HEALTHCARE & LIFE SCIENCES REVIEW

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INDONESIA

DR. NAFSIAH MBOI, PED - MPH MINISTER OF HEALTH
BY JANUARY 2014 ALL INDONESIANS WILL HAVE HEALTHCARE COVERAGE. PAGE 12

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Ask Indonesians about a bad experience in medical care and each will have a story to tell. The poor state of Indonesia’s health care system has turned ‘improving quality’ into the top priority of the government of Indonesia. Better quality of care has become especially important as the fourth most populated country in the world moves into full traction with its plans to achieve universal health care coverage.

According to the Ministry of Health, 72 percent of the population, just over 176 million Indonesians, were already part of some type of health financing scheme. Now Indonesia’s policymakers are committed to covering every citizen by 2019. The implementation of universal health care coverage will start in January 2014 and is widely seen as a significant step forward for Indonesia’s 238 million people.

Badan Penyelenggara Jaminan Sosial, BPJS as the system is locally referred to, aims to drastically increase the quality and access to medicines and medical treatment to the entire Indonesian population. From policymakers to health care providers, drug manufacturers to distributors, all stakeholders in Indonesia’s health care and pharmaceutical sector are now facing the critical task of defining their role within this changing environment.
Most multinational companies (MNCs) do not expect to play a major role within BPJS but, despite the vast volume, serving BPJS will not be easy or cheap for local manufacturers either. Not only are they required to ramp up manufacturing capacity to serve a growing market, permits to manufacture – due to Indonesia’s Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme (jointly referred to as PIC/S) adherence – have become stricter than ever.

Increasingly important within Indonesia’s changing pharmaceutical landscape is the role of the distributor. Not only will distributors play a key role in making universal healthcare coverage a reality by physically making medical devices and medicines available across Indonesia’s complex geography, they will also play an essential role in identifying where and how the market will benefit from BPJS by providing the manufacturer with the latest data from the field.

Promising macro-economic data, exponential growth rates, demographic potential, and a growing middle class have drawn Indonesia into the international spotlight, earning a place among the world’s ‘pharmerging’ countries. Executives should not stare themselves blind on the double digit growth rate however. Indonesia remains a market where both MNCs and local pharmaceutical companies can enjoy steep growth curves provided they are willing to invest in the long run. These long term investments can take on various formats, including manufacturing, partnering, and brand building. All will be central to function as an agent of change while Indonesia heads towards universal health care coverage.

POOR CARE NO MORE

BPJS implementation ends an era of uncertainty around the government’s commitment to launch universal coverage. Assigned as the chairman for the implementation of universal health care coverage in Indonesia is the country’s Vice Minister of Health, Mukti Ali Ghufron MSc, PhD. Ghufron and his team define
government commitment as a key success factor to a successful implementation. “From a legal point of view, a law has already been formulated and launched. We have created a roadmap, together with all stakeholders, including the unions and the Chamber of Commerce, for the successful implementation of the plan. From a financial point of view, a budget has already been agreed upon: for 2014, an amount of IDR 1.75 trillion (USD 1.7 billion) will be provided to cover the poor and the ‘near poor’,” he said.

In parallel, increasing the quality of care is seen as equally important to the Ministry. “My main concern is the quality of our health care services. It would not make sense to provide health care to everyone in the country if its quality is poor,” said Minister of Health, Nafsiah Mboi, Phd. “So far, we have been preparing rigorously to improve the quality of care. For health care facilities, our vision is a very strong primary care network combined with a good quality referral system.” According to the Ministry, Indonesia now has roughly 9,500 primary care centers or one for every 30,000 people. “Although these numbers match the required standards, we need to work on improving the quality at primary care level,” she said. “In terms of hospital care we now have 2,138 hospitals, 829 which are government owned, across the country. These hospitals have standards and accreditation which guarantee the quality of care that we need.”

MNCs are ramping up their sales force, a scarce resource, to serve a growing medical community at Indonesia’s private hospitals, but they remain puzzled about public procurement opportunities to serve public hospitals and BPJS. “These companies are trying to understand what their place will be within the system,” said Parulian Simanjuntak, executive director of the International Pharmaceutical Manufacturers Association (IPMG). “In order to contain cost, the government has already proclaimed that generics will be mainly used under the new plan. Therefore, the question arises whether the MNCs are allowed to participate in the generics business. “We would like more clarity on what exactly will happen with regards to the social insurance...
system. There should be no limitation as to who can participate in the universal health care plan.” And even though Indonesia is the fourth most populated country in the world, big pharma still only touches a fraction of that market. Universal health care coverage, however, is expected to enlarge the patient base that can afford innovative medicines.

“Today, just about half of the Indonesian population has some sort of access to health care insurance,” said Eric Ng, president director of Sanofi Indonesia. “When you zoom into the situation however, you immediately see that the most advanced coverage is only provided for the civil servants through the Asuransi Kesehatan Indonesia (ASKES) program. Most of the MNCs primarily operate in this segment of the market, which at present only amounts to an estimated 20 to 30 million people. Universal health care coverage sometimes sounds exciting, but it may not be an opportunity for everyone. The plan targets a very basic package of health care based on low cost generics. However, we believe that the growing base of the population, which the government aims to cover in full by 2019, will serve as a driving force to increase the overall access to medicines. We believe that the base of the aforementioned 20 to 30 million people, which most of the MNCs target today, will theoretically increase to roughly 120 million people in 2014 alone. While we should not assume that our business will increase proportionally because of the price-volume effect, which implies that greater volumes will gradually push down the price of medicines, we do believe that Sanofi will have a much greater role to play in this country when such a large number of population requires access to medicines.”

