Interview with Roy Fan, General Manager, Standard Chem & Pharm

30.07.2012

Tags: Standard Chem & Pharm

I was very surprised to see a company called ‘Standard Chemical and Pharmaceutical’ ranked amongst the top three local players in Taiwan: it seems as though your company is far from standard. What is it about Standard Pharm that stops it from being just an average pharmaceutical company?

My father, the founder of the company, came up with the name. He believed that everything had to be done according to standards. It was my father’s belief that since we were involved in the business of people’s health, everything must be first up to standard, and then as a company we must exceed those standards. This is something we still believe today.

How has the business developed in recent years? The pharmaceutical business has changed dramatically since Standard was founded: you could argue that it is a completely different industry today to what it was forty years ago. How would you describe the business today? Where are you most focused and how has that changed from your traditional focus?

When Standard was founded it was focused on the Taiwanese market, because at that time the domestic pharmaceutical industry was just starting. The potential market was very large, and companies like Standard and its competitors were very content doing business only in Taiwan: at that time annual market growth was double digit, with some years even exceeding 20% or 30%. That’s how companies like Standard started with $500,000 NT (U$ 15,600) and grew to around

$1.5 billion NT (U$ 47 million) in capital.

However, everything changed after the implementation of National Health Insurance (NHI) in Taiwan, because suddenly everyone came under the same umbrella. As with all universal insurance systems, income will one day be insufficient to cover that system's expenses, which happened here. To deal with it, the Bureau of National Health Insurance (BNHI) established a global budget, which included a cap in income. So as expenses grew, they were forced to make cuts. This led to a general industry decline.

Standard was faced with the problem that it could not sustain further growth in Taiwan. As a result, the company either had to move into branded generics or new drug development, or seek to internationalize. Standard resolved to look outside the Taiwanese market, because generics is what we do best. The largest domestic pharmaceutical companies: Standard, CCPC and Yung Shin, are traditional generics companies. Our large sales volumes come from generics, and so to go into new drug development or biologics would take a fundamental change in our structure. Standard decided to go overseas, and set its focus on the US, China and South East Asia.

You have chosen the US and China as two markets to try and enter, which I imagine is a very different situation to trying to penetrate the South East Asian markets. How is your company perceived at the moment in those markets and what strategy do you have to build the brand there?

My brother Harry has his own pharmaceutical company in the US called Stason, established close to 20 years ago and independent of Standard. At the beginning we worked separately because the two markets were totally different. Taiwan was still enjoying high levels of growth, and Standard was doing well. But with the changes brought in by the BNHI, the company started to feel the squeeze. It was at this point that we set our goals to be China, South East Asia and the US.

Harry had already established Stason in the United States, which meant that trying to gain a portion of our revenues from the country did not involve a lot of Standard's resources: the two companies were able to work together. Stason has a pipeline of oncology products which is currently performing very well. The only resource we are injecting into the American market is capital. Since both are working on the same formulation analytics: one oncology-focused, the other not, it did not take a lot to bring our products in. Both companies today work together: we only have one pipeline in the US, and that is Stason's. The US company has a high containment facility that is already approved by the FDA, and as a result Standard will soon have products available on the US market. Stason will have close to ten oncology ANDA within the next 3 years.

Standard first entered China more than ten years ago. In total, we have tried to establish the company there three times, but every time we have come back suffering a loss. Through these experiences we have learned how to deal with the Chinese. This year will be our fourth attempt at entering the Chinese market, the rationale being that it is a huge country: its GDP will become the second in the world very soon, and the growth rate stands at an impressive 20%. Standard can be competitive in China because many players have doubts on the quality or ethics of local Chinese pharmaceutical manufacturers. By entering the market with a company that is FDA inspected, and is of Taiwanese origin, Standard will quickly be able to gain some market share.

We are not a big company in China, so we are not aiming the whole market; we are aiming instead for a niche. We will go in for the local market. But most important is how we integrate our businesses in the US, Taiwan and China. In the US, competition in oncology has become very fierce, so the end cost is becoming an issue. We have sought governmental approval to invest in China and have obtained this approval, and are in the process of establishing a company in China. We plan to build an oncology plant in CMC (China Medical City), one of 56 high tech parks in China but the only one that is specifically for pharmaceutical industry. It also has a local branch of the SFDA, the only local branch in China.

When oncology products are launched, the first launch will be at Stason, and then when the cost starts to be driven down, we will do a site transfer to China. Of course the US FDA has to inspect the plant there, which will allow us to produce and export to the US, guaranteed by the FDA. With FDA’s approval, we will next penetrate China’s oncology market. Then we plan to start developing non-oncology products for the local market, and again our scope doesn’t have to be big: Shanghai has 20 million people, so we don’t have to cover every province.

How are you going to build the business there? Are you going to start transferring your team from Taiwan to China?

We will be taking two routes: one is to merge another company. We are currently looking at foreign companies, rather than domestic Chinese companies. Right now we are in talks with one company in particular. When we start our business in China it will take a while to move to the product development stage. In order to combat this, we will also try to acquire another company so we will have their products, people and sales channels to capitalize on. So once the seed money has been injected we hope that the business will start to become self-contained, and it will be at this point that we can begin to send our people in to help them become more familiar with the market.

