Interview with Liam Condon, Managing Director, Bayer HealthCare China



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Liam Condon, Managing Director of Bayer Healthcare China discusses the government's recent announcements regarding its much-anticipated healthcare reform plan, the future benefits of investing in rural healthcare, and the company's main ambitions in China over the next five years.

It has been a rollercoaster four years for you since your arrival in China, from the Bayer and Schering merger to the later acquisition of a domestic company.; all this while becoming the number one multinational company by sales in 2008. How did all of this unfold, from your perspective?

I arrived in China with Schering in January 2005. It takes quite some time to figure out how things work in such a big and fast-paced country, but after about a year I had a reasonable grasp of what was going on in the market. At the same time it was a very strong year for Schering, which was the fastest growing foreign pharmaceutical in China in 2005. By coincidence Bayer was the second fastest growing pharma company that year, but was already much bigger than Schering.Then in March 2006 the news about Bayer taking over Schering came out. Bayer was about four times

bigger than Schering in China, which for me meant that I was very unlikely to be the one staying around as president of the newly merged company. However, globally Bayer and Schering were of a similar size so an objective and transparent process was put in place in order to assess the available candidates and decide who would be named for the top position in each country. In this context, I was luckily the one chosen to remain as head of Bayer Healthcare in China.The main and most immediate difference of my new role in Bayer Healthcare was that, contrary to Schering, it is not a purely pharma (ethical drugs) company but also includes business divisions in OTC, animal health and diabetes care products. In addition Bayer Healthcare is part of the Bayer Group which also has Crop Science and Material Science businesses, so the organization is much more complex than it was at Schering. A major and immediate challenge was making the physical move of Schering's Shanghai-based people and operations over to Beijing. People don't tend to move a lot between Shanghai and Beijing, but we managed to get the key people to come along and the business ran smoothly. On the other hand, since previously the Schering headquarters were registered at our production site in Guangdong that is also where we paid taxes. But with the administrative move to Beijing this would no longer be the case, so there was a good deal of concern from the local authorities in Guangdong that we had to address in order to explain that although we would no longer pay the bulk of our taxes there we would continue with our operations in the province.Eventually after 12 months we finished the tricky job of absorbing Schering into Bayer, practically dissolving the company, leaving just one legal entity in China which is Bayer Healthcare. But we had little time to relax since soon afterwards in 2008 Bayer acquired Topsun, a local Chinese pharmaceutical company. This was the first significant acquisition of a local player in China by a foreign pharmaceutical company. It presented quite different challenges and more surprises than the Bayer/Schering integration, due to the differences in culture, mindsets, standards, etc. The integration is practically completed now (may 2009) and we are the only healthcare company in China with experience of acquiring and successfully integrating both multinational and local companies.

Bayer's acquisition of the cough and cold portfolio of Topsun considerably enhances its positioning in the booming Chinese OTC segment, and at the same time the company is busy preparing to launch its innovative drugs on the market. What areas do you see as the main drivers of growth for Bayer Schering?

In terms of Bayer Healthcare, the pharma division accounts for about 80% of the turnover in China. It is the major growth driver of the company and comprises a portfolio of both mature and innovative products. Our mature products are basically in primary care, general care type products in areas such as diabetes, cardiovascular and antibiotics. It is important to remember that one third of China's entire pharmaceutical market is antibiotics, so in order to be a major player it helps to be strong in this area. But besides our mature brands, Bayer will rely increasingly on our innovative specialty products for growth towards the future. Oncology is a particularly interesting therapeutic

area, notably our new renal and liver cancer drug NEXAVAR. We also hope to launch our multiple sclerosis drug and global blockbuster BETASERON soon on the Chinese market. YASMIN, Bayer's number one brand in the world was just recently introduced in China this year as well. So what is truly remarkable is that Bayer has been able to become #1 in China thanks largely to our older products, and our position will be further strengthened with all these innovative drugs coming onto the market from now on.

What has it meant for Bayer Healthcare to suddenly be topping the ranking of MNCs in China, arguably the most coveted growth market out there today?