We Believe In:
- Quality as a way of life
- Customer orientation
- Balance between business & science
- The spirit of Prodia

Filling the voids

With only 2.7% of GDP spent on health care, Indonesia offers room for growth. Prodia, a local health care services company created in 1973, was sparked by the ideas of ‘better diagnosis’ and ‘quality as a way of life’. The lack of health care infrastructure and clinical laboratories due to years of underinvestment pushed Andi Widjaja and three other founders to pioneer the market for clinical laboratory services. “We were the first International Organization for Standardization (ISO) certified laboratory, the first local independent contract research organization (CRO), the first occupational health institute, the first in diagnostics, and the first in stem cell research,” said president director Endang Hoyaranda. “We are not active in areas where other companies are already active.” In an emerging market like Indonesia, the private industry has a key role to play in shaping, if not creating, the market. For the clinical trials side, for instance, the Badan Pengawas Obat dan Makanan Republik Indonesia (National Agency of Drug and Food of the Republic of Indonesia) assigned a team of industrialists and academics to develop Good Clinical Practice (GCP) guidelines, which became an adapted and adopted version of the International Conference on Harmonisation Good Clinical Practice (ICH GCP). As the first CRO in the country, Prodia had a strong presence on this team. Today, the company partners with the leading CRO Quintiles to include Indonesia in global clinical trials.

From left: Dorodjatun Sanusi, Executive Director-GP Farmasi; Johannes Setijono, Chairman-Kalbe Farma

Endang Hoyaranda, President Director-Prodia Group

Andi Wijaya, Founder, Prodia Group
PIC/S & PENNIES
When it comes to serving the generics-focused BPJS niche, Indonesia’s local pharmaceutical companies are in a prime position. “These pharma companies will need to look at ways to increase their current capacity and ensure the readiness of their products,” said Darodjatun Sanusi, executive director of GP Farmasi Indonesia, the association of generic drugs manufacturers. “At the same time, they have to find and sustain the competitive advantage of their products, particularly as the markets will open up more and barriers to trade will decrease.”

If Indonesia’s local manufacturers supply BPJS, they will also be the ones feeling the much expected price-volume effect. “It will change the whole landscape and turn Indonesia from a self-payers market into a government and private insurance-driven market,” said Johannes Setijono, chairman of Kalbe Farma, the largest listed pharmaceutical company in the ASEAN region. “The private insurance companies, which are still small today, are therefore expected to see their bargaining power increase significantly. The plan is expected to not only drive up market volume but also create severe price decrease.”

Two decades ago, one could already see several manufacturers moving out of the big cities and into industry-friendlier outskirts, moves that coincided with a government push to force GMP standards upon the industry. “Meprofarm was founded by my father in 1973. Two decades later, in 1995, we moved premises,” said Eric Darius Mardiwidyo, president director of Meprofarm, a local generics manufacturer. Now, the company is based on the outskirts of Bandung, the second largest metropolitan area in Indonesia 87 miles southeast of the capital, Jakarta. “The move was the direct result of the company’s rapid growth, as well as new government regulations to comply with GMP standards,” Mardiwidyo said. “GMP compliance was achieved by December 1995, boosting the growth of the company further. In 2006 we acquired additional land next to our existing facilities in order to build our new facility ‘Meprofarm 2’. This second facility was completed in 2010 and added a number of new lines to the company: injectables, liquid syrup and creams. It also includes storage space that now makes up our central warehouse. Most of the growth will sit in generic tablets and capsules. Specialty products like hormones, oncology and vaccines, for instance, are going to be attractive areas to invest in.”

A FOR ACCESS IN THE ARCHIPELAGO
Partnering with a top notch distributor may be desirable in any pharma market; it is a must in Indonesia. With over

Our commitment: improving health
We want to discover, develop, and successfully market innovative products to prevent and cure disease, to ease suffering and to enhance the quality of life.

Focused solely on healthcare, Novartis offers a diversified portfolio to best meet the evolving needs of patients and societies from
• Pharmaceutical: innovative patient protected medicine
• Alcon: global leader in eye care
• Sandoz: affordable, high-quality generic medicine and biosimilar
• Consumer health: self-medication products
• Vaccines and diagnostic tools

In 2010, the Group’s continuing operations achieved net sales of USD 50.6 billion, while approximately USD 8.1 billion was invested in R&D activities.

Novartis access-to-medicine programs reached 101 million patients globally.
6,000 inhabited islands scattered across both sides of the equator, the Indonesian archipelago is the world’s 16th largest country in terms of area. “As a distributor, you easily have to deal with forty-plus companies for transportation alone,” said Santiago Garcia, CEO of APL Care, the country’s leading distribution company for the pharmaceutical and health care sector. “Moving goods and people is very difficult because the links between some of Indonesia’s key cities are missing. We also notice that truck loads are often incomplete while the discipline among logistics companies is often lacking. Electricity cuts are another big issue, especially when we start talking about cold supply chains. However, the situation is improving and changes are happening in this respect, and these challenges are an integral part of doing business in Indonesia. Every time companies are under pressure, goods are being sold to wholesalers at severe discounts. We, however, target the proper channels consisting of hospitals, doctors, clinics and pharmacies. We want them to work with us and work on demand generation, rather than flooding our channels at discount prices.” While Indonesia’s leading independent distributors APL Care, Dos Ni Roha and Pentavalent have a significant presence in the market, they compete head-on with in-house distribution companies that belong to local pharmaceutical manufacturers such as Kalbe Farma and Dexa Medica.

