Interview with Viktor Poushkarev, Head of CIS Region, Orion Pharma Ukraine

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Orionâ??s global strategy focuses on the CIS and Eastern European markets that still exhibit large growth potential and are expanding, despite a reverse trend for the rest of the industry. As the head for Ukraine and the CIS region, could you please tell our readers how Orion views this region in the companyâ??s overall strategy and specifically how Ukraine fits in?

Orion Pharma is a European company whose main platform of operations is innovative products. Several molecules like levosimendan are globally available. We focus however on Europe including the CIS region, where we have our own organizational structure.

Out of the BRIC countries, Russia is the only country where we are fully active. This influences the character of the company. We understand the importance of the CIS markets where consumption is still growing and has serious potential, whereas in the Western European countries, growth is flat and stagnating. The company was actually one of the key investors in the pharmaceutical industry during the Soviet Union, because of a special trade agreement between the Soviet Union and Finland. Two years after the collapse of the USSR, in 1993, we entered Ukraine. Orion in Ukraine is a company that has very strong positions in several niches. The idea is not to become the biggest player in the market, but to become strong in several therapeutic areas in which we excel. We offer unique products for cardiology, central nervous system, oncology, and neurology to the Ukrainian market, and on top of our original products we offer several generic products.

Several particularities of market development should be taken into account when doing business in the CIS. Besides the great growth numbers, the region has more severe economic fluctuations than Europe. Currently we see GDP growth slowing down even in Ukraine. There has been a fast recovery after the crisis, but given our dependency on energy import and global metal and iron prices, we are very sensitive to developments outside of our control.

Another factor to take into account in Ukraine is the huge gap between real pharmaceutical consumption and real medical needs. If we compare the figures of pharmaceutical consumption per capita in Ukraine with the poorest European Union (EU) country, consumption is two to three times lower here. There is a lot of improvement possible in this huge market where there are too many unmet medical needs both in individual consumption and financing of public healthcare. It is much easier to find a way to finance the costs of the medical needs together with the different stakeholders than a situation where everything is covered and there is no opportunity to add additional products, because everything is satisfied. In the Ukrainian market this is not the case, and I hence believe the market will develop high potential.

In growing Orionâ??s business in Ukraine, what has been your strategy to penetrate the market to ensure that Orion became a top performer in its niche segments?

The first element was the fast market realization of assets of our original products. We managed to provide unique products to Ukrainian patients, most notably for the treatment of Parkinsonâ??s disease, prostate cancer, acute heart failure, and breast cancer. We also offer a number of our generic products. This combination makes us a more sustainable partner for medical professionals. Rehydron is the main product of our OTC portfolio, and we are launching several products in the same therapeutic class under the Rehydron umbrella. We recently launched Rehydron Optim, and soon we will introduce Rehydron Bio.

Perhaps one of your greatest advantages is your broad product portfolio that includes generics, innovative and diagnostic products that are in line with Ukraineâ??s medical needs. Specifically how do you see the Ukrainian market evolving, also regarding the appreciation for innovative products and valuing the research behind it?

Ukraine holds the status of a branded generics market. An important difference between the Western European and Ukrainian branded generics market is the level of production control. We have very specific generic competition, when the products containing formally the same API coming from production facilities with very different levels. This can influence the finished product severely, with a tablet from one company containing 40 mg a tablet from another producer containing 30 mg, and the tablet of a third will contain nothing. Control on production facilities is still weak, even though Ukraine recently joined the PICS.

Another point is that the promotion system for RX in Ukraine is still far from excellent. Producers coming from the countries with weak regulatory system and low ethical business standards use non-transparent ways to promote their products, and are not restricted to do so by Ukrainian regulation. Generics producers from EU and the US and other countries with strong regulatory environments cannot compete with these producers. That is unacceptable for us and makes competition unfair.

