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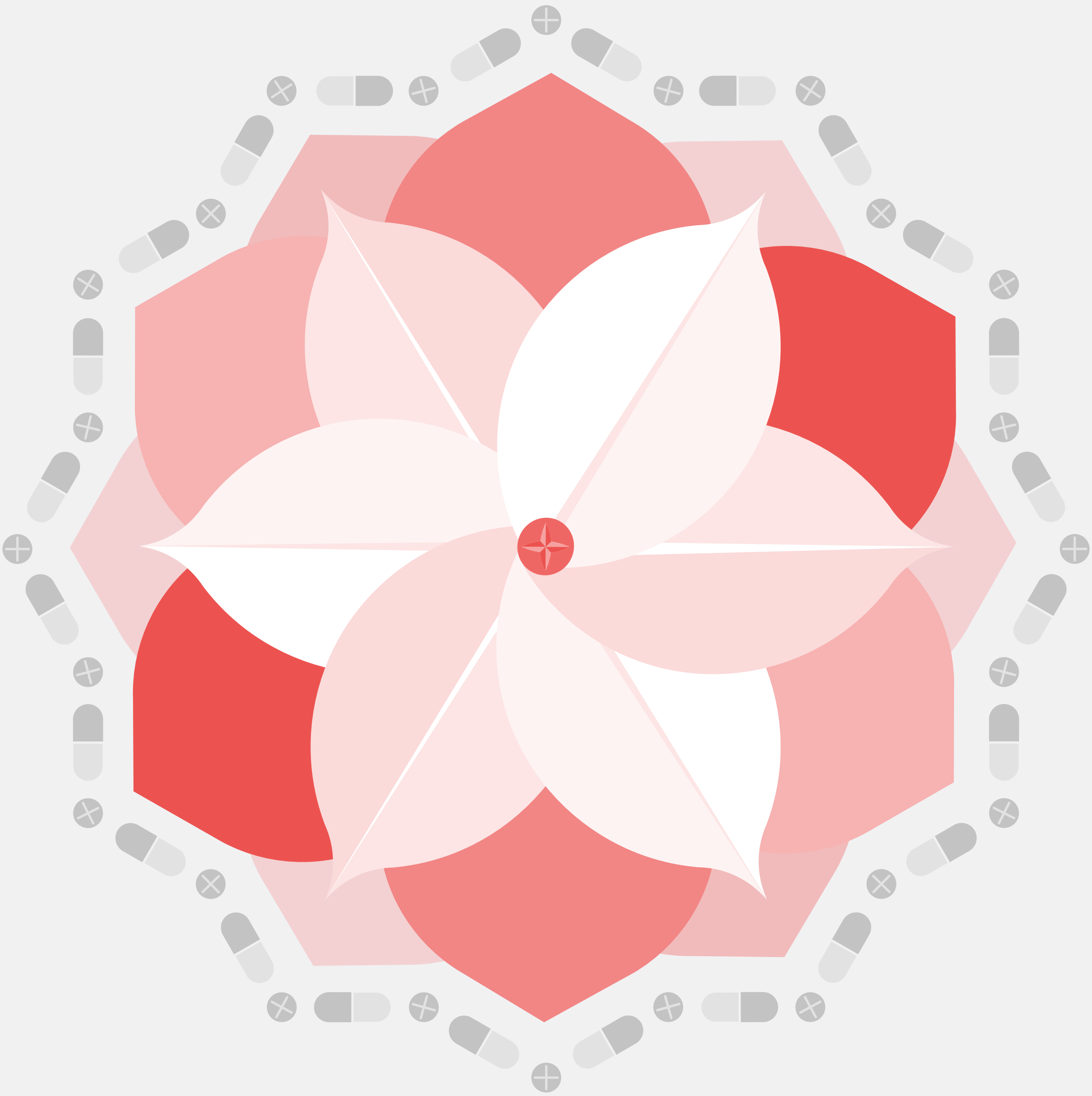

INDUSTRY EXPLORATIONS

INDONESIA PHARMACEUTICALS 2015

Manufacturing | Regulatory Framework | Research and Development
Export | Distribution | Economy


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Dear Readers,

As a chief economy in the Association of South East Asian Nations (ASEAN), Indonesia holds exciting potential and excellent opportunities for pharmaceuticals production and health care infrastructure development. The pharmaceuticals industry was a major driver of the nation's 5.8% GDP growth in 2014, when the industry grew by 7% and reached a total value of $6 billion. It is expected to grow 12% in 2015.

The investment landscape of Indonesia has grown at rapid pace in recent years, inviting both domestic and multinational players to gain from this growing market. When the market opened to multinationals in the 1960s, capital investment targeted both research and development initiatives and infrastructure development. Today, opportunities exist across the industry's value chain, from manufacturing, raw materials, services, and exports to imports of finished dosages and distribution through partnerships.

The election of the President Joko Widodo in 2014 will have a positive impact on the health care industry. The Indonesian government is already planning to increase its spending on the industry in the 2015 financial year. A financially stable environment is sure to improve health care through the pharmaceuticals industry and is an integral part of Indonesia's economic and social development. While the existing infrastructure provides a solid foundation for continued business growth, Jokowi's government has also implemented Jaminan Kesehatan Nasional (JKN), Indonesia's program of universal health care coverage.

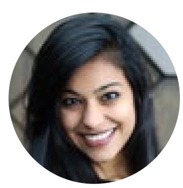
The excitement and dynamism that we encountered during our 11 weeks in Indonesia was palpable, and we are delighted to present to readers an in-depth account of the investment opportunities in the country's pharmaceuticals sector. By listening to the voices and business activities of private companies, government, and associations in the following pages, you will get a sense not only of the trends and dynamics on the ground but the spirit of optimism that pervades all levels of the value chain.

Finally, we would like to thank all of our interviewees and the companies, associations, and individuals who were so helpful to us during our stay and made our time in Indonesia an unforgettable experience.

Vanessa Acuna Chapela
Project Director

Neha Premjee
Journalist

Bryce Stevenson
Journalist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This research has been conducted by Vanessa Acuna Chapela, Neha Premjee, and Bryce Stevenson
Edited by John V. Bowlus
Graphic design by Gonzalo Da Cunha

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Exclusive Interviews

Leading industry and government figures from Indonesia's pharmaceuticals industry discuss market trends and opportunities, as well as strategies for the future.

10, 11, 20, 30, 32, 42, 52, and more

Editorial Analysis

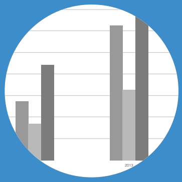
Global Business Reports' journalists provide unique insights into all aspects of the pharmaceuticals value chain by working on the ground for weeks and meeting face to face with industry leaders.

12, 18, 24, 36, 46, 50, 60

Quantitative Data and Maps

Maps and quantitative data highlight and clarify the key trends in the circumpolar region in the six individual jurisdictions analyzed in this report.

8, 9, 12, 13, 14, 25, 61



Indonesia

Indonesia is the fourth largest country by population in the world and home to great diversity. GBR introduces readers to this dynamic and increasingly global jurisdiction.

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Future Outlook

GBR's journalists highlight three future trends that will shape the Indonesia pharmaceuticals industry in the coming years

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CALIBRATED

Poised for Prominence: The Indonesian Pharmaceuticals Industry

"The story of Indonesia's pharmaceutical industry dates back to 1966, when the government opened the market to multinationals...Today, the industry's rules are increasingly more stringent so as to comply with international standards. Of the roughly 200 pharmaceutical companies with operations in Indonesia, 90 percent will be able to survive implementation of newer regulations. When compared to countries such as India or China, where 50 percent of companies are lost when new regulations are implemented, this is significant."

- Dr. Johannes Setijono, Chairman, National Board Indonesian Pharmaceutical Association (GP. Farmasi Indonesia)

Image: Genero

Introducing Indonesia

A Brief Political and Economic Overview

2014 marked a major political transition for Indonesia, as the country elected a new president, Joko Widodo. Susilo Bambang Yudhoyono, a former army officer, had won Indonesia's first direct presidential elections in 2004 and was reelected in a landslide in 2009. Yudhoyono is considered to have ruled effectively and authoritatively, but was barred from standing for office again in 2014. The leadership change may also bring about a new style of leadership than the top-down approach of the past ten years. During the campaign, Widodo endeared himself to ordinary citizens by being accessible and eager to listen to their stories and views. Widodo is also not from the army like his electoral rival, Prabowo Subianto, which further adds to his credentials as a potentially transformative leader. In this respect, the country's non-violent transition from Yudhoyono to Widodo is a victory for Indonesia's future, regardless of political stripes.

However, Widodo's campaign magic will likely fade after he is sworn into office in October 2014 and begins to face the far more difficult balancing act of governing. His party, the Indonesian Democratic Party-Struggle (PDI-P), holds only 37% of parliament, while the opposition party of Subianto controls a majority. Moreover, Widodo's 53% victory in the presidential election was actually a disappointment, as he had lead in some polls by as much as 30% at one point. The former governor of Jakarta, Widodo was especially popular with urban and young constituents during the campaign and promised to fight corruption and to harness education and technology to build a better future for Indonesia, but ushering in this vision will be challenging to execute.

Going forward, Indonesia is set to grow demographically and economically, and all Indonesians are set to be covered by the national health care insurance program, while more citizens are climbing the ranks into the middle and upper classes every year, all of which will create a more dynamic and valuable sector. However, historical and structural challenges remain. Indonesia has a historic reliance on commodities and natural resources, which dates back to its colonial experience under the Dutch and its relationship with Royal Dutch Shell in the nineteenth and first half of the twentieth centuries, and this dynamic limits the country's pharmaceuticals sector's

$867.5 billion

GDP
Official Exchange Rate 2013

Source: CIA World Factbook

5.3%

GDP
Real Growth Rate 2013

Source: CIA World Factbook

potential for growth: 90% of raw materials are imported. Unlike energy, producing raw materials is something that Indonesia's growing and dynamic economy could begin to tackle on its own. Indonesia now faces a pressing need to increase energy generation capacity (see Global Business Reports' November 2014 Industry Explorations on the power and mining industries in Indonesia). Powering remote, rural communities that are off the grid presents will go hand in hand with the country's economy growth and the prospects for the pharmaceuticals industry.

The second major hurdle is distributing pharmaceuticals to all corners of the archipelago. Indonesia is by nature a disparate grouping of peoples owing to its geography, and, in the past, centralization has produced the greatest economic welfare for its citizens, at least according to those in Jakarta. In such a country, infrastructure is key, but, according to the World Economic Forum, Indonesia ranked 82nd in quality of overall infrastructure in 2013.

Despite Yudhoyono's authoritarian rule, the country instituted a program of rapid decentralization, and one of the chief frustrations of companies is that local governments interpret and apply laws differently. The new government has since taken steps to centralize authority in Jakarta once again, and Widodo's focus on education and technology could streamline and clarify the country's regulatory regime and encourage more research-intensive pharmaceuticals manufacturers. The reforms will certainly create a more informed citizenry, who can push the pharmaceuticals industry to recreate safer and more efficient drugs.

By all measures, the Indonesia pharmaceuticals sector offers investors a bright outlook, as the broader economy is performing admirably. History and structural constraints will not disappear overnight, but for those willing to brave the considerable challenges and partner with the country's strong local companies, the rewards are already palpable and could be enormous in the long-term. •

INDONESIA AT A GLANCE

Source: CIA World Factbook

Population: 253,609,643 (July 2014 est.)
Capital: Jakarta
Chief of State: President Joko Widodo (takes office 20 October 2014)
Religions: Muslim 87.2%; Christian 7%; Roman Catholic 2.9%; Hindu 1.7%; other, including Buddhist and Confucian, 0.9%; unspecified 0.4% (2010 est.)
GDP (official exchange rate): $867.5 billion (2013 est.)
GDP – Real Growth Rate: 5.3% (2013 est.)
GDP per Capita: $5,200 (2013 est.)
Economic Sector Breakdown: Agriculture: 14.3%; Industry: 46.6%; Services: 39.1% (2013 est.)
Exports: $178.9 billion (2013 est.): Oil and Gas, Electrical Appliances, Plywood, Textiles, Rubber
Imports: $178.6 billion (2013 est.): Machinery and Equipment, Chemicals, Fuels, Foodstuffs.
Major International Trade Partners: China, Japan, Singapore, South Korea, United States, Malaysia, India, Thailand

$5,200

GDP PER CAPITA
2013

Source: CIA World Factbook

Dr. Maura Linda Sitanggang

Director General of Pharmaceutical Services and Medical Devices
MINISTRY OF HEALTH, REPUBLIC OF INDONESIA

What is the Ministry of Health's role in supporting the development of Indonesia's pharmaceutical sector?

We have four aims in the pharmaceutical sector. The first is access to medicine, which means affordability, but Indonesia is also geographically fairly large, with many islands, so it also means equal distribution. The second pillar is regulations and controls of medicines—ensuring the safety, efficacy, and quality of pharmaceuticals. We have the National Agency for Drug and Food Control (BPOM) to oversee this. The third is rational use: maintaining professional standards of use, avoiding the abuse or misuse of medicines. The fourth is viability. If there is not a viable pharmaceuticals industry, there will be problems in the access to medicines. Our role is very important because pharmaceuticals is not like other commodities. It has an economic, technological and people aspect, and access to medicine is sort of human right. For these reasons, it is a national interest and government-led.

Can you walk us through the evolution of the pharmaceutical sector in Indonesia?

The industry started a long time ago. Our strength in producing medicines is growing and growing. For formulations, our local companies are covering about 90% of the market; however, for raw materials, we have a weak structure, which we need to be willing to transform into something stronger. We need more research-based companies because without innovation, there is no development. Rather than just manufacturing and formulating, they can start to develop their own products.

Within the four pillars for pharmaceuticals, can you describe how the Ministry of Health promotes the industry?

For access, we have our mandate in the law that says that the government is responsible for access to medicines, especially essential medical services. We also have national insurance and health care, which has a huge effect on the country. For the public sector, it is more about primary health care. In Indonesia, we have provinces and districts, and for a long time we have been putting pharmaceuticals warehouses in each district; so, the infrastructure is already there for distribution in the public sector. For the private sector, of course, we have the factories, the distributors, and the pharmacies.

For the second pillar, regulations and controls, the ministry is supervising and facilitating for the pharmaceuticals industry in Indonesia. We have the role to develop the industry and good manufacturing practices (GMP), but for the guidance and operational aspects, we hand it off to the head of the national agencies. After that, we do trainings and consultations on things like how to increase production of raw materials. Our big focus is to facilitate the transformation of the industry to research-based companies.

Rational use is about professional standards and consistent training. For this, we really have to work together with the professional associations to develop guidance, after which we follow up with monitoring and evaluation.

The fourth pillar, viability, is not very easy because we are a regulator, not an implementer or executor. We need the industry to be viable, so that it can produce medicines; quality products should be the focus here. However, companies need to be thinking about invention and innovation as well. We are trying to create incentives, like tax deductions, for those who would like to develop APIs and raw materials. At least we are not 100% dependent on imports. If that were the case, someday we could have a shortfall of medicines. To protect against this, we have to develop the internal capabilities.

Today, more than 90% of APIs and raw materials are imported; how do you see this figure changing? Is it economically feasible for companies to begin manufacturing their own raw materials?

At the moment, they think it is not economically feasible, but there are three selections to think about. One is molecule selection, which we actually have a lot of here in Indonesia. The second is economic growth, so probably we will see the network of pharmacies continue to grow, as well as the consumption of medicines. If we have the raw materials available in Indonesia and the right economic conditions, then why not try to produce the raw materials? This is a situation where the economy of scale will make it viable.

What do you think are the greatest challenges facing Indonesia's pharmaceutical sector, and how can the Ministry of Health provide solutions?

The biggest challenge is to transform the mindset from that of a trader to that of an inventor and innovator. If it is very easy to trade, but, in a time of global competition, companies must think about innovations. Maybe these are not blockbusters, but something that moves slowly but certainly. Companies have to think about how to transform their model from only manufacturing to more research-based and developing their own products. Indonesia's pharmaceutical sector is capable of this, and the Ministry of Health is committed to overseeing the safety, efficacy, and quality of medicines as the industry develops. •

Dr. Johannes Setijono

Chairman, National Board
INDONESIAN PHARMACEUTICAL ASSOCIATION (GP. FARMASI INDONESIA)

Please provide a brief overview to GP Farmasi and the role that it plays in Indonesia's pharmaceutical industry.

GP Farmasi is an association of stakeholders within Indonesia's pharmaceutical industry. Our membership includes around 200 manufacturers, distributors, and retailers, mostly Indonesian companies, but also subsidiaries of multinational companies. The association serves as a coordinating body for the industry and a forum to maintain discourse on current events and future strategies for Indonesian pharmaceuticals.

From 2007 to 2013 Indonesia's pharmaceutical sector grew by 85%. Could you please this evolution?

The story of Indonesia's pharmaceutical industry dates back to 1966, when the government opened the market to multinationals, which initiated the growth that drives the industry today. In the 1980s, the government slowly advanced regulations, allowing companies ample time to adapt to newer regulations. Today, the industry's rules are increasingly more stringent so as to comply with international standards. Of the roughly 200 pharmaceutical companies with operations in Indonesia, 90 percent will be able to survive implementation of newer regulations. When compared to countries such as India or China, where 50 percent of companies are lost when new regulations are implemented, this is significant.

What is the mix of multinational and domestic companies in Indonesia?

Domestic companies claim roughly 70 percent market share in Indonesia, which is one of the few countries in Asia to have this strong of a domestic presence. Multinational companies have had success in Indonesia's larger cities, but in more rural areas, domestic companies drive the market. The remoteness of rural Indonesia and the country's diversity of languages have proven to be difficult factors for multinationals to navigate. Additionally, domestic companies dominate the market for over-the-counter (OTC) products. 40 percent of Indonesia's pharmaceutical market is OTC, whereas in other countries this figure would be 10 to 15 percent.

What is the competitive landscape for multinationals in Indonesia?

Most of the world's large-scale, multinational companies are already in Indonesia. There is high demand from multinationals that are medium and small-sized in scope to enter, as they look to acquire domestic companies and enter the market. Consequentially, valuations of Indonesian manufacturing companies have increased substantially.

What do this second-tier multinationals need to be aware of when entering the Indonesian market?

When multinationals want to enter the market, the first thing they have to do is go to the Investment Coordinating Board. Following this, they have to secure a number of other permissions from the Minister of Health and Indonesian FDA. The maximum allowed ownership of a multinational in Indonesia is 75 percent, while Indonesian partners must control the remaining stake. Multinationals must identify appropriate Indonesian partners in order to succeed.

What is the overall market breakdown for Indonesian pharmaceuticals?

Like in most countries, large companies dominate the bulk of Indonesia's $6 billion pharmaceutical industry. Out of Indonesia's 210 manufacturers, 40 to 50 control 80 percent of the market. The remaining 160 or so medium and small-sized companies command 20 percent. Most Indonesian manufacturers are currently operating at capacity. To account for this, companies have anticipated demand and steadily built their infrastructure over the last two to three years to meet the industry's growth potential. Indonesia has planned ahead for growth and is well equipped to handle increases in activity.

Manufacturers seem to be well positioned to capitalize on Indonesia's growing pharmaceutical sector. How well prepared are other stakeholders, such as distributors and retailers?

Indonesia has many small pharmaceutical distributors that have been able to survive, historically, due to relationships with specific regional governments and hospitals. The distribution segment of the pharmaceutical industry will need to change direction in order to be successful with all of the changes currently underway in the industry. GP Farmasi helps in this capacity, as it arranges symposiums that coordinate how manufacturers, distributors, and retailers should address these changes. Retailers need to change their business models as well. There are around 20,000 licensed pharmacies in Indonesia, most of which are small, specialized storefronts that focus on prescription sales, with little attention given to the OTC market. Moving forward, Indonesian retailers need to evolve away from specialization and become larger-scale stores with greater product offerings.

Indonesia's pharmaceutical industry is expected to grow substantially. How optimistic are you about these expectations?

I am highly optimistic about the future of Indonesia's pharmaceutical industry. The new government's first move was targeted at health care and there is already a law mandating that health care spending increase to 5 percent of government spending. However, the government has not definitively noted how the country will get there. Still, growth will continue to be strong and likely even stronger than current predictions. •

Opportunities Abound in Indonesia's Pharmaceutical Landscape

Often underappreciated for its immensity, Indonesia has approximately 250 million people, which makes it the world's fourth most populous country. Indonesia also plays an outsized role in the region's economic activity, as its economy is the largest in the Association of South East Asian Nations. Indonesia may be classified as a lower-middle income country, but it offers vast potential in terms of commercial opportunity, particularly in pharmaceuticals. From 2007 to 2013, Indonesia's pharmaceutical industry grew by 85 percent, including 7% in 2014 alone, and is now valued at $6 billion. Growth is forecasted to rise to 12% in 2015 and to continue through 2018. As Indonesia's market for pharmaceuticals expands and deepens, domestic and multinational players are positioning themselves to capitalize on emerging opportunities.

The composition of Indonesia's pharmaceutical industry has evolved considerably over the last fifty years. A key milestone to the industry's development was the opening of its market to multinationals in the mid-1960s, an event which propelled its growth through capital infusions targeted at both research and development initiatives and infrastructure investment. While the early years of Indonesia's pharmaceutical history were dominated by multinationals, domestic companies have today emerged as the industry's controlling stakeholders. Indonesia's pharmaceutical industry is comprised of approximately 200 pharmaceutical manufacturers, of which 70 percent are domestic companies and 30 percent are multinational companies. According to Roy Sparringa, Chairman of Badan Pengawas Obat dan Makanan (BPOM), Indonesia's National Agency for Drug and Food Control, within the landscape of Indonesian pharmaceuticals "95 percent of Indonesia's drug volume comes from domestic companies, while the remaining five percent is multinational. Additionally, 75 percent of the industry's value comes from domestic companies and 25 percent comes from multinationals."

Statistics such as these shed light on the markets in which each of these groups competes: domestic companies are primarily engaged in the volume business of generic drugs, while multinationals concentrate on high-value innovative drugs. Domestic companies have had success in the market for generics and over-the-counter drugs (OTCs) alike, but the next phase of their evolution will involve climbing the value-chain and building their portfolio of value-added pharmaceuticals. Multinationals, on the other hand, must learn to compete in an industry that is inundated with generics, or risk pricing themselves out of the market. While the composition of Indonesia's pharmaceutical industry is evolving, so are the market conditions that will dictate the future of the industry.

