Interview with Timm Pfannenschmidt, Managing Director, Boehringer Ingelheim Czech Republic

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Mr. Pfannenschmidt, you have been working for Boehringer Ingelheim for three decades, outlasting several company chairman and witnessing the birth and evolution of the corporate vision â??Value through Innovationâ?•. Before we delve specifically into the Czech market, can you tell our readers how this company has evolved through all these years, and how it has adapted its strategy on its road to becoming the largest privately-held pharmaceutical company in the world?

I think the key success factor of this company is the fact that we are a privately held business and the Boehringer family is fully involved in the operation. The family has a long-term view on our strategy. Instead of planning for the next 4 years, at Boehringer Ingelheim we plan for 3 decades. That makes a big difference. Also, we are not active on the public market therefore we do not have to watch our share development on a quarterly basis. This provides the freedom to our shareholders to plan for the long-term. This is a big advantage compared to many other corporations. Furthermore, the family wishes to remain independent. Boehringer Ingeheim is not for sale and is not planning to merge with a competitor.

To achieve that we count on innovative products that evolve out of our own research. They will contribute to continued growth of our business in the future; the past has demonstrated this. Since I joined the company we have booked a constant growth.

When you look into our pipeline now, you will also see the big difference compared to other players in the industry. At the moment we have a full pipeline of new products. We are entering new markets that demonstrate that our research and development in the past 10 to 15 years has been very successful.

Prior to arriving in the Czech market you spend nearly ten years in South East Asia, heading Taiwan and Singapore for this company. What surprised you most about the Czech market?

In Taiwan, where I spent the last 6 years, I experienced a lot of healthcare measures that negatively impacted the pharmaceutical industry. So I was hoping to come to a market where the situation would be better. But when I came back to Europe and arrived on the Czech Market there was not much difference. What you see today is that wherever you go in the world, market situations are very much the same. Pharmaceutical industries are under tremendous cost pressure everywhere.

Globalization is also valid for healthcare systems and institutions. Governments are able to see what is happening in other countries of the world, in terms of legislation meant to reduce the cost burden on the system. In that respect, what today is being done in, say, Canada, is very visible to the Czech authorities and vice versa.

What does it take to be successful? We were speaking for example with Dr. Beata Hauser, head of Ipsenâ??s Czech operations, and she told Focus Reports that she takes the products as a given: if you donâ??t have good products, Ms. Hauser said, you should not exist as a pharmaceutical company. What makes the difference? How do you grow in the market?

I agree in principle, but, as an international research-based company, you highly rely on positive developments coming from your pipeline. Today, Boehringer Ingelheim has these compounds, and that is why we project a bright future for our corporation.

With that said, you may have a very good product but you also need the right people in the organization. Even an outstanding product can flop if you donâ??t have good people. The first priority is to have a pipeline of good products and the second priority is to have good people in the organization.

It is getting more and more difficult to attract good people to your organization. Companies are competing for talent. This is what we see in Germany, where companies have difficulties in getting good talent on board. In the Czech Republic we are facing another issueâ??people are not flexible in moving for a job. Talent from Brno for instance, is not always willing to relocate to Prague. Personally, I find that difficult to understand.

The pharmaceutical industry is also struggling to adapt to the new rules on the Czech market. We have been a booming industry for a long time. But in 2008/2009, changes came in terms of price cuts, new legislation, and reimbursement cutsâ??and the situation was transformed. People were not prepared for these changes. People working in the industry for 10 to 20 years being used to the constant growth of the market struggled to handle the business under different rules.

Your predecessor, Vladimir Stary, was very successful as the head of Boehringer Ingelheim CZ. In building on this legacy, what did you see as your main priorities when you took over this subsidiary in the fall of 2009, and to what extent have you accomplished these goals?

When you take over a new organization you look at it and differentiate what has been very positive in the past and what can be improved. I think it is important to get acquainted with the culture, the business environment, the organization and its people. You will have to analyze this and then take the next steps to make necessary improvements.

I have indeed taken over a very strong business being built on the success of several productsâ??mainly our strongest franchise Micardis. But Micardis is losing exclusivity. This will precipitate a strong decline in sales. What is important during my period as head of Boehringer Ingelheim is to launch new products to ensure that our business keeps on growing in the future.

