Felix Gutsche – President, Boehringer Ingelheim China

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Boehringer Ingelheim veteran executive Felix Gutsche shares the first impressions of the China market since he joined in January 2019; the strategic significance of the market as one of the top three affiliates for the Group globally across both Human Pharma and Animal Health business units; his mission to better integrate BI China into the global corporation while amplifying its voice; and his personal excitement at being part of the BI China journey.

Felix, having arrived as President of Boehringer Ingelheim (BI) China in January 2019 after more than 24 years with BI across various capacities, what have been your first impressions of the market?

Looking at the historical development of BI in China, we were somewhat of a latecomer when we entered BI 25 years ago. For a long time, we perhaps remained more conservative when it came to investing early and heavily into this market. However, that attitude changed seven to eight years ago, and today we see the fruits of that investment very clearly. Our growth has really sped up over the last three to five years across all three business pillars: Human Pharma, Animal Health and Biopharma CMO business. I am a firm believer that as an organization, we need to push growth, and over the past few years, BI China has done very well in that sense.

Today, we are at a stage where we expect to continue to grow significantly but we have reached a size where we need to re-evaluate the way we operate. If our business here is growing 25 percent year on year, our organization needs to develop at the same pace. Even as we look forward to driving the same pace of growth over the next few years, we are aware of the need to consolidate what we have achieved so far.

For BI globally, by any measure, whether sales or growth, China represents a significant proportion of the Group’s total. In Human Pharma, China ranks third after the US and Japan while in Animal Health, we would typically occupy the second position. Everyone at BI understands the importance of the China market

Notably, after nearly 24 years at BI, this is your first country management role. What mandate was assigned to you?

As Country President for BI China, I have the privilege of being one of the four freestanding country managers within the global BI organization – alongside my peers managing the US, Germany and Japan, which together represent the four focus countries for BI. In other markets, the country president also manages one of the business segments. This is rather special not just within BI globally but also compared to other MNCs, many of which in any case do not manage such a complex and multifaceted business here in China.

I feel very comfortable here overseeing my capable and talented leadership team, who runs the business segments we have here. I am able to dedicate around 70 to 80 percent of my time to supporting them operationally without going too deeply into their daily operations, and the rest of the time, I am able to think more strategically about the entire BI China business. For instance, recently, a major project has been to convene the leadership team to design our TCM 2030 strategy together (TCM standing for The Chinese market, which represents our operations in Greater China). Together, we look at the future environment within the Chinese market in the next

few years, including expected changes, challenges and opportunities, and so on.

This role is designed such that I am able to drive the whole BI franchise here in China while also supporting my leadership team in the daily management of their businesses. With this holistic view of our operations here, I can also look at ways to create synergies across the various businesses we have here. We operate here on a ‘one management’ model and we apply rules and processes from the corporate organization to our operations here. In some sense, I have a sort of guardianship role.

I bring to the table experience in many functions across the different businesses of BI in many different countries. In addition, after 24 years in BI, I also possess a significant network within the global organization that will allow me to integrate BI China better into the global corporation. Aside from our significant contributions to Group revenues and growth, we also need to play a more important role in shaping our destiny within the global Group. Our strategic impact and our voice within the Group needs to be further amplified. Like many other Big Pharma companies, the global corporate organization has traditionally been more US- and Euro-centric but today, it needs to be more China-centric.

Amongst the top 20 pharma companies globally, BI sometimes has a rather more conservative image. How does that work in the Chinese market, which is far more dynamic?

What you see here is a very nice blend. Certainly, as a family-owned company, BI is a more conservative company than many of our peers, and we intend to remain so. That is part of our DNA. Nevertheless, our focus on long-term thinking does not mean we are not results-oriented. While we care about short-term results, we do not rush to jump on every bandwagon or ride every wave. We can if we think it makes sense but the beauty of our ownership organization is that we do not have to, unlike public companies that have to look at quarter, half-year and annual results. We believe that this is a huge strength for BI.