As a generics company you have picked three very different markets, being based in Taiwan, having sales and marketing in the US through Stason, and also entering China. These markets have three very different levels of generic penetration in terms of speed and access. In Taiwan, the system is in the process of being changed. How will that affect your business here?

Right now there are 166 local manufacturing companies in Taiwan, and we foresee that after PICS is implemented there will be fewer than 100. The market will still be there, but it will not grow as much. However, there will be fewer players. Right now is time to expand: companies like Standard need to capture as much market share as they can. Companies will get bigger and bigger and those companies that are smaller and less financially sound will get either bought out or go out of business.

If there will be fewer players in the market, then this is clearly the right time to expand. Standard has expanded its capacity for manufacturing threefold. We can produce 3 billion tablets/capsules each year. With large-scale production you can reduce your costs. At first we might sacrifice our margins, but this will eventually be recouped. I see Taiwan as Standard's cash cow. Every year profits increase, but it never lasts for long because of the nature of the generics business, which is always very competitive. Standard uses the revenues from Taiwan to maintain its business here, and grow its business in the US and China. As I explained previously, the US does not actually require a great amount of resources from the company in order to grow its business there, so the market we must invest in the most heavily is China.

Standard has been doing business in South East Asia for over ten years, and today our sales revenue is at about $200 million NT ($6 million US). We started this business early, and we have now established offices in Vietnam, Thailand and the Philippines. We believe these are the three countries in South East Asia with the most potential. With the capacity increase here in Taiwan and new products we will bring in through R&D we can create a pipeline that services the whole region. All we need to do is put resources into sales.

At this moment in time it seems that many of the larger domestic pharmaceutical companies have realised they have outgrown the Taiwanese market and starting to look abroad. ScinoPharm is doing exactly the same thing: they have realised that Taiwan is a great cash cow for them but they need more challenges. What do you think it is about the way that you do business here in Taiwan that applies very well to the Chinese market? What advantages do you think you have over other international companies coming to China?

Standard's strategy in China will be different because here we are among the top ranking companies but in China we are not: we are very small. We need to figure out a way to be successful. It involves a lot of networking. We can go in and sign deals that are very promising, but the only way to get access to such deals is having the right connections. However, this most recent deal with China Medical City is good for them as well. CCPC, YSP and TTY already have plants in China, so they will not establish offices in CMC – the next largest company from Taiwan that can go is Standard. For us to go is a showcase for them because we are a Taiwanese company.

How do you see Standard developing in the years to come? This business model will hopefully be successful but what are your plans for future expansion? Do you have desire to move up the value chain?

In Taiwan, one way to maintain growth is that besides generics you start to offer something different. Doing this will help us to grow in Taiwan a little, but because of the BNHI I don't think companies gain too much advantage as a result of being novel. This is one thing in Taiwan that would limit the growth of pharmaceutical companies.

Right now Taiwan is at a turning point. The future of the industry depends on the government, and right now I feel as though the administration is lacking consistency by promoting biotech, new drug development and the pharmaceutical industry, but at the same time BNHI is cutting prices and consequently profits for pharmaceutical companies. Companies need revenues in order to grow. These revenues can be found in two places – either by earning money in the marketplace, or receiving investment. Today, the government is increasing its investment in our sector, but at the same time BNHI is cutting company's profits through price cuts. Older companies are facing these cost cuts and profit loss, but not receiving the same levels of investment that biotechs and start-up companies are receiving, because traditional pharma is not as attractive for investors as it once was. Something needs to be done by the government to make sure that some of Taiwan's biggest companies in one of its key sectors do not suffer as much as they have been doing in recent years.

In addition to generics, Standard and Stason are working together to in-license monoclonal antibodies technology. Stason has signed a contract with Peregrine and licensed its TNT platform technology. Standard will concentrate in China and Southeast Asia while Stason will concentrate in Russia, Japan, and US.

Some of your employees have been with the company for more than 20 years. It's very rare to see people stay with a company for that long. How do you manage to attract these people and retain them for so long?

One factor is that Standard is located in the south of the country, where it is generally agreed that people are more open and friendly. Here, people feel comfortable. The work at Standard can be tough at times, but overall our employees enjoy working here. That’s how we can maintain a steady infrastructure.

But for a business to move forward it needs new talents, and this is what Standard needs right now. We have to look outside and convince people to come to the company. Because the location of the company is quite remote, we have tried to create an environment where people feel comfortable and can socialise. We have a number of employees who have come from overseas to work for the company, and these people have integrated themselves very well. At Standard, we have tried to create an environment where two different types of people can get along: those from the older generation working on generics, and those who have come to the company from overseas, or who have studied abroad before coming back to Taiwan. They develop business overseas. This is not always easy to do, but at the end of the day a company’s culture is not something that you talk about, it’s something that you feel. If they feel good, they will stay.

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