2013 is an exciting year for the industry, a year of preparation for implementation of universal health care coverage in 2014. The industry will see itself forced to reshape business strategies to supply the system with quality medicines, be it branded originals or their generic counterparts. MNCs with the ability to play in the generics space will stand a good chance in excelling in the Indonesian market, while those without generic capabilities are likely to continue along a growth path nurtured by optimistic macro figures. Local companies must professionalize their operations and invest in more capacity and better quality standards. The expectation is for Indonesia to continue its double digit growth path, which makes it an exciting pharmaceutical market with many opportunities. But growth will require more than finding the right portfolio. It will come down to being a true partner to Indonesia’s healthcare system and its many stakeholders.

HR War

“When I interview people, I ask them why they want to change for the same position in another company. In general, it always comes down to incremental salary increases,” said Luthfi Mardiansyah, president director of Novartis Indonesia. “We see similar HR scenarios in markets like China. In the past, there were no MNCs and the market was not growing. But today, the situation is very different. At Novartis, we have grown from 230 medical representatives in 2011 to almost 500 today. If another company wants to build similar capabilities, they will naturally look at Novartis to source new talent. There is a talent war at the moment. This is quite a normal phenomenon indeed, but the only thing we need to look at is how we can retain the best people. We have to do more than create remuneration-based incentives alone. Instead, we need to look at other elements such as career development, international opportunities, and so forth.”
According to Family Business Network, the largest global association for family-owned businesses, more than 90 percent of businesses in Indonesia are family-owned and controlled corporations. Mostly created in the 1960s or 70s, these companies have now reached a crucial moment: the handover to the second generation. Doing so, they are taking aggressive measures to adopt good corporate governance. Metiska Farma, a generics company headquartered in Jakarta, recently went through a change in control when its owner was temporarily immobilized by stroke. “My father is still involved in the running of the company, but I took over full-time in 2009,” said his son Steve Yang, now chief executive officer. Yang, a PhD in biotechnology from the Massachusetts Institute of Technology with experience at global consultancy McKinsey & Company, gave his perspective on change management. “In 2009, the company was still very much being run as a family company, which was reflected in Metiska’s management structure. Standard Operating Procedures (SOPs) were either not in place or not being followed. The first step I took was to restructure the top management of the company. Both the restructuring and the sales force have driven our growth in recent years, but it has still not reached the level I would like: we are looking ideally for 40 percent growth year-on-year. There is still a lot of organic growth that we can pursue for the next few years, but after around 2020, we will have to look outside to grow the company further. This is most likely to take the form of an IPO, to then use the funds generated for mergers or acquisitions on a regional level.”
**INTERVIEW WITH:**

**Dr. Nafsiah Mboi, Ped - MPH**

Minister of Health of the Republic of Indonesia

The implementation of the universal health care coverage plan will start in Indonesia in January 2014. How significant is this plan for the country and its citizens?

**DR. NAFSIAH MBOI:** This is a very significant step for the country that reflects the ambitions the government had in 2004. More than health insurance alone, the 2004 Act spoke about the implementation of a comprehensive social security system. On the health side, the idea is to provide total health care coverage to the population by ensuring that every citizen has access to health care. A period of ten years of preparation was foreseen – i.e. from 2004 to 2014 – and has been accelerated by the 2009 Health Bill.

At present, health insurance schemes already exist for civil servants, the military, police and for workers – a program referred to as Jamsostek. For these workers, we pay two per cent of our salary while the employer tops up another two per cent. Since 2004, health insurance for the poor has also been introduced under the so-called Askes program. This program changed into Jamkesmas in 2008. For these poor people, the premium is being paid for by the government.

While Jamkesmas has traditionally been managed by the Ministry of Health, the universal health care plan will be managed by the National Social Security Agency (BPJS) as from January 2014. The creation and integration into a national health insurance scheme will be more cost-effective and host better standards and regulations.

By May 2013, 72 per cent of the population – 176,844,161 Indonesians – was already part of some type of health financing scheme. Among the different schemes, Jamkesmas is the largest, which covers 86.4 million people. The local government – Jamkesda – covers 45.6 million people. Combined, these 52 to 53 percent of the population – the poor – are already covered through government-subsidized premiums. In addition to that, 16.5 million civil servants and 1.4 million police and military are covered through the cost-sharing contribution system. Besides that, there is also the so-called Jamsostek for the workers, which covers an additional 7 million people. In addition to that, company insurance schemes account for another 16.9 million people while commercial insurance stands at 2.9 million.

**FR:** For many years, there has been an outflow of medical tourism from more affluent Indonesians to look for treatment in neighboring countries such as Singapore. What can you tell the Indonesian population to stop this outflow?

**DR. NAFSIAH MBOI:** Today we have nine internationally accredited hospitals in Indonesia, two of which are government-owned: one in Jakarta and one in Bali. At the same
time, we are working on the international accreditation of three to four more public hospitals. Nonetheless, international or national accreditation is fairly similar. What matters is for patients to be happy with the services provided. After all, a sick Indonesian will want his or her family close by. Getting help from outside of Indonesia should truly be a last resort for any services or treatments that are not being provided in the country.

**FR:** You have been praised on launching fellowships for doctors. What steps have you taken to raise the level of education of Indonesia’s medical community?

**DR. NAIFSIAH MBOI:** A first issue at stake is the disparity. In the past, we have been trying to fill areas where there are no hospitals with doctors from Jakarta. This did not work.

What we have now been doing instead is to enter into dialogue with the local governments. Together with them, we identify the good doctors and offer them a fellowship – on the condition that they later return to their region to work there. This system enables us to provide the necessary equity and quality of services that is needed everywhere in Indonesia.

