Interview with Eric Fatalot, PDG, Chiesi France

21.04.2010

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If basis of the pharmaceutical business model is changing. Take sales forces for instance, what will be the composition and daily routine? How much mixed media will it require?

Currently, there is a schizophrenic state in to the market in between biotechnologies and generics. This is a clear case of finding again the ‘magic middle’ between volumes and margins. And it would be a mistake for the pharmaceutical industry to think that we can reproduce the same blockbuster model we had in the mass market again in hospital and specialist niche market.

Not only do we have to shape the way we will work in niche markets but we also have to reinvent the approach to the mass market. For instance we have to ask ourselves: how do we balance between princeps and generics? How do we create added value for the final consumer? This I feel can be accomplished by going above the drug itself and giving more value to the patient. My personal conviction is that should we not want to become like vegetable producers – who do not receive any of the value in the value creation chain – then we have to become a part of the value chain.

And where we can create value is in innovation for health needs: a pay for performance standard. Moving forward, people will not pay just to hear about success in Phase II clinical trials and potential in three years. Instead, they will wait the three years or at the very least get their money back. We have to place ourselves within these standards to shape the company to create additional value, to create Health and no more “only” drugs.

One way we can do this is by looking at the key factors facing our therapeutic areas. For instance, compliance is an issue with most medications, like in asthma where nearly half of people prescribed medication do not take it. There is a lot of room to improve here and even if we can increase this by only 10% we are adding directly to overall well being and revenues. Today, thanks to the amazing progress in digital technology, there are so many ways to communicate and track information that it could be more than feasible to be in contact (if allowed !) with the physician, the pharmacist, the patient and his environment and ensure better compliance.

The risk to the pharmaceutical industry is to be obliged to do this communication and provide data on its drugs performance without taking more from the value chain. There are not that many companies in our industry with the willingness to think about B2B opportunities. If we look at all the prospects of collaboration in B to B with providers of technological applications and patient services, we can surely make the lives of future patients better.

There are many 'big pharma' companies reinventing their model who feel that stagnating revenues for a year or two are the price they have to pay for this change. How do you go about evolving the business model while still turning out double-digit growth figures like Chiesi?

Chiesi has been lucky enough to have the ability to launch our – relative to size – blockbuster drug Innovair®(Foster in rest of Europe) which is a 2-in-1 asthma product which provided us more than €25 million on the French domestic market last year. In 2009 we grew by 13% which clearly is incomparable to the pharmaceutical industry in France. Nevertheless, I do have to face the genericization of one third of our portfolio in 2010. Therefore I'm in the exact same position as most of my colleagues. What we decided to do was precisely to engage change in the company, when we were not forced to do and anticipate it, dealing with both growth management and build up the future, including in this future, for some period of time, a possible decrease in revenues. Obviously, I have to find a relay for growth and there are different ways to do this. I can look at the pipeline but as you may have noticed there is a "common hole" throughout the industry from now to 2013 or even 2014 depending on the company. Chiesi in France has this type of gap so we are looking for drugs either in development or already available both at the local and corporate level.

Collaboration agreements are important in this industry and historically co-marketing activities were common. Co-promotion agreements are becoming more important because there are a lot more sales forces highly trained in specific therapeutic areas that can truly give you an advantage, if collaborating with you. For example, we currently co-promote Innovair® with Abbott in France. If you look back to ten years ago, if you had asked an" Abbott "sales manager to sell a product on behalf of Chiesi he would probably tell you to go away. There was no way to really encourage an outside sales force to move your medication. By creating more B2B relations the industry improves its effectiveness and productivity while also changing the mindset.

This is not to say that in the future there will not be a role for CSOs but they will also have to change. In the past we needed flexibility but in the future we will need agility in our model which includes the reduction of fixed costs and here is where CSOs can fit into the picture. It will no longer be about rented sales forces to push your blockbuster. Instead they could be useful for short-term periods or geo-marketing among other methods. If some CSOs are able to properly do this then they will retain a portion of the business, especially if they are able to create perceived expertise in specific therapeutic areas.

In the end we are not condemned to grow and from my perspective, as my Finance teacher said:" growth is vanity, profit is sanity and only cash is reality". Should you want to grow, that's one thing but you have to mind your bottom line for the future and more importantly, the cash in hand over the long run. Then, invest it properly asking yourself, are you creating long-term value for the company you work for

Chiesi has been reinvesting it its manufacturing facility in France which not only supplies the local market but the UK and Germany as well. What does this injection of cash say about Chiesi's position on France?

Thanks to both the national and local incentives of France, manufacturing presence is something to be taken into account. Our shareholders recognize this – perhaps due to the pragmatic approach of Northern Italians. France is clearly an opportunity for European companies because when you factor in research tax credits and the recent CSIS reforms then activity here could look attractive. Moreover, in the midst of the current crisis, all European governments are interested in employment headcount whether it's preserved or created.