The 2014 election of President Joko Widodo will have a positive impact on Indonesia's market for pharmaceuticals. Relative to other nations, the Indonesian government has historically lacked in its commitment to its healthcare sector. In 2013, the government spent just 3 percent of total GDP on healthcare. In comparison, during the same year, neighboring ASEAN country Vietnam spent 6.6 percent, while the United States spent 17.9 percent. The election of President Jokowi brings refreshing appeal to the topic of Indonesian healthcare, and consequently pharmaceuticals. One of Jokowi's first moves in office was to denounce national healthcare deficiencies and proclaim that his government would double its current expenditure on healthcare by 2018. Under this edict, most of the

> "BPOM welcomes investment into Indonesia's pharmaceutical industry. Indonesia's business climate for pharmaceuticals is conducive to growth and BPOM is committed to ensuring that quality medicines are produced for the Indonesian people. With the launch of universal health coverage, it will be important for products to be affordably priced. The challenge for the industry is to create affordable medicines that do not sacrifice quality."
>
> - Roy Sparringa, PhD.,
> Chairman,
> National Agency for Drug and Food Control (BPOM),
> Republic of Indonesia

"I am highly optimistic about the future of Indonesia's pharmaceutical industry. The new government's first move in office was targeted at healthcare and there is already a law mandating that healthcare spending needs to increase to 5% of government spending going forward. The government has stated this but has not definitively noted how the country will get there. For this reason, pharmaceutical growth will continue to be strong and likely even stronger than current predictions.

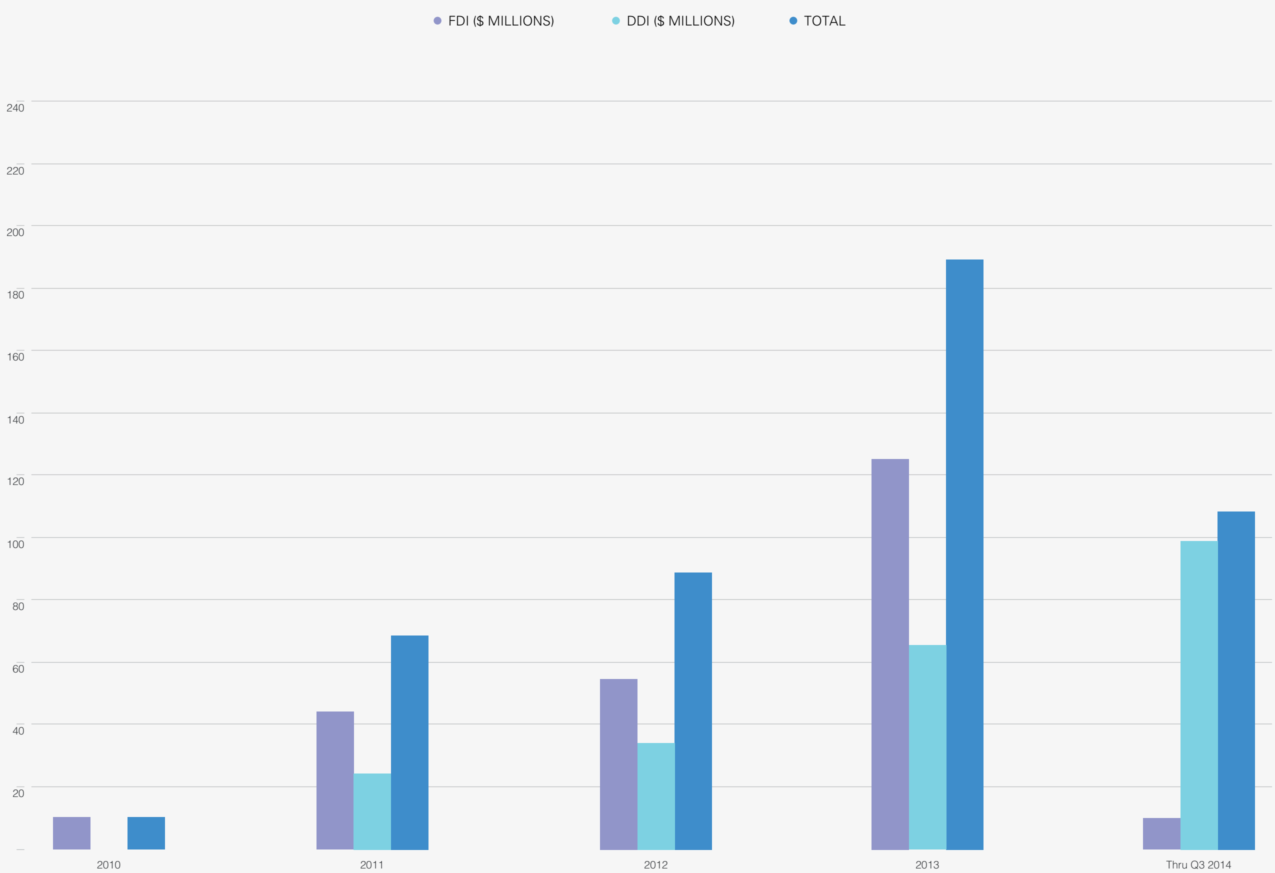
- Dr. Johannes Setijono, Chairman,
National Board Indonesian Pharmaceutical Association
(GP. Farmasi Indonesia)"

government's funds would be directed at the revitalization of healthcare specific infrastructure, such as hospitals, but this wave of capital would certainly have a ripple effect on Indonesia's market for pharmaceuticals. Key concerns remain regarding how the government will afford its newfound healthcare expenditures, but uncertainties aside, it is apparent that President Jokowi is a leader with healthcare at the vanguard of his agenda.

As the government seeks to improve its healthcare system, a critical aspect of its development will be improving accessibility. Driving this initiative is the recent implementation of Jaminan Kesehatan Nasional (JKN), Indonesia's program of universal healthcare coverage. Enacted in 2014, the goal of JKN is to merge Indonesia's preexisting social health insurance programs under a single-payer umbrella, ultimately extending healthcare coverage to the entire population. Rollout of JKN is expected to take five years, scaling coverage from 122 million people in 2014

INVESTMENT IN INDONESIAN PHARMACEUTICALS

Source: Indonesia Investment Coordinating Board, 2014



TOTAL HEALTHCARE EXPENDITURE

Source: BMI

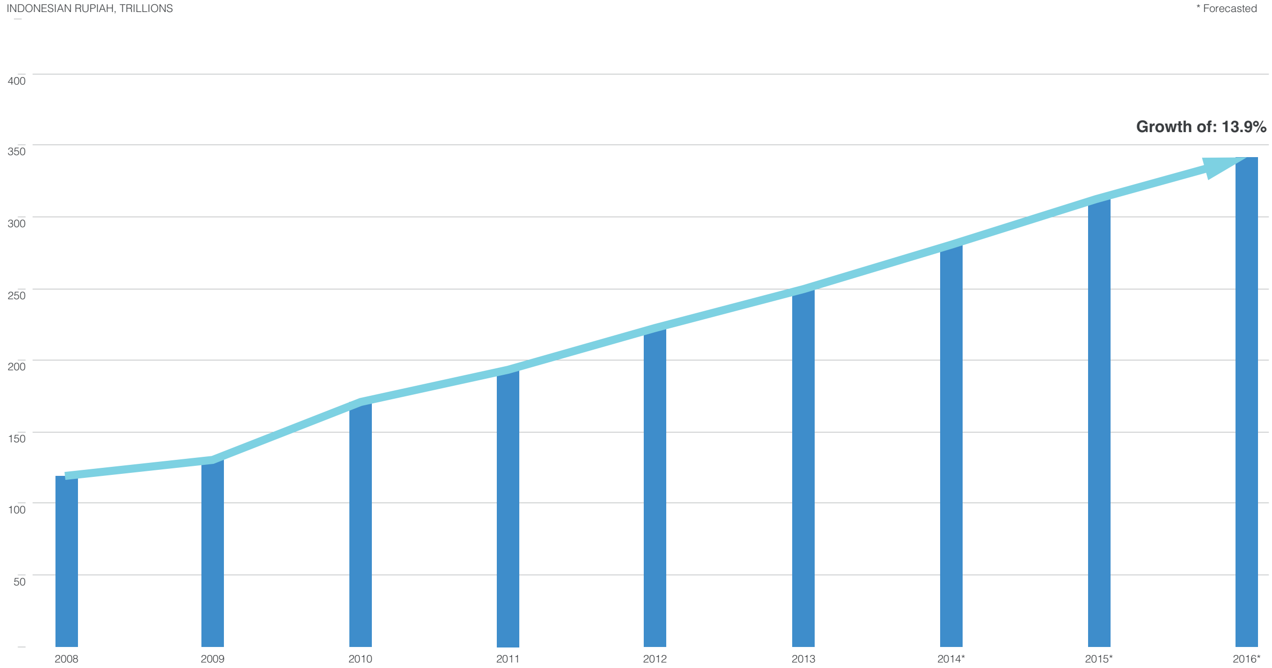


Image: Menjangan Sakti, Mensa Group

to the entire forecasted population of 257.5 million in 2019. A vast increase in access to healthcare would suggest a bright future for Indonesia's pharmaceutical industry. Once JKN is fully implemented, experts within the industry posit that 19 percent of total healthcare expenditure will be attributed to pharmaceuticals. In particular, demand will surge for low-cost generics, as Badan Penyelenggara Jaminan Sosial (BPJS), the organization charged with administering JKN, has mandated that 92 percent of drugs on the Essential Drugs List will be of this type. This mandate bodes particularly well for domestic companies, as low-cost generics are their primary area of specialization.

In addition to constructive policy, Indonesia's pharmaceutical industry benefits from strong economic growth, which has contributed to a burgeoning, health-conscious, middle class. In 2014 Indonesia's GDP grew at a rate of 5.1 percent, and according to World Bank forecasts, it will continue to flourish with strong growth rates through 2017. This has had a palpable effect on the development of Indonesia's middle-class. In 2003, 38 percent of Indonesia's population was considered to be middle class or higher socioeconomic status; in 2010, this figure increased to 57 percent. With nearly seven million Indonesians newly achieving middle class or higher socioeconomic status each year, the consumption patterns of Indonesia's population are changing in significant ways. With more money in their pockets, Indonesians are becoming more health conscious, a trend that is of particular interest to pharmaceutical companies. Evidence of changing consumption habits can be found in the increased activity of Indonesia's market for OTCs. In 2014, OTCs accounted for approximately 40 percent of Indonesia's pharmaceutical market; in 2015, this figure is expected to increase to 50 percent. Consequently, many pharmaceutical manufacturers that previously focused solely on prescription drugs are beginning to enter the OTC market.

Significant changes are underway that will transform one of the world's largest markets for pharmaceuticals, and many companies, domestic and multinational, are looking to capitalize on its budding opportunities. According to Johannes Setijono, Chairman of GP Farmasi Indonesia, an important association of stakeholders within Indonesia's pharmaceutical industry, many Indonesian manufacturers are already operating at capacity. While it may take years to invest in the infrastructure necessary for pharmaceutical manufacturing, Setijono is confident that the industry "is well equipped to handle increases in activity." If this holds true, Indonesia may emerge as one of the world's most dynamic markets for pharmaceuticals. •


SPD-M20A
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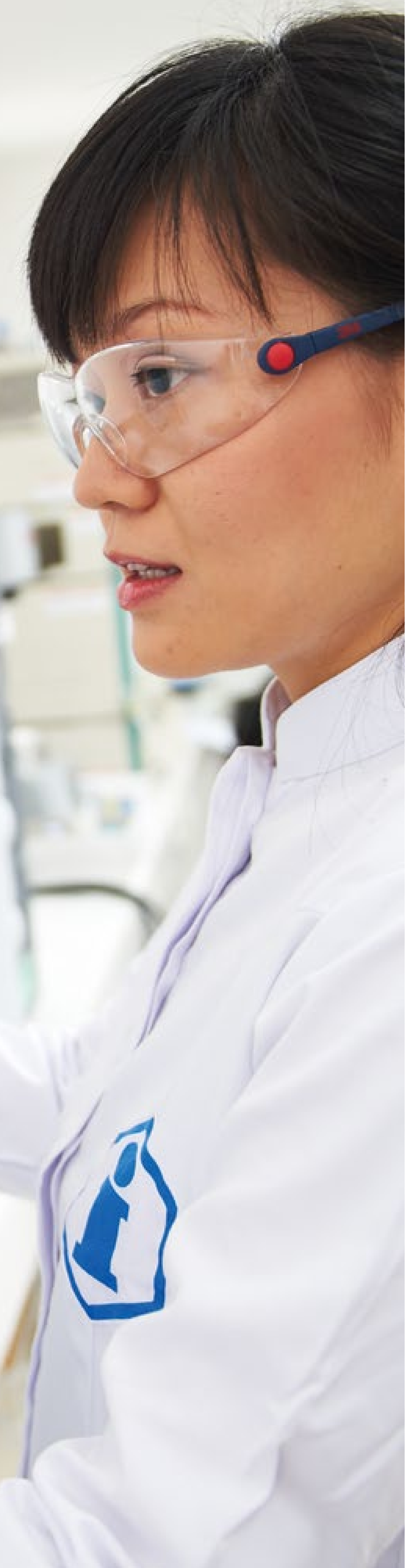


New Governance, Changing Regulations

"The Indonesian government needs to continue to focus on the quality of the industry's products, as this will be very important to further development of the health care sector. Consideration should also be given to expediting the current drug registration process in order to increase the portfolio of drugs that are available on the market. Finally, anti-corruption needs to continue to be a focus for regulators of the industry, ensuring that domestic and multinational companies play by the same set of rules."

- Andreas Halim Djamwari,
Former President Director,
Actavis Indonesia

Image: Interbat

Indonesia's Regulatory Framework

Expanded Access to Health Care and a Focus on Continuous Improvement

The Indonesian government's renewed commitment to its health care sector, coupled with the National Agency for Drug and Food Control's (BPOM) drive for continuous improvement within the industry, provides a promising outlook for the future of Indonesian pharmaceuticals.

Upon taking office in 2014, President Joko Widodo announced that one of his first initiatives would be to double the government's health care expenditure by 2019. In order to bridge the country's existing health care gap, the government instituted a program of universal health care, Jaminan Kesehatan Nasional (JKN). Implemented in 2014, the goal of JKN is to extend health care coverage to the entire population of Indonesia under a 5-year rollout plan.

As Indonesia's population is forecasted to reach 257.5 million by 2019, the expansion of access to health care creates a landscape of vast opportunity for pharmaceutical companies. Of particular relevance will be the market for generic drugs, as the organization charged with administering JKN, Badan Penyelenggara Jaminan Sosial (BPJS), has mandated that 92 percent of drugs on the Essential Drugs List will be generics. Commenting on the opportunities that JKN will afford Indonesia's pharmaceutical industry, Dr. Johannes Setijono believes that "pharmaceutical growth will continue to be strong, and likely will be even stronger than current predictions." Other industry stakeholders are equally optimistic about the market's growth potential. On this topic, Richard Prayogo, associate business unit manager of Anugerah Pharmindo Lestari (APL), one of Indonesia's leading pharmaceutical distribution companies, comments that "in the coming years it is forecasted that 80 to 81 million new people will have their health subsidized by the government. The market is growing larger and so are the opportunities for distribution companies."

As JKN encourages growth within Indonesia's market for pharmaceuticals, BPOM is taking steps to ensure that improved access to health care is achieved in a responsible way. BPOM has two objectives within the pharmaceutical industry: "to protect Indonesian public health and to increase the industry's competitiveness on a global scale", says Dr. Roy Sparringa, chairman of BPOM. Under this dual focus, BPOM strives to promote a transparent regulatory environment for pharmaceuticals and adheres to an agenda of risk-based drug control, ensuring that only high-quality pharmaceuticals are brought to market. In order to enforce its presence within the industry, BPOM oversees rigorous pre-market and post-market control activities; a process which drives continuous improvement within the industry. Providing adequate oversight to Indonesia's pharmaceutical industry requires significant manpower, and due to contemporary market trends, BPOM intends to grow its workforce by 10 percent in 2015.

Despite BPOM's efforts to create a transparent regulatory environment, navigating the pharmaceutical industry's regulatory framework is inherently difficult due to the lengthy approval process required for bringing products to market. Dr. Sparringa describes BPOM's approval process for pharmaceuticals as follows: "There are two categories of drugs in Indonesia: new drugs, in which the active substance is not yet approved in Indonesia, and generic drugs, in which the active substance has been approved in Indonesia. The drug registration process and its subsequent timeline vary according to drug types/categories. The shortest timeline for drug registration in Indonesia is 100 working days, which applies among others to essential generic drugs and drugs that target national health programs. The next timeline is 150 working days, which applies to branded generics. The longest timeline, 300 working days, applies to new drugs as they require extensive evaluation before issuance of marketing authorization. BPOM's evaluation of pharmaceuticals is based upon evidence of the efficacy, safety, and quality of the drug."

Under the drug approval process, generics are afforded the shortest period of review, which bodes well for imminent demand trends in this field. Al-

> "In the coming years it is forecasted that 80 to 81 million new people will have their health subsidized by the government. The market is growing larger and so are the opportunities for distribution companies."
>
> - Richard Prayogo, Associate Business Unit Manager, Anugerah Pharmindo Lestari (APL)


Image: Genero Pharmaceuticals

ternatively, the longest approval period is for innovative drugs, which has had the effect of stifling their development within the market.

Although the timeframe for approvals may seem burdensome to pharmaceutical manufacturers, it has had a measured impact on improving the quality of pharmaceuticals produced by the industry. Consequently, in the years to come it is expected that BPOM will continue to advance the stringency of its regulation for the pharmaceutical industry. According to Amien Sunaryadi, partner at Ernst & Young Indonesia (EY), "Indonesian pharmaceutical regulations are not as stringent as their counterparts in the U.S. or other western countries; however, they are consistently being developed and becoming stronger."

As Indonesia's pharmaceutical industry continues to develop alongside demand trends, it will be imperative for manufacturers to navigate evolving regulation in a cost-effective way, bringing products to market that are affordably priced while not sacrificing quality; this will be the key for manufacturers that wish to remain competitive in the market. •

> "Indonesian pharmaceutical regulations are not as stringent as their counterparts in the U.S. or other western countries; however, they are consistently being developed and becoming stronger.
>
> - Amien Sunaryadi, Partner, Ernst & Young Indonesia (EY)"

Roy Sparringa, PhD.

Chairman
NATIONAL AGENCY FOR DRUG AND FOOD CONTROL (BPOM), REPUBLIC OF INDONESIA

BPOM is a governmental organization committed to the control of Indonesia's drug and food industries. How does BPOM fit into Indonesia's governmental network and what is its role in the pharmaceutical industry?

BPOM was formerly under the jurisdiction of the Ministry of Health of the Republic of Indonesia. However, since 2001, based on the Presidential Decree No. 103, it became an independent National Agency for Drug and Food Control, which is known in Indonesia as Badan Pengawas Obat dan Makanan (BPOM), and reports directly to the President of Indonesia. BPOM works in close coordination with the Ministry of Health in national public health system. In the context of pharmaceuticals, BPOM has two principal objectives: (1) to protect Indonesian public health and (2) to increase the industry's competitiveness on a global scale. BPOM is staffed by approximately 4,000 employees, and expected to grow by 10 percent in 2015.

How does BPOM achieve its goal of protecting the Indonesian public and increasing the pharmaceutical industry's overall competitiveness?

BPOM operates on the principal that Indonesian pharmaceutical products should be uncompromisingly safe, of high quality, and effective. BPOM enforces this edict through meticulous pre-market and post-market control activities and seeks to strengthen Indonesia's regulatory system by focusing on a policy of risk-based drug control. Additionally, cost-compliance is a major consideration for BPOM's activity, as our goal is to advance the industry while bringing companies alongside its development.

What is included in BPOM's pre-market and post-market control activities?

BPOM's pre-market evaluation focuses on transparency, timelines, and quality standard. Uncertainty is not conducive to industry activity, so creating a transparent environment is an ongoing objective. BPOM establishes specific timelines for the registration process of different drug types and categories. While transparency and clear timelines are significant, quality assurance remains a paramount concern and focus of BPOM's overall activity. Post-market evaluation is increasing in importance as well given the global era. BPOM inspects the industry's entire value chain, monitoring the operations of companies who are involved in the development, production, laboratory testing, distribution, and retail of pharmaceuticals to ensure the compliance to GCP, GMP and GDP.

There are over 200 manufacturers in Indonesia's pharmaceutical industry. What is the breakdown of companies and their activities?

Indonesia's pharmaceutical industry is composed of 70% domestic companies and 30% multinational companies. Within this landscape, 95% of Indonesia's drug volume comes from domestic companies, while the remaining 5% is multinational. Additionally, 75% of the industry's value comes from domestic companies and 25% comes from multinationals.

One of BPOM's greatest responsibilities is managing Indonesia's drug registration process. Please provide an overview of the process and its associated timelines.

Before any drug is marketed in Indonesia, it must be approved by BPOM through Indonesia's drug registration process. There are two categories of drugs in Indonesia: new drugs, in which the active substance is not yet approved in Indonesia, and generic drugs, in which the active substance has been approved in Indonesia. The drug registration process and its subsequent timeline vary according to drug types/categories. The shortest timeline for drug registration in Indonesia is 100 working days, which applies among other to essential generic drugs and drugs that target national health programs. The next timeline is 150 working days, which applies to branded generics. The longest timeline, 300 working days, applies to new drugs as they require extensive evaluation before issuance of marketing authorization. BPOM's evaluation of pharmaceuticals is based upon evidence of the efficacy, safety, quality of the drug. All registrations must provide comprehensive information and data to prove the quality, safety and efficacy of the drugs meet the standard and requirement, otherwise the drug registration will be rejected.

What are current approval levels for drug applications?

The roughly estimation of approval rating for drugs in Indonesia is 85 percent. If a drug is rejected, there is an appeal mechanisms provided for applicant to convey their argument and clarification towards the rational of rejection.

The global market for drug registration is quite complex, with different countries often having unique regulatory requirements. What does this mean for Indonesian companies targeting export markets?

