Interview with Marina Simashova, General Director, Unipharm, Inc. Ukraine

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You recently switched from Novartis to Unipharm. Given the major differences in environment and portfolio, what was it about Unipharm in particular that attracted you and what are you bringing on board?

Many of my friends and colleagues were surprised and asked me what the reason is for my move from a big innovative pharmaceutical company to a smaller, young and pure OTC company. I can freely say it was nothing dangerous, but a rather normal situation in Big Pharma. The international assignment that I had received from Novartis for the Ukrainian market was for a three year period, which was prolonged for one year due to internal business demands. I was then supposed to return to Russia, my motherland, after this four year term ended, as my contract was with Novartis Russia.

After four years in Ukraine, I realized however that I had fallen in love with the country. Both socially and professionally I loved my life here, with a great network of friends and colleagues, and many professional challenges and opportunities.

During the 16 years that I worked in the Russian pharmaceutical industry, that country overcame a number of the challenges that Ukraine is dealing with today. At the same time, although the challenges are similar to the ones Russia coped with, Ukraine has its own approach to seeking solutions. The regulatory mechanisms that the Ukrainian government is working on are not mere copy-paste activities – Ukraine has its own way of doing business.

On top of that, the OTC sector that I entered with my switch to Unipharm is not totally unknown terrain for me. In the past I have worked with OTC generic companies, and I always enjoyed it. Pure OTC business requires experience and the ability to quickly react to challenges, especially in Ukraine and Russia. In these markets, challenges arise suddenly and frequently, and working in the pharmaceutical industry is like simultaneous chess: it requires managers to think about many possible challenges in advance.

For these reasons, when I received a number of interesting proposals from pharmaceutical companies in Ukraine, I decided that this would be a great challenge to pick up. So why Unipharm? Because it is a young, fresh, and aggressively growing company with a mature management. It was a challenging proposal, and that is exactly what I like. On top of that, Unipharm has been in Ukraine for over ten years offering very good products, something which Ukrainian consumers – pharmacies, doctors, consumers, underline by their loyalty to Unipharm products. I want to help this company grow in the daunting Ukrainian market environment, not only to help reach our ambitious targets but also to help the company oversee its balanced development.

You mentioned the need to be almost psychic in predicting the market changes in Ukraine. Unipharm reached incredible successes since it entered the Ukrainian market in 2001. What are the strategies that the company applies to ensure its success in this competitive market?

Before I joined Unipharm, I studied the reasons behind its remarkable success in Ukraine. First of all, the Ukrainian market grew significantly before the crisis. It was one of the most interesting and dynamic markets in the world, with growth exceeding 20% for years, while the percentage was even higher for the OTC market. This market growth naturally stimulated Unipharm’s growth, although we still had to work hard to take the opportunities. And we did, convincingly: with more than 65% annual growth between 2001 and 2008, Unipharm’s growth was much higher than the market average.

Furthermore, the quality of our products played a key role in realizing our growth. Another aspect of major influence is the transparency of our business, highly important in communicating with the stakeholders. Furthermore, a well-organized field force team, well-organized relations with our distributors, pharmacists and doctors; it is clear and simple actions rather than massive investment or publicity what has brought us our results.

During the crisis, when the OTC segment in particularly dropped dramatically, the growth of the company consequently lost significant speed. Now, in constructing a new business strategy, we take the experiences of the crisis into consideration. High quality products and transparency remain of key importance, but Unipharm will be better prepared for the market challenges in the future. Especially in the face of serious regulatory changes and reforms, we are developing special actions

for our customers: doctors, pharmacies and private customers.
The first step we are taking is to improve our activities with our commercial partners, the distributors, which provides us with a serious opportunity to improve our situation. This will be done in December, after which we will take similar steps to improve our other promotional channels.

You mentioned that growth slowed down during the crisis; but since then the company started to grow again, and so did the market: this year, a 12% growth is predicted. What are the objectives you set yourself for 2012?

We set for ourselves an aggressive goal: to grow 30% in 2012. Given the fast recovery we showed in the post-crisis years, when the Ukrainian OTC pharmaceutical market showed 12% recovery while Unipharm boasted 18%, we are confident we can realize this. All our products show above average growth, including our vitamins for pregnant women, our Arthron product line, Vitrum and Cardium. In each segment we showed significantly higher-than-average growth. Furthermore, we see major opportunities to step up our penetration on the pharmacy level and for additional growth among consumers.

