Interview with Michael W.F. Dumas, Country Manager, Menarini Pharma Netherlands

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Menarini is an extremely proud Italian company in its origins, but also very reliant on international markets. In 2009 approximately 63% of the group's consolidated revenues came from abroad. What is the strategic role that the Netherlands and the Dutch market play for Menarini globally?

When we started in 1996, Dr. Alberto G. Aleotti's strategic plan was to have a Menarini affiliate in every European country. In those days, the Dutch market was very interesting when looking at volume and turnover for a small country. Certainly the infrastructure, organization of healthcare, quality of physicians, the way of doing clinical studies, and the price level of medicines were all attractive in the Netherlands. Those were the principal drivers for him to start an affiliate in here. We need a global market for Menarini pharmaceuticals. When looking at research and investments you can never earn it all back in just one or two countries in Europe, so you have to be present in as many countries as possible. Currently Menarini is proudly present in 110 countries around the world.

However, I think things have changed in the Netherlands. The system faces a lot of pressure on prices and has one of the highest generic penetration rates in the world. If you lose your patent protection period, your product will turn to generics for 80-90% of total sales. The index of pharmaceutical generic prices has decreased from 100 to 55 in just the past several years. The Netherlands is one of the countries in Europe with a low willingness to pay for medicines and where the access of new medicines is probably more challenging then many other European

countries. Cost-containment is intensified and pharma is targeted for savings. However finding the right balance between the system's sustainability, fair prices and rewarding innovation is critical but far from easy.

Menarini gained a strong footing in the market through anti-hypertension products. How has your product offering evolved over time to adapt to the changing market needs?

I think we did well as a small company in a highly competitive market, particularly in the cardiovascular area. We achieved high compound annual growth averaging turnover of around €5 million for a sustained period. Much of our success was due to nebivolol, the first international drug for Menarini, whose patent, however, is about to expire. Given the incentive system in the Netherlands it is very tough to increase your turnover once a drug is off patent.

Menarini underpins a lot of its internationalization strategy on licensing agreements. Have successful licensing partnerships helped Menarini achieve its position in the Netherlands or is the company known here more so on the backs of its own brands?

The portfolio of the Netherlands mainly consists of international brands of Menarini and we have not focused on any local partnerships with companies. Presently, that is also difficult to achieve because many companies are looking at their own portfolio. If you have a promising drug generating high turnover, then you do not necessarily want to give it away to other companies or enter into co-partnerships. Neither the co-promotion nor co-marketing system is attractive in the Dutch market mainly due to the position of the pharmacists. Doctors prescribe the chemical substance and if you put the brand name on the prescription, a pharmacist is allowed to submit to the patient whatever he or she chooses – Brand A or Brand B. So your efforts in putting forward your own brand will not be directly reflected in market turnover. However, it is the major success factor of Menarini to create partnerships with other companies. All over the world cooperation with Menarini evidently pays off.

A second pillar of Menarini's global strategy is R&D. Naturally, R&D centers are in Italy, but also in Barcelona and Berlin. Given the Netherlands' strong reputation in research and clinical trials, why hasn't Menarini taken more advantage of Dutch research infrastructure?

Menarini has 5-6 basic research centers in Europe. As a country we have gotten involved in clinical studies, particularly with studies for heart failure amongst the elderly. These have been important studies in which most of the principal research was done in the Netherlands. However, when looking at the total clinical studies done by Menarini international, in the Netherlands we still contribute a relatively small percentage overall.

I also believe it has to do with the circumstances in the market. If you have the choice on a headquarters level to decide which country will perform your clinical studies, you must take into

consideration the market for your new product access of that specific country. If market access is too complicated in a country, then it might be a reason not to carry out the major part of clinical studies. Countries that have better access for new medicines, stimulate innovation in combination with a willingness to pay for medicines distinguish themselves to others with more complex environments.

Added value of new medicines compared to conventional treatments is to be proven on top of fulfilling registration demands. So the significance of clinical data is crucial for market access and life cycle management of the product.

Of course the ideal situation is to carry out clinical studies in countries that offer high quality of resources and new medicines will become available for patients with acceptable cost for all parties involved.

You are emphasizing many inhibiting trends that are structurally built into the Dutch market and its reimbursement system which place enormous competitive pressures on your costs. As country manager, what is your strategy for success within these parameters?

This is something that we are continuously facing and it is a very big issue. We grapple with the question if, at the moment or in a few years time, there is enough business to do in the Netherlands and if the environment is healthy enough to invest money towards putting your drug on to the market. Presently, Menarini has two branded new drugs which are available in major parts of Europe. One was rejected in the Netherlands so it will not come on the market on short notice; the other is still a big question mark. For us, it is a challenge to meet the needs of the health authorities and insurance companies. Maybe, in the nearby future, we will act more in the spirit of a united Europe. It is not easy to explain to patients and physicians why in a number of countries some medicines are available and in others not. After all it is a shared responsibility that patients can benefit from innovation across Europe.