Indonesia's population is 250 million and the total population of ASEAN is 600 million. Opportunities abound in both domestic and export markets; but the question is how manufacturers meet regulatory requirements. There are working groups trying to establish collaborative standards, but for now, drug regulation is still monitored on a country-to-country basis.

In closing, do you have any final message for our readers?

BPOM welcomes investment into Indonesia's pharmaceutical industry. Indonesia's business climate for pharmaceuticals is conducive to growth, and BPOM is committed to ensuring that quality medicines are produced for the Indonesian people. With the launch of universal health coverage, the challenge for the industry will be to create affordable medicines that do not sacrifice quality. •

Amien Sunaryadi

Partner, Fraud Investigation and Dispute Services
ERNST & YOUNG INDONESIA (EY)

Ernst & Young (E&Y) is a well-established international name for business advisory services. Please provide a brief overview of E&Y's work in the Indonesian pharmaceutical sector.

E&Y offers a variety of services to Indonesia's pharmaceutical sector. E&Y's Fraud Investigation and Dispute Services (FIDS) division offers investigational services to monitor fraudulent internal and external activity, by using computer forensics and data analytics as tools to assess harmful trends. E&Y's FIDS division also offers preventative services, such as fraud risk management and assessment. For this aspect of the business E&Y assesses the probability of fraud and develops maps that characterize the hierarchy of risk that companies face. Based upon our analyses, we are then able to advise clients on preventative measure they can take to mitigate risks and improve their business.

Another large part of E&Y's work in the pharmaceutical sector is in regulatory compliance. E&Y reviews compliance with both corporate regulations and the Foreign Corrupt Practices Act (FCPA) to ensure that clients are operating in accordance with the law. When multinationals look to enter the Indonesian market, they can do so by investing directly in the country or by acquiring existing domestic companies. If they elect to do so through acquisition, the financial and human resource position of the acquired company may be unclear; our transaction advisory services are able to help elucidate this process. E&Y is knowledgeable about employment regulations and compliance measures and provides quality services along all of these areas.

What are some case studies of the advisory services E&Y provides to its clients in the pharmaceutical sector?

Most of E&Y's experience in the pharmaceutical sector stems from working with multinational companies, but we also provide advisory services to domestic manufacturers and distributors. There are many regulations tied to the pharmaceutical industry. For instance, it is prohibited to offer bribes in exchange for the promotion of pharmaceutical products. This is one area in which we provide guidance. Specifically within the FIDS division, we have used our investigative tools to identify strange expenditures for some of our pharmaceutical clients. Accounting records are often not documented with enough detail, so our team audits these cases and looks for informational discrepancies. Inefficiencies, such as accounting discrepancies, drive up the final cost of our clients' products. E&Y addresses inefficiencies through thorough investigation and by doing so reduces unnecessary costs for clients.

Indonesia's pharmaceutical industry is growing at a tremendous rate. How closely is E&Y monitoring developments within the sector?

The pharmaceutical industry is important to E&Y, and we are actively seeking to increase our operations in the sector. Pharmaceutical regulations are very complex and compliance within the industry is quite demanding. For this reason, many companies can benefit from E&Y's services. E&Y is an independent party that provides companies with advisory services, helping them navigate the pharmaceutical industry's complex regulatory framework.

How does Indonesia's regulatory climate compare to other countries?

Indonesian pharmaceutical regulations are not as stringent as their counterparts in the United States or other western countries; however, they are consistently being developed and becoming stronger. Compliance follows this same trend. The position of Ernst & Young is to support the industry as a whole and to make it more compliant. As the industry adopts higher levels of compliancy, regulators will be able to increase standards, and the industry will ultimately benefit as its standards evolve to meet international levels.

How does Indonesia's regulatory playing field for pharmaceuticals differ for multinational and domestic companies?

The regulatory playing field is imbalanced because multinational companies must comply with FCPA and other international regulations, while domestic companies are not required to do so. Indonesia does have anti-corruption laws that are as strong as FCPA, but enforcement levels are much weaker. However, this does not necessarily benefit local companies. From a perspective of compliance, businesspeople often view compliant companies as better companies, preferring higher cost and higher quality to the alternative. Consequently, business people of this mindset will choose multinational companies over domestic companies, as they are often more compliant.

As you mentioned before, regulations are complex in Indonesia's pharmaceutical industry. How important will compliance be to the future growth of the sector?

It is apparent that the Indonesian government wants to increase healthcare access for its population. Additionally, purchasing power is increasing across the board for the Indonesian population. This is an important trend for the pharmaceutical industry because as the purchasing power of Indonesian consumers increases, so will their consciousness. This will have the effect of increasing demand for compliant products. This is good for multinational companies that are looking to invest in Indonesia, and E&Y has the international name and local knowledge to help these companies succeed in Indonesia's pharmaceutical sector. •

Market Composition and Production Units: Indonesian Players Today

"Imedco is a company that we recently took over in May 2014. We are in the process of fully renovating and transforming Imedco, both in terms of its facilities and operations. We are making a new layout of the production facility and are replacing all the machinery, water systems and air handling. Essentially, we are giving the company a complete face-lift so that we can improve upon the quality of our existing products and also add new products that we are in the process of developing. We have further developed a new research and development laboratory."

- Suryanto,
President Director,
Imedco

Image: Genero

Multinational Penetration Among a Strong Suite of Indonesian Players

The Factors Enabling Multinational Companies to Thrive

A distinguishing factor of Indonesia's pharmaceuticals landscape is the dominance of domestic companies over multinational corporations (MNCs). Indonesia is the only ASEAN economy to feature its strength and development through an exceptionally high percentage of local manufacturers. Domestic firms in the private sector account for 70% of the industry's total activity, and supply 95% of drug volumes, whereas only the remaining 5% are supplied by producing MNCs.

Despite the weakening presence of MNCs over the years, key segments in the industry remain in which a handful of multinationals continue to be market leaders. First, due to changing health care conditions within the country, a severe need for new products, such as diabetes medication or nutritional products, has arisen and MNCs are poised to meet it. Second, MNCs bring high quality drugs priced competitively due to cost cutting manufacturing across several nations. Third, these companies tend to possess a strong infrastructure for research and development, which has spearheaded them to cater to the market with high-value innovative drugs. While domestic companies dominate the market for low cost generic drugs, multinational players have taken over high-demand, specialized segments and pharmaceuticals services ranging from capsule provision to instrumentation and packaging.

From the perspective of MNCs, despite the fact that the regulatory framework is designed in favor of empowering Indonesian companies, these firms have chosen Indonesia as an investment destination due to the recent and forecast growth trends and the high potential these offer. Indonesia's pharmaceuticals sector has expanded by 85% from 2007 to 2013 (Pacific Bridge Medical) and received another boost from the rollout of general national health insurance beginning in 2014. Haeri Roh-Schmidt, general manager of prominent multinational DSM Nutritional Products Indonesia, said: "Pharmaceutical companies are recognizing Indonesia as a promising country with consistent double-digit growth. Although Indonesia is complex and difficult, with diverse needs and a challenging infrastructure, it is also a very exciting place to be with vastly growing pharmaceuticals and health care companies."

MNCs have found the regulatory framework in favor of local Indonesian companies a strong barrier against their commercial success, rendering it hard for a newly entering multinational to outshine local firms as preference through subsidies and tax structure is clearly given to the local. Hari Nurcahyo said: "Being a multinational company, we need to be wary of mass products because preference will be given to local manufacturers if the product can be created domestically."

The solution for a multinational to survive in this market lies in product differentiation at a competitive price. A cardinal industry segment where multinational conglomerates have provided differentiated drugs is in diabetes care. Global pharmaceutical giants such as Sanofi and Novo Nordisk, the largest insulin manufacturing company in the world, have established themselves as market leaders within this space. Sandeep Sur, president director at Novo Nordisk said: "We know that among the world's top ten diabetic countries, Indonesia ranks at number 7."

Demand in the market is driven not only by a need for drugs but also for information as the illness is becoming common among the masses. Eric Ng, president director of Sanofi Group Indonesia, said: "Over the next 10 years Indonesia will become one of the world's top-five countries in terms of diabetes patient's numbers, and Sanofi is well positioned to address growing public demand for this kind of treatment."

"Pharmaceutical companies are recognizing Indonesia as a promising country with consistent double-digit growth. Although Indonesia is complex and difficult, with diverse needs and a challenging infrastructure, it is also a very exciting place to be with vastly growing pharmaceuticals and health care companies."

- Haeri Roh-Schmidt,
General Manager,
DSM Nutritional Products Indonesia

Image: Combiphar

MARKET VALUE DISTRIBUTION IN INDONESIA

Source: BMI

Multinationals	25%
Local	75%

A second, high-innovation division driven by MNCs is nutrition and micronutrient supplements. As Indonesian consumers become health conscious, demand has increased for preventive health care. Haeri Roh-Schmidt, general manager, DSM Nutritional Products Indonesia, said: "In terms of its needs, Indonesia possesses a unique dichotomy. On the one hand, there is obesity and over-nutrition, but on the other hand there is malnutrition. Dietary supplements such as those developed by DSM contribute more to the preventive health care side rather than in the form of traditional pharmaceuticals. By providing micronutrient supplements to a population that needs healthful products, we are simultaneously aiding in solving the problem of micronutrient deficiencies, an important priority for DSM Nutritional Products."

Another distinguishing feature of the multinational firms that have been able to reap the benefits of Indonesia's growth curve lies in their sophisticated approach to innovation. Bringing new products into the market is vital in order to better define their place. Sandeep Gaikwad, president director of ACG Indonesia, said: "ACG ploughs back heavily into R&D, and this is evident by the fact that today we hold 38 patents."

The outlook for MNCs looking to enter Indonesia seems promising given the growth curve, but the likelihood for commercial survival is higher for businesses whose foremost competency lies in supplying a niche market or high-innovation non-generic type patented products. There is space in the market for companies committed to bringing new products or increased knowledge about existing products through higher standards of research and development as market demands develop.

> "We understand that there are three to four gaps such as awareness, doctors' education, capacity building and access. We target these issues by finding ways in which we can increase diabetes awareness in the country and implement programs to educate and train doctors. Given the lack of endocrinologists, we take a particular interest and assume responsibility towards providing this education."
>
> - Sandeep Sur, President Director, Novo Nordisk Indonesia

Sandeep Sur

President Director
NOVO NORDISK INDONESIA

Can you give a brief background of Novo Nordisk and why you chose to come to Indonesia?

Novo Nordisk is the largest diabetes care company and the largest manufacturer of insulin in the world. I was the country manager for Novo Nordisk in Bangladesh in 2007, when I was moved in order to strengthen our presence and enhance business success. The company saw tremendous potential in Indonesia, as it is the fourth most populous country in the world. It was difficult when I first arrived, as Novo Nordisk was not performing well. I had to dismantle numerous systems and push our growth. I am proud that our compounded annual growth rate (CAGR) is now 35%, and we are one of the fastest growing affiliates in our region.

Has your growth been due to a change in business strategy or correlated with the market's growth in diabetes?

In a way, the market has helped us grow. Indonesia has a population of 250 million, out of which seven million people are diabetic. The market is growing, but we are growing faster. In this region, we have identified eight countries where our investments are ahead of the curve, which has been the case for three years. Our success comes from the fact that we look at gaps in the country. We know that among the world's top 10 diabetic countries, Indonesia ranks number seven.

Could you elaborate on these gaps? What is it that you see in the market and what steps are you taking to address your observations?

We understand that there are three to four gaps such as awareness, doctors' education, capacity building and access. We target these issues by finding ways in which we can increase diabetes awareness in the country and implement programs to educate and train doctors. Given the lack of endocrinologists, we take a particular interest and assume responsibility towards providing this education.

We work closely and actively with the Ministry of Health, policymakers, associations and the hospital association in the country. We are collaborating with the regional government, where we have a leadership forum at the regional and national levels and invite all stakeholders for consensus building on how diabetes should be treated and handled. Since the illness is an important civic and health care priority for the government, we utilize a top to bottom approach engaging stakeholders at every level and playing our role as a responsible medicine provider in the field. Defeating diabetes is not only our business; it is our passion. This reflects in our activities and engagements. In fact, we were awarded the Frost and Sullivan Award for Best Corporate Social Responsibility last year. The company found that Novo Nordisk is employing a comprehensive approach in its focus in defeating diabetes. We are working in both rural and urban areas to reach every corner of Indonesia and spread our initiatives as widely as possible.

Among the various steps that Novo Nordisk is taking to combat diabetes, which is most significant?

Creating awareness and patient education are the most important. In Indonesia, patient education is of utmost importance due to the misconceptions surrounding the disease. This can be overcome with proper education. We have been working with the ministry as well in order to ensure the spread of knowledge, and make recommendations about steps that need to be taken.

Given that the government is likely taking steps to reduce the incidence of diabetes, will this not reduce your need within the country?

Despite efforts taken to reduce its incidence, the prevalence of diabetes is increasing. This is not because we are not doing enough, but due to the changing social dynamic. As people are growing richer, a sedentary lifestyle and poor eating habits have taken over. People enjoy rich foods in excess, which is increasing the number of diabetics. Furthermore, in terms of our need, the diagnosis of diabetes itself will increase once the government's universal health care system is fully implemented. In fact, we will be able to diagnose more people that have diabetes and address the cure accordingly.

Do you have a closing message for our readers?

Novo Nordisk is a leading multinational in diabetes care. My final message is that Novo Nordisk is here to stay. Given our nature as a socially responsible company, we will continue working closely with the government, who we have had an excellent experience with. In future, we anticipate utilizing our diverse portfolio of products for the betterment of the country. We have invested heavily in R&D, and this has benefitted us. We look forward to introducing new products and continuing with our programs in order to improve the diabetes scenario in Indonesia. •

Eric Ng

President Director
SANOFI GROUP INDONESIA

Sanofi is a European-based pharmaceutical company with one of the largest reaches in the world. Please describe the evolution of its presence in Indonesia.

Sanofi was one of the first multinational pharmaceutical companies to set up operations in Indonesia back in the 1950s, and in 1972, we began our manufacturing operations. In the context of our parent company's overall operations, Sanofi Indonesia is a full-scale subsidiary: we have business units dedicated to manufacturing, pharmaceutical operations, vaccines, and consumer health care. Overall, we have around 800 employees in Indonesia, and based upon our activity, we are placed as one of Indonesia's leading multinational pharmaceutical companies.

What product area does Sanofi consider its specialty in Indonesia?

Being a multinational company, Sanofi holds an advantage from a product perspective, having world-class quality standards. Overall, Sanofi's activity in Indonesia is diverse and spans various therapeutic areas. There are three key business drivers to our presence in Indonesia: diabetes, vaccines, and consumer health care.

Globally, Sanofi is a leading provider in the treatment of diabetes. Our products include a variety of insulin, both innovative and low-cost alternatives, as well as oral tablets. Additionally, as a value-added service, we provide regular support to experts within the industry through training initiatives. In the future we would like to explore the application of diagnostic kits for diabetes in Indonesia. Over the next 10 years, Indonesia will become one of the world's top-five countries in the number of diabetes patients, and Sanofi is well positioned to address growing public demand for this kind of treatment. Sanofi is also a world-leader in the production of vaccines: pediatric vaccines; flu vaccines, for which Sanofi is the largest producer in the world; rabies vaccines, for which Sanofi is the largest provider in Indonesia; and, in the next couple of years, Sanofi will launch a vaccine for dengue fever, which will be the first of its kind in the world. Almost half of the world's population is at risk for contracting dengue fever, so Sanofi is very excited about bringing this innovative product to market. Finally, consumer health care is important to Sanofi, as it is one of the world's top-five producers of over-the counter (OTC) products. In Indonesia this segment is not yet fully developed, so OTCs will be a key growth market going forward.

With the implementation of BPJS, massive changes are underway in Indonesia's pharmaceutical sector. How does Sanofi develop growth strategies and adapt its business model to account for changes within the market?

The last five years have been relatively stable, but recent market developments have presented significant changes to the industry as a whole. Given Indonesia's evolving climate for pharmaceuticals, Sanofi's strategic drivers will remain the same, but we will also remain open to addressing the needs of the market. Sanofi looks at how the market could evolve, while making sure that we have products available to support the public sector. For instance, if BPJS requires massive amounts of insulin for the treatment of diabetes, Sanofi wants to be there and will be ready to support the government.

The Indonesian government has stated that it wants to double health care spending over the next five years. How will it execute this vision?

The proposed increases in health care spending will be good for Indonesia. While not every dollar will be spent on medication – medicines typically account for less than 10% of these funds – the government will likely spend the majority of its health care budget on much needed health care infrastructure. The development of primary health care systems and doctors will be key features to the plan's execution.

What will Sanofi's role be in bridging Indonesia's health care gap?

Sanofi could play a large role in educating physicians, in a similar way to the services that we currently provide for diabetes. Sanofi will also focus on developing innovative medicines in Indonesia, as we benefit from Sanofi's global R&D network. However, the government needs to establish an environment where innovative medicines are encouraged. In doing so, Sanofi could work with the government to create innovative solutions that would bring better long-term solutions to Indonesia's health care system. Additionally, Sanofi would like to further its impact in Indonesia by partnering with local companies. No such partnerships currently exist, but we are considering this avenue, as collaboration has the potential to bring greater value to the people of Indonesia.

It is forecasted that demand for pharmaceuticals in Indonesia will grow substantially. What developments need to occur within the industry?

Indonesia's pharmaceutical industry has huge potential, but its health care sector is not yet fully developed. There are factors that could assist its development, such as heightened levels of foreign investment, but overarching regulation is deterring this. In the long-term, Indonesian pharmaceutical manufacturers will need to assess how they can climb the value-chain and diversify away from generics and into innovative products. This directly links to Indonesia's regulatory environment: BPOM should have mechanisms in place that encourage R&D and its byproduct, innovative products. •

Haeri Roh-Schmidt

General Manager
DSM NUTRITIONAL PRODUCTS INDONESIA

Could you tell us about DSM's presence in Indonesia and its various business divisions?

DSM is one of the world's largest and most comprehensive ingredient company covering life science as well chemicals businesses. It is a diversified company, within which DSM Nutritional Products is the largest division of the DSM business as a whole. The business has sales of more than €4 billion and a long tradition of innovation that benefits people and the planet. The company is a leading supplier covering human health, animal health and personal care industries.

I represent the human nutrition and health aspect, which is particularly significant from the food, dietary supplement and pharmaceutical ingredient perspective. We are structured geographically through regional offices. Asia Pacific (APAC) is the largest, covering everything east of Russia up to Oceania, excluding China. APAC comprises of the ASEAN countries, Japan, New Zealand and is headquartered in Singapore.

Why has DSM Nutritional Products chosen Indonesia as a destination for its businesses?

Companies are recognizing Indonesia as a promising country with consistent double-digit growth. Although Indonesia is complex and difficult, with diverse needs and challenging infrastructure, it is also a very exciting place to be, with growing pharmaceuticals and health care companies.

In terms of its needs, Indonesia possesses a unique dichotomy. On the one hand, there is obesity and over-nutrition, but on the other hand there is malnutrition. Dietary supplements such as those developed by DSM contribute more to the preventive healthcare side rather than in the form of traditional pharmaceuticals. By providing micronutrient supplements to a population that needs healthful products, we are simultaneously aiding in solving the problem of micronutrient deficiencies, an important priority for DSM Nutritional Products. Our motto is "Bright Science, Brighter Living," and as a socially responsible corporation we like to play a role in creating Brighter Living through contributions in nutrition for generations to come.

DSM Nutritional Products caters to the population's health care needs through a diverse product line. Please tell us about some of your products within the realm of nutrition and their role.

We are the most comprehensive ingredient company supporting this industry. We have a diversified vitamin portfolio, both fat-soluble and water soluble, carotenoids and beta-carotene, a wide range of nutraceuticals and lipids such as unsaturated fatty acids and omega 3s. We are the only micro nutrition company that has expertise in all the aforementioned categories.

In addition to your product line, what are your areas of expertise and core competencies? Who are your key clients?

Our expertise lies in our manufacturing, traceability and accessibility that make it possible for pharmaceuticals companies to use our ingredients with confidence. We provide to dietary supplement companies located in various parts of Indonesia such as Jakarta and Bandung and our operations are spread throughout the industry.

Clients recognize us as a quality player. Being an ingredient company, we take pride in knowing the components that go into our products. We are research-driven, constantly striving to understand the health benefits both a clinical level and chemical components of our ingredients. Our service sets us apart. We might be a bit more expensive, but ultimately provide quality in product development, service and information to pharmaceuticals companies.

What is the scope for a multinational like DSM and what are your plans for the future?

We have noticed the government's focus on health improvement, and likewise Indonesia's consumers are waking up to take ownership of their health. There is a scope for us because our aim is not only to address symptoms but also provide nutrition in a preventive sense. We provide naturally sourced ingredients that can be readily developed. As we are focused on development, there is a place for us as leaders in innovation as well. For example, folic acid deficiency is a prevalent problem, and the World Health Organization has also recognized this. However, adding folate to foods does not address the problem because ultimately it boils down to how well the body metabolizes it. It does not matter how much one consumes; if their genetic background does not allow for effective use of folate, the benefits will be limited. Methyltetrahydrafolate is a compound that we can offer to allow improved metabolism of folate where consumers can benefit from the effects. Continuing to innovate around ingredients is how DSM makes a difference – we possess the corporate infrastructure, a dedicated vision and assigned expertise around the science of the ingredient.

What is your final message to our readers?

As a company, we have collected expertise globally that our customers can benefit from. We add value. In terms of the growth story, we are excited to be a part of Indonesia's development and improved consciousness towards preventive healthcare. We are committed to bringing affordable nutrition that is easily accessible and distributed. We will continue to strive, and continue to partner with companies that share our vision. •

Alfons Sindupranata

Managing Director
GENERO PHARMACEUTICALS

Genero Pharmaceuticals is part of Arya Noble Group. Please provide an overview of Arya Noble's activity and describe the role that Genero plays within its network.

Arya Noble Group consists of three companies in its healthcare arm: Pt. Erha Clinic Indonesia, Pt. Genero Pharmaceuticals, and Pt. Pharmacore Labortories. Erha was the first to be conceived and is focused on clinically-based dermatology. At its inception in 1999, Indonesian dermatology was broken into two categories: beauty clinics and physicians practicing dermatology. Erha pioneered a new dynamic for the dermatology sector, combining these disparate segments in hybrid clinics. The business model was successful and 65 branches were established. The following year, in 2000, Genero was established as an upstream provider to support Erha in its growth. Based upon Genero's growth prospects, Pharmacore was established thereafter, its focus being on the sales and marketing of ethical products, while not being limited solely to dermatological solutions. Arya Noble Group is not like most integrated companies, as its three healthcare companies are distinct units each with its own expertise.

