

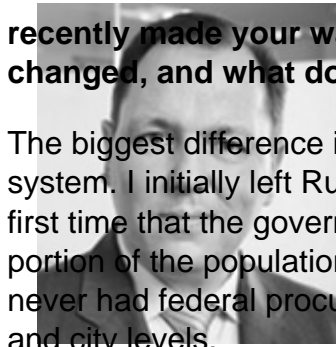
Interview with Viktor Geisler, Country Division Head, Bayer Healthcare Pharmaceuticals Russia

18.07.2011

Tags:

[Bayer Healthcare Pharmaceuticals Russia](#)

nager from 1996-2004, departed to Germany for some time, and recently made your way back to Russia in 2010. How has Russian healthcare and industry changed, and what do you find most striking?



The biggest difference is the fact that the government is much more involved in the healthcare system. I initially left Russia in 2004, and the DLO program was introduced in 2005. That marked the first time that the government, in a centralized manner, provided reimbursed medicine for at least a portion of the population—pensioners, relatives of soldiers, etc. In the years before, Russia had never had federal procurement programs; government medical purchases were made on regional and city levels.

Certainly, the government had always been interested in the healthcare system, but has in the past not been able to engage more. With the growing revenues from oil exports, surpluses enabled the authorities to inject capital in this direction. This capital was somewhat limited compared to situations outside of Russia, but was significant nonetheless.

There is a large need for substantial healthcare spending here, because the country is fraught with health problems and life expectancy is extremely low. It is in the interest of the government, for the sake of the very economy of Russia, to define how things may be improved. I also believe that it is absolutely reasonable that Russia would like to develop its own pharmaceutical industry, as outlined in the Pharma 2020 strategy. You may call it strategic interest, or more simply, you may say that a developed country with 140 million inhabitants deserves its own pharma industry. Russia used to have such an industry at the time of the Soviet Union, but with the collapse of the USSR, the Russian pharmaceutical industry too collapsed. It was not competitive anymore. Now, the authorities are trying to again establish a competitive, local pharmaceutical industry—which is, as I said, reasonable! The only question is how to do it.

Across the research-based pharmaceutical industry, we agree with Russia's ambitions. International manufacturers would like to participate, and to support this trend. Of course, we want to do it without neglecting our own interests—because in the end, we are talking about business.

What is the correct management strategy to take to ensure these interests are secured in this environment?

A company's strategy depends on the business it is active in. Consider the industry's giants. To me, a giant is a company that is successfully working in today's main therapeutic areas—cardiovascular, antibiotics, and so on. We are talking about mass products, which can be sold in millions of units because the need is so great.

Bayer is more focused on the specialized segment. That has historically been our strategy. We are successfully working in specialized segments. Let us consider women's health as an example: oral contraception, one of our main businesses, is a specialized therapeutic area. What is then the strategy to be successful in this changing environment? If a company were active in, say cardiovascular, selling millions of packs, and dependant on governmental purchases—because the question is always who is going to pay for your products—such a company would seriously consider local production. That is the first step which cannot be avoided; such a company knows that there will be preferences for local producers due to government initiatives. Local production is necessary if a company is selling to government programs and competing with Russia-based manufacturers. So it either builds its own facility, or considers partnerships such as contract manufacturing or joint ventures. If a company decides to partner, the next question is one of control. Usually, a company would like to control everything by itself. To have a partner means to share part of that control and — at the end of the day — to also share profit.

On the other hand, if a company decides to construct its own facility, the question is, can they keep it busy? Does it make sense to establish a very modern, expensive facility when the yearly demand for the product will keep the facility running for only one month? It all depends on the quantities. In the main therapeutic areas, quantities may be sufficient to justify running your own plant.

Bayer, as I said, works in specialized therapeutic areas. Bayer also has a global production concept, and whatever we produce here in Russia will lead to underutilization of production capacity somewhere else in our global plants. Nevertheless, for some of our products, we local production makes sense. For example for products that are financed by the government; such as contrast media or oncology medicines. But because these are specialty products, we will never be able to run a Russian plant at full capacity all the time. Therefore, for us, a partnership—whether a joint venture, or contract manufacturing—is the answer. We have not yet chosen our route, but we are considering our options in the Russian market.

So what is the right strategy?

