Indonesia

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Courtesy of Dos Ni Roha

INDONESIA:
Demographic Dividend or Delusion?

The Indonesian Pharmaceutical industry has always held tremendous potential. Yet, somehow, over the past decades, the local industry was quickly dwarfed by regional powerhouses India and China, and even surpassed in size by Thailand, a country with one quarter the population of Indonesia's vast archipelago. Some pundits see the country destined to be the next great Asian success story, exploding to become the world's 4th largest economy by 2050. Naysayers, however, fear that corruption, shortsighted policymaking, and insufficient infrastructure investments will doom the country to the status of perpetual underperformer. The past four years of Susilo Bambang Yudhuyono's presidency have shifted the general consensus a shade towards the optimistic, even as opportunities for backsliding on transparency and anticorruption legislation abound.

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Despite sustaining double-digit growth in recent years, Indonesia's pharmaceutical industry is miniscule at approximately US$ 2.5 billion in a country with a population of 240 million. Anthony Sunarjo, President of the local pharmaceutical industry association, GP-Farmasi, explained how in 1991 multinationals controlled over 70% market share, but now they have dropped to around 25%. Sunarjo attributed this shift to local firms moving along the learning curve and improving manufacturing and administration, in tandem with weak multinational drug development pipelines. The real market is primarily composed of the top 10% of earners; the rest of the population relies on government-subsidized generics from state-run drug companies. Minister of Health, HE Siti Fadilah Supari, has indicated that the government is supporting the state owned firms: "Since the start of the economic crisis in 2008, the government has committed to subsidize the cost of generic drugs to prevent price escalation in 2009." The four state-owned firms, Kimia Farma, Indofarma, Biofarma, and Phapros, are run as profit-seeking enterprises that can be deployed as instruments of government policy when necessary. The government also runs a medical insurance program for the poor, restructured in 2008 under the name Jamkesmas. Dr. Willem Biantoro Wanandi, founder of Anugerah Corporation, analyzes Indonesian pharmaceutical spending. "At present, approximately 70% of health expenses are paid from out of the pocket of patients, and 15% from Jamkesmas covering approximately 76 million of the poorest population." However, as part of the recent restructuring, an independent verification body was created to improve cost control, expedite payments and expand effective coverage of the program. These changes have been very recent, so only time will tell whether Wanandi's analysis will hold true for the reconstituted program.

The Ministry of Health has recently issued a decree called 10/10, which began as a much-needed technical reform, but quickly erupted into a heated disagreement between the ministry and multinational corporations. The decree is a much-needed update in importing rules, but a side effect of the policy is that multinational drug companies will not be allowed to sell drugs that are not manufactured within the country. Opinions on the degree's real impact vary. Dr. Parulian Simanjuntak is the Executive Director of the International Pharmaceutical Manufacturer Group (IPMG), the association representing multinational companies with a presence in Indonesia. Simanjuntak does not think multinationals will be eager to leave the country. "If research based companies go away, they will have to face higher entry barriers and it will be difficult for them not to lose market presence," says Simanjuntak. "I could imagine they will not be inclined to share dossiers and know-how, especially for sophisticated drugs, because of technology spillover fears."

From top: Anthony Sunarjo, Chairman of GPFarmasi; Dr. Parulian Simanjuntak, Executive Director of IPMG; HE Siti Fadilah Supari, Minister of Health

Association of Southeast Asian Nations (ASEAN) harmonization is a hot topic among Pharmaceutical companies in the region, as it will liberalize a number of highly regulated markets. Lucky Slamet, Deputy Commissioner for Drugs at the food and drug regulatory agency (BPOM) says, "the harmonization process is moving in the right direction. Naturally, once you have the system completely harmonized you will find, in practice, only one system. However, a supranational agency like in the European Union still seems to be on the distant horizon."

Navigating the Archipelago

Indonesia is one of the most complicated distribution markets in the world. The difficulties begin with the country's geography itself comprising more than 17,000 islands. The country's poor infrastructure further complicates this difficult task. Furthermore, the strategic landscape is complicated by the fact that the top five manufacturers, all local companies, also own distribution businesses. Thus those companies are off limits for independent distributors and the guaranteed business of the parent company subsidizes these distribution businesses allowing them to bring on external clients on the cheap. However, changes are on the horizon. A handful of independent distributors are making headway in a sector crowded with hundreds of competitors. The BPOM's Slamet has stated that the agency is looking to create incentives to increase consolidation in the distribution sector, which is a very encouraging sign for these distributors.

APL is the largest independent distributor and was founded as part of Dr. Wanandi's Anugerah Corporation. The company is now majority owned by Zuellig Pharma, the largest pharmaceutical distributor in Asia. President Director Santiago Garcia was brought into APL to help overcome some of Indonesia's unique challenges. Previously, the firm was primarily focused on servicing its principals. Yet Mr. Garcia says, "Now managers are far more focused on working with customers and visiting branches.