Genero was founded to support the growth of Erha in the dermatology sector. What is the company's focus today?

Genero's activity can be divided into two categories: manufacturing and R&D. In 2010 Genero experienced a significant milestone in its history, switching its focus to become Indonesia's first independent Contract Development and Manufacturing Organization (CDMO). This business model exists in other countries, where CDMOs have very strong R&D capabilities and the capacity to manufacture customers' brands, but this type of operation is unique to Genero in Indonesia. Indonesia has many CDMOs engaged in the cosmetic industry, but none of these companies are GMP certified. On the other hand, almost all of Indonesia's pharmaceutical companies are GMP certified, but none offer exclusive CDMO services to their customers. The only avenue through which they offer CDMO services is through toll-manufacturing, and this is solely with their idle capacity. This is where Genero has found unique positioning in the market.

What is the breakdown of Genero's manufacturing facilities and customer base?

Genero has two manufacturing facilities located in Cikarang, both of which are GMP certified. Additionally, we have plans to build another facility in 2015 in order to satisfy forecasts of increases in business growth. Genero does not manufacture its own products and each of its customers is treated with equal importance. As CDMO operations are a relatively new stance for Genero, the majority of our operations are still attributed to the production of Erha's and Pharmacore's products, but the external customers' portion are growing significantly from time to time. Genero is committed to excellence in quality standards, which is apparent in the portfolio of companies we work with. In terms of product specialization, our facilities are most renowned for manufacturing semi-solid products, but we also have strong capabilities for liquid and solid products.

What are Genero's activities in research and development (R&D) and in the formulation process?

In terms of R&D, Genero is more focused on the development or formulation of products. Research is not currently a strong point, but is a strategic growth area. That being said, due to Arya Noble Group's specialization in dermatology products, this is also the core competency of Genero's development efforts and consequently most of Genero's solutions fall under the category of cosmeceutical. Most of Genero's innovative products are developed by the team of Dr. Ronny Handoko, who is responsible for pre-formulation, research, and development activities. Dr. Ronny is one of Indonesia's leading dermatologists and has a good vision for product development and healthcare solutions for customers. Under his guidance, dermatology remains Genero's competitive strength for product development.

Research will be a key growth area for Genero's business. What other growth avenues has Genero identified?

Genero is uniquely positioned, as it is Indonesia's only full-fledged pharmaceutical CDMO. Toll manufacturing exists in Indonesia, but this type of activity is unable to compete with our services. Indonesia lags behind other countries in terms of CDMO development, so opportunities are bright. Furthermore, labor costs are quite low so there is ample opportunity for multinationals to leverage market conditions and our unique services to manufacture their products with us. One of Genero's largest objectives in the next five years will be to take our operations global. Under this timeframe we hope to become a regional player and to attract global customers. In order to compete on the global stage we plan to allocate resources towards developing the research aspect of our business. Furthermore, we will seek to enhance our human capital capabilities so we are prepared to handle further growth.

In closing, do you have any comments on Indonesia's pharmaceutical industry and the role that Genero will play?

Industry benefits from companies that focus on their core competencies. Specialization elevates markets and enhances business competitiveness. Once Indonesia's pharmaceutical industry goes in this direction, Genero will be well positioned, as it knows how to leverage its core competencies. •

Sandeep Gaikwad & Harsha Kolluru

SG: Regional Manager
HK: Sales Manager
ACG INDONESIA

ACG is a powerful multinational with presence in several countries. Why did you come to Indonesia, and could you tell us about your operations?

SG: Our presence in Indonesia's market dates back to 2001. We entered the market at an opportune time, when it was recovering from financial crisis. Our team had done its research, and we identified Indonesia as a key market. After the crisis, the industry was struggling to find resources due to the devaluation of the currency. We entered the market with our products, which had right technology at an affordable price. What distinguishes us is our business strategy. Unlike other players that enter a market through a distributor, we started our own subsidiary company in Indonesia. Although ACG's key manufacturing base is in India, which, along with a factory in Croatia, produces over 60 billion capsules annually, we have fifteen companies today, each of which supplies its own product range. Few companies today invest in placing employees within different markets, but with ACG there is no agent interfacing the customer. We do not have a two-tier framework where information can potentially get lost in the middle. We service our clients directly, which is why we are present in Indonesia, in addition to Brazil, China, Europe, and other global markets. This has helped us connect with our clients more effectively and support and provide services to them promptly.

What is your core business, and which segments of the market do you cater to?

SG: Our core business is catering to the pharmaceuticals, food, and cosmetics segments. Within the pharmaceuticals realm, we supply empty hard gelatins capsules, packaging films, machines right from fluid bed granulation, tablet coaters, tablet press, capsule fillers, blister packing, cartoning, shrink wrapping, and case packers. We also provide formulation assistance and regulatory support to our clients. We provide comprehensive solutions and direct support in servicing the industry.

You partner with your clients at every step by offering services across the value chain. Which segment of the chain is most promising, or most demanded by the Indonesian market?

SG: Our core products for the Indonesian market are gelatin capsules, films. From the equipment end, this means capsule fillers and packaging machines. Today, we are the leading global supplier of secondary packaging machine to the Indonesian market. The capsules business began well initially, then slowed a few years ago, and now is starting to re-establish itself. As we have grown gradually over the years, we have been consistent in building our brand. We offer a full basket of products and serve as solutions providers for customers. We have expertise across different segments and understand the chemistry of empty capsule, the filler, and processing machines. We know how a formulation will behave in capsule filler or tablet press and can therefore provide all-round expertise. During the production cycle, we are here as a one stop solutions shop, with direct service within the country, whenever the customer faces a challenge.

HK: There are a few other factors that define ACG as a unique, leading multinational. Several pharmaceuticals companies from the Far East, China and Europe dominate the industry. Europeans are strong in their provision of technology and cutting edge research, but we have been able to catch up to them in this respect while retaining our competitive costs. India is known for being a competitive, low cost manufacturer, not because the quality is low, but because of the volume of production, efficiency, and pace of the industry in the country. We have been able to retain this competitive price while keeping up with European providers in terms of technology. Our healthy combination brings us recognition and power as a brand and allows us to cater to all needs across the market.

What is your future plan for ACG in Indonesia?

SG: Our immediate plan is to continue growing our presence in Southeast Asian markets, and we anticipate setting up an additional facility in Thailand this year. Our directors are visionary and have guided our presence across world markets. In Indonesia, we see a stable economy and expect growth through several prospects. Our products have applications beyond pharmaceuticals, in food and cosmetics as well, and we look forward to catering to customers outside the industry.

HK: We have tilled the soil and sown the seeds as far as investment in Indonesia is concerned. We understand that benefits come in the long-term and are now at a point where we are ready to reap the benefits of our work. We see the drivers for growth such as a large population and increasing demand and are confident for our company's future in Indonesia. We have the right set of products, the proper approach and global expertise. We are hoping that the fastest growth will come in the next five years. •

Olivier Loelliot

GM Enterprise Solutions
GE HEALTHCARE LIFE SCIENCES

GE is a renowned international business force across a diversity of industries. Could you tell us about its involvement in pharmaceuticals, particularly in South East Asia?

GE Healthcare Life Sciences is involved in the manufacturing of more than 90% of marketed Biopharmaceutical product in the world via its equipment, cell culture media and chromatography resins. With its Enterprise Solutions that enable customer to build their own Biopharma manufacturing capabilities, GE is particularly active in Asia and South East Asia in particular. The aim is to help local manufacturing of life saving products such as Vaccines, Insulin and Monoclonal Antibodies. GE is collaborating with different local actors to make this happening.

Could you tell us about GE Healthcare's operational goals specifically within Indonesia?

Indonesia today is still primarily a genomics market that is in the process of making transition to be a proteomics market – this is when the Bio Pharmaceutical development will really happen. Our goals are therefore, two-fold.
One: Be the driver of this change and accelerate this transition and in the process, enable the local players to come up to speed in the field of protein sciences, take on the challenges and drive self-sufficiencies around vaccines, plasma etc.
Two: Partner with the local institutions and help develop the human capital by people up-skilling in the protein sciences and cell therapy areas. For Bio-Pharmaceutical growth to happen at Indonesia, qualified people are needed to run research labs and manufacturing plants.

What are the key products and services provided to the Indonesian market, and what is GE's market share?

At GE Life Sciences, we work in 4 broad areas:
Research Tools: We provide expertise and tools for basic research of cells and biomolecules, as well as tools for drug discovery and cell therapy research.
Discovery and Development:
Wide selection of technologies, solutions and services for researchers involved in therapeutic and diagnostic development. Our key brands in this include Whatman range and Biacore.
Bioprocessing:
From process development in our advanced Fast Trak Labs to full-scale bio-manufacturing, we can help you reduce costs and improve productivity. We have end to end capabilities in Upstream and Single-Use, Downstream and provide Integrated Solutions including KuBio and Flexfactory for setting up manufacturing plants.
Quality Testing:
Quality is important; our tools and techniques are used widely in Forensics and HID Tools by agencies across the world.
Indonesia has traditionally been a genomics oriented Life Sciences market thus far. As a proteomics player, our share is close to 10%. But in the proteins segment, we have a market share of about 30%.

Congratulations on the award you recently won by Bioprocess International for 'Excellence in Leadership'. Please share the details of this and GE's laurels for being a global leader in research and development.

This nomination was a recognition of the entire GE Healthcare Life Sciences team passion to support its broad and worldwide customers to produce life saving products. By developing innovative manufacturing Solutions such as KUBio and Flexfactory, GE has been leading the industry to more efficiency and speed to reach its goals.

What are the key challenges and opportunities of your existing market?

There are many more opportunities than challenges simply due to the fact less than 10% of emerging market populations have access to Vaccines, Insulin and other key products like Monoclonal antibodies. Our mission is to change that. We will overcome challenges such as lack of expertise by supplying adequate training and solutions to the right organizations.

What are your outlook and future plans, both for GE Healthcare in South East Asia and Indonesia specifically?

We are going to witness big growth in South East Asia overall including Indonesia. Growth will be driven by increased activities by established players in Singapore and indigenous companies coming up outside Singapore. Outside Singapore, the bio-pharmaceutical growth will be from vaccines, plasma, biosimilars and monoclonal antibodies.
We are working to ensure that we are at the forefront of this growth – by having world-class expertise, training and supply chain infrastructure to be based in Singapore. Overall, it is a very exciting time for us here in South East Asia. •

Jonathan Sudharta

Managing Director
MENJANGAN SAKTI, MENSA GROUP

Menjangan Sakti is an important subsidiary of Mensa Group, responsible for the raw materials aspect of its business. Please describe the evolution of your career up until your current position as the company's Managing Director.

I began my career in the pharmaceutical sector 11 years ago as a medical sales representative. Everyone in the industry should understand the granular details of the business; accordingly, entering the industry in this capacity provided the best possible foundation and ultimate launching point for my career. After extensive training, I worked my way up the ranks and became a business development manager. Later on, due to a series of unforeseen industry-wide corporate jostling, I was offered the position of general manager of commercial operations for Landson. During my tenure at Landson, the company performed well within IMS rankings, improving its position by 10 spots and having two consecutive years of 40 percent growth. We had a very talented team, and this success benefited my career substantially and led to my next position as commercial head of pharmaceuticals, and ultimately to my position today as managing director of raw materials of Menjangan Sakti.

As my background is not in pharmacy, I learned many of the industry's technical aspects from the training that I received early in my career. This development helped shape my knowledge base, which allows me to have technical discussions on pharmaceutical ingredients with doctors, pharmacists, researchers, and other specialists within the field.

Mensa Group is a longstanding giant within Indonesia's pharmaceutical sector. How has the company transformed since its inception?

My father, Jimmy Sudharta, founded Mensa Group in 1975. The company's initial focus was as a trader of raw materials for the pharmaceutical industry. Mensa Group excelled and quickly became the preferred raw materials agent for many pharmaceutical manufacturers in Indonesia. Throughout the 1980s, Mensa group acquired a number of companies, such as Otto Pharmaceuticals and Landson, which helped establish it as a vertically integrated company. By 1986 we acquired a distribution leg for our business and were able to grow through horizontal integration. Diversification across business units has led to Mensa Group's current position as one of Indonesia's preeminent pharmaceutical companies.

What is the current focus of Mensa Group's operations?

Mensa Group is uniquely positioned, as it has four pillars to our business: distribution, raw materials, and two manufacturing facilities. Each business unit is of equal importance to overall operations, which helps diversify our activity and promotes sustainability. We are constantly developing our business model; recently, we merged into the digital space, entering online pharmacy markets and engaging in social media platforms for doctors.

The raw materials sector formed the basis for Mensa Group's creation 40 years ago. How does this pillar stand today?

Mensa Group has diversified its raw materials business to include APIs, food, cosmetic, feed, and materials for other industrial areas. Today, Mensa Group boasts a profile of over 5,000 products in raw materials, with even more finished products on the market. During the company's early years, it focused primarily on sourcing raw materials from American and European principals. Our portfolio has since expanded to include more than 150 suppliers from around the world: about 45% are American and European, while the remaining 55% are Chinese and Indian. Mensa Group has a very comprehensive portfolio of product offerings, which it considers a key organizational strength. Within Indonesia, Mensa Group provides the most complete supply of raw materials for the pharmaceutical industry.

What does the competitive landscape look like for suppliers of raw materials?

In recent years, the Indonesian government has concentrated its efforts on promoting best practices within the pharmaceutical industry. This means that manufacturers should adhere to good manufacturing practices (GMP) and distributors to good distribution practices (GDP), as GMP companies are only as effective as the GDP companies that serve them.

The implementation of national healthcare reforms will have a substantial impact on Indonesia's pharmaceutical sector. How does Mensa group look to navigate this changing environment?

To assess the landscape of opportunities in Indonesia, it is important to assess the country's demographics. Indonesia has the highest cost of distribution in the world. Mensa Group's core competency is as a bridge: we have the capabilities to distribute a range of finished products, from pharmaceuticals to medical devices, to the entirety of Indonesia's population, meeting the demands of Indonesia's national health care program. Mensa Group's first growth position is to help channelize low-cost medicines. Its second overarching focus stems from its production capabilities. Quality is the most important standard for our products and is never sacrificed. We have undertaken significant investment to ensure that our facilities are advanced and competitive globally. The third growth area is in raw materials. With the implementation of BPJS, the industry will require more raw materials, and we are ready to help accommodate this growth. •

Dr. Rusdi Rosman

President Director
KIMIA FARMA

Please provide a brief overview of Kimia Farma and its operations in Indonesia.

Kimia Farma's presence in the Indonesian pharmaceutical industry dates back to 1870, when the company was established by the Dutch. In 1968 the company was nationalized and became Kimia Farma, a state-owned pharmaceutical company. In 2001, Kimia Farma experienced further evolution and was placed on the Jakarta Stock Exchange and the Surabaya Stock Exchange. Today, the Indonesian government maintains control of 90% of Kimia Farma, while the remaining 10% is owned privately.

Where is the majority of Kimia Farma's activity concentrated in the pharmaceutical sector?

Kimia Farma operates primarily in the Indonesian market, which accounts for 96% of our activity. The remaining 4% of the company's activity comes from Malaysia, Vietnam, and Myanmar.

Kimia Farma is a vertically integrated pharmaceutical company. We are an operating holding company that manages five manufacturing facilities in Indonesia, with the construction of another manufacturing facility underway. We also have three primary subsidiaries: Pt. Kimia Farma Apotek, which is our retail branch that consists of 612 pharmacies and in addition oversees our subsidiary Pt. Kimia Farma Diagnostic; Pt. Kimia Farma Trading & Distribution, which is comprised of 45 distribution facilities throughout Indonesia; and Pt. Sinkona Indonesia Lestari, which is Indonesia's sole producer of quinine salt and its derivatives.

Kimia Farma's operations span the entire value chain of Indonesia's pharmaceutical sector. What is included in your portfolio of product offerings?

Kimia Farma's product profile is composed of 60% generic products and 40% proprietary products. Almost all of our generics are prescription products. The majority of our proprietaries are OTC and herbal products. Within these product groups, we offer solutions that encompass all of the major therapeutic areas. Kimia Farma has had its most success in the areas of generic and herbal products.

In terms of products, Kimia Farma is the only producer of HIV medication in Indonesia. Additionally, as Kimia Farma has a unique relationship with the government as a state-owned enterprise, it is enforced by presidential decree that Kimia Farma is the sole company able to produce narcotics in Indonesia.

With regard to facilities, Kimia Farma is the only pharmaceutical company in Indonesia to have a pharmaceutical grade salt manufacturing facility. Other Indonesian companies do not have the technology and knowledge to open this type of factory and on a price basis – in this market – other companies cannot compete with China and India.

What is your growth strategy?

Kimia Farma will seek to diversify and evolve away from being considered solely a pharmaceutical company to being considered a full-service health care company. Kimia Farma will focus on developing its activity in the cosmetics and raw materials markets.

The cosmetics market is attractive as its margins are much higher than generics, and there is less competition. Kimia Farma sees an opportunity 96% of raw materials for this market, including excipients, being imported into Indonesia. This year, we are going to collaborate with Korean and Japanese companies to establish unique facilities in East Java that will be dedicated to the production of raw materials. We will have one facility for raw materials and excipients, and another that will produce intravenous solutions. In the future, other Indonesian companies will likely seek foreign partnership in developing their own raw materials, but currently, the market is quite open.

Indonesia's health care sector is expected to grow at a tremendous pace. What steps have Kimia Farma and the industry been taking to prepare?

Over the last three years Kimia Farma has placed emphasis on developing its downstream infrastructure by opening around 100 new retail pharmacies each year. As a general comment on the industry's overall preparation, many manufacturing companies have begun to produce more generic products. Branded prescription products are decreasing while the market for generics is increasing, which will have the effect of making more products accessible.

What challenges does the Indonesian pharmaceutical sector face?

If a company wants to export its products, its facilities have to achieve a very high standard of quality, but the capital investment required to achieve these standards is very high. Relative to the Americas and Europe, the Indonesian education system lags. This is reflected in the country's lower levels of technical proficiency in pharmaceuticals. Research organizations such as LIPI, the Indonesian Institute of Sciences, and BPPT, the Indonesian Agency for the Assessment and Application of Technology, do a very good job, though.

Indonesia's new government has taken strides to promote the pharmaceutical sector. What factors can further encourage the sector's development?

The government of President Jokowi is going to be a positive force on the industry. The government's commitment to increase health care expenditure will benefit the pharmaceutical industry as well as the Indonesian economy as a whole. Indonesia's pharmaceutical sector is open for expansion, and the new government's policies will be beneficial to the overall health of the industry. •

The Evolution of Pharmaceutical Manufacturing in Indonesia

1966 - Present

The evolution of Indonesian pharmaceutical manufacturing is marked by fifty years of development and transformation. The initial driving force behind the sector's development was the liberalization of its markets in 1966, which afforded multinational pharmaceutical manufacturers the opportunity to establish a presence within the country. Despite federal mandates that required multinationals to share ownership with local partners, a burst of momentum was given to the development of Indonesia's pharmaceutical manufacturing sector, which attracted a host of well-known multinational players eager to capitalize on the market's nascent potential. Today, many of the world's largest multinational pharmaceutical manufacturers, such as Actavis, Bayer, Merck, Pfizer, and Sanofi, maintain significant operations in Indonesia.

The early years of Indonesia's pharmaceutical industry were largely dominated by the presence of multinationals. In the early 1970s, foreign interests accounted for nearly 80 percent of the industry's total activity, while domestic companies claimed the remaining minority stake. At this time an increasing number of multinationals entered the Indonesian market, bringing with them both expertise and capital, elements which proved critical for the development of Indonesia's pharmaceutical industry.

Another driving force behind the development of Indonesia's pharmaceutical industry has been the steady implementation of its regulatory standards. Beginning in the 1980s, the Indonesian government initiated a campaign to advance its pharmaceutical industry's regulatory climate; its ultimate goal being to elevate regulation towards international standards. Throughout this process the Indonesian government worked in close collaboration with industry leaders to implement standards at a measured pace, bolstering the quality standards of the industry's manufactured products, while ensuring limited alienation amongst manufacturers.

The collaborative evolution of Indonesia's regulatory framework has propagated an environment conducive to the development of the industry's manufacturing capabilities. According to Dr. Johannes Setijono, Chairman of GP Farmasi Indonesia, nearly 90 percent of Indonesia's pharmaceutical manufacturers are currently able to endure increases in the industry's regulatory requirements. As a point of comparison, nearly 50 percent of China and India's pharmaceutical manufacturers have been pushed out of the market due to regulatory advancement.

Quality standards continue to play a critical role in the development of Indonesia's pharmaceutical industry. Testament to the industry's commitment to quality is found in the fact that over 80 percent of its manufacturers currently operate in accordance with Good Manufacturing Practices (GMP). Dr. Roy Sparringa, Chairman of Indonesia's National Agency for Drug and Food Control (BPOM), has stated that an emphasis on GMP certification "increases the industry's ability to be compliant" and consequently eases the approval process required for manufacturing pharmaceutical products.

Typifying the industry's dedication to quality standards is Interbat, a manufacturer that currently possesses 15 different GMP certifications for both sterile and non-sterile facilities. While manufacturers have taken great strides to improve the quality of their products, Dr. Sparringa notes: "In the future BPOM would like the entire industry to achieve current-GMP certification." In doing so, the industry will continue to develop its capabilities towards the level of international standards.

As Indonesia's pharmaceutical industry has evolved through the arrival of multinationals, the progressive implementation of regulation, and the development of heightened quality standards, its stakeholders have grown to include a robust collection of over 200 pharmaceutical manufacturers. Furthermore, similar to prevailing trends in other pharmaceutical industries across the world, the vast majority of Indonesia's $6 billion pharmaceutical industry is controlled by a handful of large manufacturers. Accordingly, statistics suggest that 80 percent of Indonesia's pharmaceutical market is controlled by 40 percent of the industry's manufacturers, which leaves smaller players to pursue more niche areas within the market.