Again, it depends on your field of activity. With oral contraceptives: in 95% of the world, the government does not finance those products. Usually they are paid for by the users themselves. Here in Russia, we do not have local competition in this sphere and even if we did, contraception is not financed by the government. For this reason, we do not need local production for our oral contraception products.

Essentially, we have to consider the options for each individual therapeutic area case-by-case. First, we identify the financing source. Let's take the Seven Nosology (7N) program. There is a once-yearly centralized purchase process for the entire Russian Federation. Who is the perfect local partner for that? Usually, as companies are business-driven, and would like to have some guarantee of steady revenue, the ideal partner would have to have strong governmental relations—would have to be, to use the modern term, strong in market access.

A company may require a local partner for the 7N that is totally different from a local partner that could be beneficial in other segments. For example, there is a government procurement program for hospitals, and within that sector, you have 2000 local tenders across Russia daily. For that business,

that company may need a partner that has strong production and a strong distribution network.

There is no one strategy that is right for the pharma industry. Each company must consider its customers, financing parties, and the right fit of partners by therapeutic area. At Bayer, we have an out-of-pocket business, we have business in government programs including the 7N and local regional tenders, and we have a premium-price strategy as well. Therefore, I have to manage each of these segments individually.

Bayer Healthcare is ranked fifth in overall sales on the Russian market in 2010, while globally, the company placed twelfth in a Pharmaceutical Executive top-fifty ranking. How do you explain the Russian affiliate's significant outperformance of the global group?

Looking at Russia, last year, we had approximately 2.8% market share in the retail business, and in the overall pharma sector approximately 3%—so number five position. The difference is the fact that we came to the Russian pharma market very early. Two years after the Soviet Union collapsed, Bayer as well as Schering, established their respective representative offices here and invested significantly—not in production, but in people, in education, in promotion, and so on.

This worked very well, until the financial crisis of 1998. Many companies left in '98. Yet, during the crisis Bayer decided to stay in Russia. That is why nowadays Bayer Healthcare has a strong position. Wherever our competitors left the market, we jumped into the gap. We stayed invested, and we benefitted from our commitment immediately once the market recovered.

Our consumer care division, which contributes to our market share significantly, really broadened its product mix with the acquisition of Sagmel's portfolio. This also increased revenues quite considerably.

So in short, it was the combination of staying invested, which prepared the ground, and the subsequent addition via the M&A that helped us very much. We also benefitted from the introduction of the DLO system. I would call these the three pillars for us.

On the subject of Sagmel: do you feel that there is opportunity for further such acquisitions for Bayer here in Russia?

We are of course open to opportunities should they arise and make sense within our business strategy. However, please understand that we cannot speculate on what may or may not be in the future.

Many multinationals have followed an M&A strategy in Russia. Do you feel that the acquisition trend we are seeing not only from Bayer, but also from your colleagues, reflects the difficulty of organic growth?

The question is what is driving organic growth? First of all, organic growth can be driven by increased consumption. In Russia, the market is expected to grow 10-12% annually. So there will certainly be consumption growth here and there are still many unmet needs.

On the other hand, Russia will have increased competition, due to the drive toward localization. This competition will most probably lead to price decreases. In this case, companies may have to rethink organic growth, because consumption might increase while prices might decrease at the same time, and in the end there is no gain. Or even a negative!

In addition, companies must consider new launches—launches of patent-protected products. We know from the global situation that the number of new launches is scant, and decreasing. Research

and development is growing more and more difficult, and increasingly expensive. The challenge of contemporary R&D and the resultant scarcity of novel products to commercialize may lead companies to continue with the trend of M&A's, as you see on the global market.

We also see a trend wherein companies focusing on original drugs are also looking for additional revenues via mergers or takeovers of companies that have generic experience—whether we are speaking about unbranded generics or branded generics.

So you believe that whatever difficulty there is in organic growth reflects a global trend rather than a Russian trend.

I clearly see this as a global trend. Bayer's strategy is to sell our global brands here in Russia. We observe different marketing strategies here in Russia: Some companies have a strong globally-driven marketing strategy, others have a unique Russian strategy. Bayer has always focused on its global portfolio in this country. Of course, we acknowledge the need to integrate some local specifics, because even if you have a very attractive global portfolio the market may not accept the portfolio mix easily. Bayer would like to increase its presence in emerging markets and therefore we also take into account their particular needs.

