. How were you able to do it?**

It was not just me, but rather our whole team. First of all, to be experienced in Russia, is to be experienced in turbulence—intrinsically. You cannot be a good manager here unless you are a crisis manager. To be a crisis manager means to have special competencies to manage crisis. It means that you have to be very fast and very flexible in making decisions. You have to be able to make a decision today and be able to change it tomorrow, in case conditions call for it. You have to be pretty tough in management of your people and you have to set up very clear, SMART targets for them. In crisis you cannot have only general goals; you have to have concrete goals in terms of numbers and deadlines. This is what crisis management means for me.

For a generation that has developed in Russia, this is the normal way of operations. I have faced, for example, 1998's crisis with my team at Berlin-Chemie. Then, in 2005, when the reimbursement system was set up, it was not a crisis, but nonetheless a huge change on the market. I have a lot of experience. So, answer number one: you need crisis management competencies that Russian

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managers have inherently built living in Russia. Second, based on experience in other organizations, you get a sense of how to set up the internal infrastructure of your company to be solid, tough, and able to overcome challenges. When I joined this company, I evaluated the situation and selected a few segments of Ipsen Russia that had to be improved immediately; some had to be improved over the medium term and some long-term. I am currently overseeing this plan and it is really a three-year plan. I think this is a standard circle for company improvement for a GM: short, middle, long-term improvement strategy, carried out over three years. Then, you can jump into an absolutely new step in your development. Segment by segment, we are improving and evolving.

That is why in 2009, we had a performance that was even better than that of 2008. We demonstrated growth, even in a crisis year. Then, we had an even better result in 2010, because of the more or less stable situation. Now, we are opening a Russian legal entity, which means growth as well and probably next year will be all about localization, portfolio development, or new techniques in our activities because of the new healthcare protection law. This law will certainly affect us, so we are developing new models of, for example, key account management, market access management, etc.

The third answer to this question is development of your team. It is not only about giving people a target. It is about motivating them, encouraging a team spirit, and building up your human resources. It was a very interesting period. We built a team in 2009 that is very solid; good people in finance, human resources and commercial, pretty young, motivated to be real winners. We decided that we must show that we can really overcome.

During crisis time, it is very interesting to motivate people, and to select people. Because, actually speaking, special people appeared in that moment—people that are not afraid of problems. People who like when the environment is challenging. It is a different mindset: people who prefer to work in crisis, and those who prefer to work in stability. I definitely operate more effectively in a crisis environment because to live Russia, to grow in Russia, and to create a career in the pharma industry, is to be a crisis manager. We are living in an ever-changing environment. For me, it is very easy to build a team of likeminded people—who like an environment with all of these changes, that calls for flexibility, quickness, brainstorming. We see, we discuss, we decide, we move.

The fourth answer, which is very important, is that headquarters are supportive of this management: they accept flexibility, and changing strategies in the middle of the month. If headquarters would ask us to operate in the “old” style—budget for the whole year with no changes—there would be no chance to survive. On this issue, I am very happy with my bosses Jean Fabre and Christophe Jean, who know the Russian market and who shares our views. They really know how to operate from a crisis management standpoint. I have no contentions with headquarters and I can be sure that my decisions, if reasonable, will be accepted.

I would call these four components fundamental in crisis management: personal competencies, good internal structure, strong team development, and good dialogue with headquarters. All the rest is just the job.

**Ipsen Russia grew double digits in 2010, compared with 5% global company growth, and you expect strong growth to continue through 2011. Jean-Luc Bâlingard, former CEO of Ipsen, told Focus Reports during a 2009 interview that “the game has changed,” and that Ipsen must now focus on emerging markets in the face of stagnant growth in traditional revenue streams. What do you think Russia is going to mean for Ipsen going forward?**

It is clear. First of all, there are, as you are saying, shifting priorities. Although most of Groupe revenues are derived from Western markets, our growth rate is very important; the potential size of

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the Russian pharmaceutical market is very significant. That is why, now, I think that in strategic priority, in investment priority, in strategic decisions—emerging markets have become one of the main focuses.

In mature markets, you can more or less maintain business as it is. But in emerging markets, concerns are changing. I think that in emerging markets, the priority is not profit. To receive significant contributions from just the organic growth of these markets is impossible, because they have not matured enough yet. Instead, companies must consider aggressive investment models. Investment that is not geared toward short-term returns, but rather toward confidence that stability and returns will come over the long-term. This is a very different paradigm for pharmaceutical companies doing business in various markets.