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Working closely with the market is the ultimate way to please principals." APL has also been using technology to enhance its product offering by creating new tools and delivering unique data sets such as information regarding med rep doctor visits or prescription behaviors. The company also uses cross-functional task forces to evaluate and improve branches. APL also runs a number of specialized programs such as 24/7 deliveries of lifesaving drugs and even delivers expensive oncology products to individual homes. President Director Garcia has been busy adding new principals and extending contracts with existing principals. Garcia is also looking to expand delivery to the so called 'grey market' by "selectively and gradually converting portions of that 'grey market' into a proper, licensed, normal market." Unfortunately, there has been a slight decrease in customer satisfaction as the company was focused on integration after the merger. However, the specific channel and outlets that experienced this decrease have been isolated and are projected to return to previous levels by the end of the year.

Dos Ni Roha has the most extensive distribution network in Indonesia. This includes 48 branches with over 200,000 outlets served. Each branch has a proprietary sales force, delivery fleet and finance operation. The company has also recently invested in a new 'Mega Logistics Distribution Center' to serve branches nationwide. President Director Angela Trismitro has absolute faith

From left: Santiago Garcia, President Director of APL; Angela Trismitro, President Director of Dos Ni Roha

in the company's adherence to Good Distribution Standards. She gives principals free rein to inspect her facilities. "Our principals conduct regular audits, sending envoys from America, Singapore, Malaysia, Thailand, and The Philippines to inspect our processes and facilities," says Trismitro. Dos Ni Roha is also looking to "be more aggressive in distribution of medical devices and other products directly to hospitals," says Trismitro. This is a booming and highly competitive area due to the high margins on many medical devices. IDS Distribution's President Director Ario Setiadi is focused on this area, particularly disposable medical devices, as they would help the company quickly build a presence in Indonesia. However, Trismitro isn't overly concerned with such foreign distribution companies as Dos Ni Roha's understanding of the local market and extensive distribution network provide substantial differentiating factors. She describes her vision as "to provide world class solutions for distribution and supply chain of healthcare and consumer products in the region."

Contesting a Smaller Segment

The pharmaceutical industry in Indonesia has undergone a series of transformations in its short history since its formation in the late 1960's. Multinational firms soon began to enter the market and

Quality Assurance for Picking Activities at ambient temperature, APL Ethical Products Warehouse

From left: Luthfi Mardiansyah, President Director of Pfizer
Hans Josef-Schill, President Director of Bayer

by the late 1970's they dominated the local market. However, in the 1990's the government began to support local companies, which then began chipping away at multinational market share, culminating the in the current environment where local companies account for 70% of the market in value in Indonesia.

Despite the preeminence gained by local companies in recent years, multinationals are striving to regain their lost position. Pfizer is the leading multinational in the country, and is implementing innovative methods to expand sales for its blockbuster products. President Director, Luthfi Mardiansyah, discussed the company's efforts to promote Lipitor. "We launched the e-card, an electronic card given to the patients after they receive a prescription to use one of our products. With the e-card our patients can access a number of pharmacies in Indonesia and purchase our products at a discounted price. The adoption of the e-card brought Pfizer two benefits; on one hand we increased the patient pool by over 25,000 patients last year, and on the other hand we maintain and enhance customer loyalty." These efforts are also recognized as part of the preparations for patent expirations. Another area of focus for the American giant is oncology, which is growing 50% yearly and driving the 15% annual growth at Pfizer Indonesia. As the target market is a small percentage of the Indonesian population, Pfizer has a very targeted marketing approach. Mardiansyah describes one method that enlists employers. "We are organizing symposia and seminars as well as company campaigns where our workforce makes presentations to HR directors of local companies regarding various pharmacology studies. These educational and knowledge building initiatives analyze the economic impact of diseases. They also analyze the return on investment for corporations to raise awareness on medication for illnesses such as hypertension or smoking among others."

Many multinationals including BMS and Bayer are putting a primary emphasis on OTC products. Hans Josef-Schill, President Director of Bayer Indonesia emphasizes that "the bottom segment of the market represents a booming opportunity and average spending is actually fairly significant." Companies that focus on OTCs also tend to centralize manufacturing in the country. The large potential domestic demand coupled with low cost labor make the country ideally suited as a regional production hub.

Local Upstarts/Rising Stars

Just as the local companies rose up to challenge and eventually dominate the multinationals, a new crop of rising stars is brashly challenging the country's incumbent pharmaceutical manufacturers. Only time will tell which of these firms are truly rising stars and which are blustery upstarts. The singular desire to take market share from the existing market leaders unites these companies. They have been quite successful at realizing this goal, growing far faster than the overall market.

