Interview: Kalle Känd – CEO, Acino, Switzerland



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Managing volatility – the CEO of Acino, a Swiss pharmaceutical player, elaborates on the company's unique strategy based on its significant expertise in volatile and uncertain key markets within their regions.

Most of your career has been spent with mid-cap and big pharmaceutical companies. Three years ago, you decided to join home-grown Swiss champion Acino. What attracted you to the company and why was this the right move at that point in your career?

At that time, Takeda—the company I was working for—went through a restructuring process which meant its emerging markets cluster was about to change, and which also meant I had a career change ahead to become a regional head, down from a global position. Simultaneously, I was approached by the Chairman of Acino who I had a common history of over 15 years with, asking me to join Acino. All in all, the proposal was highly attractive to me as it meant more hands-on work and the opportunity to shape and change more than I could have done in Takeda.

Before becoming CEO of Acino, you were appointed executive commercial officer, with the task to redevelop the commercial strategy. This has resulted in a company sales increase of 18 percent; could you please share with our readers how exactly you have transformed Acino's commercial strategy to achieve this success?

I am a strong believer in re-generalization and decentralization, especially when it comes to small pharmaceutical businesses. I am convinced that full empowerment and responsibility have to be in

the targeted country and on a regional level.

When I joined Acino, the company was still run as a Swiss export group, where regional heads had their offices here in Switzerland. One of my first actions was therefore to establish regional hubs in Dubai, Panama, the Ukraine and Russia, reducing the global functions coming out of Switzerland, and localizing and delegating those to our regional hubs. As a second step, we renegotiated many of the existing distribution agreements to retake ownership of the regions and clusters. Many of those were still based on a turnkey contract basis where we paid a certain amount of commissions not having any control over the people promoting and selling our products. We changed these agreements and gradually retook control of the agreements, paying less commission and having less cost compensation in the individual countries.

In April this year, you became CEO, and it seems that you kept the transformation process going, seeing the delisting from the stock exchange, the acquisition of a new plant in Estonia or the divestment of the German business for instance. Could you please lay out the key elements of this transformation strategy in 2016?

The key element—especially in the last nine months—was the focus on emerging markets. The divestment of our German operations was therefore part of that process, and we chose to invest in our key strategic regions meaning the Middle East and Africa, Latin America and the CIS area. In line with that strategy, we are in the process of consolidating our Swiss manufacturing sites thus improving the quality and are starting to construct and transfer our products to our main laboratory building in Liesberg.

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Being a Swiss company with great markets within a radius of 1500 km, and in light of the current political and economic uncertainties affecting the emerging world, wouldn’t it have been a “safer bet” to focus on the top 5 EU markets?

Of course, that is what pharmaceutical companies normally do; cashing money from the big markets. That, however, assumes that you have a very strong R&D pipeline which takes 10 to 20 years to build up. When I took over the position I realized that our R&D pipeline was very lean I was therefore faced with the decision to either start reinvesting in R&D or launch what we have, divest R&D and develop the company into a sales and marketing company in emerging markets and that is exactly what we did. Today, 75 percent of our profit and revenue is generated in emerging markets.

A couple of weeks ago, we were Media Partners of the Financial Times Pharmaceutical and Biotechnology Conference in London, where the main discussion revolved around the merits of diversification versus pureplay, where many pharmaceutical companies are seemingly divesting to grow. In this context, what is your overall vision for Acino?

The strategy you choose needs to start with what you have. Acino today has a strong position in emerging regions on which we can build on. Moreover, in terms of product portfolio the range of our offering is relatively limited therefore we need to enhance it through licensing, M&As and product acquisitions—this is where our growth will come from! Our organic growth in existing regions is at about eight percent per year and inorganic growth methods will allow us to accelerate that. We want to be a meaningful player in the existing regions; we know there are more good markets out there, however, these will take resources and time that for the time being, we do not have. What's more, from experience, I know that profitability has a linear correlation to market share, hence why the strategic focus is on our existing markets.

What are the challenges you identify within this process and how do you plan to address those?