We are indeed in a very unique situation in China because it is the only major country in the world where Bayer is #1 according to the IMS 2008 pharma sales figures. Of course this has generated a lot of interest and attention from global, and we are getting a lot of requests to come visit in order to see how we have achieved this success. In China, Bayer has a very strong image thanks not only to the healthcare business, but also to the other divisions of the Group which include material and crop sciences. For example, the Bayer's material sciences business is huge here in China and has a $2 billion chemicals plant in Shanghai.China's market is already the third largest globally for Bayer Group, and comes in fifth or sixth for Bayer Healthcare. Moreover, our Board Chairman has stated that he expects China to become the number one country for the Bayer Group in the world. These are not just words of encouragement for those in China; they express a real commitment and strong belief in the Chinese market's potential to become Bayer's most important. In consequence, the Group has been very active investing in manufacturing, R&D, making acquisitions, etc. It is all part of a big plan to ensure Bayer's place as a leading player in China and that this market will be a key driver of growth for the entire company in the future.

Following the government's recent announcements regarding its much-anticipated healthcare reform plan, there is a growing interest among the pharmaceutical industry for the rural market, which is expected to get a big boost. What kind of involvement does Bayer Healthcare have in rural areas and what type of opportunities do you see opening up towards the future?

Everyone has started talking a lot about rural healthcare recently since the government announced that it would invest significantly in those areas. Clearly all the companies are looking at how to get a piece of that pie. What is particular about Bayer is that we have been involved in rural healthcare since 2006, long before any government announcements on the matter. We felt that it was necessary to help the development of rural healthcare in China, despite the lack of market potential there given the inadequate infrastructure, uneducated doctors, and low income of the population there. It is part of a long term perspective that could eventually allow us to promote our products in rural areas, but there is still much to do before pharmaceutical companies can truly do business there.Specifically, Bayer has developed a program together with the Ministry of Health that aims to

educate rural doctors. There are a lot of people in rural parts of China that call themselves doctors, often it is a role handed down by families, but in reality they have undergone no formal education. Our program is purely aimed at giving these ‘doctors’ a basic scientific medical course, so that they all have a common standard of education. It is a five-year program that was formally kicked-off in 2007, and so far we have started by training 10 000 rural doctors in 330 counties, located in the 11 poorest Chinese provinces. At the end they will have a basic common standard of education which will be validated by a Ministry of Health certificate.On the other hand, Bayer is also involved in another program that aims to help the government overcome some of the general inefficiencies that exist in the healthcare system. One of the main problems in China is that people who feel sick flock immediately to the big hospitals and specialist centers. Of course this leads to a very chaotic and inefficient system in which patients can wait half a day or more in these overcrowded centers just to see the doctor for a couple of minutes, and then walk out with a bag full of antibiotics. So what the government wants to do is to set up a gatekeeper type of system in which community healthcare centers play a key role. People who feel sick could first go to these smaller localized centers, and only those patients with more acute conditions would be referred to specialists. This concept can also be applied to rural areas where smaller clinics could play the role of gatekeepers, instead of having people travel for hours to be treated in the big hospitals. The main obstacle is that among the population there is a perception that the quality of the doctors in these smaller centers is significantly inferior to the large hospitals.This is where our contribution comes in once again. Bayer has recently pioneered another program together with the Ministry of Health that aims to improve the levels of the mentioned community healthcare centers. The idea is to have the doctors from these centers go through a program that provides them a basic standard of education. In parallel to the effort to boost the quality of these centers, we are working to improve their image amongst the population. This is just another example of how Bayer is working together with the government in order to develop China’s healthcare infrastructure throughout the country.

Coming from several years working in Japan, it must be a significant change of pace for you to be in booming China. What would you highlight as the main differences between the working environments in Japan and China?

In many ways Japan and China are like night and day. Given their geographic proximity, it is amazing how different mentalities are. Japan is a highly developed and cultured society, but it can also be extremely inflexible. People plan everything down to the last detail, which is good in the sense that everything is organized and superficially predictable. On the downside, there is a very low tolerance for mistakes and when things go wrong everything falls apart since people do not know how to deal with crisis situations. It is also a society with very strong hierarchical norms, and you can easily insult someone without even knowing it. This is also reflected in the language, which although grammatically quite easy, is made very complicated by the different language required for different levels of hierarchy within society.On the other hand, in China many things are almost the

exact opposite of the norms in Japan. Things are unpredictable and constantly changing. You learn as you go along and have to be able to adapt quickly. Of course plans are made, but it is very normal to have to rewrite them very shortly after completion later as things change. So it is incredibly dynamic and energizing in a sense, but also very chaotic. This poses significant challenges as a manager, but you simply have to on the one side stay alert to the rapid market changes and on the other remain absolutely focused on strategic priorities.Though I can't personally claim to prefer one system over the other, I am definitely enjoying how things are very fast moving in China and how you are constantly learning here. In addition, whereas in Japan there is a feeling that the country has already reached its peak, in China it is all about growth, improvement and getting ahead with plenty of room to still grow significantly in the future as well.