Emerging markets in Asia and Eastern Europe have been identified as key growth areas for Menarini globally. When meeting with your counterparts and Dr. Aleotti in Italy, what is the case that you put forth to attract further Menarini investment in the Netherlands?

The corporate mentality is to do what ever is necessary to meet the local needs of other stakeholders. As you know, Menarini is a family owned company, not involved in any merger or take over, focusing on the daily business and constantly improving the company performance on the customer level. We are still committed to introduce new, and relevant products on the market. The Menarini ambition is to be present in every country in Europe, and to profit from favorable situations. In the pharmaceutical business you have to invest for many years in order to earn back your profit. It is impossible to invest in one year and earn profit the next. You must have a long term view to maintain your innovation despite increasing pressure on cost and complexity.

According to a recent PricewaterhouseCoopers industry study, one of the greatest challenges facing pharmaceutical executives today is attracting and retaining a skilled workforce. Similarly, you once described staff, talent, and people as being key drivers for strong businesses. What best characterizes your management strategy to lead and motivate your employees?

I am convinced that we are living in a very complex world so we need a lot of people who think through solutions. I am part of a team. On paper I am the boss but we all work together here as a team to meet the needs of the market. The market is too complex to do it all yourself. I need talented people around me to come to the best management decisions. If you adopt an authority based management style, certainly in a small company, you will lose when benchmarked against your competitors. We are working as a team here. Everyone has their own personal values which are driven by talent, knowledge, and skills.

There is also a bit of the Italian way incorporated into our methodology. Working in teams based on respect for each other, what we can learn from each other, and how we can solve the problem. The approach at Menarini is also more than just thinking; you have to act. If you make plans without executing it then you have a problem. Menarini is strong in plan execution, which is a corporate asset.

One of Menarini's goals is to be present in every European market; which of course includes the Netherlands. However, so too are many other multinationals, as there are very few local innovative players. What is the Menarini differentiating factor amongst a crowded, multinational landscape?

I think a lot of it is based on being a family-owned company. We are not expected to improve our business within three months to show better results. This market cannot react in three months anyway. If you have a good plan, you have the time to roll it out as long as the market can respond to it. To me that is the main difference. If you put a lot of pressure on direct results in a few months time then it is doomed to fail. At Menarini you have time to improve your turnover and incorporate and implement your plans in the market. We are, of course, very revenue driven so we do not differ tremendously from other companies on that front. Similarly, all companies have good, smart, talented, and skilled people. It therefore mainly comes down to the style and attitude of Menarini towards its affiliates in the market. Respect to market, respect to culture, and look if your plans fit into the market and culture. The key success factors in Italy are not necessarily the keys to success in the Netherlands. The crucial elements are to respect the differences and understand the culture, style, and environment in the local affiliate market. This is embedded in the Menarini culture. Your success in doing business is shaped by your environment and your own competitive power to deal with your local situation.

You have been here with Menarini in the Netherlands since its founding 14 years ago. What has driven you to stay for so long?

The past fourteen years have flown by as if I joined Menarini two years ago. That is a testament to me liking it here and our day-to-day business being strong enough to work on a high level, have some fun, and be able to achieve our goals. The Menarini international context is of very high value to me and keeps me motivated. I enjoy this company for all of its pros and cons and I have always been challenged enough to stay here.

I think that turnover amongst CEOs in the industry might be too high. If you want to create a change in your company or if you want to react to the market it is impossible to do this in 1-2 years. You have to stay in the company long enough – about 5 years – for your impact to manifest itself. You are working with people and changing behavior which is always a difficult task for a company to achieve. If you want to change the culture or adapt your company to the needs of the environment, it takes more than 1-2 years.

What would be your final message to our readers that sums up your ambitions for the future and the means to accomplish them?

Patients need access to the newest treatments as early as possible. Pharmaceutical companies will have to collaborate with other organizations to develop effective new medicines more economically in order to help patients manage their health, and ensure that the products and services they provide really make a difference. We want to be known for working together and with other stakeholders. Also important is meeting the needs of the reimbursement authorities and payers, so that access to innovative medicines in the market will become the leading objective for all stakeholders. There are still many unmet medical needs for a lot of diseases. Step by step innovation will contribute to overcoming the negative impact of diseases on patients' lives. This will drive the pharmaceutical industry for years and hopefully will drive us ad infinitum.

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