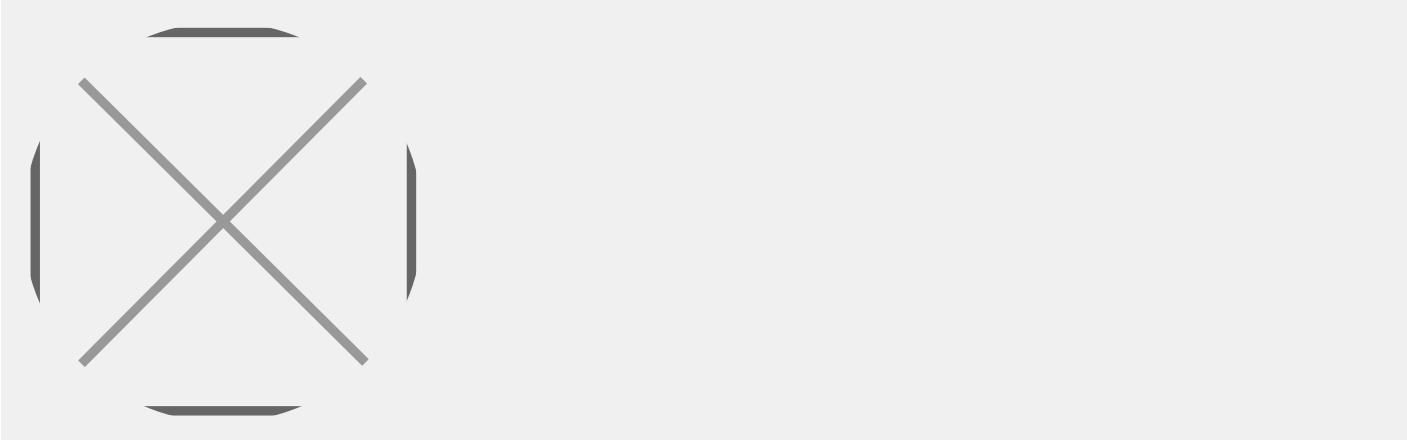
Interview with Howard Sui, Managing Director, Merck Serono China



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howard-sui-managing-director.jpg

While growth has slowed in Europe, the US and Japan, many multinational companies are looking at China as part of a hedging strategy and a key growth driver of the future. You must be feeling a lot of pressure from company headquarters as well as the natural pressures of working in a rapidly growing market where you are launching new products and rapidly expanding infrastructure. How do you balance these short term needs to produce growth as a hedge against other markets as opposed to longer term needs to establish a strategic and sustainable strategy?

Merck Serono always takes a long-term perspective, which does involve shorter-term milestones. The important thing is to properly communicate what the long-term goals are and gain agreement on those as well as on the expected milestones for the whole process. It is important that there not be any surprises. I think it's best to manage the business outside the short-term vs. long-term paradigm, but rather as always having long-term goals with short-term milestones throughout the process.

To be successful and have sustainable growth in China, you really have to look at the long-term perspective. For example, we have created three partnership programs with the government and medical associations. You have to act and be seen as an effective partner and really try to help patients. One of our projects with the Ministry of Health is focused on thyroid diseases. This is an area that is under diagnosed and suffers low general awareness. Thus we are working with the government and medical associations to try to improve the situation. This can't be accomplished

overnight or even in a year, it needs to be done over three, five, or even ten years. The aim of the program is to improve awareness and capabilities for early diagnose and treatment of thyroid diseases. We want to prevent patients from developing severe complications and we are engaging in similar projects in other aspects. Another project we have launched is with the China Pharmacists Association together with the Peking University School of Management. This program aims to contribute to the improvement of the healthcare system by improving how hospital pharmacies are managed. By attending the program we developed with Peking University, hospital pharmacists can learn and share best practices and gain insight into how top pharmacies are managed. Thus, this is another way for us, as a company, to contribute to the healthy growth of the healthcare industry in China.

Merck is the oldest pharmaceutical and chemical company in the world, which certainly contributes to the firm's long-term vision. How has that affected the way you build the business here in China? Also, have you seen a change in Serono after the merger with Merck? How has the integration progressed and how does that affect the business here?

