INDONESIA

Healthcare reforms open up huge potential in the market to companies with a carefully tailored expansion strategy

Indonesia represents one of the most attractive up-and-coming markets for pharmaceutical companies looking to expand across the Asia-Pacific region. As a sizeable population of 234 million that is witnessing a rapid expansion of the middle class, Indonesia is poised to become a key market of growth in this region for the healthcare industry.

National healthcare expenditure has grown significantly over recent years from $7.2bn in 2005 to $18.3bn in 2010; and pharmaceutical sales are expected to grow robustly in 2012-16 at a compound annual growth rate (CAGR) of 11.5 per cent in local currency terms.

This growth is expected to be further catalysed by continuous reforms in the healthcare system. Indonesia's healthcare sector is traditionally fraught with inequitable healthcare financing and inequalities between rural and urban sectors in terms of treatment access. In a bid to tackle these problems, "Indonesians are focusing more in recent years on their social welfare and are trying hard to rebuild their healthcare system," according to K T Li, professor of economics at Harvard School of Public Health and Professor Hsiao, an expert on healthcare systems in South East Asia.

Healthcare cover

The ongoing plan of Indonesia's Ministry of Health to provide healthcare insurance for over half of the country's population through a universal social security system, known as the SJSN (Sistem Jaminan Social National), is one major reform to anticipate. Currently, Jamkesmas (Government Health Insurance for the poor) and ASKES (Government Health Insurance for Civil Servants) provide healthcare coverage to 90 million and 26 million citizens, respectively.

A direct source in charge of Jamkesmas in the Ministry of Health, Indonesia, said: "In 2014, all these current healthcare insurance schemes will be unified under a blanket national health insurance system named the SJSN, which intends to provide healthcare insurance for the whole of Indonesia. Poorer people will have their premiums paid by the government, while the others would pay for the insurance fees themselves. Under this universal scheme, all healthcare services and drugs for major diseases, such as cancer, chronic kidney disease etc. are to be provided free-of-charge to the people."

In addition to chronic and terminal diseases, efforts would also be directed towards community healthcare infrastructure and preventive medicine.

"Government funds are used to support vaccines and anti-infectious drugs with a high priority," said Prof Hsiao, who also shed additional insights on current government directives. The provision of universal health insurance in Indonesia is a gargantuan task, it remains to be seen if it can truly be realised. What one can reasonably expect, however, is an increase in demand for pharmaceutical products, be it medicines or medical devices, and a steady growth in healthcare spending for the coming years.

Knowing the local challenges

But the reforms might not necessarily benefit pharmaceutical companies that are marketing innovator brands. "Now, our government healthcare insurance policy mandates the use of biosimilars/generics because they are cheaper," reflected a local nephrologist. She has also raised an example of the fast-growing field of anaemia in Indonesia, where market shares are currently dominated by generic brands listed under the government reimbursement scheme ASKES. Hence, foreign pharmaceutical companies often find themselves facing strong competition from local manufacturers of low-cost generics.

While it is only expected that local generics will be preferred whenever affordability is the limiting factor, the real issue faced by innovator brands in Indonesia, however, is the pervasive sentiment that they are more costly with no additional clinical value. The Indonesian government's choice of reimbursing generics has inadvertently endorsed these products, leaving the burden of proof on more expensive innovator brands to show that they are in fact safer, more effective or have better quality control. In fact, public perception of innovator brands vis-à-vis local generics is epitomised by the Indonesian Health Minister Endang Rahayu Sedyaningsih, who said: "for branded medicines … their [production] procedures are the same, their quality the same [as generics]. The main difference is that the packaging is better and the promotion is stronger." A practicing local physician even echoed: "If they are covered by ASKES, I am convinced of their safety profile."

Hence, it appears that local generics are so well accepted in Indonesia that there is a need for international pharmaceutical companies to re-think their marketing strategies for innovator brand awareness reinforcement. Another option, of course, is to re-invent the corporate direction - pharmaceutical giant Pfizer, although well known for its innovator brands, has recently expanded its generics operation arm in Indonesia. "Although the profit margin from generic drugs are low, this could be offset by the potential size of Indonesia's market," explained Pfizer Indonesia director Widyaretna Buenastuti. This is part of a strategic move that serves to optimise the company's presence in a growing market characterised by strong generics competition.

Evolving legislative landscape

One common criticism raised by foreign pharmaceutical companies has been the continuous market access barriers in Indonesia stemming from its regulations that hint at protectionist tendencies. Decree 1010 released by the Ministry of Health in 2008 has made waves in the international arena due in large part to its mandatory requirement for foreign pharmaceutical companies either to manufacture locally or form partnerships with local manufacturing companies, notably their potential competitors, in order to register their own drugs.

Although products still under patent are exempted from this ruling, all pharmaceutical products that are five years past patent expiration have to be locally manufactured, thus necessitating major technological transfers. When the ruling was first announced in 2008, 13 out of the 29 international pharmaceutical firms in Indonesia were thought to be potentially affected as they were selling their products in the country without having production facilities there (see p40). Five years down the road, it appears that Decree 1010 is still here to be reckoned with, disappointing both opponents of the law and cynics who initially believed that the decree would eventually be revised or revoked.