But interestingly, while the development phase of Indonesia's pharmaceutical industry was overseen by multinationals, its more recent transformation has been driven by domestic manufacturers. The current composition of Indonesia's pharmaceutical industry starkly contrasts its initial formation of fifty years prior: today, the presence of multinationals has greatly weakened; as 70 percent of the industry's total activity is now controlled by domestic companies. According to Dr. Johannes Setijono, "Indonesia is one of the only countries in Asia to have this strong of a domestic presence."

Over the years there have been two overarching factors that have triggered this shift in the industry's dynamics: "Indonesian companies have proven that they have a better understanding of the domestic pharmaceuticals market" and "Indonesian manufacturing expertise has improved," said Andreas Halim Djamwari, President Director of Actavis Indonesia. The rise in preeminence of domestic manufacturers stems from their specialization in generic drugs, which represents the largest segment of Indonesia's pharmaceutical market. Alternatively, due to

> "95 percent of Indonesia's drug volume comes from domestic companies, while the remaining five percent is multinational. Additionally, 75 percent of the industry's value comes from domestic companies and 25 percent comes from multinationals."
>
> - Dr. Roy Sparringa, Chairman of Indonesia's National Agency for Drug and Food Control (BPOM)

Image: Interbat

their often extensive R&D capabilities, multinational manufacturers have sustained a commanding presence in the market for innovative drugs. Describing the market's composition, Dr. Sparringa states: "95 percent of Indonesia's drug volume comes from domestic companies, while the remaining five percent is multinational. Additionally, 75 percent of the industry's value comes from domestic companies and 25 percent comes from multinationals." Consequently, while domestic manufacturers corner the market for low-cost generic drugs, multinational manufacturers concentrate their efforts on the market for high-value innovative drugs.

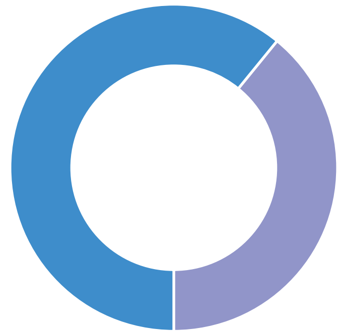
An essential ingredient to the success of domestic manufacturers has been their inherent knowledge of local market conditions. Domestic manufacturers such as Interbat, who has developed its line of products to directly correlate with the needs of Indonesian epidemiology, exemplify this characteristic. According to Derrick Budi Sukamto, Vice President of Interbat, its products have a therapeutic "focus on metabolic and degenerative drugs, respiratory diseases, anti-ulcerates, dermatology, cardiovascular drugs, and also antibiotics." As a result of fine-tuning its product line with the needs of local consumers, Interbat's drugs have enjoyed strong reception in the domestic market.

Other factors, such as "the remoteness of rural Indonesia and the country's diversity of languages have proven to be difficult factors for multinationals to navigate," says Dr. Setijono. Again, benefitting from familiarity with the local market, domestic manufacturers have leveraged their knowledge to achieve expansive regional market penetration within Indonesia. On the contrary, multinationals have been confronted with significant challenges in penetrating Indonesia's more rural areas and have instead established their toehold in Indonesia's larger cities. Local knowledge of this form has played a significant role in defining the success of domestic manufacturers as they continue to transform the dynamics of Indonesia's pharmaceutical industry.

Another driving force for the ascendance of domestic manufacturers in Indonesia's pharmaceutical industry has been their development of expertise in the production of generic drugs. The market for generic drugs is the largest segment

PRESCRIPTION VS. OVER-THE-COUNTER DRUGS

Source: BMI



		CAGR
Prescription	61.5%	11.23%
Over-the-Counter	38.5%	6.09%

of Indonesia's pharmaceutical industry; a trend which is expected to persist given the recent implementation of JKN reforms. Enacted in 2014, the goal of JKN is to extend healthcare coverage to the entirety of Indonesia's population by 2019.

Once JKN is fully implemented, it is predicted that 19 percent of total healthcare expenditure will be attributed to pharmaceuticals. The rollout of JKN has mandated formation of an Essential Drugs List, which in an effort to promote accessibility, is comprised of 92 percent generic drugs. Consequently, current market conditions bode particularly well for domestic manufacturers as demand for innovative drugs is expected to decline, while the market for generic drugs is on the rise. Commenting on the reforms, Dr. Andre Lembong, President Director of Pharos, Indonesia's fourth largest pharmaceutical company, stated: "Domestic companies will continue to thrive in the generics market."

Continued Evolution: OTC Products

Despite heightened demand for generic drugs, Dr. Andre Lembong predicts that the number of pharmaceutical manufacturers in Indonesia could decrease by as much as two-thirds given enhanced competition within the market. Derrick Budi Sukamto of Interbat also foresees increased competition in the market for generic drugs, especially given significant price pressures imposed by the government, which cuts ever deeper into the already low-margins of generic drugs. Due to current market conditions, many manufacturers are currently seeking to diversify their range of product offerings by developing other product areas, such as over-the-counter (OTC) products.

Indonesia's OTC market offers vast potential to manufacturers. In other countries, OTCs typically account for 10 to 15 percent of a pharmaceutical market's total value; in Indonesia, this figure amounts to 40 percent. Despite the strength of the OTC market's existing stature, forecasts predict that in 2015 this market will grow to encompass 50 percent of the Indonesian pharmaceutical market's total value. The OTC market is a particularly attractive diversification strategy for manufacturers given enhanced price pressures on generic drugs, as margins are higher for OTCs and manufacturers are able to cut out the middleman and advertise their products directly to end-consumers. One company that has big plans for engaging the OTC market is Pharos. According to Dr. Andre Lembong, "in recent years the OTC market has been a powerful driver of growth for Pharos' business" and going forward it "will continue to allocate resources to this area and hopefully double product sales in the coming years." Dr. Andre Lembong describes that the consumer healthcare market is attractive to manufacturers such as Pharos as "competition is weaker in this market, regulations are less stringent, and margins are more attractive." Sanofi Indonesia has also commented on the importance of this market going forward as it is one of the world's leading producers of OTCs.

Continued Evolution: Value-Added Products

While many manufacturers are diversifying into the market for OTCs, others are investing heavily into R&D and infrastructure that will enable them to create strong value-added products. In an effort to bolster its capabilities, Interbat is currently planning a $3 million investment for a new 3,000 square meter facility dedicated to R&D. In addition to developing its infrastructure, Interbat also actively courts "international partnerships for transfers of technology in manufacturing value-added generics, complex generic formulations, and the formulation and development of herbal products." This is all part of Interbat's strategy of expanding its portfolio of value-added product offerings. Another manufacturer that is expanding its product line is Actavis Indonesia, whose parent company, Actavis, recently undertook several strategic acquisitions, including Forest Laboratories and Warner Chillcott. The acquisition of these companies will allow Actavis to expand into the market for branded pharmaceuticals, and according to Andreas Halim Djamwari, it will afford Actavis Indonesia the opportunity to better service the needs of its customers in Indonesia by offering them a broader portfolio of health solutions. Sanofi Indonesia also plans to continue its development of innovative medicines in Indonesia by leveraging the global R&D network of its parent company.

Meeting Production Forecasts

A theme of increasing importance for manufacturers in the coming years will be investment in production capacity. Indonesia's pharmaceutical industry has enjoyed 85 percent growth between the years of 2007 and 2013, and it is expected to continue growing at an annual rate of 12.5 percent through 2018. Strong growth trends have placed an immense amount of pressure on manufacturers to expand their production capacities. According to Dr. Johannes Setijono "most Indonesian manufacturers are currently operating at capacity." While many manufacturers have preemptively invested in infrastructure over the last several years in anticipation of demand trends, many others still lack the necessary capacity to meet future forecasts of heightened production. In order to compensate for internal production deficiencies, Contract Development and Manufacturing Organizations (CDMOs) have emerged as an attractive resource for manufacturers seeking to expand their capacities.

CDMO activity offers budding potential in Indonesia due to strong production forecasts within the domestic pharmaceuticals market. According to Alfons Sindupranata, Managing Director of Pt. Genero Pharmaceuticals, "Indonesia lags behind other countries in terms of CDMO development, so opportunities in Indonesia are quite bright." Furthermore, he explains: "Indonesia has many CDMOs engaged in the cosmetic industry, but none of these companies are GMP-certified. On the other hand, almost all of Indonesia's pharmaceutical companies are GMP-certified, but none offer exclusive CDMO services to their customers. The only avenue through which they offer CDMO services is through toll-manufacturing, and this is solely with their idle capacity."

> "Indonesia lags behind other countries in terms of CDMO development, so opportunities in Indonesia are quite bright."
>
> - Alfons Sindupranata, Managing Director, Genero Pharmaceuticals

Consequently, the greatest shortcoming of Indonesia's existing CDMO sector is that there is a limited selection of GMP certified companies who offer these exclusive services to the pharmaceutical industry. Recognizing a need for exclusive CDMO services within Indonesia's pharmaceutical industry, Genero has made a concerted effort to enter the market as Indonesia's first independent CDMO focused on pharmaceuticals. Independent CDMOs offer a striking value-proposition to the pharmaceutical industry, as their structure promotes unbiased operations. Describing this dynamic, Alfons Sindupranata states: "Genero does not manufacture its own products," which means "each of its customers is treated with equal importance." Genero's services have been well received within the market, as they already have two GMP certified manufacturing facilities, with plans to build another site to account for increases in business growth. While CDMOs will likely rise in prevalence within Indonesia's pharmaceutical industry, low-costs of labor in Indonesia also provide an interesting market condition for multinationals seeking to take their manufacturing operations offshore. Accordingly, Genero seeks to increase its presence both regionally and globally in the coming years. •

Dr. Andre Arief Lembong

Chairman
PHAROS

Pharos is one of Indonesia's longest standing pharmaceutical companies. Please walk us through the evolution of the company from its creation to today.
My father founded Pharos in 1971; its mission was to achieve GMP certification and partner with multinational companies in the production of pharmaceuticals. At the time, there was legislation that required multinational pharmaceutical companies to partner with domestic companies for the manufacturing in Indonesia, which propelled the initial phases of Pharos' growth. In the 1990s, we determined that there was ample commercial opportunity for developing and manufacturing our own products. Throughout the course of our history we have dealt principally with ethical products, but over the past decade we expanded our focus to OTC products, which now constitutes the majority of our business in pharmaceuticals. Through this evolution Pharos has emerged today as the fifth largest pharmaceutical company in Indonesia.

Pharos has diversified its focus to include a range of products. Is there a particular product that can be called its specialization?
Pharos' products cover all key therapeutic areas and are not concentrated within any particular product segment or focus. Many of the products that we manufacture come from licensing arrangements with foreign companies, or are generics that we created. Pharos is committed to business development, which shows in our emerging product lines: we have roughly 1,000 new products in the pipeline and aim to bring around 60 new products to market each year. Roughly 70% of our products are OTCs, while the remaining 30 percent are ethical. We are focused principally on the domestic market, with only a small portion of our activity being dedicated to export markets in Cambodia.

Diversification into OTCs has been one of Pharos' keys to growth. What other areas have you identified?
One area that we have identified is the market for consumer health care products: competition is weaker in this market, regulations are less stringent, and margins are more attractive. Areas such as diagnostics and medical devices also pose solid opportunities for future growth.

Universal health care and the enactment of BPJS reforms will have a significant effect on Indonesia's industry. What major developments do you foresee?
Indonesia's pharmaceutical sector will change significantly. Domestic companies will continue to thrive in generics, while multinational companies will reestablish their toehold as producers of more expensive products. There are now roughly 150 pharmaceutical manufacturers, but this figure will shrink to from 50 and 100 companies due to the competition sparked by BPJS. BPJS will also affect retail outlets, as generics will increase in prevalence, but pharmacies are not incentivized to sell them. In terms of value, branded products are much more lucrative than generic substitutes, and many pharmacies have turn away from selling generics. BPJS hospitals, on the other hand, are required to carry only generics, so they will see a surge in volume. This will affect non-BPJS hospitals, as their customers will switch to BPJS hospitals that offer subsidized treatments. •

Derrick Budi Sukamto

Vice President
INTERBAT

Interbat has been an important player in Indonesia's pharmaceutical sector for quite some time. Please describe some of the company's key milestones that have shaped its current position in the market.

Interbat was founded in 1948 by Mr. Djoko Sukamto as the sole distributor in Indonesia for several well-known European pharmaceutical companies. In 1959 Interbat obtained its own production permit, and consequently, became one of Indonesia's first independent pharmaceutical manufacturers. In 1977 Interbat relocated its manufacturing site to a 20,000 square meter factory in Sidoarjo, which has since expanded and remains the domain of our current manufacturing operations. In 1994 Interbat received its first GMP accreditation by BPOM. Quality has continued to be symbiotic to Interbat, as it currently holds 15 different GMP certifications for both sterile and non-sterile facilities. In 2000 Interbat began export operations in several African and South East Asian markets. Most recently, in 2011, Interbat implemented an enterprise resource planning system which has helped streamline its logistics and enhance efficiencies. Through this evolution Interbat has emerged today as one of Indonesia's top-five domestic pharmaceutical companies, employing roughly 1,800 people with its operations.

R&D and manufacturing are key components of Interbat's operations. What is the breakdown of Interbat's activity in these areas?

Interbat currently employs 55 scientists in its R&D department. In the coming years R&D will continue to be an emphasis for Interbat, as we are in the midst of planning a USD $3 million investment for a new 3,000 square meter facility that will be dedicated to R&D. In addition to its own in-house expertise, Interbat also utilizes international partnerships for transfers of technology in manufacturing value-added generics, complex generic formulations, and the formulation and development of herbal products. Interbat's manufacturing facilities consist of 50,000 square meters of production space. Our manufacturing activity will also increase in the coming years as we are in the process of certifying two new facilities for this purpose.

What product types and therapeutic areas does Interbat consider its specialty?

Interbat's core product competency is in manufacturing premium quality branded generics that are competitively priced in the market. We manufacture 148 different drug compositions, which are formulated into 243 unique products. The ethical market accounts for more than 95 percent of Interbat's product portfolio, while the remaining five percent is attributed to OTCs, a market segment that is relatively new to the company. The backbone of Interbat's product line is focused on metabolic and degenerative drugs, respiratory diseases, anti-ulcerates, dermatology, cardiovascular drugs, and also antibiotics, which have been a focus for quite some time. These therapeutic focus areas directly correlate to Indonesian epidemiology, ensuring that Interbat's products have significant impact on the domestic market.

There are over 200 pharmaceutical manufacturers in Indonesia. What differentiates Interbat from the competition?

The Interbat logo symbolizes commitment to quality. Interbat takes a quality by design approach, carefully analyzing APIs and raw materials before production to ensure that its products are of the best possible quality. Interbat's commitment to quality is also embodied in our continuous investments to strengthen our human resource, manufacturing and information technology capabilities. Lastly, all of these translate into a comprehensive product list and a competitive workforce that maintains good coverage of doctors and attains their trust in our products.

Interbat focuses primarily on the domestic pharmaceutical market. Looking forward, what will be the role of export markets for Interbat?

Over the next five-years export markets will be a key driver to Interbat's growth. Currently, less than five percent of our product turnover comes from exports, but this figure grew by 150 percent in 2014. Right now we export 56 of our products to seven countries; in 2015 we will develop our export network to include at least four new countries. In five-years we hope to expand export activity so that it comprises 10 percent of our overall product turnover.

In addition to export markets, what other areas have Interbat identified as essential to growth?

Interbat will continue to drive its core competencies in Indonesia, focusing on its line of ethical products in order to capitalize on increased demand from Indonesia's national healthcare reforms. The OTC market is also ripe with opportunity, as it constitutes 40 percent of Indonesia's pharmaceutical activity. Interbat is still relatively new to this segment so we will continue to develop our activity in this area. Value-added products will also continue to be of importance as we build our new R&D facility and continue to align ourselves with international technology partnerships. We will also enhance our efforts in the probiotic, nutraceutical, and herbal businesses.

Indonesia's healthcare sector is undergoing a period of substantial transformation. Consequently, what are some of the greatest challenges and opportunities present in Indonesia's pharmaceutical market today?

Indonesia's healthcare reforms pose new challenges and opportunities for pharmaceutical companies. Fulfilling demand for generics will be one such challenge as price pressures continue to be imposed by the government on manufacturers. Furthermore, Indonesia has a tremendous dependency on foreign exchange rates: 95 percent of the raw materials for Indonesia's pharmaceutical sector are imported. The compounded effect of price pressures and poor exchange rates pose difficulties for pharmaceutical companies. That being said – despite myriad challenges – the outlook for pharmaceuticals in Indonesia remains very positive as the country has immense untapped potential. Many opportunities exist for companies that are willing to invest in manufacturing, technology, and efficiency. Looking forward, it will be important for the pharmaceutical sector to build drugs that are accessibly priced in order to satisfy national demand. •

Rogelio C. la O'Jr. (Cooey)

President Director &
Chief Executive Officer
SOHO GLOBAL HEALTH

Can you provide a brief background of the Soho Global Health (SGH)?

Soho Global Health was founded in the late 1940s. We started by first supplying injectable products to the market and then diversified to other pharmaceutical products, such as tablets and capsules, and eventually began producing over-the-counter (OTC) products. Our pharmaceutical and OTC business has now a strong presence in the prescription and consumer health space, complemented by an established distribution business, and broad manufacturing capabilities. In 2013, we entered into a strategic joint venture with Fresenius Kabi, a German global pharma player, with a vision to become one of the intravenous (IV) therapy drugs and infusion solutions leaders in Indonesia. Over the past five years, SGH has also ventured into other related adjacent businesses, including multi-level marketing of health supplements, medical devices and equipment, among others. Currently, we are a privately owned company with the long-term objective to be publicly listed.

What key elements are in place to reach the five-year goal of becoming a publicly listed company?

First and foremost, we are vertically integrated, which is a fundamental strength. Product development, manufacturing, commercialization, and distribution are a continuous process, and we are well positioned in that respect. We possess a strong and motivated management team that is committed to the company's future and combines local and international talent. SGH has also recently engaged in a strategic investor partnership that will collaborate closely with us through this journey and transform the business through organic and inorganic growth. At present, the company's product portfolio has a strong "natural" side to it, using evidence based natural medicine as a unique differentiating factor. We have a close partnership with Soho Flordis International, a global company based in Australia with a range of evidence-based natural products that are marketed in different countries around the world. Soho Flordis International has subsidiaries in Europe and the United States, and we have the opportunity to build on their network and expertise in research and development (R&D), as well as their sales and marketing platform to promote internationally natural ingredients from Indonesia.

What is the company's potential for international growth?

We first need to make sure that we maximize the business opportunities within Indonesia. It is definitely the key emerging market in ASEAN, given its current and growing demographics. However, we have made selective investments in ASEAN and have a strategy in place for expansion. Having said that, because of our close partnerships in Australia, the United States and Europe, we are, in a way, already global.

What are some of the opportunities as well as challenges in the Indonesian market?

Indonesia is unique and full of opportunity. Its population of 250 million is substantial vis-à-vis its neighbors with a fast growing middle class and a high and increasing consumption base. In a 2013 study, BCG estimated that what they call "MACs" (Middle Class and Affluent Consumers) will practically double between 2012 and 2020, moving from 74 million people to 141, and will shift from 30% of the total population to 54%. This means adding eight to nine million people every year to the modern consumption cohort (the equivalent of a small country) and represents an exceptionally attractive demographic background for a company geared to serve the increasingly sophisticated needs of this burgeoning consumer class. On the other hand the challenges of infrastructure in the country, traffic and other such problems are typical of an emerging market and to be expected. Indonesia's pharmaceutical industry is also very fragmented and competitive, with many strong local players, somewhat dissimilar with other countries in the region. These companies have built over time formidable franchises and brand equities, many of which are doctor promoted or have originated from doctor prescriptions. These companies are reaping the benefits of these investments today and will continue to do so in the long-term.

Do you have a final message for our readers?

Apart from China and India, in this part of the world, Indonesia probably presents the biggest opportunity over the next five to ten years. The long-term opportunities outweigh the short-term challenges that some companies tend to look at because it is what is current. But it is a question of the seeds that you continue to plant today that will make the difference tomorrow. •

Andreas Halim Djamwari

Former President Director
ACTAVIS INDONESIA

Actavis Indonesia is a prominent manufacturer in Indonesia. How has the industry changed over the years?

Throughout its history, Actavis Indonesia has operated under several different names: Dumex, Alpharma and Actavis. Even though Actavis was acquired by Watson Pharmaceuticals, the global company later took the name of Actavis. Nomenclature aside, Actavis Indonesia was established in 1969 and was the first foreign pharmaceutical company to have manufacturing operations on the ground in Indonesia.

In the early 1970s, Indonesia's pharmaceutical industry was dominated by multinational companies: foreign interests accounted for about 80 percent of the industry's market share, while domestic companies had a minority stake of 20 percent in the industry. Between the late 1970s and today, there was a significant shift in the market's composition: today, domestic companies command approximately 72 percent of the industry's market share, while multinationals control the remaining 28 percent. There are two important factors that have contributed to this change: 1) Indonesian manufacturing expertise has improved to acceptable quality levels, and 2) Indonesian companies have proven that they have a better understanding of the domestic pharmaceuticals market, this is particularly apparent with over-the-counter products (OTCs).

The market's composition has evolved considerably. How has this affected Actavis Indonesia's operations?

Actavis Indonesia currently offers the market a wide range of products, mainly prescription drugs but also OTCs. Actavis' is a multinational company and is therefore subject to many regulations, which ensures that product quality levels are very high. This also means that our customers can rely on us to deliver high quality products, but we may not necessarily offer the lowest price. In recent years, our strategy has evolved, and we are focusing more on the prescription drugs.

Prescription drugs compose approximately 95 percent of our product offerings, while OTCs constitute the remaining 5 percent. We not only market our own products, but also serve as contract manufacturer for many large pharmaceutical companies in Indonesia. We are able to do this because Actavis' manufacturing facilities are some of the best in Indonesia. The quality of our products is very high and we are capable of exporting to markets with more stringent quality standards, such as those in Europe and Japan.

Actavis Indonesia operates in both domestic and external markets. What is the proportion of products going to each of these areas?

The majority of Actavis Indonesia's product volume, around 70 percent, is concentrated in the domestic market. The remaining 30 percent is directed towards external markets. Most of our exports are intra-company transactions, so we are solely focused on the manufacturing of our products and not the marketing of them to external markets.

