Interview with Thierry Powis, President Director, Schering-Plough Indonesia

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Since the installation of Mr. Fred Hassan in 2003, Schering-Plough has been oriented toward changes. At two years from your arrival you have been able to achieve IDR 170 billion in sales in 2007 (+38% vs 2006), doubling the operational income and for the first time in the last five years to achieve a positive net income. What have been the main changes you introduced to reshape Schering-Plough Indonesia?

First of all Schering Plough invested a lot into people. When a company invests in its people, it leverages the competence of the workforce and promotes teamwork. This is already half of the work as you have fewer fires to extinguish if things are working together. One of the changes that I introduced was a system aiming to reward performance. The pillar of this new reward system was to set objectives fairly and gratifications accordingly. This has transformed the people as they felt the benefits of their work.

The main driver of our growth has also been the result of a strategy focused on Schering Plough's major products and a stronger control on expenses. I repeat often the words of Fred Hassan who remind us that we need to do our activities the right way from the beginning. We have implemented cost control measure to better utilize our expenses. We shifted some expenses from one category to another. By reducing some travel expenses we could conduct more in training or scientific presentations for example. We also used more frequently teleconferences which allows more communication amongst the people without the time losses and expenses associated with travelling.

How would you assess on the overall importance of Indonesia in the global and Asian Research Based Companies (RBC) Pharma operations?

The RBC market in Indonesia is one of the smallest operations in Asia despite the large population. Did you know that the sales of RBC in Thailand is three times higher despite a population that is 24% of ours. Malaysia has a market that is equal to our size despite a significant smaller population. Those figures on it's own indicate clearly that the RBC sales in Indonesia is significantly undervalued.

Considering the developing of other countries within the ASEAN region what are the advantages of having a manufacturing plant in Indonesia?

We have a manufacturing presence in Indonesia since 1974 and regularly invested in the plant to comply with the latest codes on good manufacturing practices. However recently as part of our efforts to streamline production and at the same time to be able to produce high standard medicines we re-evaluated the achievement of every factory worldwide and decided which ones to keep or not. Due to the good track record of our plant it was quite obvious that we should have all confidence to continue investing in the Indonesian plant. We are now expanding the role of our factory in the region. Schering Plough Indonesia will be the Asean centre for cream, tablets, capsules and some other formulations could be later introduced. We will export in nearly all countries of Asean within the next two years. This is a major achievement because the local market is not sufficient to sustain a factory for Indonesia alone. If you want to produce international quality you need to have specialized factories that export in other countries.

Presently, we are turning to have more specialized factories in separate countries, because the investments needed to produce quality medicines are so huge it is impossible to have a factory in every country otherwise it would significantly increase the cost of medicines in each country.

The key issue is that the domestic market is small and the utilisation of our equipment is low if we produce only for the local market. Therefore we need to maximise the use of our equipment and export our products.

Given the fact that Indonesia FDA (BPOM) does not mandate companies to comply with the latest pharmacopeia, would you say that exporting to neighbouring country can be considered an extra dose of challenge?

This is indeed one of the challenges and the fact that the local FDA does not adapt the latest code has significantly affected the image of products manufactured in Indonesia. Currently BPOM requires companies to comply with the Indonesian pharmacopoeia published in 1995. We produce our products according to the latest Pharmacopoeia and luckily our reputation as a world-wide RBC allows us to export our products abroad. I however know that local national companies do

struggle with this issue as they do not have the reputation we have. On the other hands they have resisted changes the FDA wanted to introduce as they claimed they need more time to adapt so. I believe that the local companies have created their own problem and I perfectly realize that this has now resulted in an additional challenge for them. I am a strongly believer that in medicines the key factor of success is adherence to the latest rules on manufacturing, distribution, marketing etc…

Because of the policies toward RBCs the local companies have now conquered 70% of the domestic market share. To offset the criticisms on RBCs only exploiting Indonesia, what would you say has been the contribution of global research based companies in general and of Schering-Plough in particular to the development of the Indonesian healthcare sector?

I think we do a lot of contribution. First of all with our factories we invest in training which then later is often get transferred to the local industry, either because they are retiring or because they resign and move to the local industry. Consequently, all the training RBC companies are providing is partially transferred to the local industry and one of the major worries for the Government should be how to make sure that all this kind of intellectual and technical know-how is not going to be reduced over time with the new decree.

