Interview with Arman Voskertchyan, Managing Director, Johnson & Johnson Russia & CIS

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The United States, Johnson & Johnson has an image of being very close to people. Americans grow up with this company — from baby shampoo, to Tylenol when they are older, to Acuvue contact lenses. What image does this company have in Russia? How is it positioned and how do people relate to it?

Johnson & Johnson (JNJ) came to the Soviet Union in 1991. Hence, 2011 is a remarkable milestone: we are celebrating our 20th anniversary! This is a momentous achievement for us, because over 20 years, many things have changed — not least of all the fact that the Soviet Union, as a state, has disappeared from the map. Today, if we look across all of our businesses, (pharmaceuticals, consumer healthcare, and medical devices), we are the largest healthcare company in Russia and the CIS.

We believe that these 20 years helped us not only to establish our business operations here, but also to build an infrastructure that could help us truly understand this environment and ultimately help our patients gain access to high quality healthcare. Every business that we have worldwide, we have in Russia as well. By having this kind of infrastructure we strive to provide access to each of our products for an entire population.

In the US, JNJ is a 125-year-old brand. In Russia, we do not have this kind of heritage, but I believe that our time here has allowed us to build a very strong brand nonetheless. We are by now well known not only among consumers, but also among key stakeholders, physicians, etc. Some of our products and some of our businesses were known even before the official establishment of our

Russian affiliate. For example, let us take sutures — the Ethicon brand was known 30 or 40 years before the official start of our business in this country. The JNJ brand, as a whole, has had a shorter tenure. We continue to build a business that will satisfy the growing needs of Russia, and Russian healthcare in particular.

JNJ is not only the largest healthcare company in Russia, but it is also the only American company in this country that is ranked within in the top 10. What explains Johnson & Johnson's strong positioning here?

To be able to make some difference in the world and to be able to change healthcare systems for the better, we as a company need to be present in emerging markets as well. Coming to Russia 20 years ago was a great commitment on the part of the company to build a strong business in Russia. Now with 20 years of history behind us, if we look at what we are doing now in this country, I can say that there is a clear dedication to invest in the development of robust infrastructure, and to grow the business. What is more important, we are able to provide access to high quality treatment.

At Johnson & Johnson, we are doing many things and we are involved on a number of fronts in initiatives that the society as a whole can benefit from. This is true whether we speak of patients or healthcare professionals.

In general, it is a matter of commitment to Russia and to establishing a strong foothold. Our projects and our investment strategy are great examples of how the company builds on this commitment.

We as a company clearly realize that our expertise, our knowledge, and the technologies we have could help us really improve the situation in Russia. We see this as our responsibility. If you look at the demographics in Russia, the figures are quite appalling compared with many developed countries. For example, 60% of all deaths are caused by cardiovascular diseases, and the rate of early mortality is one of the highest in the developed world. Johnson & Johnson has technologies and products that have the capacity to truly change the state of affairs in healthcare, and we must bring them to this market.

Only by working with key stakeholders and aligning our strategy with government priorities we can fulfill our own plans and help create a better healthcare system in the country.

There is much political will behind healthcare reform at the moment, and the ultimate goal is of course to help the patient. But many initiatives to improve healthcare are often seen as isolated and not connected specifically to the patient's needs. How can stakeholders best streamline their approach to improve care for Russian patients?

There are many changes now — both regulatory and legislative. The overall landscape of the market has developed significantly, and there are diverse initiatives at various stages of implementation.

One thing that I believe could really help streamline the wealth of change is open dialogue between all of the major groups and stakeholders involved in healthcare: government, industry, professional associations, and, finally, patient associations.

We see these changes, but a lot more should be done to really help find the best local solutions. Open dialogue is one thing that we strongly believe can help all of us, but at present we do not often get it. We are trying to leverage our positions in different organizations to try and build some kind of discourse with key stakeholders. We have had some success. There is at least an understanding now, at different levels, that without open and transparent interaction and discussion it will be very, very difficult to really affect change, and to have the aligned approach that the players need.

This is one thing that I believe we, as an industry, should drive, and I truly hope that we will see increased openness in the future from the side of the government, and, in fact, all other sides.

What about building up the industry itself? On the one hand, Russia is the only country among the BRICs where multinational companies, and not locals, are the market leaders. On the other hand, Russia still gets very little investment in research and production facilities compared with China, India, and Brazil. You have said that the game is not just about sales; it is about investment — so how do you explain this discrepancy, and what is JNJ's own investment strategy in Russia?

When we started our discussion, we noted that the Russian market is transforming right now. Definitely, the government's priority is to have more localized industrial capacities for pharmaceuticals and medical devices. When JNJ has discussions and interactions with various stakeholders, we try to explain that, at least in the medical device area, it is not only about production. It is a much broader issue; it is a kind of an ecosystem. We need an environment that fosters idea generation; the realization of the idea as a product, the use of the product in a particular segment, and the education of professionals in its proper use. So there are many other components, and it is not only a matter of physical production.

Our position is find out what competencies Russia has that can enable its incorporation into this value creation chain. It could be at the R&D stage; it could be, in some cases, professional education; it could be production. But if we want to have a sustainable business model, based on a value-driven standard, I think we need to discuss what positioning is best for the country. This could be in production, but on the other hand, that may not be the best option.

