Interview with Jean-Luc Lowinski, Senior Vice President, Asia Region & Vice President, Greater China Global Operations, Sanofi China

07.01.2013

Tags: Sanofi China

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Globally Big Pharma, Sanofi has a long record of placing a lot of faith in emerging markets – with local production, a large product portfolio, and decades of experience. As the largest and fastest-growing emerging market, what is the strategic importance of China to Sanofi? And, vice versa, where does Sanofi provide the most benefit to China?

As you note, emerging markets are very important to Sanofi. Since our CEO Chris Viehbacher came on board at the end of 2008, there has been a strategy around what we call our seven growth platforms: diabetes solutions, human vaccines, innovative drugs, consumer healthcare, emerging markets, animal health and rare diseases. These were identified in order to address the patent cliff. Because Sanofi had been so successful with a number of products, the patent cliff was very big for us. Today, emerging markets represent over 30% of our turnover, and China is making an increasing competition, representing 7% of this 30% in 2009, and now up to 12%. You see this growth in the figures, but more importantly, you see it in our strategy. One of the reasons for Sanofi's success in China is the expansion of our coverage and our network, across different parts. It's our commercial network – obviously, as we have over 4,000 sales reps through 11 regions. It's also through our industrial network of six factories. As a matter of fact, we are actually relocating and expanding three of these six factories, two in Hangzhou, and one in Nanchang for animal health. Lastly is our R&D network. While we don't have a brick-and-mortar R&D centre as such, with scientists behind closed walls, we count over 30 co-operations in China. In sum, the strategic

importance of China is evident through the fact of our very deep commercial coverage, very strong investment in industrial affairs, and the strong partnerships in terms of R&D.

Many of your counterparts have spoken about the unique operational and strategic challenges China poses to their organizations. How does Sanofi adapt itself to compete in China, and how must the company work differently here than elsewhere in the world?

One of the biggest differences in China compared to other markets where Sanofi operates is the vastness of the country. It's a very broad country, so you can't run things here the same as in France or Germany, and one of the things Sanofi is doing in China is adapting our business to this size. In this regard, we've taken the word from headquarters and developed our own 11 growth platforms, extending from Jinan to Beijing, to Urumqi and Chengdu and Guangzhou. We are putting more and more local resources into these growth platforms to make sure we're not only running one business, but that we can really be close to the market.

Another difference which is important in China – and this is probably where the market has changed the most since I first saw it in 2002 – is the very strong drive from the government to grow health coverage. They're very active in growing infrastructure, with over 2,000 hospitals being built in the counties, and health insurance coverage has exceeded 95%, which means almost every Chinese has some form of health insurance coverage. This has really driven demand and accessibility of healthcare in China. For an MNC like Sanofi, it's important to be attuned and aligned with what the government is aiming to achieve, and this is another area where we are very active in efforts outside of the big cities, especially into the counties. In parallel to the government building those 2,000 county-level hospitals, Sanofi is also building its PCBU (Primary Care Business Unit) which was created last year and is now active in nine provinces and expanding. The goal is to enter county hospitals and work together with healthcare professionals, to not only expand access to medicine, but also help with the soft factors behind. Building a hospital is important, but at the same time there need to be doctors and nurses, and they need to be trained. This is where Sanofi can actually help with very encompassing programs, with training to assist hospitals, doctors, and nurses, to ensure that we don't only sell drugs, but raise awareness and knowledge of disease management.

Do you have any insights into ways to convince patients to visit the county-level hospitals, versus making the trip to a major city to wait in line overnight to see a famous physician?

There are a few factors driving patient behaviour. Obviously, one is reimbursement availability: can they carry their reimbursement from one hospital to the next, or from one county to the next?

This is a decision made by insurance companies and organizations in China. However the biggest factor, in my opinion, is trust. Does the patient feel he or she will get the same level of service in one hospital as compared to the next?

If Sanofi can help to raise the level of the service delivered in a county hospital, we can perhaps contribute to convincing the patients to go and stay there, instead of moving to the bigger city, which creates many personal difficulties such as travel and costs, and many difficulties in the city hospitals, with congestion and long wait times.

Sanofi can be seen as a number of distinct entities requiring different approaches for success. For instance, Genzyme is very different than Pasteur, which is different from Merial, or in CHC with the Minsheng JV or BMP Sunstone acquisition, etc. How does Sanofi ensure competitiveness in each vertical, knowing that there are competitors within each niche dedicated to a single focus?

One of Sanofi's biggest strengths is its diversification. If you look at the success over the past years, I'm convinced diversification played a big role, because it gives us a certain diluted risk; so maybe one year will experience rapid growth in one platform, and in the next year another. In this sense, it gives us true sustainability in the growth of the business. The question is, when you have different businesses, how do you optimize them?

There are always certain points where you can create synergies. Most obvious is the back office, and it's clear that most of our back office operations are integrated, starting from HR, to finance, to accounting. All the functions that customers don't see, and where it makes sense to integrate, we are either fully integrated or quite well on the way to being integrated. The more difficult question is how to sensibly integrate at the front end. The question has to be asked with a close look at customer needs. I think in some cases, the customer needs are very different. For instance with Merial, if you talk to a big poultry business, they want to see someone specialized, who understands what is the poultry operation and what kinds of vaccines are necessary for poultry, and there's not necessarily a lot of value added by combining this with a hospital sales force. On the other hand, from an industrial affairs point of view, there may be. Because when you build a factory, the expertise around design of clean rooms or supply of high-quality fluids are essentially the same.

