Interview with Jimmy Sudharta, President and Founder, Mensa Group

21.09.2009

Tags: Mensa Group

Mensa Group is one of the leaders of the pharmaceutical industry in Indonesia. What inspired you to enter the industry and specifically why did you start your venture in the API sector?

I was studying pharmaceuticals and my first professional position was also in the pharmaceutical industry. The API business started through happenstance. I was lucky enough to get support from a contact who had knowledge of pharmaceutical API’s and was interested in entering the space. From this starting point, I built up the group from several fortunate conditions and started my company on the 7th of April, 1975. Local companies face a number of challenges ranging from difficulty in finding highly skilled labor to costly imported API’s.

What were the principal challenges that you faced when you started the company in the 1970’s?

Conditions in the 1970’s were not as difficult as they are today. There was almost no competition in the local market and multinational companies dominated the market in the seventies up through the early eighties. We represented many of these multinational firms. At that time we weren’t encountering much competition from China and India, whereas now we are importing some of our API’s from these dominant Asian players. Considering that Indonesia is not particularly well known for IP protection, it must be a challenge to find foreign partners. However, you have an impressive list of multinational partners.

How have you managed to establish so many partnerships and overcome the challenging perception of the Indonesian market?

Some of our partners were already represented in Indonesia before we started doing business with them. I proved to partners our exclusivity and commitment as a business collaborator. By commitment, I mean that Mensa Group has never cancelled a contract and has always paid on time, without even one day's delay in payments delivery. This unbroken track record has established a reputation for commitment and integrity that encouraged international partners to work with Mensa and made existing partners increasingly confident in our ability to deliver. The foreign firms are of course in communication and so each successful contract further increased the confidence of our partners. Also our customers were consistently satisfied with our commitment to quality, a high level of service, and competitive prices. Commitment to Mensa Group's partners has served the group well, resulting in robust growth across it's various subsidiaries over the last three decades.

What do you identify as the most promising growth areas across the group?

Mensa Group has diversified it's trading from trading only Pharma API's to , food, feed, cosmetic and vitamins . It was proven through the Asian Financial Crisis in 1998 that there is always a need for pharmaceutical materials regardless of the economic environment, and thus provide a stable revenue stream. The group began this diversification process in 1981 by entering into new industries. Additionally, in 1984 Mensa took over another pharmaceutical company, and in 1986 the acquisition of a distribution network. Currently each of these four companies have opportunities to grow. In pharmaceuticals we have confidence that the API business is still vital because approximately 95%of the API's used in Indonesia are imported. There are certain risks when it comes to competition from China and India. However most of that competition appeals to a different market segment. There are two basic market segments, customers who can be categorized as quality oriented and they will purchase based on quality while the other segment who is more price oriented in the sense that they will accept products which passed their quality control . At the moment, Mensa Group's services appeal to clients looking for the highest quality. The group's factories use quality products meeting international standards in terms of materials and GMP. As you mentioned, 95%of API's are imported. When do you think Indonesia will begin to produce more of its own API's for domestic consumption? Many years ago, in the eighties, our government forced all foreign investors who produce finished products to produce at least one API in the country. However, foreign firms circumvented this rule by simply completing only the final step in API processing within the country, always choosing the smallest API by volume. I believe

that efficiently producing API’s is not a simple task. For example, even Novartis, who used to produce huge volumes of amoxicillin, has chosen to pull out of production. API’s need to be produced in large volumes, with economies of scale, otherwise they often become prohibitively expensive. There are also environmental complications regarding temperature regulation during these processes and also a need for large quantities of electricity, which requires highly developed infrastructure. Therefore, at the moment, the domestic raw materials/API industry is not showing signs of development or that it will develop in the near future. Much of the growth that Mensa Group has experienced has been through acquisitions.

In the future, do you see growth continuing through further acquisitions or organic growth of the existing business units?

These are the two possible routes toward achieving growth. Acquisitions are always an option, but are currently not the core of Mensa Group’s strategy. The numbers of a company like Kalbe demonstrate that they have made a great number of acquisitions and continue expanding through external growth. Over the past few years Mensa Group has been undergoing a period of consolidation. We need to improve in a number of areas. For example, we are enhancing IT systems, implementing a balanced scorecard, improving supply chain, and expanding job grading . By improving the quality of management, we believe that there are many opportunities for growth. For example, last year Mensa Group grew at the fastest pace in the Indonesia industry at 31.65% according to IMS data. Each division in the group has its own strengths. We are expanding our distribution capacity from 23 to 26 branches and coverage is getting wider. We are also offering same day delivery to our customers. When it comes to management, there are always areas to improve. Mensa Group’s market share compared to the top players is still small. This means growth opportunities exceed above overall market expansion, through increasing market share. Thus if growth in the national pharmaceutical industry is between 9 and 11 percent, we are very confident that we can grow at a much higher rate. In importing raw materials, we are ready to offer VMIto our clients. Thus we allow our clients to have zero inventory management overhead, and we manage inventory for our clients. Many multinational companies are looking for this service. Mensa Group is also looking to apply for ISO for it’s API trading company . In the meantime both manufacturing companies within the group have already obtained the ISO certificates and in fact recently Landson upgraded her ISO to ISO 9000:2008. In 2007 there were upgrades at the Otto facilities and a new facility at the Landson subsidiary.