The company turns 341 years old this year and this heritage is quite important. When we talk about long-term commitment, our perspective and time horizon is truly long term. The integration of Merck and Serono was the turning point for the business in China. Prior to the integration, both companies were under investing in China. Both companies had a presence in China, but with limited resources. They had built up the traditional sales and marketing organizations but without the full functioning support functions behind them. Through the acquisition of Serono, the company built up scale which was an important springboard for launching the new company strategy for China. Thus, using the integration as a catalyst, the company really changed its strategy in China and made a much stronger commitment to the country. Last year we went through a very rapid and exciting growth phase where we doubled the organization in all areas, not just sales. For example, we went from having one trainer to ten trainers. This is because we really understand the importance of developing our staff in China and there are many opportunities for staff to learn and develop with the company. We have also expanded infrastructure in IT, financial control, and medical and regulatory because we need to do more clinical studies in China and rapidly bring newer products to the market. Thus, last year was what I consider to be year one of the new Merck Serono in China. Going forward, we still believe there are many opportunities for our products so that we will continue to build and expand. Merck Serono's coverage rates are not as complete as they should be and we are still focused mostly on major cities in big provinces. China has more than 700 cities and we aren't reaching anywhere near that number. Merck Serono needs to offer adequate coverage across the country to be competitive and thus we will continue to expand and refine our strategy to enter more markets and realize the full potential of all our products.

This rapid growth does pose its challenges. In doubling the entire organization you are adding people who are unfamiliar with company products, procedures, and culture. For example, it can take a long time for a sales rep to become familiar with all aspects of their products. What are you doing to maintain efficiency as you scale up the operation?

One of the biggest challenges in China is the ongoing 'talent war.' Every company is committed to China and is expanding here. The competition for talent is quite intense. What we do to address the issue at Merck Serono is to leverage our employment promise. We offer employees an opportunity to make a difference. What that means is that we provide many opportunities for colleagues to develop competencies and skills while also, by going through a very rapid growth phase over the next five to ten years, offer our staff many opportunities to help the company grow. We will also continue to focus many of our activities on contributing to society through partnerships with the government, medical associations, and running education programs. This is because we believe that by offering education programs for physicians and patients we are ultimately helping patients to receive better quality treatment because patients will be better informed and doctors will have more up-to-date information. These activities contribute to society and thus by joining Merck Serono, employees have the opportunity to help themselves, help the company and contribute to Chinese society. This employment promise has been quite successful in attracting a lot of talented people who are interested in this type of work environment, with many challenges and pressures but also many opportunities and rewards.

Fertility product Gonal-f is one of Merck Serono's top selling products in China. There are, of course, some strict fertility restrictions in China. How does the One Child Policy affect the way you market and position this drug in the country?

Infertility is a growing problem in China. The latest estimate is that there are 10 million infertile couples in the country. Some of the drivers for the growing problem includes couples delaying pregnancies, work stress for both partners, and the potential impact of pollution. The country does have a One Child Policy, and we do abide by those rules. However, the Chinese culture is very family-centric. When couples want a child and can't conceive, they desperately need help starting a family. The fertility segment is heavily regulated. The government must certify all the centers that do Intrauterine Insemination (IUI) and In-Vitro Fertilization (IVF), which is important to guarantee that patients are treated properly.

We absolutely support the government on this front and as the leading company in this area we also have the responsibility to help the government. We do this by helping the government understand the demand for these services and helping to certify more centers so that the growing demand for these services can be met and ultimately so that we can help more couples have a child and create a family. This is extremely rewarding for us because having a child really changes people's lives and the happiness and joy that we see on their faces is truly moving. These are

healthy, young people who just need some help to get over the hurdle and have a child.

Merck Serono now has 17 products on the market and is looking to launch 10 new products over the next three years. What are you targeting as the growth drivers over the coming years?

We have a very well balanced portfolio with products in fertility, oncology, cardiology, neurodegenerative diseases, thyroid diseases and some specialty care products including somatostatin (Stilamin®) and growth hormone Saizen®. Thus, the portfolio is quite well diversified and will be further strengthened with the launch of our global pipeline products in China. The primary focus of the company globally is on oncology, neurodegenerative diseases, autoimmune & inflammatory diseases, fertility and endocrinology and we will continue to launch products in these areas in China.

We are also quite active in looking at partnerships with other companies with products in our areas of interest. For example, we have a strong business in the cardiovascular area so if a company has a product that they would like us to help promote in China, we would be happy to collaborate. Merck Serono is launching just such a product this year, thus we are looking at growth beyond the organic pipeline but also through licensing and other partnership opportunities.

There is a growing R&D focus in China. How big of an impact will Chinese R&D have on the global pipeline and sales worldwide?

Multinational companies need to be aware that there is a unique epidemiological profile in China. In the area of oncology for example, there are certain cancers types with high prevalence rates in China but not in the rest of the world. One example is Nasopharyngeal Cancer, which has high prevalence rates in Southern China and some parts of Southeast Asia, but not in other parts of the world. Thus companies must recognize the unique profiles in China, and otherwise lose opportunities as this market grows in importance. It will be the third largest market by 2011, and second largest by 2015. Thus companies must be willing to develop products specifically for Chinese patients.