There's a very strong leverage that we can get on the infrastructure, but on the marketing and sales and link to customers, we should, in this example, retain the uniqueness of Merial, in the front-facing customer entity. There are some parts where it's more fluid, for example even different BUs like cardiovascular and oncology, some patients have similar problems, e.g. a cancer patient may also be treated for blood clotting issues, so they may also need Plavix or other products. First, we work on key account management, being sure that with large hospitals, our teams talk to one another and meet regularly to exchange information about what are the needs of the hospitals, what training we need to conduct, what kind of patient education makes sense, and where we can combine our efforts. Sometimes, it makes sense that BUs work closer together in a kind of co-promotion model. But we do this only when it really makes sense from a customer point of view. If our customer wants to hear from two or three products that belong to different lines, then we do it.

If it doesn’t make sense for the customer, we don’t try to create artificial synergies where they don’t make sense.

Sanofi has a strong global generics presence with Zentiva in Europe, Kendrick in Mexico, Medley in Brazil, and Nichi-Iko in Japan. With the predominance of generics in China, how is Sanofi targeting this side of the business?

First of all, Sanofi in China has faced this reality since day one – when we launched Plavix, there was already a generic in the market! All our products have generics today, but that does not prevent us from having a nice growth in our business, because people recognize the need for top quality products, as well as for companies that don’t just provide the product, but the services that go beyond in terms of time, information, clinical trials, which accompany the product all along its lifetime. Despite the presence of generics, we’ve built Plavix to become the most successful drug in the Rx market in China. If you look at Amaryl, we continue to gain market share over the generics. Globally, we’re not unfamiliar with the situation where there are generics. Having said that, even though Sanofi is now number three in the market, we’re not covering as many of the Chinese population as we would like to. The fact is that probably a large share of the Chinese population will continue to rely on generics in the future, and it’s important that there’s availability of quality generics in China. Sanofi has a lot of capabilities in that field, and the experience and capability to produce API at a very reasonable cost. If we make use of this fact, we should play a bigger role in China in generics, and this is certainly something we’re looking at. There’s lots of moves in the industry, we’re looking at them and studying what makes sense for us, and it’s definitely part of the market where we think we should also be there, the way we are in other countries.

Sanofi has completed some very high-profile acquisitions in China in recent years. What have been the keys to success, and how do you intend to leverage the new additions to the business?

The biggest acquisition Sanofi has made in China is Sunstone. It was a strategic move not only because it scaled up our presence in consumer healthcare but also because it brought us access to the Tier 3 and Tier 4 markets, the so-called emerging markets within China, where Sunstone had established strong distribution networks. Of course, we saw tremendous value in Sunstone’s flagship brand Haowawa (Good Baby), which is a leading pediatric cough and cold brand in China. This is where the CHC business is quite different from the Rx business. The beauty of CHC is that once you have a brand, it can last almost forever; some brands can endure more than 100 years. As a growth platform, it’s a very nice complementarity to an Rx business. The challenge is that because the brands can last very long, they can also take a long time to build. Also, when you acquire a company, you take a new culture on board. Add to this the synergies in the back office, and integration within business units, which will obviously take some time to smooth out. However, we’re confident that with the Sanofi knowledge and the strength of the Haowawa brand, we will

build a sustainable business.

When you graduated from veterinary school 30 years ago, did you see yourself as one day heading the China subsidiary of France's most important pharmaceutical company?

After completing my studies in veterinary school, I started to learn Japanese and ended up in Japan, at 21, and completed my thesis there, which started a relationship with Asia that never stopped. I always knew I wanted to be in Asia. Therefore, when I came back to Europe after 3-4 years in Japan, I did an MBA, and joined Bayer, and I always asked to be sent back to Asia from day one. After two years in Germany they understood and sent me back, and I spent 16 years of my career in Asia. Somehow, it did not happen by chance! I was driven by a strong desire to be in this part of the world, which I personally find very interesting. I find the cultures of Asia, and China in particular, to be fascinating, and as a professional, feel privileged to work and live here during such a moment in the healthcare industry. We're experiencing things that very few people get a chance to experience during their careers.

You've been recently appointed to your current role; what's at the top of your priority list? As Sanofi celebrates its 30th anniversary here in China, where do you want to bring the company, and how will you get there?

We have to give credit to the former managers and the team, because Sanofi has been very successful in China. Growth over the past years has been amazing, and the way we've positioned our products has been the benchmark for therapies like Plavix and Lantus, and resulted in our #3 position in the market today. For me, what's important is that we continue to be a leader in the segments where we can make a difference. For instance in cardiovascular, stroke is a big issue in China. Every 25 seconds, somebody has a stroke. And Plavix is a product than can make the difference. Recently at a seminar, the President of a leading hospital in Shanghai presented the results of a study that showed over 70% of all adults in China have hypertension. This is an amazing statistic, especially considering that today, the therapeutic answers are there. Another segment is diabetes; over 90 million Chinese are diabetics, and with Lantus, they can have a treatment to better manage their disease. I want to ensure that Sanofi contributes in the areas where we are experts, but at the same time, we want to bring the Sanofi quality to more and more of the Chinese population, because our mission is to be a large player. We're not a niche company that specializes on 5-10% of in the population. Through our broad portfolio, we need to reach more of the population in China – and that's why initiatives such as Primary Care BU, and our entry into Consumer Healthcare/OTC, represent ways in which we will do exactly that, while rising to the challenge in the next years of being innovative on the generic front as well.

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