As an emerging market, what difficulties do you see for Russia? While there is little doubt that Russia appears to have great potential, those that are, say, holding off on localizing production, often cite the legal and regulatory uncertainty here. Do you believe that this affects Russia's competitiveness as a destination for foreign investment?

I believe that it will make the decision of investors for Russia difficult. Any market needs clear and transparent processes, a stable political framework and good governance to build trust with investors and to be attractive to large-scale investments.

This holds true of the protection of property, intellectual or physical, and other regulatory matters. Also, governmental structures have to be predictable in order to build a long-term relationship that enables a constructive dialogue.

Yet, I see that with Minister Putin and President Medvedev, we enjoy a certain stability which was lacking in the period right after the collapse of the Soviet Union. There have been improvements under Mr. Putin leadership.

In this respect, other Emerging Markets have been more successful in building this kind of trust with investors in a stable business environment. Some countries, such as China, have been very successful with this and have been attracting large investments.

So there are some reasons why investor trust into Russia is not very developed. Also, investors still remember the '98 crisis which cost the international industry a great deal of money. Across industries, we believe that in the long run Russia's annual compounded growth rate will be considerable. But there may be some periods in between where growth will slow due to these kinds of issues.

There is a famous saying: you cannot understand Russia, you must believe in it.

What about the role of international companies in developing this trust, and developing this market? It seems that multinationals are taking a greater and greater role in building the direction of Russian evolution. In general, what is the right balance that experienced foreign players like Bayer can find, in helping to shape developments without creating a conflict of interest?

That is a very valid question. There is always the danger of a conflict of interest. On the one side, the Russian pharma market, and the Russian pharma industry, must be developed. On the other side, whenever we support this development, in the long run, we might harm our own business.

So the question is how to support it without damaging our own interests. To do so, we must build intelligent partnerships. I will give you an example. In Russia, we have had for decades now a very well-established research base. But Russia has a development problem in translating research from the primary stage into results for the final production stage. For example, there is a lack of experience regarding clinical trials and how they should be performed to meet international standards. We can start with partnerships in the development area, and help with processes such as clinical trials so that Russians are able to develop their research to commercialization capability. Plus, the results of these partnerships will be shared both by local and multinational parties. I believe that there is a common understanding amongst my colleagues that this makes sense.

It may also make sense to partner in manufacturing. Yet the issue is that local manufacturing is not the ultimate objective of the Russian government. The government wants to establish an R&D-based pharmaceutical industry beyond production plants. The multinational pharmaceutical industry must ultimately take part in this kind of development as well. In the long run, we have to accept that we may lose a certain percentage of the market to the newly developed local players that will rise up. However, we have to consider the proportions and the context. 10% in a market of 100 is something; but 8% in a market of 500 is much more, in absolute terms. This significant growth will happen if we help to advance the research prowess of this nation. And with a local pharmaceutical industry moving up the value chain, the population will benefit through stronger knowledge-based skills enabling better paid employment. This in turn strengthens the affluence of the overall society. With a stronger societal fabric, all players in the pharmaceutical industry will benefit from the market this creates.

Today we have, within the top 10, only one Russian manufacturer: Pharmstandard. In the future, maybe in five or ten years, we may have three Russian companies which in turn may impact two international manufacturers. On the other hand, the market continues to grow significantly.

You mention collaboration in research. When we interviewed the head of Bayer HealthCare Pharmaceuticals in Germany, Andreas Fibig, he said that his dream is that whenever a German researcher in the medical field wakes up and has an idea, but does not know how to bring it to fruition, he should think of Bayer. You yourself have a research background and a doctorate in microbiology. Can Bayer Healthcare be this kind of partner for Russian science?

We are striving to establish a research and development network. As I mentioned, in Russia, we often see a lack of development capacities and development knowhow. Many Russian companies and other stakeholders that we spoke to have already told us about promising projects that they are trying to bring to market.

They want to do things the "Russian" way. Yet this attitude may hamper Russia's long-term plans to satisfy not only the local market, but also develop an export business. With that ambition, the country will have to adhere to international standards. You should think about good development practices, and so on. In this respect, we can provide something of value to any potential partner. But first we must identify the partner then we can take the next step.

In general, why do you believe Russia lost ground in scientific research after such a rich scientific history and do you see this pedigree realistically returning?