But we also see positive retail developments in Ukraine, with the Health Minister accepting a promotion code that shows the direction in which the pharmaceutical market should go. In generic RX prescribed products it is very important to bring a product with added value to the patient. By promoting a product with added value on the generics market, you can reach a strong position. In OTC the standard branding process can be effective to show the benefits of a product: investing in public advertisement or in a promotion mix allows to advance the companyâ??s position in a cost-effective way.

Of course Ukraine is a generics market, but there is demand for high-quality innovative products from doctors and patients, even if they sometimes have to pay it out-of-pocket. The doctors follow less the old guidelines designed during the Soviet Union public health care system and have more freedom than in Europe and the US to choose and provide patients with unique treatment technology.

The government seems to finally realize that the current level of healthcare is not fair for patients. Considering that you were part of EBA and are now part of AIPM, how do you see this evolution and do you believe the changes will occur, with perhaps even the introduction of a reimbursement system in two or three yearâ??s time?

The pharmaceutical market in Ukraine is a market in the traditional sense of the word, but public health is a different issue. We have a large number of hospitals per capita, the average duration of stay is between seven and eight days, which is high in comparison to European countries, and we are in the top of the European rankings regarding the number of doctors per capita as well. But if we look at the quality of the medical service offered, we are in the bottom of the ranking. That is a huge discrepancy. Another point is that the health care expenditures from the state budget increase by ten to twenty percent annually. Nevertheless, the quality of the care has not changed in positive way. This means that the main problems are still part of the system, which is understandable as it is a tax-finance system. That means that the resources from taxes go directly to the Ministry of Health and the Ministry is responsible for finances providing service and control of the quality of service. In such a situation the quality of care usually drops.

On top of that much bigger resources are needed for public health. Obligatory medical insurance as it has been tested in a number of countries with well-functioning health care systems is unfortunately slow to be introduced in Ukraine due to political reasons. We need resources to implement a reimbursement system or even a basic system that would cover vital expenses. Neighboring Moldova rapidly introduced obligatory public health insurance and reimbursement, and it was not more expensive than their previous public health expenditures. We need the political will in Ukraine, but unfortunately for several reasons, public health is not a priority. The pharmaceutical industry insisted that it should be a political priority and tried to forge political agreement between government and opposition to stimulate public health reform, but unfortunately it did not help.

Due to the lack of sufficient health care from the state, pharmaceutical companies have actually been taking up the role of educating the population. How has Orion Pharma been performing locally to ensure that the population is aware of the benefits?

Orion actively introduces and spreads information about our RX prescribed products. Furthermore we are in contact with professional patient associations, for example the Parkinson Disease Association, and we inform them about new products we have available. On top of that we offer, just like many Western companies in Ukraine, educational projects to medical professionals.

During our meeting with Ms. Sologub of TEVA she mentioned that the main challenge for them in the Ukrainian market was the constantly changing regulatory environment. How do you forecast a strategy if you do not know what will happen three months from now?

Despite the harmonization trend between Europe and Ukraine, there are unfortunately still a lot of regulatory contradictions between Ukraine and the EU. These differences sometimes become the platform for manipulation by the authorities. There are situations in which there are so many rules that you cannot proceed without violating them, and new rules can be suddenly introduced at any time. Recently the customs service announced an initiative to do customs clearance for all pharmaceutical products at one single terminal starting at the beginning of next year, while it is currently done at twenty six different terminals. We can only begin to imagine what would happen if all products went to the same customs point instead of twenty six.

Luckily there are improvements as well. We try, together with the associations and other stakeholders, to discuss and find new solutions with the authorities. A recent example was when Ukraine decided to join the WTO. There were too little understanding also on the side of health care authorities, understood what data exclusivity meant. The EBA, of which I was a part of, organized several meetings with authorities in Ukraine and abroad to support ideas on how to implement effective data exclusivity protection system.

The same happened with pharmacovigilance, where industrial Associations were able to support in the introduction of best practices from other countries, and in the process of Ukraineâ??s entrance to the PICS.

The associations like AIPM (Association of International Pharmacuetical Manufacturers) and EBA (European Business Association) are important working groups that try to share the best European practices and select the best solution for Ukraine. As an industry, in all these instances we showed that we are responsible and able to achieve strong results in close cooperation with health

authorities.
As a company, to become a stakeholder is a way to stay ahead of developments.