I think Ipsen is now ready for this. We have a message from headquarters: emerging markets are one of the top priorities and we are willing to accept the adjustment of our strategy according to fluctuating market demands. This is as compared with another strategy—a corporate strategy that is copy-pasted to each division.

Obviously, that copy-paste strategy cannot be successful here because Russia has a different market structure. Take a look, for example, at Ipsen's portfolio. The company has a high-tech portfolio and a primary care portfolio. Global Ipsen has a large share in high-tech products and a small share in primary care products. Ipsen Russia is the opposite; the primary care share is larger. Of course, the strategic message is that we have to develop high-tech. But, we have to invest in primary care as well, because for us it means business; it means sales.

You cannot copy-paste the strategy here; you cannot just look at things from a profit level. This market is a special market, with its own particularities. And if you want to be here in the future, and reap its benefits, you have to adjust your approach.

**What about innovation? Ipsen is a highly innovative company globally and the ultimate goal of Pharma 2020 is to develop Russian innovation. What role can Ipsen play in this sphere in Russia?**

This corresponds with my message that we are entering an analytic step. As our government has said, several doors are open. Doors for just production, for example: build plants. Second, the government is asking industry to bring them technology, train people, and so on. It will be appreciated as well. Third, they are asking us to invest in research facilities, or laboratories. Fourth, bring some intellectual property to Russia. Different scenarios are possible.

It is encouraging that the government has now started to talk to us not only about building these plants—a few years ago it was all about building a plant or buying a plant. Now, they are saying that any kind of investment is appreciated.

Knowing that the strongest feature of Ipsen is high-tech, biotech innovative technology, one of the discussions that we now have with headquarters is, “why not bring competencies in this sphere to Russia?” Of course, it is not easy to say how we can do that—because competencies are something intangible. But competencies are another way to localize, and perhaps one of the best ways to do so.

So different options are possible and different scenarios are on the table. But potentially, I think it would be great if an innovative company like Ipsen can develop innovative competencies in Russia.

**When you were at Polpharma Russia, you were in a similar position to the one you are in now: you were not part of the largest company subsidiary, but it was one with the most**

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## **growth potential. What did you learn from growing the Polpharma brand that you can bring to developing Ipsen?**

My Polpharma experience was very, very important in my life. Because yes, it was a small business in Russia, but through the acquisition of Akrihin shares we had a real explosion in our sales. I suppose that now, Russia is one of the largest markets for the group. Akrihin, too, is performing very well, and they are highly visible on the list of Russian manufacturers.

For me, two and a half years in Polpharma certainly taught me a lot. For example, how to make rapid decisions, how to analyze situations, how to merge two companies, how to bring innovative techniques in promotion and sales to the Russian plant, and how to use the advantages of local production. For me it was a brilliant experience. That is why, when I joined Ipsen in such an exciting momentâ??2009, the crisis yearâ??I brought with me a real understanding of how to manage business during a time when the business model is changing.

I am very thankful for my experience. Even though we do not have an acquisition underway at Ipsen, developing the business model, and overcoming the crisis, is made possible by skills I developed in my last position.

It is quite impressive that after just one year at Polpharma, you won the â??Platinum Ounceâ?? for management.

I am very proud of that! I was able to win that honor because the Akrihin shares acquisition was a very big story and very recognizable on the market.

## **Is it difficult to be a woman in a top management position in this environment?**

It is very interesting for me to head a team of men and women and to manage in an exciting market like Russiaâ??with its growth, innovative management techniques, business model developments, etc. I appreciate it.

I prefer to be a woman working in a male-driven environment. A male environment is more structured and it is not as emotionally dependant. As the only woman, you can use unique emotional management tools because sometimes men are far from understanding that, now and then, we are directing them in a very special way! I think it is a good situation to be a woman among men.

## **What is your final message on behalf of Ipsen Russia?**

I would like to show to the Russian market that Ipsen Russia can definitely be a benchmark in terms of management, in terms of numbers, in terms of quality, and in terms of working. This is the message to the market.

To my colleagues at Ipsen, I would like to show that they can trust us, that they can invest, and that they can accept our way of doing business because I think that we can really bring something innovative to the international model of doing business.

To the readers, life is great! Sometimes you have to feel that the job is fun, as well. Yes, take everything seriously, but not too seriously.

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