Despite China's rapid growth and development, it still faces many challenges in terms of its image abroad. What are the most common preconceptions about China that you encounter in your professional life?

One of the main challenges we face is actually an internal one, in terms of explaining to our colleagues at HQ and our colleagues in other countries what is really happening in China. A lot of people have fears about China since they feel that investments and jobs are maybe too quickly being relocated here from Europe and the US. There is a general sense that China is becoming too strong and that limited resources are shifting to the country too fast. In fact, in recent years we have been holding an annual meeting at the HQ in Germany in order to address these concerns and explain to everyone what China is really about. The message we try to get across is that investing in China is an opportunity for the company as a whole, since otherwise we would simply not be competitive and no other country offers the growth opportunities of China, so we would only harm ourselves by not investing further in this market.. Another big bias that exists abroad is how people associate China with low quality. And unfortunately this view is true in many aspects, including some local generics company in China. It is not the same case as in developed countries where generics and branded drugs are often basically the same. The difference in quality between branded drugs and generics is significant due to lower GMP standards and definitions. Therefore, China needs to pay a lot more attention to quality, particularly in light of the government's desire for the industry to move up the value chain.

In which way can the innovative companies such as Bayer Healthcare contribute to the advancement of China's overall pharmaceutical industry?

The Research and Development Association of China (RDPAC) of which Bayer is a member and I am vice-Chairman is currently involved in a project that aims to outline and present our concept of 'total quality'. It encompasses not only quality in terms of manufacturing and the product per se, but literally at every level of the value chain, from APIs to surveillance. The idea is for the government to understand the value that we bring to the industry by implementing these quality standards in

China, and how this can contribute to enhance the quality of the overall pharmaceutical sector in the country. At present the domestic pharmaceutical industry is incredibly fragmented, and there are no global Chinese players apart from API, which is very low end. Given China's size and capabilities, there is a lot of potential for the gl
balization of the pharmaceutical industry but this will only be achieved if there is a bigger focus on quality and innovation.

You have previously mentioned that you aspire to be able to launch Bayer's innovative products in China at the same time as in the most advanced markets. What are the main obstacles to achieving this goal?

Although we have seen significant progress in terms of the drug approval process, it is true that it is still slower than in many other countries. The work that the SFDA carries out is nonetheless quite impressive, considering the relatively small amount of resources it has to look after thousands of pharmaceutical products from over 4.000 pharma companies in China. Perhaps a more critical issue for multinational companies is the delay in the approval process to start clinical trials in China. Whereas in the West it may take about 3 months to complete, in China on average it is more like a 12 month process. Bayer, like many other multinationals, would like to include China more and more in multinational studies, but global can't always wait. So many companies end up just carrying out the trials in Europe and North America first and then having to do it all over again exclusively for China, which is very inefficient. At Bayer we aim to include China in all global multinational clinical studies and so far this has proven to be quite successful, as long as we pay close attention to the needs of the Centre for Drug Evaluation and the SFDA.approach by for example having our global experts explain the context of the China arm for the global studies and ensuring that every necessary precaution is taken to protect Chinese patients. A prime example is NEXAVAR which was launched in China just a few months later than in Europe. With our new anticoagulant drug XARELTO we have even managed to receive approval in China before the US FDA, which is a first for Bayer.

What are Bayer's main ambitions in China over the coming years?

Bayer is a company that takes a long term perspective. Although we are very proud to have reached the number one spot in China, it is not our overriding goal to be first in the rankings. As we know, this can all change quite rapidly for a variety of reasons, like M&A activity. What Bayer aspires is to be the most admired pharmaceutical company in China and to be making the most significant contributions to the improvement of healthcare in this country. In this regard, we have set a number of benchmarks to define what this implies. From a sales point of view, Bayer aspires to remain a leading player in the market. Secondly, our goal is to bring a significant number of new products to the Chinese market. Indeed, Bayer aims to launch 20 truly innovative drugs within a 5 year period. The third key objective is to make a real contribution to the development of healthcare

in China, particularly in rural areas and through the development of Community Health Centres throughout China. And finally, the fourth dimension is our desire to be perceived as the most valued partner for our core target group in China: physicians.

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