We as a company — and I am now talking again about the medical devices business — see clearly that the capabilities and expertise that we have, for example, in professional education can be used in a completely different way here in Russia. We can help overcome one of the key barriers in healthcare, which is the scarcity of physicians who know how to utilize new technologies; who know how to provide advanced and novel treatment. That would be the real contribution to the Russian healthcare, both for patients and physicians. And this is exactly what we are doing, if we speak of investment. I can take as an example our Advanced Medical Technology Educational Center in Kazan, in Kazan. Our cumulative investment in this center over five years is roughly $15 mln, which is quite significant. Thanks to the support and collaboration with the local government of Tatarstan, we have built a truly unique educational facility. It is not only the first of its kind in Russia, but it is also the first time, for JNJ worldwide, when we have had this kind of collaboration with the government. Certainly, we have professional education centers in different countries: in the US, in Germany, France, China, India, etc. But this is the only one that was built based on public-private partnership principles.

It is a separate legal entity and a separate institution wherein JNJ and the Ministry of Health of the Republic of Tatarstan have developed a dual governance model. This unique model allowed us not only to build this infrastructure, but also to align ourselves very closely with government priorities in healthcare.

This is just one example of where we think investment should be made. Another example could be our ongoing discussion with the Skolkovo Foundation. We are discussing two particular areas: professional education, and R&D. How can we bring our expertise and leverage the Skolkovo brand? We are, again, brainstorming possibilities of involving Russia into this global value chain.

This is our approach. When we have discussions with stakeholders, we explain that we see localization in a much broader sense than production facilities. I do not mean to suggest that we are not considering production as an option, but there are other very interesting opportunities as well. The two that I mentioned (R&D and professional education) are very good examples.

Recently, MBA students from Stanford, travelling with Condoleeza Rice, had a chance to debate with Viktor Vekselberg and Ruben Vardanian at the Skolkovo School of Management. When asked what kind of project they would undertake in Russia, the students answered that they would choose Russia for a hi-tech project, because of the strong scientific talent pool. Although they mentioned they would be worried about investment risk. Their answer may be a bit stereotypical, and perhaps a bit naïve, but how close is it to reality?

Actually, I would not say that this answer sounds naïve, because ultimately they are right. Innovation is something that can be a driver for Russia and can be a driver for the Russian

economy over the next decade. I am certain that all stakeholders, including the President and the Prime Minister, are committed to innovation.

The question then is whether we have the correct infrastructure to drive these innovative projects. There are many administrative barriers. From this point of view, I think the Skolkovo project could be a very interesting example where we see both commitment to innovation and government support in overcoming the usual barriers. It could trigger some very interesting projects.

I know there are many concerns about the Skolkovo initiatives. The Skolkovo initiatives have supporters, but there are also some who doubt the long term benefits. I think it all depends on big companies, like JNJ, that have already committed to this initiative. If companies, entrepreneurs, and R&D hubs believe that Skolkovo can bring additional value in Russia and worldwide, then this project will certainly be successful.

In a past interview, you mentioned that one of Russia's limitations is that its scientists are not used to interaction with the private sector. How can initiatives like Skolkovo change this? At what cost can Russia restore its historical scientific leadership?

Historically, Russian science and in particular Russian healthcare was very strong. If we look at the number of patents in healthcare in Europe, 70% of all patents are coming from six countries — and Russia is one of them. This is a good example of the strength of the scientific potential in Russia, despite all challenges that local scientists face. I think the gap lies between having an idea and developing and marketing the new product. We must develop routes and infrastructure to commercialize these ideas.

This is one area where companies can really help. We are at the beginning of this journey, but we are trying to launch initiatives that can leverage the work of Russian scientists. We as a company have the ability to discern ideas that are interesting for us and commercialize them very quickly. These initiatives will help Russia to once again become more involved in the worldwide value chain.

Russian industry, by itself, is yet lacking some of the competencies helping local researchers to commercialize their vision. That is where large multinational players and industry leaders may come in.

As the head of an American company in Russia, and as co-chairman of the American Chamber of Commerce's Healthcare Committee, what would be your advice to American companies regarding the biggest opportunities for investment and growth in the Russian healthcare sector?There are many changes in this sector, and the way companies were once organized or the way they used to build their business must change, too. Companies should align their strategies with the priorities and key initiatives of the government. So one

piece of advice would be to look at the long-term government strategies set forth in the Russian market and see how aligned your company is with these objectives. Furthermore, it is important to understand how the company can contribute to the broader task of building an effective and efficient healthcare system.

Another point is about localization. Again, I am speaking of localization beyond a manufacturing standpoint. I believe that, if we want to be successful, we need to localize. We need to localize our competencies and try to become a player across each segment of the market. The logistics of developing this kind of capability is a question each company should think about. Each company should figure out how to become a local company. As we noted, it is not only about sales and marketing. This understanding is the first step in having a successful and sustainable business here.

As you celebrate 20 years in Russia, what would you like your final message to be to the international readers of Pharmaceutical Executive?

I want to say that together, we can truly change the situation in Russian healthcare. We can really contribute to developing a better, accessible and efficient treatment for patients, and stimulus for doctors and healthcare managers to make their jobs rewarding in all senses. Let’s try and help Russia to become more efficient, and help Russian patients to live a longer, healthier life. We have the knowledge, we have the skills, and we have the capability to do it. Let’s do it.

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