We have also created a model of regionalization, which no longer requires all medical staff to come to Jakarta for training. We have created local educational institutions for nurses, doctors, midwives and even specialists.

**FR:** Providing access to health care to the entire population by 2019 will provide limited room – or budget – for more expensive innovative or specialty pharmaceuticals. What do you see as a healthy balance between quality innovative or specialty medicines on the one hand, and cost-conscious universal health care access on the other hand?

**DR. NAIFSIAH MBOI:** From past studies – from Jamkesmas data for instance – we know that around 50 to 60 per cent of the expenses goes to medicines. We have subsequently created a formulary of quality generic and non-generic drugs, which match quality with cost-effectiveness.

We have also created an e-catalog more recently, which eliminates the need for a bidding process. As a result, we have seen price reductions of 40 per cent and more compared to the bidding process from the past.

In the formulary, the current balance is 92 per cent of branded or unbranded generic drugs, while 2.5 per cent are the innovator drugs. The remaining balance refers to dental materials and diagnostics.

**FR:** What is your dream for health care in Indonesia?

**DR. NAIFSIAH MBOI:** We really aim to have quality care and would like to see the Indonesian people in healthy conditions at all stages of their lifecycles. We would like to see them being responsible for their health too. However, if they do fall ill, they should have the necessary financial support. No one should suffer if they cannot pay. We are working intensely on providing the right equity and the right quality all over Indonesia.

“More than health insurance alone, the 2004 Act spoke about the implementation of a comprehensive social security system”
Interview with: Johannes Setijono, Chairman, Kalbe Farma

Focus Reports: Mr. Setijono, can you provide a brief introduction of Kalbe Farma to the international community?
JOHANNES SETIJONO: Kalbe Farma is a listed company with 65 percent of its ownership in the hands of Indonesians, with the remaining 35 percent almost entirely owned by foreign institutions. At present, Kalbe Farma is the largest listed pharmaceutical company in the ASEAN region. Founded in 1966, the company obtained this listing in 1991. Today, our market capitalization amounts to roughly USD 7 billion. Our line of business goes beyond pharmaceuticals alone, and now includes OTC products, nutraceuticals and distribution. Distribution is in fact our largest revenue – but not profit – source, and is one of the toughest challenges for pharmaceutical companies in Indonesia today.

FR: The government has set January 2014 as the starting day of its universal health care coverage plan. How do you see this affecting the Indonesian pharmaceutical landscape?
JOHANNES SETIJONO: The plan will change the whole landscape and turn Indonesia from a self-payers market into a government and private insurance-driven market. The private insurance companies – which are still small today – are therefore expected to see their bargaining power increase significantly in the coming years. Therefore, the plan is expected to not only drive up the market volume, but also create severe price pressures. As a leading pharmaceutical company in this market, this will imply certain changes for our stakeholder management strategy, as we will be entering into more talks with the government, the insurance companies etc.

FR: With 70 percent market share, local companies are dominating the pharmaceutical landscape in Indonesia. From a historical perspective, how do you explain their success?
JOHANNES SETIJONO: There are a number of factors that led to the success of these companies, the first being Indonesia’s demographics and geography. Indonesia has poor infrastructure and a stretched out geography of thousands of islands. In addition to that, the income per capita has traditionally been very low even though it is growing sharply now. Only around 10 percent of the population – mostly in the larger cities – can really afford to pay for patented innovative medicines from the multinational pharmaceutical companies. The limited affordability of the population and the MNCs’ focus on the bigger cities prevents them from taking up a large share of this market. Even the rural areas require much lower priced products and a more sophisticated distribution strategy. These areas are easier to penetrate by the local pharmaceutical companies.

Another important factor is the lack of insurance in Indonesia. The OTC share of the market is nearly 40 percent here. Due to their lacking purchasing power, many of the Indonesians try to avoid the...
expenses of visiting doctors. Again, this market requires an extensive distribution network. The OTC market too, is therefore mainly dominated by most of the local pharmaceutical companies, even though a few MNCs have been able to penetrate the larger cities with their products.

A third factor is the involvement of the government of the Republic of Indonesia. From the 1970s onwards, the government has required international pharmaceutical companies to manufacture in Indonesia in order to market their products in the country. Big pharma has invested in Indonesia, with the exception of a few companies that used a licensing strategy.

**FR:** What impact do you see the universal health care coverage plan having on this gap between the MNCs and Indonesia’s local pharmaceutical companies?

**JOHANNES SETIJONO:** It is not sure how the new plan will affect the MNCs. Up to now, it is clear that the priority lies on products that are being manufactured in Indonesia. Most of big pharma do not have generic products in their portfolios, while universal health coverage will mostly focus on more affordable generic drugs. It is unlikely for the MNCs to drop their prices to such extent. More likely, most of these companies will wait for private insurance to come in.

Generally speaking, universal health care coverage will grow the market and create downward price pressures. Except if the MNCs become much more aggressive than today, they will not play a significant role in this plan.

**FR:** On a personal note, as a businessman, you have already won various awards and have gained the respect of pharma leaders in Indonesia and abroad. What are the achievements that you are most proud of?

**JOHANNES SETIJONO:** I am very proud that we have managed to bring Kalbe from a small company to the leader it is today. We are always moving and have been focusing on the areas that we thought would grow the fastest. In the 1990s, this has resulted in a thorough restructuring of the company and a refocusing on our core business.