In most post-crisis pharmaceutical markets, growth has not clearly returned everywhere yet, especially not in the mature Western markets. Despite a lot of difficulties with the Ukrainian pharmaceutical market and the economy in general, both are now showing very strong recoveries.

For a big, well-established company, 1% growth is already a great achievement, but a young, small company like ours must grow faster: smaller figures, higher growth!

You mentioned that companies need to be ahead of the game to succeed in Ukraine. What are the obstacles along the way you have to overcome to reach 30% growth?

I would like to address not a particular obstacle for a specific company or group of companies – big, small, local, foreign – but bigger obstacles that the whole sector deals with: regulatory obstacles.

Countries worldwide are moving towards additional limitations and regulatory pressure on the pharmaceutical sector. There is a difference between how the respective pharmaceutical industries accept, adopt and change the challenges they are presented with by their governments. In Ukraine, the president and the government are focusing more and more on the pharmaceutical sector. On the one hand, they try to implement serious health care reforms, on the other serious regulatory changes.

We are waiting already for many years for these reforms and regulatory changes to happen – price regulation, state purchases, advertising bans: there is a continuous stream of discussion on different levels. Ultimately, they are all necessary to ensure a healthy pharmaceutical sector and efficient provision of healthcare on behalf of the state. This kind of regulation is already in place in

the bigger part of the world, only in this country we still have not implemented serious regulations. It is clear that limitations are necessary: like any country, Ukraine wants a clearly structured and regulated pharmaceutical sector with a clear understanding of the processes and how any partner – pharmaceutical partner, distributor, patient, doctor – is operating in the local environment. Of course I will not deny that the regulation provides additional challenges that the industry has to deal with. We need to find other promotional ways in this strict environment, and we need to receive feedback from other markets that have experience with working under such regulation. Any kind of direct and indirect experience from different health care players is very valuable to us, so that, in case the advertisement ban or other regulation is introduced, we will not be caught by surprise.

The next step for Ukraine to fully exploit its potential is to increase cooperation between multinationals and local players. It is very interesting to see that an American company like Unipharm can be so successful on the Ukrainian market. Is there a possibility that Unipharm will invest in production capability in Ukraine?

The development of local manufacturing is not just a political slogan, but a reality. It will happen, because the Ukrainian government, like every government, is interested to develop the national industry. The heritage of the Soviet Union, when the Ukrainian pharmaceutical industry was producing medicine for the whole of the Union, significantly increases the chances of success.

Unipharm has its own well-developed production capacity in the US, but local partnerships are interesting for any company. It provides the possibility to get more in touch with the market and to be better positioned to capture market growth. It therefore is part of the company's strategy to find one in Ukraine. We prefer to take our time to find the right partner and are not rushing things. I am glad that the company's management in the US understands this need. We are very successful in Russia's massive market, and it is part of our company's strategy to repeat this success in Ukraine, as it is the second biggest CIS market. Ukraine is a priority for the company.

Where do you want to take Unipharm in three year's time?

Three years might be too early to put the company in the top ten, but a ranking in the top twenty would be acceptable. As Unipharm is a very young company with a clear portfolio of OTC brands, this is not just the ambitious wish of the Unipharm management, but rather a priority for development of the company itself.

At the moment, Ukraine demonstrates very stable political development with a strong growing economy and a well-balanced foreign policy. It is also creating the right climate for foreign pharmaceutical companies to invest in the Ukrainian market. It is vital for Unipharm to take the opportunities that the country's growth presents. Unipharm does not only want to develop its business, but also a new way of thinking and of collaborating. The Ukrainian pharmaceutical market really requires not only financial investment but also an investment of knowledge and

experience, and we are considering setting charitable relations with local patient- and doctor associations to this end.

Regarding the discussion related to healthcare reforms, Western countries and companies have broad experience in dealing with these issues, and this kind of experience is particularly useful for Ukraine. Unipharm tries to contribute to Ukrainian health care reform through its experience in working in the American pharmaceutical industry. It is not possible to avoid all mistakes, and making mistakes is even important in the learning process, but we can certainly caution authorities about specific mistakes and offer an overview through our experience.

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