That is a very difficult question. It lost competitiveness; that is for certain. Some of the causes are: lack of funds, the fact that in the '90s nobody was supporting these "scientific cities" that

surround Moscow and other capitals in Russia; and the brain drain Russia has experienced;. How can we convince these brains to come back to Russia?

Research and scientific talent needs the right framework to apply the skills that they have obtained elsewhere. We have seen researchers and scientists return to China since the Chinese Government has embarked on a path to turn the country into an innovations hub. Large government funding goes to academic institutions to build their R&D capacity. The intellectual property protection has been strengthened and innovation is rewarded more adequately.

I believe that with the right policy framework, the right funding of research, support of academic institutions, young researchers that graduated from Russia's great universities but did not find the right framework in the past to continue with their research will slowly come back if they see a future for advancement. It is not enough to pay significant salaries, the environment has to be conducive to research.

And here is where I see also the role for international pharmaceutical companies: an environment conducive to R&D will foster collaborations and partnerships between companies and universities, offering a wealth of possible areas and interesting lab for returning scientists and researchers to work in.

At Bayer, our Russian colleagues abroad are considered within Bayer's people development strategy of building international competency. Therefore, they will not necessarily return to Russia but move on to other countries. I believe it is a benefit to have a mix of Russian and internationally experienced colleagues here and we would like to continue to bring this international experience to Russia. We can offer this country international talent that knows the global market, the global requirements, etc. For us it does not matter if we talk about Russians or Chinese. Within our clear diversity strategy one's nationality does not matter to us.

Let's speak about the future of Bayer Healthcare in Russia. How do you see the company developing in the coming years, and what can you contribute to the global group?

We have a clear strategy within Bayer Healthcare. Bayer, like many other companies, is convinced that the future growth of the global pharma market will be driven by the emerging markets. Compared to other companies, we already have a relatively strong position in these markets.

And you expect this kind of growth?

I am absolutely convinced it is possible for several reasons. First of all, we have a good portfolio and we have great new launches.

Secondly, we have a great team. We have very experienced colleagues who are very loyal to the company. Just recently, I discussed retention and pension plans for colleagues who have been with this company for more than 15 years! Knowing that the modern pharma market only came about in the early '90s, 15 years loyalty in such a dramatically fast-changing environment is remarkable.

We also have the right structure and the right processes in terms of our approach to the retail sector, the hospital sector, the reimbursement sector, etc.

Products, people, processes: the three famous P's. We have them, and we will further develop them.

We can also already prove that we are successfully working in this market. Last year, the pharma market grew by 7% as against Bayer Healthcare Pharmaceuticals growth of 16% in local currency.

In the first quarter of this year, we continued to grow at a solid double digit percentage and I expect this to continue throughout the year. So always to outperform the market! We did it last year and I am convinced we will do it this year as well.

We expect to outperform the market, which is expected to grow at 10 -12% this year, once again and we are preparing ourselves for the years to come. Yet, in order to reach our ambitions we will need to explore all opportunities, including partnerships or collaborations.

As a company with such a strong performance and a promising future, what is your advice to your colleagues about how to succeed in Russia?

My colleagues who have worked in this market for many years realize that there is no secret to success here. On one hand, you must always listen to the market. You must always discover where it is going, and what the influences are. On the other hand, Russia is a country of rumors. You need to have a certain experience and a certain understanding. Russia is a part of Europe, but in this regard, it is a bit different. Understanding this is a matter of experience.

You must also be relaxed, and refrain from nervousness. You must accept that sometimes, there will be problems and setbacks, but you have to believe in the long-term trends. It is simply a fact that Russia does not follow a linear upwards path. There are ups and downs. You must understand the reasons for the downs and be convinced that this is just a temporary effect.

Finally, you must have a certain feeling and understanding for the Russian environment. When I say environment, I do not mean simply the pharma market because the pharma market is just one part of the entire Russian environment. It is an integrated part, but if you are not willing to understand Russian particularities holistically then you will never be successful here. I cannot describe it better. You must simply have a sort of visceral feeling for what is needed. Perhaps that is why not everyone is suited to manage in Russia. Different markets require different mentalities.

Russia is a growing pharma market with a great future, and you must stay invested if you would like to participate in this development!

[See more interviews](#)
