Interview with Wayne Hsu, Managing Director, Chi-Fu Trading Co. Ltd.

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Your grandfather started Chifu a long time ago: the business was registered in 1961. I imagine that the business today is completely different game from the one that it was back then. Where does the company stand today, and how has it evolved from its roots?

My grandfather began Chifu as a wholesale distribution company because at the time of Japanese occupation of Taiwan, Taiwanese companies could not import directly – they had to go through Japanese trading houses. This was the origin of the business. At the time that Chifu was formed, the company was committed to importing high quality products from overseas, and introducing products from Europe and the US to Taiwan. Today that still stands except that we have broadened the geographic reach of the company. Drugs that benefit the wellbeing of the patient are being brought into Taiwan.

From the very beginning Chifu made a commitment not to move into manufacturing. We have continued that tradition, even though for most Taiwanese and Asian businesses, having a manufacturing base is considered to be an asset. For Chifu, it has the potential to become a burden: it would mean learning a whole new set of skills and drastically changing the business that we have spent so long building our reputation in.

A very close friend and advisor to Chifu asked me upon my return to Taiwan what the position of the company was. I told him very simply that Chifu wants to be the Nike of the pharmaceutical and

medical industries, a marketing company. This means being responsible for a whole range of high quality pharmaceuticals, devices, treatments and therapies to introduce into the Taiwanese market. Some products will be my idea, and by working with doctors and healthcare professionals we can also work to introduce the drugs that they need in Taiwan.

How did your previous experiences help you to take on the role of Managing Director of Chifu, a post you have held for two years now?

My educational background is in business, in accounting and marketing, but I was involved in the biotech industry for 15 years before I returned, in the field of molecular biology, bioinformatics, chem.-informatics and PKD studies. I have been preparing myself for this role. This experience allows me to look at products that have potential and rely on my instincts. I can feel whether a new product is going to have potential or not. I can accept great new ideas. A lot of people in the pharmaceutical business in Taiwan are more conservative and only want to introduce proven products, which is understandable, but I am more willing to take a little more risk. I would rather do that than try to manage the environmental aspect of manufacturing.

In terms of the marketing side, what do you think it is that attracts your clients to come to Taiwan? Secondly, what is it that attracts them to Chifu?

Taiwan is not a huge market in comparison to China, Korea or Japan. However, Taiwan has 23 million people, which makes it larger than a lot of the smaller European countries. Taiwan has the second most concentrated population in the world, and with a lot of this population in the northern region. The barrier to entry is high, but once a company has established its products here the business can be very lucrative. People are also using Taiwan as a test market for the Chinese speaking population or even for the whole Far East area. That’s what attracts people. Taiwanese people like to purchase and use foreign products. As a nation, we have an ‘islander’ mentality: we are very attracted to products from outside.

As far as how Chifu attracts its suppliers, from my father’s days managing the company we have always been very open-minded. We are not afraid to take challenges such as newer products (with just a concept we will evaluate a product) and if we believe in it, we will make sure we go ahead and sell the idea to the healthcare community. For us, it is that kind of determination that separates us from our competitors: I am willing to take a risk and be an early adopter, and I think a lot of our supplier companies like that.

Also, it’s easy to communicate with my staff and myself. My father majored in English at university so he could communicate with foreigners easily, and always saw that this was one the best tools in

gaining the confidence of foreign partners. Chifu is also a very straightforward company: that kind of mentality helps to build trust with our suppliers.

You mentioned the idea of Taiwan being used as a test market for the Asian region in general, but particularly for China. What kind of opportunities do you find that that offers you as a business?

As a distributor, we have to walk a very fine line. If we do too poorly, another distributor comes in, but if we do very well, our client will enter the country and start an affiliate! However, I don't think Chifu has to worry about this too much at the moment. If we do really well, we will continue to do well, because most foreign companies today are focused on investing in Mainland China. Because Taiwan is a relatively small market, they would rather give the products to a company that they can trust rather than investing themselves. Added to this situation are the intricacies involved in registering products in Taiwan and all the necessary bureaucracy that this involves. The companies that do not have the will or the resources to do this directly need a company like Chifu to help them.

This situation is very similar in other South East Asian countries, where the market size is small and many companies prefer using a distributor in order to gain market share. Taiwanese companies like Orient Europharma have developed a significant new business in helping their existing customers reach these new markets. What are Chifu's ambitions in this regard?

South East Asian companies are low hanging fruit, and do not offer too much of a challenge. I would rather go to markets such as Japan and Korea. There is a lot of potential in these markets, so if Chifu can help companies enter the Japanese market or the Korean market it will stand to benefit. But I see more potential in Japan because the barrier to entry is also very high, but I see the Japanese culture changing. People want good products at a good price. I spent a little bit of time in Japan and I think penetrating the market will be Chifu's next challenge. But I think South East Asia is a good market, but encompassing huge geographic area, which requires a lot of human resources.

What is Chifu's growth strategy? You became Managing Director two years ago. What have you been doing to grow the business since you arrived, particularly with regard to this plan to enter Japan?

Before I talk about growth I have to talk about people accepting me as managing director of Chifu. A lot of people see me as successor simply because I am the son of my father. But my father was very strict in the way he groomed me. I actually didn't want to take over the business, but I promised my mother on her deathbed that I would take care of the family business. Twenty

minutes later her heart stopped. From that moment, I was determined to take care of the family business and I realised that I needed to have a solid foundation in order to do this.