Chiesi had a plant here due to a former purchase that was involved in manufacturing, packaging and distribution. Therefore the group's analysis was simple: we had a running facility and we imagined what could be done on top of the existing foundation. This is why we are now packaging for Germany and the UK while also storing a good portion of the group's inventory. In fact, we have also increased the activities to be able to include not only the packaging but the production of canisters here as well.

In this perspective Chiesi group have the opportunity to look at other locations like Ireland or Poland. But while we were not looking to create installations the size of big French players we are convinced that our investment could be considered in France, like it has been already in the past : and that would be taken into account in decision making.

I also have to point out that there are very few mid-sized companies as involved as we are in the local landscape. For instance we are active in the Paris biocluster Medicen which has been undergoing a lot of developments since its creation and has the intent of becoming a truly global cluster. We are in a public-private consortium which not only allows us to work on an interesting

project, with Top quality private and public researchers but also draws on external funding we would otherwise not have. We need to prioritize our research so when we have an opportunity to call on outside expertise and financing we have to consider it. Of course, when you look at the current government initiatives this kind of activity is exactly what they want to stimulate, and we want to be part of the game.

I am not sure France will be able to go the route of endowment funds that you have in the US such as at Harvard. These funds provide an avenue for people to invest in the capabilities of research institutions and create a virtuous circle of cooperation between public and private spheres. As it stands, we see large domestic groups such as Pierre Fabre and Sanofi-Aventis able to branch out and co-create research campuses including laboratories and hospitals in France. Nevertheless, if mid-sized companies change their mindset to participate in the public sphere then –on a different scale – – we will be able to be equally successful.

And what would be the next big thing?

I am of the opinion that preventative medicine will prove to play a bigger role in the future, specifically vaccines .In the long-run companies in this market are in a good position. If you think about the payers, they have more of a reason to ask for preventative products/solutions so as an industry we would be wrong not to consider this side: even if this means a future where we sell fewer drugs and more of something else.

At the moment, there are a lot of projects going on in France coming from Italian companies whom it seems have recently found out what is on the other side of the Alps. As a group, Chiesi is looking to become a more internationalized group; what role do these local projects play in the global scope for the company?

In terms of the overall group strategy that is something for my CEO to answer but we certainly want to consolidate into emerging countries. Yet my personal opinion and as I pointed out with other aspects of our changing market, these countries are not an El Dorado: they will not wait for us. Moreover, even if they're waiting they're doing so with prices which are in another world from what we are used to. We will have to reinvent our Business model, once again, looking for volumes more than margins, and for continuous, quick and always renewed innovation (including organizational and technological one) rather than Intellectual property. This is symptomatic of what the industry will face moving forward and we have to take it into account.

France is the third largest pharmaceutical market in the world; will the affiliates' size be representative of this fact in the future? What role will you play in the Chiesi's internationalization?

The strategy is quite simple; we are an actor in respiratory products that wants to move into niche offerings, while maintaining mass markets in few areas like metabolism. We want to grow by pushing the boundaries but also consolidating our current establishments such as in Brazil, Russia, China and our newest stake in the US.

When you look at the entire health market one of the main drivers is the elderly population and if we look at the population of France in the coming 20 years it is no exception to the rule of Europe: percentage wise the population is getting older. In regard to chronic diseases the population affected in France will grow and when you look at the non-chronic complications they will be mainly driven by the elderly. Therefore there is a clear future in the healthcare industry for ‘old Europe’.

While such an observation may be a bit intuitive it still needs to be taken into account especially when you consider one of our up-and-coming therapeutic areas like chronic obstructive pulmonary disease (COPD) which is prominent in elderly populations.

If you return to consider the prices that regions like Brazil or China will be willing to pay, and even if in Europe also, obviously, prices will go on to decrease, French health expenditures per capita will remain more attractive for quite some time .Therefore, even if worse ranked in the future, this country will play an important role in the global pharma market.

If we look five years into the future what do you want to see happen with Chiesi France?

I want to emphasize our respiratory line and create a niche focus for our products. On top of this we definitely need to develop a business model that considers the customer relationship and understand what our customer needs. This demands proper segmentation, profiling and identifying communication and distribution channels. Moreover, we need to develop a true mixed media approach because as it stands in France 70% of pharmaceutical sales budgets are still dedicated to human beings: you cannot say this constitutes true mixed media when one medium represents such a percentage on total promotional expenses.

In the future we have to move away from being a seller of drugs to individuals and become a provider of health to society. In order to make this possible we will have to capture more of the value chain – that will expand – through more B2B activities and through innovative solutions creating Health populations can afford to pay for.

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