

Interview with Paul Anley, Managing Director, Pharma Dynamics

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In 2005, when Focus Reports interviewed you, you were more towards the start up phase of Pharma Dynamics; and you have significantly grown in the market since then. What new dimension has Pharma Dynamics today in the South African pharma market, and how have you integrated the company's growth in your management structure and philosophy?

Pharma dynamics is now ten years old. The company will turnover about 400 million Rands this year 2011 predominantly in the private sector. Pharma dynamics is still the fastest growing pharmaceutical company in South Africa, as the company grows in excess of 30% every single year. In fact, the first six months of this year, we have grown by 54%.

Over the years, because the company has been so successful, we have managed to attract senior executives from other generic pharmaceutical companies, who have been impressed with Pharma Dynamics' growth.

The biggest area of growth has been in the sales team we now have more than 70 people in the sales and marketing division, with 60 people under the sales area.

We in fact have now two teams calling on prescribing General Practitioners (GPs); we are calling on cardiologists; we are calling on all Central Nervous system (CNS) specialists; all psychiatrists; and now that we have just launched into female healthcare we are also calling on all gynaecologists.

Of course, we are particularly strong on key accounts. Almost all of our products are listed with the major chains. So we are well represented.

Since 2005, the market has also changed significantly, with a higher generic penetration, an increasing consolidation, and new entrants in the market. How have you adapted to these changes?

We have always had great faith in the generic philosophy and we have always believed that generics would capture a significant part of the market place. In 2005, I remember telling Focus Reports how the South African pharmaceutical market was a branded generic market; it still is. Hence our focus on calling on prescribing doctors, but we of course still call on retail as well.

It is true that there has been a lot of new generic entrance into the market, but very few have got significant detailing strengths, therefore I do not think we will be impacted at all by an increasingly competitive environment.

In fact I should say that the market is not yet more competitive, considering it takes four years to register a drug in South Africa. New entrants still need to build up a significant product portfolio, strength in the market place, efficient sales forces. I would anticipate that the market will become more competitive.

Pharma Dynamics's best selling drug is Amloc for Cardiovascular (CVS) treatment -, for which there are 21 competitors. Nevertheless, Amloc still has an excess of 60% market share. For most of our drugs, we are by far market leaders. In fact, in CVS, we are the largest generic company in South Africa by value, and we place second only to AstraZeneca by value in the total market. Within a year, we expect to take leadership.

We have 233 dossiers sitting at the Medicines Control Council (MCC) for registration at the moment, so Pharma Dynamics is likely to remain the fastest growing company for a while. Of course, our biggest competitors in the names of Adcock Ingram and Aspen amongst others probably also have over 200 dossiers in, but we now all have the same ability to capture market share. You would agree with me that it is easier to grow from 400 million Rands than where you are already doing 2 billion Rands.

When the growth will come out on new products, the odds are stacked in our favour. On top of that, we are able to focus a lot more as we have fewer products.

As the only privately owned generic pharmaceutical company in South Africa, Pharma Dynamics attracted a lot of attention from abroad. It is the Indian drug maker Lupin which took Shareholding of Pharma Dynamics in 2008. What was the impact of the new shareholding on your operations?

The impact is still to be felt, to be honest.

Lupin has got a very extensive product portfolio. Their strengths currently lie in tuberculosis (TB) drugs, for which there is a great demand in South Africa. Considering the registration time for new drugs in South Africa, we are still expecting an impact on that side.

The entrance of shareholders was done for strategic reasons: to access their pipeline and secure an affordable source of manufacturing. Neither one of these two objectives has impacted us yet.

Pharma Dynamics reported sales for the Fiscal 2011 grew by 38%. What have been the main growth drivers, and the best performing products in Pharma dynamics portfolio?

Our strengths still lie in the CV arena. Those products have continued to do particularly well. We have also entered the CNS market and hope to emulate our success on what we have done on CVS.

In terms of products, Fedaloc SR, generic of Adalat XL, has done particularly well in the last couple of years. Pearinda, which is a perindopril product, has also performed very strongly. In fact, when you review the portfolio, most of our brands are showing significant growth.

Have there been any particular challenges in entering CNS?

It is not unique to South Africa that the CNS arena and psychiatrists are anti generics. They seem to be opposed to generic products. What explains this is that the outcomes in the CNS arena are a little less evident than what they are in CVS or pain or anti-infectives.

If you take a medicine for hypertension, it either works or does not: if it brings your blood pressure down, then you know it is down. For anti-infective, the infection simply goes away or remains. With

antidepressants, it is sometimes difficult to determine the actual outcome.

