

Interview with Sven Dethlefs, CEO, TEVA Germany

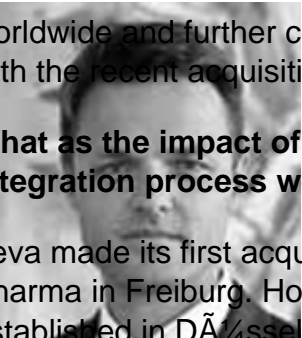
21.09.2009

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In 2006 was decisive to establish Teva as the number one generic producer worldwide and further consolidate the company in the German market; and this process continued with the recent acquisition of AWD Pharma in 2008.

What is the impact of such acquisitions in your German operations and how did the integration process work?



Teva made its first acquisition in the German market back in the 1990s by acquiring GRY Pharma in Freiburg. However, the first big transformation came with the acquisition of IVAX, established in D sseldorf, in 2006. Since Teva's activities were already based in Freiburg the former management decided to close the site in D sseldorf, keep the one in Freiburg and open new headquarters in Frankfurt. In addition, Teva's Barr pharmaceuticals takeover, gave us AWD Pharma, based in Dresden. After this last acquisition Teva realized that it was not pragmatic to keep three locations in Germany. It closed its site in Freiburg and moved its main activities to Dresden, where the biggest operations are now based. Thus, all generic activities are now centered in Dresden as well as AWD's innovative branded products, while the oncology business was kept in Frankfurt thanks to its specialized team with no match in Dresden. However, Teva's activities in the country are still under different legal entities and the integration process isn't completed yet. Teva Germany is formed by GRY Pharma, IVAX, AWD, Teva Generics and Teva Pharma, which deals with the co-marketing agreements between Sanofi-Aventis and Lundbeck. The integration of Teva's different legal entities is a big challenge - so many different identities and brands weaken Teva's recognition among costumers. Pharmacists can easily recognize an IVAX or GRY product but they won't necessarily relate it with Teva. Therefore, one step forward in the German market is to consolidate all different legal entities and strengthen Teva's presence in the market. This transformation has already been initiated and will probably take two more years to be finalized. Those challenges are side effects of Teva's further consolidation in the German market. However, other challenges such as over regulation and over competition pointed out by Mr Peter Schmidt from ProGenerika don't have such positive origins.

How is Teva being affected by the German market environment's main issues?

There are two main aspects of the German market. The first one is that Germany offers a high market penetration for generic drugs as compared to other European markets. Secondly, there is a high acceptance of generics among the population, physicians and pharmacists and this success is derived from the high quality image that the main German generic players have long created in the market. Nevertheless, as Mr. Schmidt pointed out, Germany also faces challenges such as over-

regulation and over-competition that are slowly weakening the German generic industry. The multiple pricing schemes have generated an environment where generic producers have to offer discounts to everyone: direct discounts to wholesalers; incentives for pharmacies; legal rebates to health insurers; and now even some physicians' organizations expect participation in savings generated through prescriptions. Consequently, the German market demands a constant rethinking of our business model and marketing expenditure effectiveness. An area of special concern is the rebate system with healthcare insurers. With the current system implemented by the AOK (Allgemeine Ortskrankenkasse) where the winner takes it all there will clearly be a period of dramatic and unsustainable price declines that will create significant issues for most players of the German generic industry. In a scenario with decreasing margins, only companies with bigger scales will survive and this is exactly Teva's strategy in the German market. That said, I would still be more interested in a balanced system where most companies can earn money and dedicate their efforts in marketing to customers and physicians, placing the competition where it should be. In the long run the rebate model will weaken the generic drug industry in Germany and produce the exact opposite result desired by policy makers in the short run. In order to achieve its 5 percent market share goal by 2012 Teva will have to gain positions not only from weakened players but also from companies that hold an even bigger market share and scale than you.

How will you achieve that?

There are two main levels of competition in the German market. The first one is placed in the rebate system where all players are participating and bidding aggressively - the best way to grow in Germany is to first win in the tender system which automatically jump start the market share. Secondly, and more according to free market rules, companies have to win the competition among pharmacies and final customers - and here it is true that companies long established have greater advantages over newcomers. Teva's strategy is to strengthen its positions in the rebate system and, by doing so, be present in every pharmacy throughout the country. Thanks to the one identity strategy soon every German pharmacist will be familiar with Teva's high quality and lower cost products. This meets with what Mr Walter Medda said about how Teva Italy is adapting its strategy to a changing legal environment and switching their marketing focus from physicians to pharmacies.

How are you adapting to the Germany's tendering system and trying to turn it into an opportunity?

Teva understands that the relationship created with its insurance partners in the tender system is transactional and only based in the best bid for the duration of the contract - after the contract is done, we are back to zero. However, the company is taking advantage of the wider market coverage created by the tendering system and trying to better establish itself among pharmacists. Teva Germany has a pharmacy focused model where its sales force is trained to provide a wider range of services and advantages to pharmacies, similarly to what is done in Italy. This is crucial in a country with more than 20.000 pharmacies where each one of them is privately owned by a pharmacist. These pharmacists decide not only on an economic base but also based on habits, trust and convenience aspects; for this reason Teva has to focus its attention on this customer segment. It is important to say that through AWD's acquisition Teva gained a big advantage over its competitors thanks to the new physician sales force that is now marketing innovative and branded products together with Teva's generic portfolio. Those well-known innovative products now carry Teva's name in their packages and increase Teva's reach into a much wider range of costumers in Germany.

How such transformations were reflected into numbers and what have been Teva's main growth drivers in the German market?

Thanks to the increased integration of Teva's different entities the group will achieve high double digits growth in 2009. For instance, Teva Generics and AWD's innovative business is growing more than the market average. AWD is a leader at the pain market having a bigger sales than well consolidated players like Pfizer. Such performance is moving Teva towards the higher ranks of the German generic industry and the group as whole is already the 5th biggest player in the German generic market. Now our challenge is to make pharmacists realize that Teva is much closer and familiar to them than what they think and that GRY, AWD and IVAX all hold Teva's name. If you had to summarize,

what would you highlight as your main ambitions for Teva Germany in the next five to ten years?

In the next five to ten years generic companies will have an even greater role in Germany's pharmaceutical industry. Naturally, there will be further consolidation in the market and only those companies that manage to increase their efficiency, lower costs and expand their scale will be able to survive - Teva is showing the way. Hence, my main ambitions are to continue Teva's high growth performance and maintain its comparatively high profitability.

What will be your final message to the readers of pharmaceutical executive, especially those from the generic industry interested in the German market?

If you want to enter the German generic market make sure that first you have a complete understanding of the rebate system and its implications to your business model - it is at this instance that your company's fate will be mostly decided. Don't be mistaken, the German generic market holds great opportunities, but only those companies that have the capacity to bear low margins, and offer services and high quality have a future here. This scenario is a result of the difficulties facing the government in financing increased healthcare costs in the midst of a financial and economic crisis that will only worsen the public finances. This is not a "privilege" of Germany and the same challenge is being faced all over developed nations. But here I'll take advantage to give a message to German policy-makers: the generic tender system is the wrong answer for your insolvencies because it is killing an industry that contributes significantly to healthcare savings. Without a healthy and naturally competitive generic market there will be no such thing as a sustainable and universal healthcare coverage. Instead, policy makers should start discussing seriously where the real burden is - on how much innovation is worth and how it should be paid for. After all, healthcare policies should be thought in generations' timeframe, not on elections'.

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