As the largest pharmaceutical company in Southeast Asia we should no longer consider ourselves as an Indonesian company. We have to think more regional and be strong in the ASEAN zone as a whole. Looking at our pharmaceutical business, we foresee challenges due to price pressures which will drive up our ambitions to look for growth outside of our domestic market. We need to diversify both the business and the market.
Focus Reports: To cope with the price-volume effect and heavy competition from Indonesia’s local generics manufacturers, there are other MNCs in Indonesia that try to provide a portfolio of products with both low-priced and high-end medicines. How does this apply to Sanofi?

ERIC NG: At Sanofi we are adopting a tiered price-volume strategy for a large population based market such as Indonesia. For example, providing different types of insulin to different population tiers is what is going to drive our diabetes growth. Sanofi will not only provide lower priced insulin, such as the human-derived ones, but also the higher end ones, which carry a natural higher cost as they are synthetically manufactured.

Besides providing medicines, an important part of our strategy is to provide training and education, and this strategy is implemented via forming Public-Private-Partnerships. Last year we launched a five year diabetes training program for Indonesian physicians together with the Ministry of Health, ASKES and the local Endocrinology Association (PERKENI). We see it as our role to increase the competency of doctors in the country. This program has already kicked off since September 2012 and will provide training for up to 500 internal medicine specialists and 5,000 general practitioners over the 5-year period. For this large-scale initiative, we have also partnered with the American Diabetes Association (ADA), which is at the forefront of fighting diabetes globally.

We believe that this entire market and the overall access to healthcare will be driven by the current healthcare reform in Indonesia. Already now, the market follows a steady CAGR of 13 per cent which is expected to last until 2018. The growth of the Indonesian pharmaceutical market is unique because it has been on a steady double-digit growth and will continue to do so in the next 3-5 years.

FR: What do you now see as your biggest challenge?

ERIC NG: Having been here for two years and driving a strategy for growth, a first challenge is the changes related to the implementation of the universal health care plan. Indonesia is a promising market for the MNCs to operate in. But on the other hand, we need to try to understand what will happen with the 13 percent CAGR once the universal health care kicks in. Anyone outside of Indonesia can look at the numbers alone and get very ambitious. However, one also needs to understand that Indonesia’s local pharmaceutical companies have a very strong presence in this market. For the entire pharmaceutical market – including prescription medicines, vaccines and consumer health – the top 10 companies are all local firms and they control 40 per cent of the market. Indonesia is a very unique market where the MNCs are coexisting with very large domestic companies, many of which – such as Kalbe Farma, Sanbe Farma, Dexe Medica, Soho Group – are really great companies. Now that the health care reform will be providing millions of Indonesians...
with more medicines, we should ask ourselves who will be the main players in this market. We already hear rumours of potential restrictions for MNCs, with regards to the bidding process for instance. While we will be growing for sure, it will not be a clear-cut growth path.

The role of Sanofi in Indonesia should also not stay limited to excelling in diabetes, hypertension, diversification etc. We also have a role to play in partnering with Indonesia’s local pharmaceutical companies. At present, we already work together in terms of toll manufacturing, promotional agreements, etc. Going forward, cooperation could take various formats, ranging from R&D to geographical expansion.

**FR:** *You described the universal health care plan as your first challenge. What other challenges do you foresee in this market?*

**ERIC NG:** The next challenge is about developing and opening up the health care market through changes in the regulatory environment. There are a lot of barriers to investment for example, such as the Decree 1010 and the Negative Investment List, which limits the ownership of foreign pharmaceutical manufacturers here. Whether it is good or bad, such regulations generally place a barrier for companies to come to a country. I do believe that Indonesia can gain from foreign investment in this industry.

**FR:** *Do you feel that you are competing with other emerging markets within Sanofi? Vietnam, for instance, just received $75 million from the headquarters to invest in a manufacturing facility. Does this hurt, in a way?*

**ERIC NG:** I would not say that we are competing. Indonesia is definitely on the radar and on the priority list for investment within Sanofi. Over the last two years especially we have received a tremendous amount of support from senior management. We already have a GMP-certified plant here that supports both local and export markets, so perhaps at the moment we do not need such additional investment. To drive our growth strategy, we need to invest in the expansion of our field force. Our thinking here is driven by diversification in areas such as consumer health care. To run this new business, we will need new people, new processes, new systems, and so forth. Apart from that, we are looking at geographical expansion to reach outside of Java. As we will expand, we will start playing a bigger role in the so-called tier 2 and tier 3 cities.

All in all, Indonesia is a very exciting market and as a manager I am very happy to be here together with my team of close to 800 people. We are very proud that back in 1956, we were the first pharma MNC company to set foot in Indonesia with Hoescht, and today we are a leading MNC in Indonesia. We are committed to continue growing the business for Sanofi, and to meet the health care needs of the Indonesian people for the long term.

“There are a lot of barriers to investment (...) which limits the ownership of foreign pharmaceutical manufacturers here. Whether it is good or bad, such regulations generally place a barrier for companies to come to a country. I do believe that Indonesia can gain from foreign investment in this industry”
Focus Reports: What was your biggest challenge when you came to Indonesia?

JOHN HOEFT: For MNCs, one of the challenges certainly is the regulatory environment. While it is a priority to provide more access to medicines in an efficient and timely fashion, the BPOM – Indonesia’s local FDA – is in some ways overwhelmed with work. The agency’s staff should be given credit for the work they do, but the high number of new products and formulations creates a high workload for their limited resources. In this regard, however, there is an opportunity for Indonesia – an ASEAN member – to capitalize on the harmonization of regulatory practices across the ASEAN countries. Under such harmonization, for products approved by one member country the same data from that approval process could also be used in another member country. This would lessen the burden and ensure high quality standards across the ASEAN markets. While this harmonization stretches beyond the pharmaceutical industry alone, progress on the latter should be made from 2015 onwards. This will create greater efficiencies, help drive down cost and ensure higher quality.