Actavis plc is a well-known global pharmaceutical company with a worldwide presence. What is your relationship with Actavis plc and the relative importance of your operations in Indonesia?

We have intensive communication with Actavis' regional and global operations and benefit in many ways from their expertise and wide reach. Historically, Actavis Indonesia has been one of Actavis' largest subsidiaries in the Asia-Pacific region. Unfortunately, one of our most successful products, Somadril, was taken off of the Indonesian market by BPOM (Indonesia's national agency on drug administration) this year due to cases of misuse. This reduced 2014 sales and our share of regional sales. It is a difficult situation to come to terms with, as the drug remains accepted in other markets, including the United States.

What is Actavis Indonesia's growth strategy for the Indonesian market?

In terms of organic growth, Actavis Indonesia reorganized its corporate structure in July 2014: the focus is now on Business Unit Divisions. The reorganization will have the effect of holding product divisions accountable for profit and loss, and accordingly, will enable us to concentrate our attention on products that have adequate growth potential.

We will try to launch as many new products as possible, but the existing approval process for new drugs in Indonesia can be quite lengthy. We are also excited about expanding into branded/originator pharmaceuticals through recent acquisitions of well known companies such as Forest Laboratories, Warner Chilcott, and now potentially Allergan. Actavis considers acquisition to a key growth strategy. It is mostly about finding Indonesian companies who are the right fit. Many are willing to be sold, but often their capabilities are limited.

What are some important considerations for the Indonesian pharmaceuticals industry moving forward?

The Indonesian government needs to continue to focus on the quality of the industry's products, as this will be very important to further development of the health care sector. Consideration should also be given to expediting the current drug registration process in order to increase the portfolio of drugs that are available on the market. Finally, anti-corruption needs to continue to be a focus for regulators of the industry, ensuring that domestic and multinational companies play by the same set of rules. •

Heramina Dwisari

President Director
SUNTHI SEPURI

Can you provide a brief background of Sunthi Sepuri?

Sunthi Sepuri was established in 1988 for the government project of family planning in order to cater to the board of family planning. This marked our entry into the pharmaceuticals industry, after which we expanded to manufacturing other products within pharmaceuticals. However, our foremost and prime product line still caters to family planning.

How did Sunthi Sepuri move into the manufacturing business?

In the 1980s, President Suharto was concerned about family planning, and we needed several pharmaceutical companies to help us manufacture products. Indonesia received a few awards from the United Nations for family planning, so we were operating in a high demand market segment. We now have numerous manufacturing companies.

What is your competitive landscape like in the Indonesian market?

In the regular market, our position is second for the pregnancy pill, so we hold a leading position as we are in the top three. Our product portfolio comprises gynecology and family planning, neurological, psychiatric and weight management drugs. We have observed an upward trend in the demand for weight management drugs, and since we are the only company that provides drugs in this area, we have an edge over other competitors in the industry.

Can you elaborate on Sunthi Sepuri's partnership with Wyeth?

We maintain an international partnership with Wyeth. As we are a reliable and strong local company, they approached us with their products for manufacturing and distribution in the Indonesian market. They were also aware that the market here was bigger than in other countries. We now manufacture and distribute drugs for Wyeth locally. Moving forward we see their partnership continuing.

Is it common for local Indonesian players to use partnerships with international players to better establish their position within the current market?

Yes, this trend emerged around the 1980s. There are several players within the market that partner with international partners not only for financial backing, but also to raise the quality standards for their product and gain a stronger position in the domestic market.

What are some of Sunthi Sepuri's strengths that make the company worthy of strong international partnerships?

Sunthi Sepuri is centered on family planning. We have expanded the company and have established a wide array of products to help our customers make the right choices. Our quality system also distinguishes us. We are eager to satisfy our customers and will always strive to provide the best by constantly performing quality improvements. We have won awards and received certifications, such as the ISO certificate, the SGS international for customer satisfaction, and a certificate for continual improvement and quality improvement system.

How does your pricing system compare to that of your competitors, and how does exporting play into this?

Our pricing system for manufacturing is complicated compared to other manufacturers. We are trying to expand our export market for our full line of products. We currently export to Vietnam, Cambodia, Myanmar and Hong Kong. We are targeting several countries and seeking international partnerships to help us.

What is Sunthi Sepuri's status with certifications and permissions?

We have the International Organization for Standardization (ISO) certification. We are not currently aiming for U.S. FDA approval. Our strategic focus lies more within Asia, where markets are growing rapidly, and there is scope for further pharmaceutical provision.

What are some bureaucratic consequences that Sunthi Sepuri faces in Indonesia?

The government is trying to liberalize the market by promoting Indonesia as a member of a free trade area for manufacturers. Indonesia is a part of the ASEAN Free Trade Area (AFTA), the members of which include Brunei, Singapore, Indonesia, Malaysia, Philippines, Vietnam, Cambodia, Myanmar and Thailand. The key benefit of AFTA is that it gives these countries a competitive edge as a global manufacturing base. It also makes Indonesia more attractive for foreign direct investment, as we do not incur any tariffs conducting trade within the AFTA.

Do you have a message for the Indonesian government?

The government will be implementing the BPGS program, which will provide us with a subsidy that will help boost our production capacity and put Indonesian manufacturers on the world map. The government should continue to implement such programs.

Where will Sunthi Sepuri be in ten years?

In ten years, Sunthi Sepuri will have expanded its research and development to stem cells with the help of a local university. Indonesia already has nine hospitals that are conducting stem cell research, which the government is supported through grants. Our company can contribute to this major step, while continuing our operations in family planning, neurological, psychiatric and weight management pharmaceuticals. •

Michael Wanandi

President Director
COMBIPHAR

Can you provide background on Combiphar?

Combiphar was established in 1971 and today stands with the mission of being a leading consumer health care company in Indonesia. I assumed my current position in 2011 and one of the biggest challenges at the time was determining the direction in which we wanted to take Combiphar. We are a medium-sized company, and I did not have a background in pharmaceuticals. During this time, the business was generic in nature rather than differentiated. One of our success stories was with our cough syrup, following which we felt that we could replicate success with other health care products. Therefore, my vision was to transform Combiphar into a consumer health company and build our own niche brands. We wanted to diversify into more preventive areas and educate consumers about making healthy, informed choices. Our company emphasizes quality, which is why we were listed as the fifth most likeable and reputable company in Indonesia in 2013 by one of the leading local magazines and research companies. Our target demographic is the middle class, and we want to focus on young to middle-aged women, as target influencers who can also influence their families and surrounding communities. Our corporate social responsibility program focuses on healthy living education and women's empowerment. We work actively in educating the youth and women's communities on lifestyle disease prevention. We empower marginalized women by providing them with knowledge and skills in marketing and finance as well as educating them on sustaining good health. This commitment distinguishes Combiphar from its competitors, and shapes our perception as a socially responsible consumer health care company.

What business strategies are in place to position Combiphar as a consumer health company?

In the last three years, I have tried to tackle intergeneration challenges and management challenges by adopting certain strategies. We have conducted consumer surveys and learned that our patients perceived our company as old, as a company meant to provide their parents' medicines. This encouraged us to give the company a face-lift by changing our logo and rebranding our packaging. In addition to consumer surveys, we have a corporate communications department, which sets us apart. The first two years we had single-digit growth, so we altered our distribution channels by reducing our supply to wholesalers and shifting our focus to building our brand. We have developed our marketing team and created a system to build our consumer database. Our strategy is to create a demand for our products by distinguishing Combiphar. The changes paid off. Despite the difficult 2014 market environment, our performance was superior, and we regained our market share.

How do you engage consumers?

Health care is important to the Indonesian consumer. 65% of searches on the Internet by people in Indonesia are about health. 70% of these searches are by women, which demonstrate that we are on the right track. We engage in educating patients, thus increasing their knowledge and simultaneously helping doctors who do not have the time to answer all of their patients' questions. We have our specialists conduct classes on specific topics, such as degenerative diseases. Further, we not only educate pharmacies about our products, but also encourage them to reach out to consumers and build their customer base. The younger generation is more responsive to digital channels than conventional advertising means, thus creating a new platform to communicate. Therefore, we have to use digital channels more than mass media, especially because our products demand more than a few seconds to understand. Tapping the digital space is the way to directly reach our consumers.

What are some of the challenges in the Indonesian market?

We face regulatory challenges on an ongoing basis, as registering new products is always a daunting process. Human resources is also a tremendous challenge, because doctors and pharmacists sometimes convey the wrong information to consumers, and our medical representatives do not make a clear differentiation to sell generic products versus licensing products. Thus, simply pushing products is not an option. Product education is key. Distributors are another challenge, as they simply take orders from retailers and fill them, whereas we like to develop relationships with our retailers and instill an understanding of our products. Training the sellers leads to more accurate consumer knowledge.

Where will Combiphar be in ten years?

Although we are a relatively small company in turnover, we do not allow our turnover to dictate our vision. We are an active, responsible company and over the next decade, we plan to further invest in our existing products and in the research and development of new products. We hope to continue developing quality products, build a strong brand name, and create value for a wide customer base by increasing our channels of communication with the people and educating communities through a community building approach. •

An Unsaturated Market

Image: Menjangan Sakti, Mensa Group

Exploring Barriers to Entry for New Players

Traditionally, barriers to entry have been high, including heavy financial investment to commence production and then competition from both multinational players and long-standing, established domestic companies who enjoy government support. Despite these challenges, a number of corporations have navigated Indonesia's business landscape and started new ventures as recently as last year. The growth rate has helped enable businesses to capitalize on its upward curve. Indonesia's pharmaceutical industry is valued at $6.5 billion and grew by 85% from the span of 2007 to 2013. Last year alone, it saw a 12.5% annual growth rate, a trend that is expected to continue through 2018. Market research firm Frost & Sullivan in March 2013 predicted that the nation's healthcare market would more than double in the span from 2012 to 2018.

For companies operating in related industries of food, chemicals and packaging, such as Chemco Prima Mandiri, it seems as though penetrating the pharmaceuticals industry has been relatively simple due to the converging market trends. Agus Adiguna Tanoto, managing director, Chemco Prima Mandiri, said: "I chose pharmaceuticals as a promising industry, questioned what we could do for the industry and how we could contribute, and decided to venture into the pharmaceuticals market in 2013. We obtained our license and began distribution as recently as 2014. Since pharmaceuticals is a new division for Chemco, there is ample potential and promise for growth, and we hope to capture clients locally and internationally."

For companies that do not have a background in a related industry, there are more obstacles. Imedco relaunched operations in 2014 and faced the challenge of investment in infrastructure, research and development and production facilities. Suryanto, president director of Imedco said: "We are making a new layout of the production facility and are replacing all the machinery, water systems and air handling."

The return on investment is a longer process, depending on the time taken to begin production. As the trend in Indonesia is evolving towards over-the-counter drugs (OTC), companies that have no prior reputation naturally tend to take the first step by starting out within this space. Audrey Clarissa, managing director of Imedco, said: "In terms of the kind of drug, we are a focused generic player. We produce medicines such as paracetamol and OTC drugs. To focus on generic production was a strategic decision, given that we are a relatively new company. The risk is relatively low, and although we are starting out with generics, in the future we may become more specialized in terms of the areas we cater to."

Low profit margins in cost cutting are also a concern that new companies must understand, while hoping to benefit from the market growth. Establishing a reputation is another concern, according to Tanoto: "Since we are new to the market, we have to work hard to establish our reputation, by entering as big as possible and delivering products effectively."

Ultimately, however, success in this market is mathematically likely. "We have achieved 100% growth for our pharmaceutical division this year," finishes Tanoto. •

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In terms of the kind of drug, we are a focused generic player. We produce medicines such as paracetamol and OTC drugs. To focus on generic production was a strategic decision, given that we are a relatively new company. The risk is relatively low, and although we are starting out with generics, in the future we may become more specialized in terms of the areas we cater to.

- Audrey Clarissa,
Managing Director, Imedco

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Agus Adiguna Tanoto

Managing Director
CHEMCO PRIMA MANDIRI

Chemco Prima Mandiri is primarily a food, chemicals and cosmetics business. How did you get involved in pharmaceuticals?

Chemco Prima Mandiri was established in 2003. We started off in food ingredients and cosmetic packagings. We are a medium sized company with a strong history in these product areas and saw opportunity in distribution. We wanted to build a business-to-business model based on strong triangle partnerships between principles, Chemco and end users. We got involved in pharmaceuticals because Indonesia is an emerging country, where the income and welfare of the people will rise, which will bring growth to the food and pharmaceutical sectors. We already have the food ingredients, and pharmaceuticals are the next logical step. We ventured into the market in 2013, obtained our license, and began distribution of active pharmaceutical ingredients by the end of 2013.

What business strategies has Chemco adopted in order to boost their pharmaceutical division?

There is tremendous potential in a growing market like pharmaceuticals in Indonesia, but since we are new to the market, we have to work hard to establish our reputation and deliver products effectively. Even though we are new, we prepare high standards for this pharmaceutical venture, including the preparation of good distribution process certification (CDOB) and ISO in near future.

The people and companies of Indonesia are already receiving products of great quality, but we want to distinguish ourselves by providing outstanding service. Establishing relations with our customers is our key strategy. We also plan to aggressively search for new products and seek out more suppliers so that we can offer a wide array of pharmaceutical products to our clients. Our chief strategies thus involve product differentiation and outstanding service to our customers.

Who are your key clients and what is your target segment?

Our expertise lies in packaging and distribution, and our knowledge of food ingredients can be applied to pharmaceutical products, such as sweeteners, so we are mainly contributing to ingredients, packaging and fragrance. Since pharmaceuticals are new for Chemco, there is ample potential and promise for growth, and we hope to capture clients locally and internationally.

Where is Indonesia headed with respect to the pharmaceutical industry?

Pharmaceuticals is one of the top five "ready to go" sectors in Indonesia. In 2013, the growth of the industry was 13%. In 2014, it is expected to be between 14% and 15%. We hope that in 2015 it will grow more. People say that Indonesia will be entering a recession, business will decrease, the foreign exchange market will be unstable, and the country will suffer politically. Being a well-established company, Chemco has been in the situation twice before with the economy in recession. When companies expect a recession, they are discouraged from conducting business, but we see this as an opportunity to provide service. As a leader, I am trying to sustain the company's 20% growth rate and increase it year by year. •


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Beyond the Laboratory: Supply Chain Dynamics, Equipment, and Distribution.

"In terms of the pharmaceutical industry specifically, we provide instruments such as a computerized physical analyzer (texture analyzer) for various measurement of physical properties of granules, tablets, capsules, patches, liquids and semi-solids, for example rheology, caking tendency, compatibility, compressibility, adhesiveness, hardness, tensile, bloom strength, and so on. Our texture analyzer can be widely applied to perform various measurements of physical properties of product."

- Hengky W,
President Director,
Robina Anugerah Abadi

Image: Menjangan Sakti, Mensa Group

Supplying the Mainstream

Opportunities within Indonesia's Service Sector

Raw Materials

The pharmaceuticals industry in Indonesia is serviced with raw materials for finished dosage by a handful of medium to large sized domestic companies. This subsector of the industry is primarily composed of roughly 10 to 15 local firms, such as Ekacitta Dian Persada, Chemco Prima Mandiri and Tigaka Distrindo Perkasa (TDP). Many are also involved in sectors such as food, chemicals and cosmetics.

Setiawan Nugroho, president of Ekacitta Dian Persada, said "Pharmaceuticals represent the largest portion of our business, as this is the highest value sector we work in. Indonesia has around 170 Pharmaceutical manufacturers, of which maybe 120 can be considered active players in the market."

Indonesia is a net importer of pharmaceutical raw materials and filling the production gap would require overcoming several obstacles. One of the most glaring challenges is the health care infrastructure, which requires a tremendous amount of investment. Thomas Harsono, chief executive officer, Tigaka Distrindo Perkasa (TDP), said: "Given that Indonesia is a developing country, there are inherent challenges such as a lack of efficient infrastructure, a need for strengthening enforcement of existing laws, and government-driven incentives to make long-term investments in local API production. So far, our feasibility studies show that it is still not yet financially viable to produce raw materials within Indonesia unless government incentives and support are increased."

Only once the infrastructure and supply needs are met will the economy be able to build a strong and self-sustaining industry with a reduced dependence on imports in the decade to come.

A second challenge that companies supplying raw materials face is in the form of bureaucracy. Nugroho discusses the challenges that Ekacitta faced in obtaining a license: "Wholesalers are required to have a license, which has a duration of 2 years or 5 years, and thereafter must be renewed for further operation. As it is difficult to obtain a wholesalers (PBF Bahan Baku Farmasi) license, the market for suppliers of raw materials for pharmaceuticals in Indonesia is quite small, consisting of around 10 to 15 leading companies."

> "We focus on packaging solutions that have the desiccant inside. Sanner is attempting to eliminate its use of bagged desiccants, as the regulations of many countries are evolving to mandate that desiccants are unable to touch the product for fear of contamination. Desiccant packaging has been our focus in Indonesia, but our current goal is to expand our product offerings to the Indonesian market to include Sanner's entire portfolio of packaging solutions. Our packaging solutions include standard products as well as customized products tailored to the specific needs of our customers.
>
> - Noviyan Permadi, Sales Manager, Indonesia, Sanner Pharmaceutical & Medical Packaging Materials"

Volatile exchange rates are a risk companies are incurring through heavy dependence on imports. Dr. Stanley Ch. Budihardja, regional director, East Asia, Pt. BSN Medical Indonesia, said: "More than 90% of the medical devices used in Indonesia are imported. This is a significant challenge for Indonesia, as it is neither healthy nor sustainable for industry. Currently, even very simple medical devices are being imported."

In summary, given the demand gap and risks, Indonesia must find ways to encourage businesses that supply raw materials, particularly with local manufacturing. This can be done by reducing challenges in logistics and licensing and providing an improved infrastructure.

Packaging

Like most developing economies, Indonesia faces two key obstacles: the need to build its infrastructure within the health care segment and to raise the standard and quality of hygiene observed in manufacturing processes.

Steps towards overcoming these challenges have been especially pertinent in the realm of packaging, with multinational corporations (MNCs) dominating the business landscape. Per Olof Johansson, managing director of Tetra Pak Stainless Equipment, said: "Driven primarily by the health care reform, the last two years have held a lot of uncertainty about the future of health care with the change of government. The government has been effective in enforcing strict manufacturing practices that have led to a number of Indonesian pharmaceutical companies being recognized internationally, as they are conforming to international standards of manufacturing and traceability. The pharmaceutical industry is going through consolidation as a result of the change in government policy to higher quality control and safety standards. There is a grey area between cosmetics and medicine. That grey area is increasing, and we are active in that area. We are effective in integrating such products, and in the future we see ourselves taking advantage of the converging market."

Scientific Laboratory and Equipment

As Indonesian pharmaceuticals manufacturers are moving into supplying the market with increasingly sophisticated drugs, the demand for machinery, both for testing and for production, has greatly increased. Lilyana Budihardjo, the business development director for GaiaScience, a leading provider of scientific and laboratory equipment, said: "We have observed that the quality of the research that Indonesian companies are now doing has greatly improved, exploring new methods such as those of stem cells technology. We observe trends and surges in demand for certain products, and as for our contribution when we visit our customers, we introduce new technologies and provide solutions to them. This spurs discovery and innovation in itself."
In order to cater to this demand, the market trend has been to import machinery from European companies. Hengky W, president director of Robina Anugerah Abadi, said: "Our principals are based in several European countries such as United Kingdom, Switzerland and Germany, as well as in United States and China."
In terms of the outlook, Hengky says that he would like to see manufacturers take greater risks. "There is promise for growth and potential for innovation in Indonesia. I would like to see the market become more ambitious; companies take risks in research, and grow into leaders rather than followers."

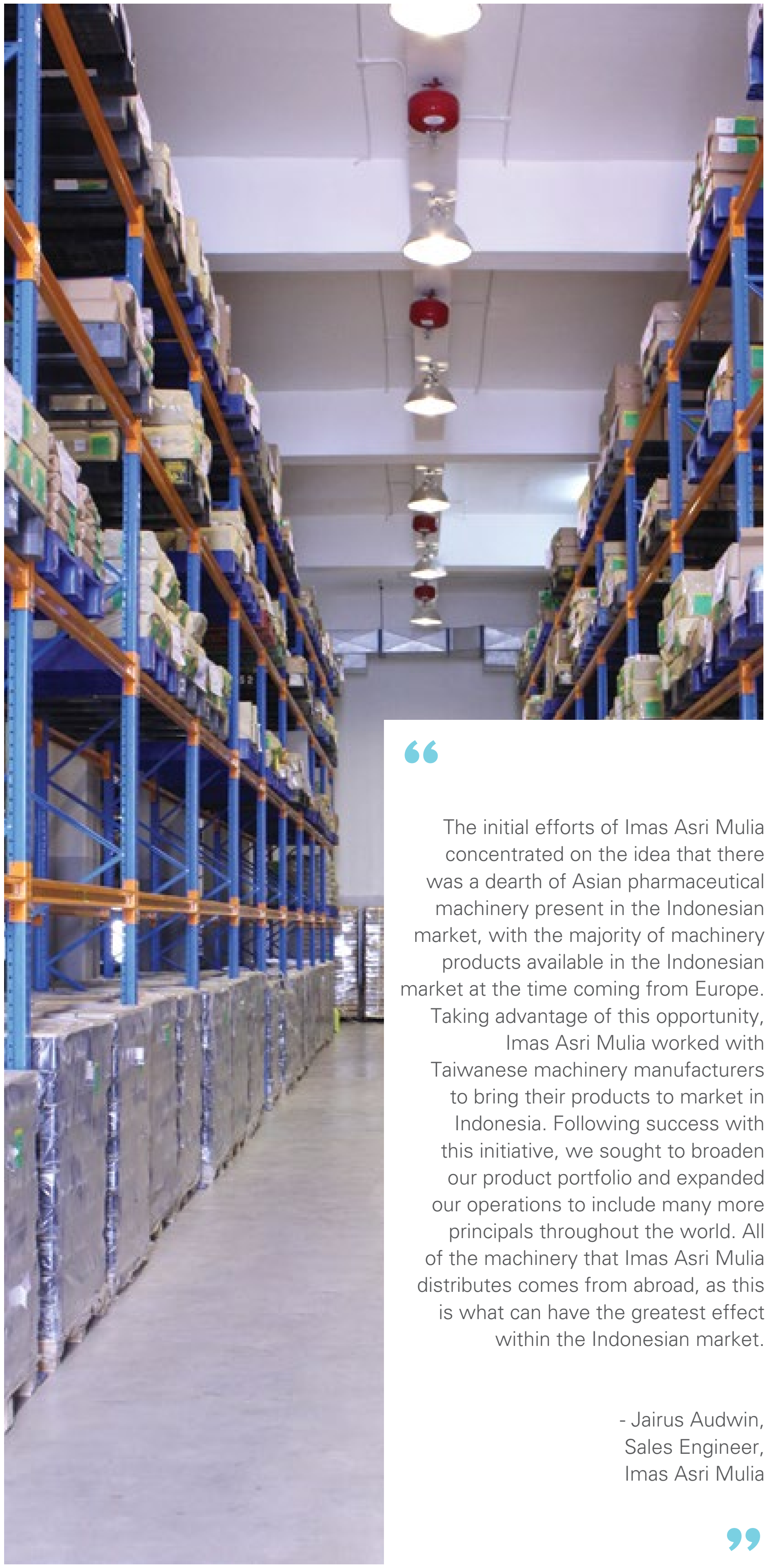
Image: Interbat

"The initial efforts of Imas Asri Mulia concentrated on the idea that there was a dearth of Asian pharmaceutical machinery present in the Indonesian market, with the majority of machinery products available in the Indonesian market at the time coming from Europe. Taking advantage of this opportunity, Imas Asri Mulia worked with Taiwanese machinery manufacturers to bring their products to market in Indonesia. Following success with this initiative, we sought to broaden our product portfolio and expanded our operations to include many more principals throughout the world. All of the machinery that Imas Asri Mulia distributes comes from abroad, as this is what can have the greatest effect within the Indonesian market."