Some multinationals are beginning to use Traditional Chinese Medicine as a platform for developing new drugs. Either by isolating new organic active ingredients from the medicines or synthesizing branded medicines. Do you see this trend having an impact on Merck Serono, and more broadly speaking do you see TCM breaking out into the global scene?

Traditional Chinese Medicine (TCM) is certainly efficacious and I think there is more than enough evidence to support this claim. However, the current regulatory system is designed to regulate and approve Western medicines. TCM may require a different approval process. It may be quite

challenging for companies to try to isolate individual active ingredients and prove efficacy. TCM often has multiple components and could have a constellation of active molecules. However, isolating and testing each individual component may not work.

To give an extreme example, I once spoke to a TCM doctor who told me that certain roots can make very effective treatments, but they lose their potency if you wash them very thoroughly. Thus he is suggesting that there may be some component in the soil that contributes to efficacy. How does one treat this type of medicine using existing regulatory procedures? They key challenge for TCM to break onto the global stage is to show clinical evidence. However, the way this clinical evidence is produced needs to be modified to the particular needs of TCM.

The healthcare reform offers a number of huge opportunities, but at the same time, details and timelines haven't yet been released. How are you preparing the company to quickly take advantage of the shift in market conditions and regulation while not fully knowing their scope or content?

The healthcare reform is certainly a very positive development. The goal of having universal healthcare is quite an ambitious and courageous goal for the Chinese government. The fact that they are willing to make a bigger commitment with an additional 850 RMB spending over the next three years is a great starting point. Over the last few years we've seen a number of different healthcare insurance systems being introduced including the rural scheme and the urban residents scheme. The aim is to get everyone onto some type of insurance scheme with some level of coverage. However, the amount of money available for the rural scheme is not yet very significant but it is a good starting point. I think the reforms will offer different opportunities for pharmaceutical companies. We used to only focus on urban markets, and multinationals were mostly focused on the leading one to two hundred cities. The scope was quite narrow, and now this healthcare reform allows to us look at the smaller cities and even the rural market, which was completely neglected. The rural market did not have the necessary infrastructure, nor did it have sufficient funding to allow residents to use foreign or joint venture produced products. Now conditions have changed and we must be aware of all the changes and with more patients in the pool, the government will be looking to apply further price controls. Companies also need to be smart in how we approach the bigger patient pool, prioritize entry points and make assumptions about what the competition will do, not to mention plan to execute better than the competition.

In terms of leveraging the healthcare reform, the most successful companies will be the ones who predicted most accurately, planned the best and executed most effectively. Even though many of the details have not yet been released, companies are making assumptions and predictions about what will happen. The companies that will ultimately be most successful are the ones that can adapt most quickly to the final set of rules that come out. All the pharmaceutical companies are expanding and becoming bigger, but we must not let size slow us down. This market moves too

quickly and is such a dynamic market that if you don't stay nimble you will be left behind.

Merck Serono has been growing very quickly, at over 40% last quarter. How sustainable is this growth and where will we see a saturation point or a slowdown?

The market is still expected to grow above 20% over the next five years. Many companies have ambitions to grow much faster than 20%, including Merck Serono. It's important to analyze the portfolio and see what is actually generating growth. I believe our Thyroid program that we introduced with the Ministry of Health and the medical association will drive higher diagnosis and treatment rates. Thus the number of patients entering the patient pool will grow faster than the market, allowing us to also grow faster than the market. The details are very important in analyzing growth expectations for a given company, one needs to look at the therapeutic areas and see what opportunities are available. For example, there is a physical limit to the number of fertility clinics and if new clinics don't open, growth will be slower than the overall market.

Oncology is an area where many companies concentrate their focus. Cardiovascular diseases is also still a fast growing area because the number of patients is growing very rapidly with hypertension patients now number over a hundred million and counting. Many of these hypertension patients are still not being cared for – they are not being diagnosed or treated. Different disease areas have very different growth rates, the overall market may growth at 20% but the range of rates within different therapeutic areas varies tremendously from no growth to 100% growth rates. If you are lucky and are in a fast growing area, you can ride the wave. However, if you are in an area that isn't growing as fast, one needs to find ways to expand the market. There may be a lot of pent up demand, unmet needs, or patients going undiagnosed and in these cases you need to look at things you can do to contribute to helping these patients. If you focus on helping patients, then you will find a number of opportunities to grow your business. This is a simple and effective win-win scenario.

What is the most exciting and rewarding thing about being the General Manager of Merck Serono in China at such a turning point for the company in this market?

It is very rewarding to see the successful execution of a plan. The organization has developed and matured very rapidly and in line with company values. The business success and progress that we have made are in line with that vision. It's great to see an organization that was more sales and marketing focused transform into a full functioning organization with improvement in all areas. The professionalism, motivation, and commitment shown by my colleagues are very exciting and rewarding for me personally.

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