What are you intentions for this facility, are you planning on using this capacity for the domestic market, foreign markets, or contract manufacturing?

The Landson facility has just recently been fully completed. We are awaiting inspection by international regulators, but first we will conduct our own internal inspection and review. For our other manufacturing facility at Otto , we are using Pharmaplan, a reputable German consulting firm with experience in assiting multinational firms in Europe . The factory is being rebuilt completely from scratch based on PIC standards. We are simultaneously registering our products overseas for export purpose and we are open to various possibilities from manufacturing our own products, to toll manufacturing, and various kinds of cooperation. In fact, I'm offering our services and our willingness to cooperate with those who may have to leave the country due to recent government regulations.

How do you see the impact of this Decree 10/10, which requires multinational firms to have a manufacturing presence in the country, playing out in the market? Do you see it as an opportunity and catalyst for more international partnerships?

The Decree will become active in 2010. However, according to current plans, there will be open markets throughout ASEAN. Thus those who produce in Thailand will be able to sell to the Indonesian market. In this way, Indonesian won't be completely closed to multinationals without manufacturing facilities in the country. However, there are still some companies that don't have facilities in ASEAN. For these firms there are many potential local partners, of course including Mensa Group. As a local company, we have an opportunity to help these firms continue operating in the Indonesian market.

Mensa Group has begun to establish an international presence in the region in Singapore, Malaysia, the Philippines, and even farther afield in Africa. Yet, there are only a handful of Indonesian firms operating outside the domestic market, how have you managed this transition into international markets?

In 2005 we established an international division. We are expanding this line of business, however exporting does present a new set of challenges for the company. Each country has different market dynamics and a different competitive landscape. In some countries they are simply looking for the cheapest alternative, and in these countries we aren't as competitive as some Chinese or Indian firms. Additionally, exports should quality us for refunds on API import taxes. However, if the volume of exports is low the bureaucratic overhead for obtaining these refunds can be prohibitively expensive. Thus, these import taxes can prevent us from building up scale in exports. You have been in this industry for over 40 years. How can you explain that countries like China and India started with small industries and have quickly surpassed Indonesia and produced global brands like Ranbaxy and Dr. Reddy's.

Why has Indonesia’s pharmaceutical industry remained stagnant?

Technology in the early 70’s was fairly elementary while simultaneously there were low capital inflows into the industry. Moreover, Indonesian firms were focused only on the local market due to its size and potential. Additionally, most finished products were imported. The government then banned imports, requiring foreign firms to produce products locally. This catalyzed a shift towards local firms producing generics as a substitute for foreign imports. I think Indonesia is not yet ready for a transition to an export driven economic model. With increasing ASEAN harmonization we are starting to see a stronger push towards exports, though there are also new entrants in the Indonesia market from other ASEAN countries. Companies from Thailand or the Philippines, for example, are looking to take advantage of what will be a common market with a population of 500 million. This is creating new incentives for Indonesian firms to comply with international standards. Even thirteen years ago it was a different story, when local firms were undercapitalized, with much lower turnovers and little reason to make expensive capital outlays to comply with international standards. Indonesian firms don’t always have the best reputation for product quality.

As you look to expand distribution worldwide, how will you overcome some of these negative perceptions in foreign markets, particularly the more sophisticated markets?

Sophisticated markets such as the United States have the highest standards for drug manufacturing and product quality. Indonesian standards aren’t currently at that level. While there is talk of harmonizing standards between the FDA and PIC , it isn’t clear when this will actually occur. While some Indonesian firms are looking to enter the more sophisticated markets, it will necessarily be a gradual process. When it comes to Mensa Group, it will take time to penetrate these markets. We are first looking to enter markets that don’t have such stringent barriers to entry. We firmly stand by our commitment to the safety and quality of our drugs, but it will be some time before we make a concerted push to enter sophisticated markets. You have established Mensa Group as a successful local player, made a number of partnerships with international companies, and expanded to international markets.

What are you major goals remaining for the future? Where will we see Mensa Group in give years?

Mensa Group is looking to continue to grow and develop its business units. We are aiming to become a top five local player in the upcoming years. Global ambitions are still an important part of the strategy, but expanding market share locally will be a key stepping stone in the near future. One of the most important strategic transformations will be introducing modern management systems such as the balanced scorecard, new IT systems and HR information systems. There are

large investments in these areas and it is believed that these investments will show significant returns in the coming years. The company is in a second stage of growth. The first era was building the company from scratch to where it is today. The second era is just beginning, where we are transforming the firm into a modern, globalized player. This means employees now have an opportunity to explore their creativity and be a part of the new history of Mensa Group. We are a medium sized company and that means there are many different ways for our employees to play a major role in the future of the group. To support these efforts we are investing in HR, in career planning and career path building. We are investing in the people who will be Mensa Group's future.

What is your final message for Pharmaceutical Executive's international readers looking to enter the Indonesian market?

Indonesia is a country with huge opportunities. However, it can be daunting for foreign firms to navigate the complicated specifics of what can also be a challenging market. They key to success is finding the right local partner. Indonesia's pharmaceutical market is similar to Thailand's in size and market dynamics. Yet, Thailand has one-third the population of Indonesia. This comparison truly illustrates the country's potential. At the same time, Western standard business practices are not always applicable here, and thus a local partner is always a major factor in successfully entering the Indonesian market.

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