- Jairus Audwin,
Sales Engineer,
Imas Asri Mulia

Thomas Ricky Harsono

Chief Executive Officer
TIGAKA DISTRINDO PERKASA (TDP)

Can you provide a brief background of Tigaka Distrindo Perkasa (TDP)?

Established in 2000, TDP is a company of Anugerah Corporation, an Indonesian group that primarily focuses on health care and wellness. TDP functions in distribution of raw materials for the pharmaceutical market in Indonesia. We supply APIs and other specialty ingredients as well as innovative solutions. Our customers are wide ranged, from state-owned to big private pharmaceutical companies but medium-sized pharmaceutical companies contribute the biggest growth for TDP. Being in the business for almost 15 years, TDP has built a diversified client base where we try to provide "beyond ingredients" to our clients such as technical solutions, business solutions or even partnerships.

From where do you import your products?

The needs for Indonesian health care are vast, but affordability is an important factor. Our portfolio consists of imports mainly from India and China with complementary products from European companies too. We try to obtain these materials at reasonable prices for high volumes, while maintaining high quality standards.

Will the Indonesian market, and TDP more specifically continue to be a net importer of raw materials?

Although the Indonesian market for pharmaceuticals may be growing overall, in terms of local raw materials, we have not yet seen sufficient progress within the country. There is a gap in the market, along with a prospect for much growth. Given that Indonesia is a developing country, there are inherent challenges such as a lack of efficient infrastructure, a fast growing population, the need for strengthening enforcement of existing laws, and government-driven incentives to make long-term investments in local production of APIs. So far, our feasibility studies show that it is still not yet financially viable to produce raw materials within Indonesia, unless government incentives and support become more attractive. Hence, we will continue to import raw materials from other countries that can produce them at a competitive price. In parallel, TDP will continue to seek and explore partnerships to be able to establish raw material-producing companies in Indonesia along with governmental support.

What steps can the government take to create a more proactive business environment within Indonesia?

Supply is very much dictated by the entities that demand the product. People want to pay the lowest price for high quality. The responsibility falls to companies like TDP to procure materials of high quality at reasonable prices. However, there is always a conflict between the two wherein a premium product also comes with a high price tag. To maintain a healthy balance, the government is on the right track in enforcing a strict quality control on pharmaceutical products.

In terms of the more concrete steps that can be taken, several governments pump back a substantial percentage of GDP into their health care systems, and Indonesia should do the same. On the government's end, it can facilitate the industry by allocating land, providing infrastructural support such as water and electricity, and providing incentives and subsidies to all stakeholders across the value chain.

Where does TDP stand in the market today?

TDP is one of the leading companies in the Indonesian pharmaceutical raw materials market. For the last two years, we have made major investments in people, system and infrastructure. We rebuilt and restructured TDP's organization by focusing on competent, caring and highly motivated individuals. Building team-culture, tearing down bureaucracy and flattening organization structure fostered more open communication and transparency. We implemented the SAP ERP enterprise resource planning software to replace an outdated and inefficient IT architecture and to gain competitive advantage from our peers. We moved our warehouse to the Lippo Cikarang industrial estate that is located 30 kilometers east of Jakarta. Cikarang is home to many Japanese, South Korean, Taiwanese and other global manufacturing facilities as well as in close proximity to the new dry-port, future seaport and airport. Infrastructure is the backbone of distribution.

We are committed to store our pharmaceutical materials well, in a temperature-controlled environment following good distribution practice regulations and standards, with proper handling being a key priority in our company. We also have a lab in our warehouse to test the quality of materials that we import, before we distribute the final products. We are always asking ourselves how TDP can do better.

Where do you envision that TDP will be in the next five years?

TDP caters not only to the pharmaceutical industry, but also to the food, feed and cosmetic & personal care and medical device markets. Currently, trends within these industry groups are converging. I envision that TDP will tap into this market and supply not only raw materials but also ideas and solutions such as these. Our motto "beyond ingredients" summarizes our fundamental value to go beyond our core business and to go beyond our call of duty to provide our customers with assurance of our products, services and support. We are in the process of creating a business model where we hope to grow TDP with the aid of a fully functional infrastructure, our loyal customers and strong financial backing from founding shareholders and partners.

What is your final message about TDP and the Indonesian market?

Indonesia has one of the richest bio-diversities in the world, but it takes vast resources to exploit the forests and the sea. We hope that when the world recognizes this and comes to Indonesia to invest in its natural resources. To paint a larger picture, we hope to see partnerships and investments in API and raw materials-producing companies in Indonesia, vitamin & mineral premixes which can benefit the average Indonesian citizen, and the development of herbal extraction and medicines by leveraging the vast natural resources that Indonesia can offer to the world.

The Indonesian pharmaceutical industry is planning to invest more and more to become an "integrated industry" from producing API, clinical trials, formulations to sales and distribution. Therefore, TDP's future role shall support this big picture of strengthening the Indonesian pharmaceutical industry and contributing to Indonesian public health as a whole. •

Dr. Setiawan Nugroho

President Director
EKACITTA DIAN PERSADA

Please explain the evolution of Ekacitta from its inception in 1996 to today.

The idea of Ekacitta began two years prior to the company's formation, when we were approached in 1994 by a group of Hungarian business people who were involved in producing raw materials for pharmaceuticals. They were interested in entering directly into the Indonesian pharmaceutical market, and my technical background is as a pharmacist, so we partnered with them and after several years of planning, formed Ekacitta. Today, Ekacitta supplies raw materials to Indonesia's pharmaceutical, cosmetic, and food sectors. Our overall focus is on supplying raw materials to Indonesia's health care sector, and pharmaceuticals are the largest portion of our business, as it is the highest value sector that we work in.

The majority of Indonesia's Pharmaceutical manufacturers are concentrated in Java. How does this shape your distribution network?

Ekacitta currently has seven branches – provided with warehouses and employees in each of these locations – spread throughout Indonesia. It is our intention to open another branch in Medan, but this has proven difficult yet so far as we have found that it is imperative to have local knowledge and the ability to daily communicate in local dialect hokian language to be successful in this environment.

How many manufacturers utilize your raw materials?

Indonesia has roughly 170 pharmaceutical manufacturers, of which roughly 120 can be considered active players, and Ekacitta works with roughly 100 of them.

What is the competitive landscape for wholesalers in Indonesia's pharmaceutical sector?

As a way of controlling the supply of materials flowing into Indonesia and to regulate the Pharmaceutical industry, the Indonesian government limits the number of wholesalers that are allowed to sell raw materials for pharmaceuticals. Wholesalers are required to have a license, which has duration of 2 years or 5 years, and thereafter must be renewed for further operation. As it is difficult to obtain a wholesalers (PBF Bahan Baku Farmasi) license, the market for suppliers of raw materials for pharmaceuticals in Indonesia is quite small, consisting of around 10 to 15 leading Companies.

Historically, how has Ekacitta performed in terms of growth and how does it look to capitalize on opportunities going forward?

Over the last five years Ekacitta has grown tremendously: increasing business six-fold over this duration. Ekacitta's philosophy for growth focuses on its existing Principals and products, while also identifying demand trends and opportunities to grow with the market and expand its product base. For instance, as a company, we are paying close attention to Indonesia's health care reforms and the demand that it will create for specific drugs. We have benefited from this strategy, having grown our business by 15 to 20 percent this year and expect to continue at this rate going forward. •

Lilyana Budihardjo

Business Development Director
GAIASCIENCE INDONESIA

Gaia Science is heavily involved in servicing the pharmaceuticals industry through equipment provision. Could you provide insight on how you service the industry in Indonesia?

Our company focuses on distribution, primarily in scientific and laboratory equipment. We have one division that deals with pharmaceutical equipment, vaccine production equipment, and animal testing equipment. Our company is five years old, but we have a great extent of knowledge with pharmaceuticals from our past experiences. We have a total of 33 staff members in Indonesia.

Could you tell us about your international presence, and Gaia Science's specific operational plans in Indonesia?

Our company has branches in Singapore, Malaysia and Myanmar, each of which has its own needs. Within Indonesia, local pharmaceutical industries conduct a high level of research and development (R&D) besides quality control, but for multinationals, they usually only conduct quality control. We have exclusively distributed instrument for 100% raw material Identification (RMID) using Portable Raman and Portable NIR instruments. This is mandatory, as Indonesia is a member of PICS. We also have a full line of products for the industry, such as disintegration testers, hardness testers, dissolution testers, tap density testers, glassware washers, GMP autoclaves and particle size analyzers with single particle optical sensing (SPOS) for fulfilling USP 729 and USP 788. All our machines are imported from West Europe, the United States and Japan. We also supply plastic consumables, especially for microbiology testing, such as pipette and their tips, rodac plate, TC flask, centrifuge tube, cryotube, and petridishes. The equipment that we supply requires a high level of technical knowledge, so we also distribute it and provide extended services for it.

R&D remains an important priority for the industry. What is Gaia Science doing in terms of R&D?

We have observed that the quality of the research that Indonesian companies are now doing has greatly improved, exploring new methods such as those of stem cells technology. We observe trends and surges in demand for certain products, and as for our contribution when we visit our customers, we introduce new technologies and provide solutions to them. This spurs discovery and innovation in itself.

New technologies keep coming, just like PCR (for DNA, RNA up to Protein level), Stem Cell, New Drug Discovery, synergy between Physics/ Nano technology with Biology and Chemistry, Anti Aging, Cell Imaging etc. These keep us all excited to strive for progress.

What would be your message to those who form policies for regulation?

Regulations are made to ensure that manufacturers, distributors and consumers are safe. Safety is fundamental in pharmaceuticals, as even one additional gram of active ingredients can have severe repercussions. Regulations tend to control such casualties. It is reassuring to see that these standards are implemented amongst local Indonesian companies, thus ensuring a high quality of products. Gaia Science always keeps equipment well serviced and has eight people in our service engineering team.

What is your vision for the pharmaceutical industry in Indonesia?

We all share a similar dream here in Indonesia. Our company vision is "Towards the Greener Earth and Better Quality of Life Through Science and Technology." We hope to see a functional and effective health care system, which will provide better quality of life for all citizens. Right now we have to buy our own health care insurance, but we hope that in the future the government will help cover at least the basics for the people, especially poor people, employees, the elderly and children. Once the system is in place, the demand for pharmaceutical products will only rise. •

Per Olof Johansson

Managing Director
TETRA PAK STAINLESS EQUIPMENT, INDONESIA

Can you provide a brief background of Tetra Pak?

Tetra Pak was founded by Ruben Rausing in Sweden 63 years ago. We are a privately owned, medium-sized multinational company with approximately 25,000 employees all over the world. Our turnover last year was 11 billion Euros, and we are active in almost every market in the world. Tetra Pak started out as a packaging company, and came up with the idea that milk could be distributed in an efficient and safe way. During the 1990s, the company considered moving forward from packaging, as Tetra Pak was well established in the industry. Tetra Pak then began to manufacture equipment to process milk, juice, ice cream and other foods. Equipment was originally a small part of the company, but over the years it has grown and currently contributes to 15% of overall turnover. Tetra Pak came to Indonesia with packaging over 40 years ago. Back in 1984, Tetra Pak Stainless Equipment was formed as a joint venture, focusing on manufacturing equipment for the Indonesian Dairy industry. We export 85% of what we produce. In Indonesia, we sell equipment, sophisticated automation control systems, and several other services. Within the pharmaceutical industry, our specialty is mixing liquids and powders in a controlled and hygienic way. Liquid medicine is thus our main focus in the pharmaceutical industry in Indonesia. Our hygienic design expertise along with our skill in integrating preexisting systems is how we add value to the industry.

How is Tetra Pak Stainless Equipment performing within Indonesia?

We are focused on parenteral products and oral solutions. We have a reasonable share of the market. Driven primarily by the health care reform, the last two years have held a lot of uncertainty about the future of health care with the change of government. The government has been effective in enforcing strict manufacturing practices that have led to a number of Indonesian pharmaceutical companies being recognized internationally, as they are conforming to international standards of manufacturing and traceability. Moreover, ASEAN Economic Community (AEC) gives huge opportunities for the pharmaceutical industry as the market becomes broader and open.

Where is the pharmaceutical industry heading in the next five years?

The per capita spending on health care is still relatively low in Indonesia, which implies that there is room for potential and growth. However, we must also face the reality – where is the money going to come from? Much change will be driven by the national health care reform, with the addition of clinics and hospitals.

How does Indonesia's future affect Tetra Pak Stainless Equipment's growth as a business?

We will retain our safety standards and quality of production. The more success that Indonesian companies have in exporting, the greater needs for production capacity. I believe further development of the infrastructure is key in order to enable this. Obviously, if companies intend to export they must adhere to strict international manufacturing standards, this is also positive for the Indonesia market.

How has the business climate in Indonesia been for Tetra Pak Stainless Equipment's operations?

The pharmaceutical industries are going through consolidation as a result of the change in government policy to higher quality control and safety standards. When Tetra Pak Stainless Equipment joined the industry, there were about 300 manufacturers of liquid pharmaceuticals. Today, there are probably about 200. A good business climate is essential for the manufacturing sector to expand and improve productivity. Several things are expected such as simplification and increased transparency of the regulations, improvement of cost competitiveness in the face of global competition, the efficiency of logistics and delivery, as well as enhanced connectivity and productivity of the major ports especially near to the industrial sites.

How competitive is the market?

Few companies provide complete production solutions like we do; we are unique in that regard. Only a small number of companies can integrate all the sub systems into one single system creating an overview.

Where will Tetra Pak Stainless Equipment be in ten years?

We are active internationally in cosmetics, including hair care, skin care, and oral care. Specifically within skin care, we have observed that with our international customers, it is not only the lotions and ointments, but also the active ingredients that attract customers. Several of our cosmetics customers now manufacture according to pharmaceutical standards. On that front, there is a grey area between cosmetics and medicine. That grey area is increasing, and we are active in that area. We are effective in integrating such products, and in the future we see ourselves taking advantage of the converging market.

Do you have a final message for our readers?

Investors considering Indonesia should do so seriously, not only as a market to sell products but also to manufacture products and export. The country's infrastructure, logistics, and distribution systems are improving consistently, thereby improving the business climate. •

Dr. Stanley Ch. Budihardja

Regional Director
Emerging Market, East Asia
BSN MEDICAL INDONESIA

Please describe the evolution of BSN Medical's presence in Indonesia.

BSN Medical (BSN) was formed in 2001 as a joint venture between Beiersdorf and Smith & Nephew. BSN is a global provider of medical devices, and its presence in Indonesia dates back to the company's inception. Initially, it was very challenging for BSN to remain competitive in the Indonesian market as it was unable to compete with the products of its parent companies. Consequently, in BSN's early years, its product portfolio could be considered simple and commoditized. This all changed when BSN was acquired by a private equity firm, Montagu, in 2006. At this point, growth within BSN's product portfolio increased immensely and it was able to further establish its global presence. In 2012 BSN went through further change in ownership, as it was acquired by another private equity firm called EQT. Today, Indonesia has emerged as one of BSN's most successful regions worldwide.

BSN has teams dedicated worldwide to the R&D, manufacturing, sales, and marketing of its products. What business units does BSN have in Indonesia and how do its Indonesian operations benefit from BSN's global network?

Overall, BSN employs around 200 people in Indonesia whose activity is dedicated to the sales and marketing of its products. BSN benefits from a global network of R&D and manufacturing facilities. The majority of BSN's products that are present in Indonesia are imported from its specialty plants located around the world: wound care products coming from Germany, and orthopedic products coming from the United States. In terms of R&D, BSN launches four or five new products globally each year. In 2015, BSN plans to launch more than 10 new products in Indonesia.

What is included in BSN's profile of products offerings?

BSN focuses on two primary therapeutic areas: wound care vascular and orthopedics. BSN offers a wide-range of products to treat wounds, from simple products such as adhesive bandages, to very complex products that address advanced wound management. BSN's strength is in the latter category, advanced wound management. Within this segment we offer products in areas such as compression therapy, for which BSN is the world's largest provider of medical devices, under the brand Jobst. Overall, in wound care vascular BSN offers over 200 products and variants. BSN's product portfolio for orthopedics is also quite comprehensive, as it includes products that address ailments from the acute phase to the rehabilitation phase. Some of BSN's orthopedic products include casts, braces, tapes, and straps. BSN's mission is to not just sell products, but rather therapeutic solutions. In line with this approach, BSN strives to close any gaps that may exist within its product portfolio. For instance, if a patient has a diabetic food ulcer, BSN's goal is to have a product for whatever may be required.

There are many medical device products on the market. What differentiates BSN's products from the competition?

BSN is a global company that is headquartered in Germany. Naturally, we are focused on providing quality products that are supported by high levels of R&D. If one was to compare BSN's products with low-cost substitutes, they would find that BSN's durability is significantly superior. In every single one of its products BSN commits substantial amounts of R&D, this is apparent in the overall quality of its products.

In any market there is an obvious trade-off between quality and price. How have BSN's products performed in the Indonesian market?

From BSN's inception in 2001 up until today it has grown its Indonesian operations sevenfold. It is apparent that the market is ready for growth and that there are certain hospitals and caregivers who are receptive to the availability of high quality medical device products. With that said, continued education is essential to developing consumer mindsets for high quality products.

Indonesia is a very price-sensitive market. Due to its high quality standards, BSN's products are typically more expensive than alternative medical device solutions. However, if one was to compare therapeutic costs for the market, there is evidence that supports high quality products as being more effective from a total cost perspective. Additionally, higher quality products also benefit customers in terms of comfortableness.

The vast majority of medical devices available on the Indonesian market today are imported. What implications does this have for the development of the sector?

In general, more than 90 percent of the medical devices used in Indonesia are imported. This is a significant challenge for Indonesia, as it is neither healthy nor sustainable for industry. Currently, even very simple medical device products are being imported. There are many medical device trading companies in Indonesia; primarily entrepreneurs in pursuit of short-term results. Although it will require long-term investment, as returns would initially be slow, there is an opportunity in the market for the development of domestic medical device manufacturing facilities. BSN considers this a potential growth strategy moving forward.

What growth prospects are present in Indonesia's medical devices sector?

In general, the market size for medical devices in Indonesia is growing significantly. BSN expects to experience continued growth across all of its product groups. Currently, BSN's products are present in 80 to 90 percent of Indonesia's hospitals. While BSN's presence is strong in the hospital channel, we would like to develop its position in pharmacies as well. As Indonesia's middle-class continues to grow, so will its consumer conscience. Consumers are beginning to recognize and appreciate quality medical device products, and in this respect, BSN is well positioned to capture potential growth. •

The Distribution of Indonesian Pharmaceuticals

Navigating a Complex Geodemographic

Indonesia is the world's largest archipelagic nation: comprised of 17,000 islands, its landmass includes nearly two million square kilometers of terrain and holds claim to over three million square kilometers of ocean under its jurisdiction. With a population of 250 million inhabiting its sprawling terrain, Indonesia is placed as the world's fourth most populous nation. In addition to the immensity of its population, Indonesia is also home to one of the world's most diverse citizenships, represented by over 300 ethnic groups and 700 living languages.

Indonesia's complex geodemographic composition creates an intricate landscape for the distribution of pharmaceuticals. Consequently, pharmaceutical distributors work across an extensive network of retail channels in an effort to reach the entirety of the country's population. In 2013, there were 2,278 hospitals in Indonesia, 17,667 pharmacies, 8,285 drug stores, and numerous wholesalers and non-traditional outlets focused on the distribution of pharmaceuticals. Due to the diversity of Indonesia's terrain and the immensity of its distribution channels, the greatest challenge facing pharmaceutical distributors is found in servicing the needs of this network on a cost-effective basis.

> "The cost of shipping products to some of these isolated areas can be as high as six times the price of the product.
>
> - Andrew Makmuri, President Director, Merapi Utama Pharma"

The framework for pharmaceutical distribution in Indonesia is largely determined by the Ministry of Health (MoH). Under one such mandate the MoH delegates the ability to distribute pharmaceuticals within Indonesia exclusively to domestic companies. Consequently, although several multinationals have been allowed to continue their distribution operations through a grandfather clause in the legislation, domestic companies largely control the market for pharmaceutical distribution in Indonesia. Furthermore, MoH regulation dictates that the distribution or wholesale operations of pharmaceutical manufacturers must be performed by separate legal entities.

The objective of segmenting manufacturing and distribution operations within Indonesia's pharmaceutical industry has been to promote an environment of unbiased access to health care. Despite this decree, many of Indonesia's larger domestic manufacturers maintain separate entities that serve as distribution legs for their operations. With that said, other manufacturers, especially multinational manufactures, which are not vertically integrated with distribution capabilities, rely upon a diverse network of distributors to bring their products to market.