How quickly do you feel the effects of generic penetration in the Czech Republic?

Compared to other markets such as the United States, the effect of the generic penetration is very moderate in the Czech Republic. Nonetheless, you can expect within the first 3 to 5 months a decline of up to 35% which stongly depends on the therapeutic segment.

Can you delve deeper into your future launch strategy?

This year we launched two new products and in the next year we are planning to launch one or two products as well. This year we started a new franchise on diabetes with our worldwide partner Eli Lilly. We are also planning to grow into oncology, which will be new territory for us.
Over the next 5 to 7 years we are planning to launch a number of new products.

Mr. PospÃÅ¡il from Lundbeck told us that several of his products already have generic competition. Nonetheless, because of the reputation that Lundbeck has on the market the company is still able to retain 80% market share. Even in areas where there is generic competition, do you see that reputation can buy you longevity as Boehringer Ingelheim?

Definitely. Doctors are often loyal to products which they have prescribed for many years. What we do not see on the Czech market is a huge price difference between the original and the generic. The price level is similar. There is no price motivation or cost motivation for the doctor to change to a generic product entering the market.

What does that say? In the Czech Republic, are generics too expensive or are innovative products too cheap?

Products are referenced to the cheapest generic of the group in the European Union. Even if you have an exclusive product, it is price referenced and brought down in its price to the level of the cheapest generic in the European Union.

In an environment like that, is it attractive to launch new products?

It is attractive as long as you receive prices at launch that are still acceptable and in the range of European pricing. For the products that we have launched this year, the prices we received were satisfying.

How do you believe your diversified portfolio compliments the disease profile of the Czech population?

Diabetes is an example of a market that is growing around the world. Recent publications have shown that diabetes is a burden, for instance, for the US economy. But not only in the US â??it will be a tremendous burden for every healthcare system in the world.
The other area where we are very active in terms of research and development is oncology. Also in this area we see a great patient need to have new treatments available.

OTC products are around a third of our business. I believe this is an important market in view of possible releases from the prescription market. This means relief of healthcare costs for the healthcare system. I think this will come in the future.

Some Czech managers have remarked that in this country, the authorities seem to look at drugs only from a cost perspective, rather than from a holistic appraisal of their benefits in the wider social system. Do you believe that the government is perhaps limited in its vision?

At the moment efforts are indeed all directed to a short term view in order to mitigate direct costs. I believe better communication between the pharmaceutical industry and the government could be established. Large pharmaceutical companies have a lot of expertise. It could be very useful for both sides to cooperate in order to see what can be done and what savings can be achieved on a long term basis. I believe we are missing the willingness to enter into a dialogue together.

Furthermore, there should be more understanding on government side. They need to look at pharmaceutical and healthcare developments from another perspective. The pharmaceutical market will change tremendously in the future.

How will the model change?

I believe the pharmaceutical industry will change from a pure pharmaceutical producer and provider, to an industry that provides healthcare solutions in combination with devices and new technologiesâ??solutions that will reduce the cost burden on health insurance companies, for example. The pharmaceutical industry will work very closely together with health insurance companies in order to increase efficiency and to reduce costs.

Take the example of a patient who visits a doctor every two months in order to measure his blood pressure. Today there are devices available which are able to measure a patientâ??s blood pressure regularly and through simple mobile technology this information can be transmitted to the doctorâ??s office.

Technology today is very advanced and can do so many things. But in healthcare, little has been applied so far.

This afternoon we will be meeting the Minister of Health. If you could ask him one question, what would that be?

I would like to ask the minister to enter into a close dialogue with the pharmaceutical industry. To create a platform where government and industry can sit together and discuss the future of the pharmaceutical sector. I am talking about a long-term vision in the Czech healthcare industry.

I also think that we have a very high standard of education among the healthcare personal. This is valuable for this country. But what we see today is doctors are leaving to work in other countries and that we are bringing in doctors from, for example, Russia. The country has invested in talent and should try to keep their talent in the Czech Republic.

What is your vision for the future of Boehringer Ingelheim in CZ?

We have experienced growth in the past and now we have the products to maintain our growth in the future. We have a strong organization that is fit for introducing new products to the market. We are focusing on increasing our market share in the Czech Republic.

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