FR: How receptive do you consider the government to be towards MNCs, in an environment where some of the local pharmaceutical companies are said to enjoy preferential treatment from time to time? Do you feel that you have a fair chance to develop in this market?

JOHN HOEFT: The fall of the previous government of Indonesia was only roughly 15 years ago. In terms of democracy, Indonesia has been changing slowly but surely. In terms of healthcare, there certainly are a number of local practices in which the MNCs cannot participate. We follow stringent guidelines – which does not mean that we are perfect – while local companies enjoy certain advantages in this environment. We do try to follow the number one criterion of providing quality medicines to the market. Local practices that interfere with this objective need to be addressed. Ultimately, true competition leads to greater efficiency, effectiveness, access and quality. Therefore, together with the government we have to be as transparent as possible. We have to collaborate to ensure that everything that is being done is for the benefit of better quality medicine and more access.

FR: Concerns have been raised over unethical promotional practices. In your view, what can be done to address this issue?

JOHN HOEFT: This is the million dollar question. If the government had stronger regulations for the local companies, we could expect to see some improvement. The question is whether they will do so. Unethical promotional practices have an impact on the cost of medicines and the quality of healthcare services. If someone is being influenced to prescribe a particular medicine based on favors rather than science, this cannot be in the best interest of the
patients. Ultimately this scenario can lead to higher healthcare costs. Many of the MNCs too have been guilty of such behaviour in the past. However, our current strategy is to play within frameworks such as the Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act, which provide a very stringent regulatory environment. Ultimately, doing the right things based on science and in the interest of the patient is a competitive advantage.

FR: You recently gained the ‘Most Reputable Brand’ award. How do you stand out from the other MNCs?

JOHN HOEFT: This particular award is based off a survey of more than 3,000 healthcare givers. Pfizer has been manufacturing pharmaceuticals in Indonesia since 1971 and established its field force from 1980 onwards. We have always led the right way in terms of trying to do things the right way. As a research-based company we have been bringing innovative medicines to Indonesia. For our customers – pharmacists, physicians or patients – Pfizer means quality. Moreover, we provide these people with additional services in terms of disease management, physician education, innovative ways to deliver healthcare, etc. More than an innovator alone, our brand is seen as a leader.

FR: Pfizer’s market share in Indonesia has been pressured by loss of exclusivity (LOE). What will be your key areas of growth for the coming years here?

JOHN HOEFT: Despite having worked and lived in seven different Asian countries for 15 years now, I still see Indonesia as a complex market. Both from a standpoint of the regulatory environment and channel management, there are many complications which in turn also represent many opportunities. Our growth strategy is therefore based on customer insights. You need to know all types of customers, from physicians to pharmacists, patients, hospitals and government, and you need to understand what they are looking for.

Universal health care coverage will also provide opportunities for the MNCs to increase the access to quality medicines. Pharmacies, in turn, are expected to become more important in the future. Indonesia is a self-player’s market where many people treat themselves, because the average GDP per capita is still quite low. Although one is required to have a prescription to buy ethical products by law, in practice they can be obtained without. We foresee growth on the retail side and on the hospital side, where we see large private chains such as Siloam Group growing very rapidly. Per year, this Group is adding five new hospitals. A second fast growing chain of hospitals is the Mitra Keluarga Group.

FR: Universal health care coverage is mainly expected to benefit local pharmaceutical companies. Why do you also speak of opportunities for MNCs?

JOHN HOEFT: The benefit for the generic companies is clear, but opportunities for MNCs – either with a generic or specialty product portfolio – exist. There will be some specialty products that will need to be provided by the MNCs, as part of the essential drug list. The vast majority of the opportunity certainly lies with the local companies.
Jonathan Sudharta, Business Development Director - Mensa Group

Focus Reports: The legacy of Mensa Group starts in 1975, when the company was first founded by your father, Mr. Jimmy Sudharta. What can you tell us about the growth path since then?

Mensa Group was initiated in 1975 through the creation of Pt. Menjangan Sakti. At that time, this company was founded with USD 3 of capital and six people. The biggest capital we really had at that time was our commitment, which is still reflected in our corporate credo: ‘Mensa Group: Symbol of Commitment’. From this very humble beginning we have now grown into a USD 900 million turnover company. In this time we have grown from a company mainly trading in raw materials into a group engaged in raw materials trading, manufacturing, distribution and the marketing of finished products.

FR: Managing hospitals or online pharmacies is an entirely different business model. What do you identify as your key success factors to penetrate these new areas?

It is indeed an entirely different business compared to where we come from. Through the years, we have built up a team of almost 6,000 people all over Indonesia. Indonesia is a very fragmented country, which puts us in a position requiring a large headcount. We work with 22,000 doctors daily but also have 32 branches for distribution, since we do our own logistics. This marriage of people and reach gives us the capability of supplying more than 26,000 outlets in Indonesia alone. At present, we supply 11,000 pharmacies, 1,800 hospitals, 2,400 drug stores and 6,000 cosmetics stores. On the baby care niche, we already supply 2,200 stores.

FR: How do you look at quality?

With commitment as our anchor to success, we carry quality with us in everything we do. Today, we are the only raw materials supplier in Indonesia that will – as from next month – have a fully GMP-certified warehouse. For many years, the raw materials business in Indonesia has been about buying, warehousing and selling. In countries like Germany, where PIC/S regulations have already been implemented, the number of raw materials suppliers has been reduced to four or five maximum. Why? Because not many companies would invest in such supply capabilities!