The market for pharmaceutical distribution in Indonesia is dominated by 12 distributors that provide coverage across the entire archipelago. This primary grouping of distributors controls around 65 percent of the market for pharmaceutical distribution in Indonesia, while the remaining share of the market is claimed by an array of smaller niche distributors. Consequent to Indonesia's vastness, achieving

economies of scale is a critical determinant of the success of pharmaceutical distributors; a reality that has positioned large distributors at the top of the industry. While limited in terms of scale, smaller distributors have historically been able to survive "due to relationships with specific regional governments and hospitals," says Dr. Johannes Setijono, Chairman of GP Farmasi Indonesia.

Although many of Indonesia's largest domestic pharmaceutical manufacturers have integrated their operations to include distribution services, working with an independent distributor also holds strong value. Merapi is one such distributor that differentiates itself by providing manufacturers with a strong suite of value-added services. According to Andrew Makmuri, President Director of Merapi, "many manufacturers that are vertically integrated to handle distribution are not able to provide proper visibility for their OTC products." Consequently, Merapi has teams dedicated to managing product visibility, inventory management, and complaint handling in retail outlets, while also providing a range of other value-added services.

In order to provide pharmaceutical manufacturers with interesting value-propositions, many distributors are diversifying their service offerings in an effort to retain existing business and attract new principals. One such company that is expanding upon its traditional service offerings is Anugrah Argon Medica (AAM). In addition to its 44 distribution branches located across Indonesia, AAM is developing a range of value-added services that are driven by sophisticated information technology. Drawing upon its extensive stockpile of data and analytics, AAM will use its systems to analyze trends and help its principals identify markets in which their products can achieve greater impact. According to Hery Sutanto, President Director of AAM, "information systems have become a burgeoning focus for AAM over the years," a focus which is unique within the distribution sector. With the implementation of these solutions, AAM seeks to position itself as a leader in market exploration, supply chain solutions, and knowledge management.

Another distributor that is diversifying its range of service offerings is Anugerah Pharmindo Lestari (APL).

> "Margins are on the decline due to macroeconomic factors such as increasing labor and freight costs…most pharmacies in Indonesia do not keep inventories of products."
>
> - Richard Prayago, Associate Business Unit Manager, Anugerah Pharmindo Lestari (APL)

Recognized as a distributor of choice for multinational pharmaceutical manufacturers, APL distributes products for nearly 50 percent of Indonesia's multinationals. According to Nyoman Sukertha, Vice President of Sales of APL, "after evaluating the needs of our clients, we are trying to innovate and expand our product offerings to include a range of other services."

Elaborating on this plan, Richard Prayogo, Associate Business Unit

Manager of APL, states: "APL's new aim is to be a provider of end-to-end solutions for the Indonesian pharmaceutical industry. As the majority of our principals are multinationals, many of our services are catered to their needs. For example, we offer services in other areas such as regulatory assessment and guidance to multinational companies that are new to the Indonesian pharmaceutical market." Services such as these are of particular interest to multinationals, as they have historically struggled to penetrate Indonesia's more rural markets due to geodemographic hurdles such as remoteness and diversity of languages.

While many distributors are differentiating themselves with unique value-propositions, the physical distribution of products in Indonesia entails numerous challenges due to the country's extensive network that requires servicing. As a result of buying power demographics and population density, access to health care is most pervasive on the islands of Java and Sumatra, regions that consequently benefit from the largest concentration of pharmaceutical distribution centers. Indonesia's more sparsely populated regions, such as the province of Papua, pose more difficult challenges for distributors especially given the Indonesian government's implementation of an e-catalogue system, which mandates the delivery of pharmaceuticals regardless of volume ordered or cost-effective feasibility. Commenting on challenges within the market, Andrew Makmuri notes: "The cost of shipping products to some of these isolated areas can be as high as six times the price of the product." While expanding access to health care is a noble cause, many distributors have commented that Indonesia currently lacks the necessary infrastructure to deliver small product quantities on a cost-effective basis.

As an additional challenge, Prayago states: "Margins are on the decline due to macroeconomic factors such as increasing labor and freight costs." Furthermore, he states: "most pharmacies in Indonesia do not keep inventories of products." This reality means that many distributors have to make several trips each day to different outlets in order to ensure the same day delivery of products.

In light of the many challenges currently facing distributors, with the implementation of national health care reforms (JKN), Dr. Setijono posits: "The distribution segment of the pharmaceutical industry will need to change." A likely consequence of the reforms will be a reduction in the number of small-scale distributors, as it is predicted that niche distribution channels such as pharmacies will realize declined product volumes and formalized channels such as hospitals and JKN providers will attract greater product volumes. As the distribution sector is expected to change, Dr. Setijono goes on to describe that "retailers need to change their business models as well." The vast majority of Indonesia's nearly 20,000 pharmacies are specialized storefronts focused on the sale of prescription drugs, with little attention being given to the market for over-the-counter (OTC) products. As Indonesia's market for OTCs is expected to grow to encompass 50 percent of the value of its pharmaceutical industry in 2015, Dr. Setijono states that "it will be difficult for retailers to continue in this way." Alternatively, it will be important for retailers to evolve as larger storefronts that provide customers with a wider range of product offerings.

> "The distribution segment of the pharmaceutical industry will need to change…retailers need to change their business models as well.
>
> - Dr. Johannes Setijono, Chairman, National Board Indonesian Pharmaceutical Association (GP. Farmasi Indonesia)"

As the rollout of JKN continues through 2019, it is expected that access to health care will be extended to an additional 80 million people in Indonesia. This creates an environment of ample opportunity for both pharmaceutical manufacturers and distributors, especially in the market for unbranded generics. In order to grow with the industry, distributors will need to continue to implement creative solutions that bring health care solutions to customers on a cost-effective basis. •

Andrew Makmuri

President Director
MERAPI UTAMA PHARMA

Please provide a brief overview of Merapi and its distribution operations in Indonesia's pharmaceutical sector.

Merapi is a subsidiary of the Japanese Otsuka Group and its activity has been rooted in Indonesia since the company's establishment in 1973. Indonesian law mandates that pharmaceutical distribution companies must be domestically owned, but Merapi is a multinational company, allowed to operate in Indonesia, as its presence here predates this legislation. Despite Otsuka Group's diversified global operations, Merapi is its sole distribution leg. Merapi's distribution network is capable of reaching most regions within Indonesia, and is composed of the following elements: 1,105 employees, 28 branches, and two distribution centers. Merapi's vision is "to become a trusted pharmaceutical and healthcare distribution company by providing excellent services and added values for better health throughout Indonesia." The name "Merapi" is derived from the active Indonesian volcano of the same name, which acts as a metaphor for how our company operates: an active and powerful force in the distribution sector.

Merapi's distribution network is extensive. What is the composition of your principals and their product offerings?

Merapi works with 40 principals and consequently distributes a range of diverse products. Roughly 60 percent of our principals are multinational companies, with the remaining 40 percent of companies being domestic. Our activity includes the distribution of IV, medical drugs, medical equipment, disposable medical products, over-the counter (OTC), and consumer healthcare products. The breakdown of our product distribution is as follows: 40% intravenous (IV) products, 30% ethical products, 20% medical equipment, and 10% OTC products. Merapi is Indonesia's leader in IV distribution to hospitals, controlling 70% market share in this field.

Merapi's distribution centers (DCs) have a cumulative space of 28,000 square meters, which ensures reliable management of our principals' supply chains. Furthermore, our DCs are able to accommodate a wide range of temperatures and provide accurate and integrated stock allocation and replenishment systems to branches. Merapi's fleet consists of 110 motorcycles and 147 trucks dedicated to the timely delivery of our principals' products.

Indonesia has a sprawling network of retail outlets. What is the breakdown of retail customers that Merapi distributes to?

Merapi distributes products to hospitals, pharmacies, and drugstores. Considering statistics from 2013, there were 2,278 hospitals in Indonesia, 17,667 pharmacies, and 8,285 drug stores. Out of these outlets, Merapi distributes to 1,716, or 75% of Indonesia's hospitals; 11,952, or 68% of pharmacies; and 2,514, or 30% of drug stores. Hospitals act as Merapi's largest distribution channel, accounting for 75% of its volume, pharmacies constitute 21% of volume, and drug stores claim the remaining 4%.

Merapi offers a host of services, not just distribution to its principals. What are some of the other services Merapi provides?

Merapi offers the following services to its principals: sales; coverage/network; inventory management, which includes availability and visibility; complaint handling; as well as several other services. Our principals are responsible for the marketing and promotion of their own manufactured products and we deliver their products downstream to retail outlets. Many manufacturers that are vertically integrated to handle distribution are not able to provide proper visibility for their OTC products. Merapi has a salesforce that is responsible for managing inventory and product visibility in retail outlets.

What are some of the major challenges facing distribution companies, such as Merapi, in Indonesia's pharmaceutical sector?

Merapi has a dominant stake in the distribution of IV products in Indonesia. These products are bulky and expensive to ship to rural areas. This difficulty within the market has been exacerbated by the recent implementation of e-catalogue services, for which Indonesia's Ministry of Health has mandated that all orders placed using this medium must be fulfilled regardless of the product's cost of delivery. This is unsustainable for distribution companies, as Indonesia does not currently have the proper infrastructure to sustainably deliver small quantities of products to rural areas on a cost-effective basis. The cost of shipping products to some of these isolated areas can be as high as six times the price of the product. Going forward, this will be something that the Ministry of Health will give attention to and likely change.

Going forward, what strategies will Merapi implement to grow its business?

Merapi would like to grow its business with existing partners, but would also invite new principals to its operations. In terms of markets, Merapi would like to increase its activity in OTC and consumer-product markets. Drugs are more attractive than IV solutions, which constitutes much of our operations today, as both freight and facility space is less expensive.

Indonesia's national health care reforms will have a substantial effect. Many of our principals have recently experienced massive growth, and this trend should continue over the next five years, as the reforms become fully implemented. We will continue to collaborate with our principals on this. Merapi is excited about opportunities in Indonesia's pharmaceutical sector, as it represents the fastest growing and most promising sector for our business activity in Indonesia. •

Hery Sutanto

President Director
ANUGRAH ARGON MEDICA

Anugrah Argon Medica has a long history in Indonesia, being one of the chosen and largest pharmaceutical distributing companies. Please describe the formation of AAM and any important milestones to its development.

Anugrah Argon Medica (AAM) was founded by Dexa Medica in 1980 due to a Ministry of Health decree that mandated to separate legal entities for companies involved in the manufacturing and distribution of pharmaceuticals. AAM's operations began as a trader of products, initially working exclusively with Dexa Medica. In 1996, AAM shifted its focus within the industry and repositioned itself as a physical distributor of pharmaceuticals and medical devices, not only for Dexa Medica, but for a range of domestic and multinational principals. This milestone is what has defined in our presence for the industry today. Most recently, AAM has undertaken significant investments to develop its capabilities in IT solutions, market exploration, supply chain and knowledge enterprise. This has been the emphasis of AAM's recent efforts and has catapulted AAM to its current position within the industry as one of Indonesia's preeminent distribution companies with robust IT capabilities.

AAM has diversified its operations beyond being simply a distributor of pharmaceutical products. What is the profile of principals that you work with today?

Today, 40% to 45% of AAM's business comes from Dexa Group, while the remaining portion of our activity comes from domestic and international principals, such as Dexa Medica, Ferron Par Pharmaceuticals, Pfizer, GSK, Merck Serono, Tanabe, Bayer, Novartis, Actavis, Novo Nordisk, Becton Dickinson, BSN, and Abbott Nutrition. AAM works with more than 30 principals spread throughout the pharmaceutical, medical devices, consumer healthcare, and specialty sectors. All of AAM's principals are treated equally and fairly, regardless of their size or relative importance to overall operations.

Indonesia is renowned for its difficult distribution climate. How expansive is AAM's distribution network?

AAM has Indonesia's most extensive distribution network and is respected as one of the leader's in the market. We have 44 branches spread throughout Indonesia and are able to service the entire country with our direct coverage services. AAM's mission is not only to be a logistics provider, but also a partner to grow, with comprehensive selling and distribution solutions provider. To satisfy this goal, we are constantly looking to expand our market in order to provide better direct access to the market and improve the business of our principals.

In addition to distribution services, AAM offers a range of value-added services. What are these services and how do they fit into the scheme of your overall operations?

AAM has three primary, value-added services that are driven by sophisticated information technology and act as competitive advantages: strong market exploration, reliable supply chain solutions, and knowledge management.

Due to AAM's extensive stockpile of data and analytics, we are able to be our principals' partner of choice for market exploration. Using our extensive and realtime databases, we can analyze trends and help determine where and when our principals' products are most needed. This enables our principals to selectively target new and existing markets in order to maximize the effect of their products. This service is unique within the distribution sector and for this reason AAM considers itself "the partner to grow with." Information systems have become a burgeoning focus for AAM over recent years. We have developed five distinct services called "InfoStep," which utilize our extensive databases to provide a wealth of information. Supply chain solutions are incorporated in our company's overall activity, and we are proud to be one of the distributors driving the Indonesian pharmaceutical market for efficient solutions. Knowledge management is the final pillar of our value-added services and comes from the fact that AAM is a learning organization. AAM frequently holds meetings with its principals and customers to share knowledge and provide information on good distribution practices.

In recent years, how has AAM performed and what is AAM's current share of the market for distribution?

In the last five years, AAM has achieved an average CIGR of 18%. Last year, this figure was down to 17%, but next year we anticipate a rebound in our growth to 24%. Overall, AAM controls roughly 18% of the distribution market share for pharmaceuticals in Indonesia.

Universal health coverage will have a palpable effect on Indonesia's pharmaceutical sector. What do these reforms mean for distribution companies and how is AAM preparing for them?

With the implementation of universal healthcare, we strive to expand our network to meet the growing demands of the Indonesian population. Economies of scale are the key to success for any distribution company, so we are investing aggressively in infrastructure, including the creation of six new branches by 2016. The pharmaceutical sector is becoming more of a volume business, so AAM seeks to prepare by building up its warehouse and transportation capacities. The overall expansion of our network translates into better service to patients and customers, which is great for AAM and Indonesia as a whole. •

Nyoman Sukertha & Richard Prayogo

NS: Vice President Sales, Pharma, Medical Devices, Diagnostics & Vaccines
RP: Associate Business Unit Manager
ANUGERAH PHARMINDO LESTARI (APL)

NS

RP

APL is one of Indonesia's largest independent pharmaceutical distributors. Could you please give us an overview of the company?

NS: APL was established in 1984 and since its inception has consistently grown to incorporate more principals and expand its presence in the Indonesian marketplace. The majority of our principals are multinational companies, which account for about 90 percent of our business.
RP: The majority stake of APL is owned by Zuellig Pharmaceuticals, which allows us to capitalize on our regional network and leverage volumes across entities. We also collaborate with our partners in the network to exchange human capital and other valuable resources.

APL is well known for its distribution services. What other services does APL offer the pharmaceutical sector?

NS: Traditionally, APL's core business driver has been distribution, which will be the case going forward, but after evaluating the market and the needs of our clients, we are trying to innovate and expand our product offerings to include a range of other services.
RP: APL's new aim is to be a provider of end-to-end solutions for the Indonesian pharmaceutical industry. As the majority of our principals are multinationals, many of our services are catered to their needs. For example, we offer services in areas such as regulatory assessment and guidance to multinational companies that are new to the Indonesian pharmaceutical market.

Indonesia is renowned for its complex landscape and inaccessible distribution channels. What is APL's reach across Indonesia?

RP: APL's distribution network spans the entire Indonesian archipelago. We are present in 104 cities, covering close to 434 cities, which are serviced by 31 warehouses spread throughout the country. In order to reduce costs, APL utilizes third party transportation companies that are trained by our team to deliver products across channels. In terms of regional focus, 72 percent of our business is concentrated in Java and 15 percent is in Sumatra. Indonesia's most developed cities are in Java and Sumatra, and consequently, healthcare is most accessible in these areas. This draws a strong correlation to the concentration of our regional activity: APL's distribution focus ultimately aligns with Indonesia's buying power demographics.
NS: There are only 21 – very rural – cities in Indonesia that do not fall under APL's reach of distribution. These areas are not very developed cities, and it is likely we will not open offices there in the foreseeable future. Compared to other distribution companies, the area where APL is unable to reach is very small.

Multinationals constitute a large proportion of your clientele. What is the breakdown of your principals, their product offerings, and the channels that APL utilizes?

RP: APL works with 43 principals, the majority of which are multinationals. The product mix of our distribution is varied: 56 percent are ethical products, 30 percent OTC, and 14 percent medical devices and diagnostics. APL does not currently have a focus on the distribution of unbranded generics. Half of our distribution volume is channeled to pharmacies and hospitals, while the remaining half goes to other channels like wholesalers, modern trade and drugstores for consumer health products.

What is the competitive landscape for the distribution of pharmaceuticals in Indonesia?

NS: The distribution market for pharmaceuticals in Indonesia is highly fragmented, as 12 nation-wide coverage distributors control around 60 to 70 percent market share. With the implementation of universal health coverage this landscape will change, as there will be more unbranded generics in the market. Currently, APL has around 17 or 18 percent market share in the distribution of Indonesia's pharmaceuticals. Our dominant stake in the sector comes from multinationals, as we control around 47 percent market share of IPMG members.

What are some of the major challenges facing Indonesia's pharmaceutical distributors?

RP: Margins are on the decline due to macroeconomic factors such as increasing labor and freight costs. Additionally, keeping a frequent supply throughout retail channels is a costly endeavor for distribution companies. Most pharmacies in Indonesia do not keep inventories of products, and due to APL's policy of ensuring same-day-delivery, we sometimes are required to make several trips per day to a single outlet. This is a costly feature of our distribution network.

What is APL's strategy going forward?

RP: We never stop hunting for new principals. Bidding processes are a regular occurrence for distribution companies, so we will continue to compete and attract new business opportunities through this medium. In the coming year a big focus for APL will be on increasing its business of distributing medical devices as well as end-to-end solutions for its multinational principals.
Over the next 3 to 5 years there will be huge developments in Indonesia's pharmaceutical sector due to the implementation of the new health care program. APL always strives to be significant in the market and our goal is to bring healthfulness to the people of Indonesia, so we will continue to follow the market in this direction. •


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Into the Future: Future Outlook and Company Index

"Our target demographic is the middle class, and we want to focus on young to middle-aged women, as target influencers who can also influence their families and surrounding communities. Our corporate social responsibility program focuses on healthy living education and women's empowerment. We work actively in educating the youth and women's communities on lifestyle disease prevention. We empower marginalized women by providing them with knowledge and skills in marketing and finance as well as educating them on sustaining good health."

- Michael Wanandi,
President Director,
Combiphar

Image: Combiphar

Future Outlook

Expanded Access to Health Care and a Focus on Continuous Improvement

To make forecasts based on primary research, the Indonesian pharmaceuticals industry can expect the following trends in the coming decade:

A focus on developing the healthcare infrastructure

Eric Ng, president director of Sanofi, said: “The proposed increases in healthcare spending will be a good thing for Indonesia. While not every dollar will be spent on medication – medicines typically account for less than 10 percent of these funds – the government will likely spend the majority of its healthcare budget on much needed healthcare infrastructure. The development of primary healthcare systems and doctors will be key features to the plan’s execution.”

Increased production of over the counter drugs and those to treat lifestyle-related diseases

Trends show that prescription drugs, over-the-counter drugs and food supplements (nutritional and vitamins) have all experienced increasing sales. Demand for drugs to treat lifestyle-related diseases, such as diabetes, cardiovascular illnesses and gastric conditions, is set to rise rapidly with increasing urbanization in Indonesia and in neighboring emerging economies. Multinationals catering to the markets of diabetes care or nutritional care can expect an increasing demand given the great focus on conscious consumer healthcare.

More partnerships between multinational corporations and domestic players

Local companies today are actively seeking international partners for whom they can distribute. Likewise, Indonesia is a promising market for a multinational considering entry. The outlook for Indonesia’s pharmaceutical industry is positive because the enormous growth potential of the local market outweighs regulatory, legal, logistical and capacity constraints.

There are a myriad of strong domestic manufacturers in the generics section and multinationals that supply niche markets. Cooperation with local drug makers and distributors and acquisitions prove to be an effective channel to enter the market for foreign companies; similarly, local manufacturers of generic drugs will gain from the expertise and high levels of technology that global players have obtained in cost competitive marketplaces.

Currently, almost all locally produced pharmaceuticals go to the domestic market. However, sales to other ASEAN countries become an increasingly interesting proposition for higher-value brands, where the sourcing of raw materials has less impact on total costs. Turning Indonesia into a regional pharmaceutical hub, however, will depend on supportive regulations and infrastructure. •

Image: Genero Pharmaceuticals

This list contains those companies interviewed during the course of research for this publication and as such represents only a limited selection of the companies operating in the pharmaceutical industry of Indonesia. It should not be considered a comprehensive guide. GBR holds an exclusive and extensive pharmaceutical database for Indonesia and the wider region. For further information on database access packages, please contact info@gbreports.com or call +44 20 7812 4511.

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THANK YOU

We would also like to sincerely thank all the governmental bodies and associations, that took the time to give their insights into the market and share their experience and knowledge.

INVESTMENT COORDINATING BOARD, REPUBLIC OF INDONESIA (BKPM)
bkpm.go.id

MINISTRY OF HEALTH, REPUBLIC OF INDONESIA
indonesia.go.id/en/ministries/ministers/ministry-of-health

MINISTRY OF RESEARCH AND TECHNOLOGY, REPUBLIC OF INDONESIA
international.ristek.go.id

NATIONAL AGENCY OF DRUG AND FOOD CONTROL (BPOM)
pom.go.id/new/index.php/home/en

NATIONAL BOARD INDONESIAN PHARMACEUTICAL ASSOCIATION (GP. FARMASI INDONESIA)
gpfarmasi.org

> "PMMC recognized CPhI as the perfect platform to promote the pharmaceutical industry in Indonesia and helped established its presence in the country in 2012. PMMC's members are involved in all aspects of the pharmaceuticals industry in Indonesia, from raw materials and packaging to machinery and contract manufacturing. In the coming years, PMMC hopes to strength its relationship with CPhI and continue collaborate to make the industry stronger.
>
> - Dr. Kendrariadi S., Chairman, Indonesia Pharma Materials Management Club (PMMC)"

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