

Interview with Mark Brown, Head of Thailand/Vietnam Cluster, Invida Thailand

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er for Thailand and Vietnam; two markets that certainly interest companies but at a very different stage of development. What are according to you the main differences between the Thai and the Vietnam market?

Government regulation in Vietnam is higher throughout the value chain, whereas Thailand tends to be more focused on the regulatory end.

Vietnam is basically Thailand ten years ago. Thailand is earmarked as a Pharmerging market, but that is only based on its previous double digit growth rates. In terms of sophistication of the market and its regulatory environment it is a maturing market. In comparison, Vietnam is more a Pharmerging market. Other than that, the markets are not that different looking at access to medicine and reimbursement. Both are hospital driven markets with a growing drug store channel.

Ms. Prinz, GM of Bayer Thailand, told us that the Thai pharmaceutical market shows low growth mainly due to cost containment policy, while data provided by suppliers and IMS estimate positive growth projections. How do you explain this discrepancy and what is your take?

The MNCs self report to the industry association PREMA. PREMA reported that growth was around eight percent February YTD, although most General Managers would tell you it is less than five, depending on which channel they are mainly exposed to.

Growth in the hospital channel has certainly slowed down; today, it is the drug store channel where the growth can be found. However, the drug store channel represents a much smaller part of the market in terms of overall value.

Prior to my arrival last year, the government implemented some very good policies. If I were the Health Minister of Thailand, I would be very proud of the industry growth graph, because it shows a real containment of spending. Many initiatives were implemented, such as a push towards generics prescriptions and the ignoring of patents of high-cost necessary medications which the Government Pharmaceutical Organization (GPO) is now manufacturing itself. But the major cost containment decision has been reimbursement to a medium price. That means that all products have to be reduced in price to retain their reimbursement status.

A second major influencing factor is prescribing audits. Doctors and hospitals are being audited for prescribing more expensive products in higher proportions than the average. The initiative focuses mainly on eight therapeutic classes with high volumes and spending, among others lipid lowering

agents and COX- II inhibitors, and forces prescribers back to the older compounds.

These two initiatives have driven cost-containment in the country.. But most MNCs have focused spending on their higher-cost, new chemical entities that have now become high-risk for them as prescribers shifted back to the older compounds that the MNCs have not focused promotion on for many years.

Another development in Thailand is aggressive hospital bidding. To win a tender at one of the big hospitals and to retain listings, particularly in when exposed to generics competition, companies will have to seriously consider pricing. That is on a hospital-by-hospital level, and it is a core reason for the slowing growth rate. The unit levels in Thailand show significant growth and a very healthy market. You mentioned the 66 million people, but to provide a perspective: urbanization in Thailand is below 40 percent. Most foreigners coming to Thailand think that most Thai live in the big cities, while almost half of the population still lives in rural areas with limited access to medicine or treatments.

The other issue is the way in which health funding is delivered. Although the government has proposed to change it, the Civil Servants Medical Benefits Scheme (CSMBS) receives a disproportionate percentage of healthcare spending compared to the number of people it covers. Only a small proportion of the population receives this uncapped healthcare scheme, which is probably double that of the overall healthcare per capita spend.

Below the CSMBS, Thailand has the Social Security Scheme (SSS), which covers a moderate percentage of the population through employer contributions. However, this is a capped system. The government is now looking to limit spending on the CSMBS and transfer funds into the SSS, a measure that is bound to receive much resistance..

At the lowest level of healthcare spending per capita there is universal coverage, through which the majority of the population is covered. This scheme is capped at a very low level: 60 USD per year. Patients covered under this scheme generally receive minimalist healthcare; as a rule they are prescribed generics and are given less diagnostics treatment. Fortunately the government is looking to redistribute funds into this category as well.

If the government would start spending its healthcare budget proportionally, the market could grow dramatically. Increased spending of five percent within universal coverage would mean an additional 25 USD for about 45 million people. Such a measure would improve healthcare and open up spending on pharmaceuticals as well.

Invida was set up in 2005 in anticipation of the growth in the Asian markets. MNCs are now flocking to the region providing growth opportunities for the company. In 2009, Invida had revenues of \$200 million and a CAGR of 23%. What growth do you expect for Thailand?

We grew at 16 percent last year, four times the market growth, some of which was through new business partnerships. This year we are one of the fastest growing multinational companies of PREMA in Thailand, and we anticipate growing 12% percent organically this year.

We are able to substantially exceed market growth because our own brands and the brands of the portfolios of our partners give us quite a wide therapeutic coverage. This makes our risks different from most MNCs, which are often highly therapeutically focused. MNCs are sometimes unable to gain growth because of generics exposure and therapeutic class pressure, whereas Invida is present in four times as many therapeutic classes as Novartis for instance.

Invida has 16 partners from very large MNCs to small local manufacturers and a diversified portfolio; from diagnostics to everyday cosmetics, we have it in our portfolio.

We were set up specifically to focus on Asian markets and to first of all deliver services to patients and partners, but also as a value proposition to be purchased. This happened last year when Menarini, the largest Italian pharmaceutical group, acquired Invida. The take-over will not change our business model in Thailand in the short term. We are looking to the future portfolio of Menarini but it will take two to three years to register the products and market them.