Pyridam Farma has been bucking trends in a number of ways. First off, unlike of the larger players, and especially many multinationals, Pyridam is moving away from OTC's and focusing more on ethical drugs. Keeping up with their explosive growth has challenged the company. President Director Handoko Soetrisno says "our plant in Cianjur is consistently running at full capacity due to the great demand for Pyridam products." He describes the company as a "medium scale company that is rapidly growing to become a leader in the industry." Soetrisno has attributed much of the growth to a mature and well functioning sales team. Now the challenge will be to scale this sales force along with the rest of the business. One way in which Soetrisno is looking to bypass




FROM LEFT: Handoko Soetrisno, President Director of Pyridam; Johannes Setijono, President Comissioner of Kalbe & Boenjamin Setiawan, Founder of Kalbe; Heramina Dwisari, President Director of Sunthi Sepuri;Bernadette Ruth Irawati Setiady, President Director of Kalbe presenting the Kalbe Research and Technology Science Award;

this HR bottleneck is by expanding the company's contract manufacturing business. Soetrisno stated that this business "contributed to only 3% of revenue last year, but thanks to its considerable margins and increasing demand, it will represent an important part of Pyridam's business in the future." Despite the challenging economic environment, Soetrisno hopes Pyridam will become one of the top 10 pharmaceutical companies in Indonesia within five years.

The final company in this category is Sunthi Sepuri. President

Emerging Islands of Innovation

Multinational companies are not alone in attempting to differentiate product offerings. The biggest pharmaceutical company in all of South East Asia is Kalbe Farma, which is one of the only Indonesian companies looking to develop its own innovative products. Dr. Boenjamin Setiawan is the founder of Kalbe Farma and has officially retired, but still keeps tabs on the company's research projects. According to Setiawan, Kalbe is "already using pig blood to treat burns and soon will be conducting a stem cell treatment for osteoarthritis." Setiawan also believes that phyto-pharmaceutical products will play a large role in the Indonesian market due to the country's incredible biodiversity.

Phyto Kemo Agung Farma is another of the select group of Indonesian companies building an innovative portfolio. The company was founded by a former BPOM commissioner and has been working with Kalbe to develop phyto-chemical drugs. However, Johannes Setijono, Kalbe's President Commissioner, points out that these research initiatives "are not full-blown drug development, but rather licensing-in products that still need additional development to get approval and go through clinical trials. These kinds of practical research can be taken to market quickly, which is important as the company builds out its research capabilities." Thus it will take some time for research to come close to replacing manufacturing as a growth driver. There are other local companies incorporating sophisticated technologies, such as Combiphar using nano-particles in OTC products and Sanbe working with monoclonal antibodies. However, no other company comes close to Kalbe's commitment to developing a research driven strategy.

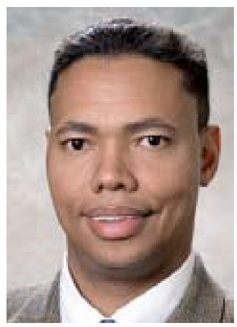

KALBE

The Untested Masses

Many pharmaceutical companies are coming to Indonesia for the huge potential represented by the country's vast population. This could not be truer for the CRO industry. Dr. Yap Kok Wei, CEO of GleneaglesCRC a Singaporean CRO, waxes enthusiastically about the country's potential, "if you need 10,000 patients for a trial we can get them!" However, the leading global CRO, Quintiles, has surpassed GleneaglesCRC, even though its operations were only established in 2006. Indonesia presents an overwhelmingly attractive proposition for CRO's, with a huge number of unsaturated clinical sites.

Still, Indonesia does present a number of challenges, which have caused the CRO industry to keep the country at arms length until recently. These issues range from poor infrastructure to a reputation for problems with security, corruption and transparency. Quintiles Vice President of Clinical Operations in South East Asia, Michael Klein, says, "if you mentioned clinical trials in Indonesia just a few years ago, red flags would go up." However, Quintiles has been working to overcome this negative perception of the country. The company has worked to convince its research sponsors by building up a track record of heavily scrutinized and carefully audited studies.

Klein indicates that Indonesia has "all the ingredients necessary to be successful, but there are a couple of other factors that will determine how quickly this growth will occur." Klein isolated one critical rate-limiting factor as "the willingness and speed of regulators to align with global standards and processes" and he also believes that "the Indonesian authorities (BPOM) are headed in the right direction." In five years the company is looking to have at least 100 employees working on 70-80 clinical trials, with extensive training programs, importing experts to work with trainees for 6-month periods. This deep commitment to enhancing employee skill-sets and anticipating their needs has been rewarded with exceptionally high retention rates. Quintiles employee turnover is at 92% in South East Asia for 2008.


Michael Klein

Director Heramina Dwisari outlines the company's responsiveness and flexibility as a partial explanation for the firm's success. Dwisari says, "we have an excellent sense for the market dynamics and have a fast growing presence in the marketplace." One such example of responsiveness to market needs is the "new investment involving the construction of a facility specialized in hormonal drugs." Sunthi Sepuri uses a very targeted approach when it comes to marketing its drugs. Dwisari indicates, "Sunthi Sepuri is especially known in the gynecological and obstetric departments and also among some of the psychiatric community." At the same time, the company is making a push to expand brand recognition across the full range of the medical community.

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