The way I began was by looking at Chifu's product range, and how it could be augmented. At the time the reimbursement price was falling fast. We approached this problem with the aggressive registration of generic products. I made a bet with my father, who wanted to manufacture generics locally. At the time I was working for a US biotech company, and came across some Indian generics companies. I bet my father that it would be cheaper to import the generics we wanted for the portfolio from India rather than manufacture them in Taiwan, and I was correct.

Chifu eventually became distributor for a number of large Indian pharmaceutical companies. Many of these companies want to come to Taiwan, but the high cost of registration scares them. Our largest partner so far is Zydus Cadila, the number three generics producer in India and a very aggressive and open company. Chifu currently has around twenty products of theirs registered in Taiwan and is continuing to register them. With these drugs Chifu can beat the prices of CCPC and Yung Shin in many cases. I can also provide FDA approval, something the low-cost local producers cannot.

The best strategy is the low-cost strategy, but at the same time Chifu also has some products that are self-pay. We have products for patients that are privately insured, which serve to create a buzzword for patients. A lot of local pharmaceutical companies are looking increasingly into food supplements, but Chifu is not doing that yet because food supplements can be manufactured very easily and cheaply: if Chifu is going to be involved in self-pay markets it will be with high-end products from Europe, Australia and the North America that are much higher value.

That comes back to Chifu's core values. When people ask me what Chifu is, I describe it as the alternative. Instead of setting up an office here, we can be the alternative. Product-wise also: if you don't want to use the originators, you can use our generics. If you don't have good marketing, you can use ours. We can provide a different point of view on the market. Also we have a lot of different products for oncology: different treatments that give patients more choices.

I read that you were changing the name of Chifu Trading to Chifu Multinational Enterprises.

Legally we cannot change the name, but I want to change it because we are working to change the perception of the best way to run a distribution business. There are a lot of distributors in Taiwan that are territorially based. One person could be responsible for the products of a whole hospital. Chifu is a little different: we are a hybrid organisation. We have specific sales teams for specific channels and specialties. We have product managers for different specialties. Our product mix

allows me to do that. That’s actually very different from the way my grandfather and father ran the business. Back then, we only had one or two products, but now you need twenty or thirty products.

What is your ambition for Chifu’s product portfolio?

The Taiwanese population is aging at a different pace from western countries and even Japan and China. What I want to do is to help people maintain their health – to reverse aging would be nice, but it would cost extra! I would like to introduce products that make people happy and have good quality of life. Also a lot of cancer patients are thinking about products that are going to help people live better, and these are treatments that Chifu can provide.

Chifu’s business model is based on the idea that Taiwan is a very small market that multinational companies don’t necessarily want to invest in, perhaps because they are more focused on China. However, the government is pushing for these multinational companies to invest here. Given the incentives the government is introducing, and the ECFA agreement with China on the horizon, what are your future expectations for Chifu?

Chifu can also introduce a lot of products from Taiwan to China. A lot of Indian companies are afraid of going to China. Chifu can help them, and is already doing this. But the company is also helping Chinese companies to come to Taiwan. Chinese companies see Taiwan as an interesting market. They can also use it as a test market: Taiwanese people are perhaps more open and willing to spend more than Chinese patients.

How difficult is it to penetrate the Chinese market?

I have to evaluate the opportunity and the products and the people that I work with. Contrary to popular belief there are good business people in China. If I have a good partner that I am working with I can put my brand behind them. If you were to ask our customers, they would tell you that Chifu is a company that is trustworthy. That in itself means a lot.

I am doing this to bring good products to Taiwan, and it doesn’t matter where those products come from. When we first started with generic drugs, people questioned this strategy. But a lot of people’s perceptions have changed: once they understand that I am already screening the products for them, and bringing value to the customer, the hospitals and doctors.

So you are looking to go both ways: to bring Indian drugs to China, and to bring Chinese drugs to Taiwan. Chifu’s expertise is in Taiwan. How difficult is it to adapt to distributing in a new market, especially one like China, which is so large? Where do you start?

In my previous job I was a distribution manager for the Asia Pacific region, and I had quite a lot of contact with China as well. There are a lot of small players who went out of business or who are on the verge of going out of business in Taiwan, China and Japan. I provide a solution for them. People always want to cut out the middleman, but I can offer a really good basket of products to them, I am the alternative: I want to provide drugs for people that are willing to put in the work and get their products into the market. Those are the people I want to work with.

When you pass Chifu Trading on to the fourth generation, what do you want to have achieved?

I don’t necessarily have to pass the business onto the fourth generation family member, and I think one of the reasons why I am able to be here and be accepted is that I never made that assumption about myself taking over. Even though my father was grooming me and giving me skills to be independent. I am not necessarily thinking about the fourth generation, but I am thinking how I can make sure that the Chifu name survives; how can I make sure that the value of Chifu survives. For me the solution is to be flexible, and continue to look ahead at the market. We may all be involved in personalised medicine in ten years time, and there will be no need to have a warehouse full of products.

A lot of our readers aren’t very aware of Taiwan as a pharmaceutical market, so what would you like your final message to be to our readers?

Taiwanese people are very open, and like to try new things. Whoever has new products, new concepts, they should definitely try Taiwan over other Asian markets, and the investment to come to Taiwan to do a market survey is actually very small.

For people that are perhaps looking at alternatives: if they are not satisfied or want to explore possibilities to find a partner in Taiwan, or just talk about possibilities of working together in other markets, then they should definitely consider Chifu.

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