In addition, research-based companies bring in innovative medicines, which local companies do not do. Worldwide including Indonesia there are still many illnesses that are not yet well treated, such as cancer, AIDS, bird flu or cardiovascular diseases. Finding new medicines requires huge investment that cannot be borne by one country alone. Schering-Plough by being here contributes to the research of new products that contribute to enhance people health. Local companies do not contribute to this as they do not invest in research of new medicines at all.

What is going to be the impact on the heath care system in Indonesia if the decree 1010 comes through?

We support the decree 1010 as it has the aim to improve the distribution of quality products in Indonesia. There are too many distributors with questionable practices that need to be addressed and 1010 is a good attempt to do this. Unfortunately pharmaceutical companies that have been classified in the past as wholesalers are now deprived of their rights. This is not a positive signal at all because it is interpreted by the people that investment you make in the country could be changed at any time by a simple decree. This is extremely serious and in this respect I do believe that the decree is a serious setback for the pharmaceutical industry in the country. I read statements in the media that research based companies will not withdraw from Indonesia because the market is huge. I do not share this viewpoint as the RBC market of Indonesia represents only 0.1% of the worldwide market. Therefore, although the market is perceived to be very large it is one

of the smallest markets of the world. I sincerely hope that the RBC currently classified as wholesalers will be reclassified to allow them to continue to provide innovative medicines as well as to continue to employ more then 3000 people. I disagree with the decree as it seems to imply that if you do not have a factory here you are not manufacturing in the country. This is totally inaccurate as a recent survey done amongst the RBC classified as wholesaler shows they manufacture 45% of their products in Indonesia via toll manufacturing agreements.

Is Schering Plough going to continue to invest in Indonesia…

Our investments are made based on long term plans and we will not change our plans unless extraordinary circumstance requires them. Indonesia has a large population and as a responsible company we do not want to deprive them of our products. RBC have still 30% of the market because people realize that our products are of international quality. We have a commitment to the patient and the country and we strongly believe that everyone is entitled to get quality products such as ours.

Quality and need for innovative medicines is the reason why RBC exists in Indonesia as in every other market.

As president of IPMG what would you suggest the government to do in order to boost the industry?

I deplore that the healthcare sector has been neglected during many years in Indonesia so that today we are in a situation that is not sustainable. IMPG has initiated with stakeholders a healthcare debate as it is urgently needed to reassess the current issues and possible solutions. All policy makers including the RBC should work together to develop a roadmap for the future and the respective roles of each need to be defined. I am sure that solutions can be found that will benefit so much the country. RBC's have a key role to play as well as all the other stakeholders.

In this respect, Schering-Plough can play a role, not only for the quality of its products but also by trying to increase the dialogue among all stakeholders. Healthcare for me is not a question of price, healthcare should be evaluated in terms of price-services; what can the country afford and what services authorities should expect in return. Many issues need to be addressed such as the insufficient number of doctors, the lack of equipment linked to the limited funds the government has been allocated in the healthcare system since numerous years. It is also important that we benchmark ourselves amongst the other countries. Is it normal that we are a country that spend the lowest % of GDP in healthcare? The answer is obviously no and investing less than 3% of our GDP in healthcare will never allow Indonesia to improve its healthcare system. Policy makers admit that the local industry is not competitive, they are often incompliant in terms of marketing practices and they are not giving anything back in research of innovative medicines. Those elements are all part of the same equation and we should try to sit down and define a road map all together. It is the only

way to get out; if you have no long term plans there is no way the country is going to make progresses. Giving credit to the authorities the task may look as mission impossible but if there is a will hurdles can be overcome. Look at the progress of Vietnam in the last ten years. .

Similarly, when Fred Hassan arrived at the company he laid out his plan, which consisted in a sequence steps to build the new company. Today the company has reached the turn around phase but in our roadmap we have future steps. Our roadmap was well thought and by following the various steps Schering-Plough is now today a strong player in the Industry. In a few years we have been able to build a good base of products that we have in our research pipeline that will become the building blocks of our future success. Similarly, I am sure if Indonesia has a long term plan we can make significant improvement, however this cannot be done without establishing a dialogue with all the parties including both local firms and the multinationals.

What is your final message to the readers?

Indonesia is a country with large population, and when Indonesia will become a stronger economy I am sure demand for innovative medicines will become a part of the development of the country. So there is a future in Indonesia but this has to be seen on a long term basis. A lot of work needs to be done but I am convinced that over time responsible people will make it happen. I sincerely hope that once the elections will be over the new leaders will address this important mission.

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