In terms of our manufacturing capabilities – in Bandung – we are also building a huge new high quality facility. This should provide us with roughly 15 million of injectibles capacity by the end of this year, making us the biggest in the field. At Landson, we have already completed our investments of roughly USD 10 million to renovate and enlarge the manufacturing facility to meet the PIC/S standards.

All these investments reflect our philosophy that remains centered around quality. Once we agree to do something, we do it properly.

FR: You often seem to compare yourself with companies from Germany. Do you take some of them as a role model?

In the beginning of my career at Mensa, I did
an internship at Welding – a leading German company our Group was already partnering with for more than twenty years. Together with some of our managers, we spent some time at this company in Germany. There, I learned about many different quality and business concepts that I tried to implement when I came back. Rather than copying the entire concept, my purpose was only to apply the same logic. The logic, for instance, was to use GMP and ICH Q7 Chapter 17. I tried to understand what it would mean to apply such logic to a trading business. As one of the best pharmaceutical raw materials suppliers in the world, Welding has definitely served as a role model company.

**FR:** The founder had quite the long term vision for the Group, as he foresaw the need for integration early on. Do you look at the business differently?

Of course we are now in different times. A different vision is defined by different circumstances and different opportunities and threats. In terms of growth, we share a very aggressive approach. But the market and our adversity to risk is now very different. I always remember how Mr. Sudharta would share stories about the Otto acquisition, where he was able to get the support of Deutsche Bank without any collateral – in 1981. Today, we have much more capital, trustworthiness and have many more customers and suppliers.

**FR:** In a few final words, what would you share with potential partners on how you see yourself growing the business together?

There are many reasons to look at Indonesia today:
- The GDP per capita sits at around USD 4,500
- Indonesia will host the 7th largest economy in 7 years from now
- Indonesia is a pharmerging market.

I always tell people to consider Mensa Group as a bridge to tap into these promising numbers. All prospects will come from the right points of sales. Whether there are pharmacies, hospitals, drug stores, or manufacturing we cover all areas. We are a health care bridge.
Interview with: Hendra Gunawan, Managing Director- PT. Tunggal Idaman Abdi

Focus Reports: Indonesia is regarded as a pharmerging market growing in double digits. To a large extent, however, this growth is being driven by the local pharmaceutical industry. What is your take on these dynamics?

HENDRA GUNAWAN: We are now in a time where multinational companies are lacking newly invented or blockbusters products. As a result, they see their market shares decreasing every year. Many local companies –on the other hand– are rapidly adopting the latest technologies. I would even say that—to some extent—they are better supported by excellent production capabilities and facilities, i.e. all the factors needed to produce good products. Apart from that, they are also adopting very aggressive marketing strategies. These are some of the key drivers of the rapid growth of Indonesia’s local companies.

Another issue are unbranded generic products, which have been growing at a slow rate. Today the market share of unbranded generic products in Indonesia is only 7 to 8 per cent, while in the US this has come to roughly 25 to 30 per cent. On the other hand, you will see a very significant increase of branded generic products’ market share produced by local companies.

Indonesia is a very interesting country to be in, with a strong local potential and double digit growth every year. In this respect, PT Tunggal Idaman Abdi has taken strategic initiatives to get the most of it through our focus in the reproductive health care sector.

FR: Tunggal’s vision is to be a leader in reproductive health care, the niche you choose to play in as a company. Why exactly this therapeutic area?

HENDRA GUNAWAN: Being a vast country with more than 65 million women of reproductive age, out of which around 48 million are married couples, Indonesia actually opens excellent opportunities for reproductive health care products. The market for contraceptive products serves no less than 27.5 million women participating in family planning programs nationally.

FR: Are you the absolute leader from a competitive perspective?

HENDRA GUNAWAN: With over 30 years of experience in producing FDA approved contraceptives, today we are producing 24 million vials annually of our injectable contraceptives to serve both domestic and export markets. Tunggal’s ability to meet the industry’s stringent demands was highlighted by the manufacturing of its own injectable contraceptives, Cyclofem® and Tricolofem®. To cope with the increasing demand, a second hormone plant has been built up and is expected to be completed in Q4 2013. Its a challenge to produce quality products and at the same time keep them affordable, and most importantly, over a sustained period. We have managed to deliver quality and affordable products for years.

FR: The main target of your field force are midwives. What can you bring them in terms of education?

Hendra Gunawan, MANAGING DIRECTOR- PT. TUNGGAL IDAMAN ABDI

INDONESIA Sept. 2013
HENDRA GUNAWAN: If you look at the population data, 78 per cent is covered by the private sector and 22 per cent by the government. In total the role of midwives in the family planning program counts for 78 to 79 per cent. Because of this, we feel that midwives are very important as the key anchors in this program. We have field force representatives who are directly covering them and involve them in their monthly events. For example, today we have 230 field representatives, and each of them has to launch at least three events with the Midwives Association in all branches. So in total we run at least 600 events with the midwives on top of their direct contact. They are in greater need of education on how to do good family planning or how to choose a correct device, and rely on this information.

FR: You have done significant renovation and improvement works in 2011 for the non-hormone facility, and this year you are finishing up the work for a new hormonal facility and implementing the new standards. Can you elaborate on the investment strategy and how it reflects the needs of the market?