When we met Mr. Cheah Chor Eng in Malaysia told us that many companies looking to invest in Asia Pacific take a regional rather than a country-specific approach, and that Invida is the ideal partner solution due to its ability to help clients enter the region as a whole. Given the diversity of Asia, how does for instance the approach differ between your previous location Korea and Thailand?

Our value proposition originally was to provide one-stop access to Asia. If partners met with our regional director, he could understand their objectives and set up operations for the 13 countries Invida operates in. For the partner it means that they have one point of contact through which they can access 13 markets.

Invida will have a person responsible for BD in most countries, so that partners can access people locally. The head office now also provides an alliance management function for pan-Asian partners as the central point for reporting, negotiating issues, managing supplies, etc. This system has started to work very well with some of our larger partners.

ASEAN integration provides great prospects with many companies looking to invest in Thailand as a distribution, manufacturing and exporting hub. How will ASEAN integration change the Invida business?

I was discussing that with an acquaintance from the Australian Chamber of Commerce the other day. We manufacture a range of cosmetic products in Singapore. As the import duties (at the moment 30 percent for cosmetics) will be removed, ASEAN integration will benefit us in terms of importation. But as most of our other products are imported from the US and Europe, ASEAN integration will not change our business to a great extent.

Until we establish substantial manufacturing in the ASEAN region, which is an objective of the company, it will not impact our business significantly.

Would Thailand be a suitable place to do so?

Thailand has a very strong capability and presence in manufacturing: cars, high-end electronics, and consumer goods. It seems however that this is kept a secret for the world.

Thailand has a task to establish itself as a manufacturer worldwide. It will prove a challenge to position the country as a manufacturing base for pharmaceuticals though, because the country does not have the high-tech manufacturing branding worldwide yet. Countries like Malaysia and Singapore are doing better in this regard and are for instance providing tax breaks to manufacturers coming to the country.

Thailand is behind the ball. The country has the capabilities to establish itself as a manufacturing hub, with several smaller manufacturers present now, but overall there is a lot of catching up to do.

With Asia the continent to be for the global Pharma industry, Invida is currently implementing a long-term strategy to establish itself as a leader in the continent's rapidly expanding markets through targeted investments. Could you outline what this strategy entails for Thailand?

The history of the business has been based on partnerships and providing licensing and regulatory services to partners. This makes up 50 percent of my revenues today and will continue to represent a significant amount. It has been a successful business model, and as Thailand is not usually the first Asian country an MNC enters, we still provide market access, the knowledge of the regulatory requirements and the ability to do sales and marketing.

The brand business will also grow in the coming years through acquisitions that Invida has made globally as well as through the introduction of the Menarini portfolio, through which we have some very good products in the pipeline. We will continue to provide a strong agency focus and partner management.

The company is shifting its emphasis away from a Contract Sales Organization towards its own brands, and by 2014, brands, including in-licensed products sold under the Invida name, should account for 29% of revenues. Would you outline for our readers the current changes that are taking place?

Shifting away is not the right way to put it. The percentage of our business will change as we introduce more brands, but we are not deliberately moving away from any business. The company has never had a significant brand opportunity before, and now we do. This means that in five years time we will still have CSO, but the ratio of brand business sales will be much higher.

We are still actively discussing future business opportunities with partners. The company has not abandoned the past business model to launch Menarini brands; that would not be feasible in Thailand as it would create a three year revenue gap. I have to continue growing the existing business with the existing model, and then launch the Menarini portfolio as I see the opportunities and achieve the regulatory requirements.

The company says that it sets itself lofty goals. What would you say are the lofty goals you set for Thailand and what is your roadmap to achieving these ambitions?

The lofty goal would be to maximize our brand business. These are products that we acquired or have very long licenses agreements to promote.

Thailand is now the largest market for Invida, both in terms of revenue and profitability, and our organic growth objective for 2012 is 16 percent. That was already a stretch target, but the focus on maximizing our brand business requires that we achieve 35 percent growth of brands, which, even though coming from a low base, is significant.

To reach these targets in the Thai market Invida focuses on coverage of target specialists and hospitals and on having the right quality of sales people on board to target the right customers. In Thailand as well as in other countries, Invida is shifting the focus from the traditional business relationship approach to ensuring that we deliver key messages and provide scientific evidence with every sales call.

What is your final message to the different stakeholders and representatives around the world?

The Thai government will still focus on managing costs in healthcare delivery, and pharmaceuticals will always be a high percentage of that spending because of the lower costs of healthcare delivery in Thailand.

It is up to the pharmaceutical industry to justify that spending, and the dialogue in Thailand needs to focus on justification, on how pharmaceuticals minimize the length of stay in hospitals and the

number of visits to hospital. We need to show that we are actually adding value and reducing other costs. That dialogue is not taking place at this point.

As a final note: the Thai market will continue to grow, particularly in units. The healthcare cost containment measures will continue and until the industry justifies the costs they make sense to the government budget., The industry needs to adapt, engage in a healthy dialogue with the government and stop complaining, price pressures will not go away!

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