As CNS has had a greater resistance to generic use, we try to do more branding in this area. For instance, Pharma Dynamics supports the South African Depression & Anxiety Group. We also try to provide value added services, such as support websites for patient's information, and the implementation of a dedicated Police helpline to assist men and women in the Police Force deal with depression and post traumatic stress disorders due to their line of work.

In the 1980s, there were around 45 manufacturing facilities in the country; there is only a handful remaining today. But there are government incentives directed to local manufactures in South Africa. Can we see Pharma Dynamics manufacture locally in the future?

In our experience there are such enormous benefits for global manufacturing and global supply that it will be extremely difficult for South African manufacture to compete especially with Indian manufacture.

The evidence supports that: the number of facilities has dropped from 48 to 20+.

The government is trying to change this trend, but I believe it is much guarded. The authorities are doing it for two reasons. Primarily, to create employment, as the authorities do not appreciate the low level of employment in pharmaceutical factories, although I believe it is a misinformed objective, considering the pharmaceutical industry has highly skilled and highly automated businesses.

The second objective is the security of supply, which is more associated with Active Pharmaceutical Ingredients (APIs) manufacture, less with finished dosage forms. I do not agree that local manufacture will lead to an increased security of supply. The economic realities are that you will direct your capacity to markets where you will get the best price for. Just because you have a factory in South Africa does not necessarily mean that you will supply the South African market.

The Indian manufacturing industry is one that has grown for 30 or 40 years and has created enormous strategic advantages that South Africa simply does not have. They are backward integrated into API manufacture, as well as into pharmaceutical equipment manufacture; they have got manufacturing hubs where the suppliers are all operating within a very close distance of your facility. As a comparison, if a South African company manufactures, it would probably use an Indian equipment manufacturer. When the equipment breaks down, the company needs spares, and engineers are from India. In India, pharmaceutical companies have the engineers on site, as they are literally next door.

It would be extremely difficult to replicate India's success. India's success was built largely on a domestic market of 1.2 billion people, whereas South Africa has got a population of just over 50 million people.

What is more important: to secure imported drugs which are more cost effective for the nation or to secure literally a couple of hundred jobs in manufacturing?

There are many other industries which with the same capital outlet can employ tens of thousands of South Africans.

Mr. Anley, you have always believed in generics and they represent today in South Africa 60% of the pharmaceutical market in volume. How do you think the generic space will be utilized in the context of the National Health Insurance (NHI), a 15 years project by the South African government?

Generics are the ideal mechanism for the government to achieve its goals in the NHI because the costs are so much lower. Therefore the government will be highly reliant on generic medication to roll out NHI on a budget that is affordable.

One needs to be a little bit concerned, though, that the central government procurement through tenders does not drive down the price so low that it no longer supports the local industry.

Could you share with our readers the main lines of the company's internationalization strategy?

Obviously, with Lupin having a 60% equity stake in Pharma Dynamics, we simply are now a subsidiary of Lupin, who is one of the largest Indian-based pharmaceutical companies in the US, and one of the largest Indian-based generic companies in Japan. Lupin is a significant global competitor.

In terms of Pharma Dynamics itself, we are looking towards Africa for our expansion. We are busy registering our drugs right through Sub-Saharan, Central, Eastern and Western Africa. At the same time, we are looking for acquisition opportunities in those markets as well.

Nonetheless, our primary growth will remain out of South Africa for the next four years, market in which we have targeted sales of a billion Rands within this same timeframe.

Mr. Anley, as we said, one of the biggest issues that the South African government is facing is unemployment. "People are living in chronic fear of lay-offs and/or life-long unemployment", as you acknowledged when the company polled 19 psychiatrists across the country to gauge South Africa's collective mental state. What special responsibilities come with being an entrepreneur?

In our own company, if we move from 400 million to 1 billion Rands turnover, it will be achieved by approximately doubling the sales force and significantly increasing the human resources infrastructure.

We also look to outsource to small entrepreneurial businesses. We do that not only from a strategic perspective, but we find small entrepreneurial businesses more service orientated, more hungry for business, and more ambitious. As entrepreneurs have a stake in their business, they are more determined to provide you with a good service in quicker turn-around times.

What is your final message to the readers of Pharmaceutical Executive?

In any sector, market knowledge is critical. Often, ways of getting that knowledge is to work with local producers, so international companies should find themselves a fast growing local partner in South Africa.

We are currently the sixth largest generic company with 400 million Rands annual revenue; we are committed to the South African market; and we see there enormous growth.

Our strengths lie in cardiovascular, but hopefully we can take a position in CNS and the female healthcare market as well. By the time we reach 1 billion Rands, we will be well in the top five pharmaceutical businesses in South Africa.

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