The challenges in emerging markets today are the same we saw in developed markets 15 years ago; price harmonization, reference pricing, government interference in the pricing and changing pharmaceutical reimbursement systems. If the government part of the total pharmaceutical bill is at around 20 percent, they are not highly motivated to regulate; however, the bill is rising therefore they are starting to take more control. We furthermore need to constantly improve our innovative portfolio as we know that some products will hit a price rock bottom and will need to be rebalanced by new products.

Today you have four regional offices, in Kiev, Dubai, Panama and Moscow – two are in countries currently facing very high political and economic uncertainty. How are you navigating the storm?

If you look at our markets, you see that we are typically engaged in highly volatile markets, but you also notice that they are our top performing markets: Iraq, Saudi Arabia and the Ukraine. We are not afraid of this volatility because we understand the risks and know how to manage them. We for example invested in the Ukraine in October 2015, when we saw that the market had hit rock bottom and was starting to turn around. Today, we are growing with around 40 percent annually in the Ukraine and although the market overall is experiencing a devaluation we remain highly profitable.

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Our overall strategy is simply that we do not invest if we do not understand the risks and challenges. For instance, there are several markets in our Latin American region in which we see a multitude of risks that we do not fully understand. We are therefore not entering them although they are highly attractive overall. In Russia and the CIS region overall, however, we have an extensive experience and are confident to fully understand and manage the risks and challenges in these markets.

How do you assess the sustainability of Switzerland as your key manufacturing centre?

It is true that on the paper, it seems that we are doing something which is rather counter intuitive! We are producing in Switzerland and sell in Africa, whereas it is usually done the opposite way round. However, our Swiss manufacturing base is very strong and we are further consolidating it, thus improving its quality. Naturally we need to be careful and have to look at decreasing the cost base by finding back office support functions and regulatory support functions in other countries. Nonetheless, our HQ and our production will remain stable in Switzerland and we believe the high quality standard of Switzerland is very attractive in the markets we cover.

Taking stock of your service & product portfolio – you have your own product development as well as a service platform including CMO, regulatory services, packaging and more. Which side of the business represents the main revenue driver for the company and how do you anticipate this balance to shift in the mid-term future?

As aforementioned, emerging markets are contributing to 75 percent of our total business and this will only grow in the future. In Europe, we have a strong out licensing business where we produce our products which are sold in our client’s packages. These are products which were developed by us but decided not to commercialize in this region by ourselves. All of these are hard to make products and are therefore not as prone to generic substitution and we out license them on a non-exclusive basis. The CMO side is only a small part of our current business and the goal here is to utilize spare manufacturing capacity.

What does the ideal partner for your out-licensing activities look like?

We are looking for partners that have either good coverage and presence in many countries or that are highly specialized in certain niches. Many of our products will be subject to tenders and a company needs highly specific knowledge to win these tenders and get the business. However, as we are working on a non-exclusive basis, we can appoint several partners per country for one

product. That means, even if one is not performing well, we simply emphasize the other partner. In Germany for instance, we have three or four partners who are competing against each other in the tender.

From your perspective, what are the characteristics that make Acino unique?

First of all, we have a very strong and high quality Swiss manufacturing base and secondly splendid regional knowledge in emerging markets—frankly, I do not know any other company like ours. As we have discussed, the Swiss quality and associated image are second to none and something that greatly matters when doing business in emerging countries. In the markets we are present, regulations are comparatively loose and we see a lot of competition from Chinese and Indian companies. Patients and doctors are aware of their regulatory environment and subsequently prefer products coming from a high-quality country. In Europe, we witness the opposite: patients and doctors trust the regulatory system and therefore do not care where the product was produced if it is given market access. Moreover, we place emphasis on a strong local presence and knowledge as we employ local staff to take leadership and drive the countries and regions.

When we come back in 5 years' time and meet with you again, where will Acino be?

In five years' time, we would like to be an even stronger regional player and be at least twice as big as today and naturally, three times more profitable as today! I am confident, that by that time we will have done several successful acquisitions and launched more products to the extent that our product portfolio will have doubled as well.

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