At the same time, we recognize that China is a very dynamic environment, whether we are talking about regulations, workforce or other aspects. This does sometimes conflict with internal processes because the usual timelines of our organization might not always work in situations where we need to make overnight decisions here. That being said, as BI becomes increasingly positive about the opportunities in China, we are starting to see more space for the local affiliate to make decisions where we need to move fast in order to capture the opportunity.

It is a fine line to tread: we need to be good corporate citizens and fulfil the corporate expectations of us while still retaining some local flavor so that we can excel in the local market. This is how we have to operate in these kinds of market and I have many discussions with both my teams here and with global on this topic.

Reflecting this balance is the number of rather interesting investments BI has undertaken in China in recent years, such as your decision to bring your CMO business, BI Biopharma, to China even before the regulatory framework for biologics contract manufacturing had been established, as well as your pilot initiative of establishing a stroke rehabilitation center here in Shanghai. How did BI make these decisions?

This country has been sleeping for a long time when it comes to healthcare. Today, the opportunity and the market exist for this to change. In terms of how patients are treated, how medical needs are met and so on, there are many missing elements. In that sense, if there are areas where we can make contributions to patient welfare, we do see it as our obligation to do so. Of course, if we manage it well, it will also be a good business for us. This requires substantial strategy and thorough planning. If it is too easy, the model can be copied by local players.

For instance, on the CMO side, BI actually made the strategic decision to invest in this area even before any regulatory pathway for biologic CMO existed! Once again, this is something that public companies would find very difficult to do. However, we believed in the potential of the market as well as the government regulators' commitment to building a positive environment for such an industry, and we decided not only to invest commercially but also to support the development of the regulatory pathways. This was a very brave decision. While we are already seeing many local companies rushing into this space, it is not so easy to copy our model. You need bioprocessing capabilities, knowledge and expertise. Biologics CMO is a complicated business built on trust and long-term relationships. Our customers come to us precisely because they see us as the sort of reliable and conservative partner for the long term.

Regarding the Consanas Stroke Center pilot project, I actually worked on it in my second-last role as Head of Corporate Strategy and Development at HQ. From a strategic perspective, we have a significant amount to bring to the table when it comes to stroke prevention, treatment and rehabilitation, not only through our portfolio of stroke and hypertension medications but also our long experience in the market. In addition, the gold standard for stroke rehabilitation was established by Germans.

In China every year, there are around three million strokes. Many of these patients, even if they received treatment, do not receive decent rehabilitation after treatment. Many supposed rehabilitation centers focus more on muscle-driven massage therapies rather than neuro-driven therapies, which are required because the problems reside in the neural sites. We have aligned with a German hospital partner and we are now testing the pilot at the Shanghai International Medical Center (SIMC). This is progressing well so far and we hope to subsequently be able to build a case for extending this pilot to more hospitals.

By establishing a stroke rehabilitation center, we are looking to expand our stroke franchise to deliver more to patients. When it comes to stroke, from a purely pharmaceutical perspective, we are not seeing much innovation in the industry. This is why we want to take it to the next level and focus on the patient journey: what do patients need in order to return to their normal lives?

I believe we need to continue to transform from a pharma company into a healthcare company, at least in some areas. With very new and innovative drugs, they stand for themselves when it comes to value. However, even when we look at more dated portfolios, especially those in chronic diseases, we can reach the next level of innovation, which is about focusing on patient-centricity and meeting the overall needs of the patients rather than treating a specific condition or symptom. We are extending this line of thinking to other areas like diabetes and respiratory diseases.

Globally, BI has been looking to bolster your pipeline with a number of in-licensing deals with companies such as AMAL Therapeutics in the US, and Bridge Biotherapeutics and Yuhan Pharma in South Korea. With the Chinese innovation environment flourishing, what opportunities do you see for such deals here in China?

Our focus over the past few years in China has really been to introduce our corporate portfolio. Across all our businesses here, we have many launches to complete and that is our first duty. In Human Pharma specifically, we now have a very balanced portfolio and are seeing very nice growth across our products. Looking at the upcoming two years, we will not have a significant launch but we have a very exciting global pipeline with over 90 projects so we expect to once again focus on new launches in China from 2021 onwards.