You introduced a number of strong new products and positioned the company as a stakeholder to the authorities in order to better predict the market business. What has been your performance in 2011 compared to 2010 in terms of market share and growth?

We have a strong commitment to Ukraine and plan to use the country as a platform for Orion activities to other CIS countries.
We are currently growing faster than the market. We are one of the companies that has been growing stably on this market for a long time; it is part of our image. We donâ??t do things in extreme ways, but prefer initiatives that provide stable growth. We are important in our niches : cardiology, central nerve system, oncology, and neurology, where we have innovative products.

We evaluate different opportunities of non-organic growth, such as local acquisition, but we are not ready for several reasons. Firstly, because of the level of local production, and secondly because in the current situation the opportunities to use locally manufactured products for export are quite limited, even though Ukraine is a PICS member. Furthermore the market is large, but not of such a size that it is inescapable to produce locally.

We are thinking about localization of our products, as we have several bulk products which are suitable to at least be packed here. At the same time, regulation is quite unpredictable. Nonetheless there is a future for the production of generic products in Ukraine in the mid-term.

Multinational pharmaceutical companies have been latecomers to markets such as Ukraine and face tough competition as new entrants. Nevertheless, Orion has been extremely successful in penetrating this market by establishing strategic partnerships and distribution channels. What are the opportunities to broaden your portfolio and to establish partnerships?

There are a lot of opportunities to broaden our portfolio by licensing more products. This goes for most companies and for us as well.

Orion is a company that does business in a very professional way, complying to industry rules and procedures on a European level, based on a platform of effective operations with Ukrainian wholesalers and effective distribution, close to 20 years of experience on CIS markets, and a high quality portfolio from which newcomers could benefit in case of a partnership.

Promotion for a third party is not easy for representative offices established by foreign companies, because they are considered by the tax authorities as a service to a third party and that would require some changes in finance and legal structure. Many companies changed to LLCs, but this also comes with problems, starting with adverse taxation.

What is your vision for Orion in the future, say in the next 3 years? What would you like to achieve by then?

We came to Ukraine when the future was totally unpredictable, in 1993, and we stayed and witnessed all volatile economic and political developments the country has seen ever since. We became quite experienced in managing this.

We will continue to develop in those therapeutic areas in which we have a strong presence, and we will communicate even better with the market and with professional medical associations. In OTC we are looking for new ways to promote our products to health care professionals. We should initiate consumption of our products and create strong messages on our quality products to consumers directly. All in all, we will continue to work as a responsible producer of high-quality medicine.

We are happy that international associations and producers show an increased attention for Ukraine. There are true market opportunities here, while the number of acquisitions is very low at this point. Despite the unpredictability of the regulatory and economic environment, the Ukrainian case deserves promotion, and the different actors involved in the pharmaceutical industry need positive pressure and media attention. On top of that, it could help the authorities realize that they can do a better job. There should be a clear message on what is expected of Ukraine.

Recently, the authorities started to develop a program for import substitution. Russia recently implemented its import substitution program, Pharma 2020, but it is very different from the Ukrainian one. Russia decided it wanted to become one of the centers of pharmaceutical production in the world, and through huge financing they try to establish R&D and production facilities. The plan is to grow in Russia first and to then expand beyond the national borders. In Ukraine, the program serves mainly to create a positive payment balance for the state, making it a totally different story. The only way for Ukraine to survive Russiaâ??s Pharma 2020 is to increase competitiveness by supporting innovation, developing marketing and sales knowledge and other expertise. We need to take the opportunities that are in front of us. Economies like Singapore and South Korea were able to quickly develop through clear political will to stimulate the economy and install clear regulation, leading business to flourish. That is the example that Ukraine should take â?? create its own program to develop the pharmaceutical sector and facilitate cooperation between Ukrainian and foreign industry to work together to fill the niches and become competitive.

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