HENDRA GUNAWAN: Today our current facilities can produce 25 million vials per year while we have been using 22 to 23 million vials. As the market is starting to be saturated, we have decided to build a new hormone facility for exports. This investment is important for us because we foresee a very bright future for this market, not just locally but globally as well. By having this new facility we will increase the current production to 50 million vials and a total capacity of over four million cycles of oral contraceptives. At the London Summit on Family Planning last July 2012 - a summit organized by the UKAID, the Bill & Melinda Gates Foundation and UNFPA – Tunggal was one of the participants from Indonesia. There, we saw a very aggressive movement as a great momentum in the family planning program globally, and that is the main reason why we are so much encouraged to get better coverage worldwide.

FR: Do you have a final message for the international community?

HENDRA GUNAWAN: Every woman and every family will have their right and access towards modern and safe contraceptives to determine whether and if they want to have a child. Giving women and girls access to family planning information and modern methods of contraception is transformational – families become healthier, wealthier and better educated by increasing girls’ chances of completing their education.

By collaborating with all stakeholders and partners across sectors, we have the potential to transform the lives of millions of women and girls, by which we may save lives and may help to lift up families, communities and nations out of poverty.
INTERVIEW WITH:

Dr. Andre Arief Lembong, Chairman - PT Pharos Indonesia

Focus Reports: Dr. Lembong, the Pharos legacy – built by your father – dates back to the 1970s. What do you see as some of the key milestones in the company history?

DR. ANDRE ARIEF LEMBONG: My father started Pharos in 1970. At that time, he mainly bought machinery from Europe. His approach rapidly turned the company into the first facility with high quality manufacturing standards approved by the Indonesian government. In order to start generating cash flow, my father was looking for ways to receive a quick return on investment. Because of his good relations with the government, he managed to obtain orders for the government-driven Askes program which provides health insurance to civil servants.

When I arrived in the company, I was given the task to start a new business rather than continuing my father’s. In a first step I started Century Healthcare, which has now grown into the largest chain of pharmacy outlets in Indonesia – in terms of outlet units. While it is my intention to sustain all our past partnerships, I also saw the opportunity around 1997-2000 to start manufacturing our own products. Indonesia is a large country of immense opportunity, so we decided to aggressively invest in product development by means of formulations, tablets, suppositories, injectables, and so forth. Now we are developing 1,500 compounds on a 24/7 basis using a lot of heavy equipment.

FR: Generic portfolios are generally rather broad. If you say that choosing the right products is key, are there any areas you favour in terms of product development or marketing?

DR. ANDRE ARIEF LEMBONG: Back in the year 2000, we used to sell 90 per cent of our portfolio in ethical drugs, while today 60 per cent is in OTC. We are still maintaining our stronghold in the ethical pharmaceuticals niche – hence the 2,000 people strong field force – but are intensifying our efforts on the OTC side. For OTC our field force is 300 staff at present and will continue to grow 30 to 40 per cent every year.

FR: You mentioned Century Healthcare as one of the first elements you added to Pharos Group. What value and synergies does this new entity add to the Group today?

DR. ANDRE ARIEF LEMBONG: While several people now look at our structure and start speaking of vertical integration, I do not believe that we have already reached that point. At present, Century Healthcare still adds value to Pharos. We have been changing Century’s supply chain and, due to a change in margins, profits have doubled last year. But from the point of view of Pharos, we still mainly rely on promotional

“There are big technological changes that allow for lower cost products to enter the market”
efforts through audio visual channels. Thanks to our highly capable marketing team we are now growing at 40 per cent in OTC compared to 20 per cent in ethical. I do believe that we can do much better next year.

**FR:** What are the main distributors you have chosen to work with?

**DR. ANDRE ARIEF LEMBONG:** Our largest distributor is AMS, which is being run by my brother, Roy. It exclusively sells products for Pharos and Novell Pharmaceutical Laboratories. This exclusive distributorship grants the company the necessary economies of scale to survive. This is important because many of the distributors in Indonesia were hurt by a 40 per cent increase in salaries. Without the changes we made to our retail business model, we would have suffered in a similar manner.

**FR:** Where do you see the need for further partnerships?

**DR. ANDRE ARIEF LEMBONG:** When it comes to high-tech, we prefer to partner with mid-sized overseas companies. They do not want to worry too much about risk and want to ensure that the marketing works well. We position ourselves as a marketing team for these companies. To do so, we need strong capabilities in portfolio management, adequate reporting systems, and so forth. Such systems are also essential to control and improve the productivity of our work force. Apart from sales data, these platforms namely allow us to see how our people are performing. From my point of view, many of the Indonesians perform well for what is inspected rather than what is expected.

**FR:** When you took over the business you had a vision to move into retail. You came with a set of new ideas, but which achievements are you more proud of?

**DR. ANDRE ARIEF LEMBONG:** I am most proud of the people we work with. They work very hard, we train them vigorously and make sure that they can replace us as our future leaders. Technology is also important and is another area we aim to invest in. As labor costs will increase, we have to seek for ways to automate our processes. We want to move fast and use our skills and capabilities in robotics and machinery. The technology is available and we should look into integrating this in our business. We are for instance looking at integrating vending machines at our outlets.

Biotechnology is another area of interest to us. My son is already studying in San Diego, one of the biotech hubs in the world. We also see high potential in laboratories. Beyond blood glucose, increasingly tests are taking place for haemoglobin, cholesterol, etc. In the 2,000 generic pharmacies that we aim to open in the next three years, we will have such testing equipment for the poor. There are big technological changes that allow for lower cost products to enter the market. Two Stanford graduates are working here to develop a testing technology at one hundredth of its initial cost. Our aim is to bridge global technology in health care through Pharos. We have big ambitions.
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