In parallel, through our global Research Beyond Borders (RBB) initiatives, we are also looking at what we can find in China that could complement either our local or global portfolio. RBB focuses on scouting for early projects in partnership with research institutions and universities, and here in China, we look at China- and Asia-specific diseases that are not normally picked up by large

corporations. We are also starting to think about how to implement corporate strategy and look for assets or opportunities here that might complement our current businesses. This is, for instance, what our US affiliate has been doing for a long time through a significant business development unit.

Today, the entire China market represents a business of over USD 1.1 billion across your main business segments: Human Pharma, Animal Health and Biopharma. What can we expect from these businesses in the next few years?

Regarding Human Pharma, what is very critical is that we understand the implications of all these new initiatives that have been launched. The government's priorities to improve access to better and more affordable healthcare – as outlined in their Healthy China 2030 blueprint – are fantastic and we will support them as BI and as an industry. On the other side, the big question is, of course, who will pay for all these new policies and innovations? This is a game we have seen in many other countries globally: doctors and patients invariably want quality and innovative medicines while the payers are pushing for lower prices. These are the mechanics that our industry faces. The reality is that companies with more innovative portfolios can afford to take a more relaxed stance when it comes to these policy changes while companies with more dated portfolios will face more pressure.

For BI, I strongly believe the solution is more innovation. We need to defend our existing portfolios and continue to launch more products at reasonably good prices. With products like JARDIANCE® and OFEV®, we have great products with great data and we believe that the prices we receive should reflect that as well.

On the Animal Health side, we are currently facing a challenge here that is not as widely known – the African swine fever. Looking just at official figures, the projection is that up to 50 percent of the swine population in China has either died from the disease or been culled. This is hugely significant because China represents 50 percent of the global swine population, which means that at least 25 percent of the global swine population will disappear. This might possibly be the largest protein crisis the world has ever seen. It impacts our business here in China heavily because we are the market leader in swine vaccines in China. Not only are swine vaccines our largest sub-segment in our Animal Health business in China, our swine vaccine business in China is also the largest swine business of BI globally. As a key player here, we are offering a lot of support to the authorities in conjunction with local and international institutions.

On a brighter note, our pet business here in China is fast-growing. It is now a common trend for Chinese households to have pets. At the same time, the level of education regarding pet health still needs to be improved. We anticipate that this business will continue to be a growth driver for the organization, and we are looking at how we can deliver our products through non-traditional channels that are more customer-oriented, digital and convenient. For instance, Chinese pet-owners tend not to visit the vet as often so we have to reach them through different channels. We recently launched the first branded T-Mall (one of the largest Chinese online retail websites) flagship store for Frontline, our largest brand in pet health.

For a family-owned company like BI working with a diverse and broad portfolio in a dynamic market like China, what does innovation mean to you?

Innovation is not exclusively about molecules. Nevertheless, on the research side, we do have a significant presence in Animal Health with our Asian Vet Research Center (AVRC) in Zhangjiang Shanghai focusing on avian and swine vaccines, along with our RBB initiative for the early scouting of partnerships. A couple of years ago, our CEO announced that the next decade is going to be driven by partnerships. Innovation happens everywhere.

But we must also look at innovation beyond that, whether it is go-to-market models, digital models, multichannel models and so on. No one has found the Holy Grail here in China yet. But we need to keep looking and generating new ideas. We have been in this industry for a very long as a company and we know the business very well. This puts us in a great position to develop all kinds of innovations.

A final message from BI China to our global audience?

For me personally, there is no better place to be currently! 20 years ago, who could have imagined the environment we have here in China today? Whether from an economic or geopolitical or industry standpoint, I feel that it is as exciting as it is challenging to be in my position as Country President of BI China right now. There is never a boring day here! It is rare these days to be able to participate in the sort of growth story and momentum we see here in China today and I am very grateful for the opportunity to deliver something huge and beautiful for the BI organization globally.

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