"At first they [Indonesian government] said that we have only two years to set up factories or find a local partner that manufactures here, but now [in 2013] it appears that there is still a grace period. The law has to be followed but we still have some time to find ways to comply with it," said the government affairs department of one of the 13 affected foreign pharmaceutical companies.

It was no surprise that from 2008 onwards, multinationals began to conscientiously re-map their long-term plans in Indonesia. The likes of PT Pfizer Indonesia, PT MSD Indonesia and PT Sanofi-Aventis Group Indonesia made strategic moves to start or expand manufacturing operations in the archipelago. Others, on the other hand, are looking at local manufacturing firms as potential acquisition targets or partners. One case in point is Singapore-based Invida Group, one of the leading biopharmaceutical sales companies in the Asia-Pacific region. Two years prior to its acquisition by the Italian Menarini group in Dec 2012, the Invida Group acquired 70 per cent stake of Indonesian pharmaceutical manufacturer MUGI. This allows Invida to be uniquely positioned in offering its partners Indonesian market access opportunities, covering both regulatory and commercialisation capabilities.

Legislative challenges also pertain to logistical distribution of pharmaceutical products in this country. Prof Hsiao's comments succinctly summed up this aspect of market barriers: "It is true that Indonesia's population is pretty large. However, they are distributed across thousands of islands, which make the market access and local distribution very challenging."

Compounding the issue of sheer geographical size is the ever-changing legislation on distribution that continues to baffle and confuse new-comers and even pre-existing players.

First, in 2008, we witnessed a change in policy with the implementation of Decree 1010, stripping the permit for local wholesalers to register imported pharmaceutical products and relegating them to a narrower role of distributing products only. Instead, imported products have first to be registered by local manufacturers on behalf of international companies. Also, a distribution permit (persetujuan izin edar) can be applied only after the pharmaceutical product is registered. Effective from June 2011, was yet another new regulation impacting PBFs (pharmaceutical companies that have a 'distributor' status because they do not manufacture any product in Indonesia) that repealed two earlier decrees on the same matter. Under the new ruling, a more stringent regulation is imposed by restricting PBF licences to five years of validity unlike the previous indefinite period of validity. The new regulation, however, allows the wholesaler/distributor company to establish a branch within the country, which is unprecedented. Undoubtedly, keeping abreast with the legislative developments and grasping their implications are key requisites for market entry or expansion, in addition to forging strategic alliances with distributor companies that have a strong local presence.

Looking forward

As pronounced as the overall growth opportunity in the Indonesian market may be, it is evident that a tailored market entry or expansion strategy is required to ensure success. Investing in homegrown manufacturing operations, establishing local partnerships, along with foraging into generics' sector are among the numerous strategic moves employed by foreign healthcare players. An understanding of the local dynamics in a complex interplay of healthcare reforms, legislative requirements, market needs and logistical hurdles is critical for all pharmaceutical companies that are serious about making headway in this emerging market of huge potential.

The authors

Carolyn Ng Chun Chi (pictured) is a senior associate at Deallus Consulting, **Bodi Zhang** is a former research consultant at the group and **Lucas de Breed** is an MBA student at Stanford University, California

INDONESIA

2013: Five years after Decree 1010 - what has changed?

Expanding manufacturing in Indonesia

Started manufacturing in Indonesia

Not manufacturing in Indonesia

Partnership with local Indonesian companies

Partnership with other international pharma

Pfizer
Plans to expand into the Indonesian generic drug market, allocating US$3 million to increase its factory capacity (2012)

Merck Sharp & Dohme (MSD)
Plans to produce 20 new drugs in line with the expansion of a new packaging facility in Pandaan, East Java (2012)

Sanofi
Aims to increase local production up to 500 million tablets per year by 2014 (2012)

AstraZeneca
Inaugurates drug packaging facility in Cikarang (2010)

Servier, PT Prafa
Servier products are manufactured by Prafa's plant in Indonesia (2013)

Invida, Mugi
Invida group acquires Indonesian manufacturer MUGI (2010)

Novo Nordisk, AAM, Lilly, T. Tempo
Novo Nordisk partners PT Anugrah Argon Medica, while Eli Lilly partners PT Tempo for distribution of imported products (2013)

Janssen, Astellas, AAM, PT PARIT PADING GLOBAL, Combiphar
Janssen partners PT Parit Padang for distribution, while Astella parters PT Anugerah Argon Medica and PT Combiphar for distribution; they might have plans for local manufacturing activities (2013)

Boehringer Ingelheim Roche
Roche signs an agreement with BI to share licensing and manufacturing of products at BI's plant in Bogor, West Java (2010)

2008: Foreign pharma companies affected by Decree 1010

MSD, Sanofi, Servier, AstraZeneca, Novo Nordisk, Lilly, Janssen-Cilag, Astellas, Wyeth, Roche, PT Orshonovo

Sources:
"14 Perusahaan farmasi asing terancam tutup", Bisnis Indonesia 07 Nov 2008;
"Indonesia gets tough with foreign drug companies", AFP 24 Nov 2008

* Not included in the 2013 analysis are: PT Wyeth Indonesia (now under PT Pfizer Indonesia), PT Sterling (now under PT GSK Indonesia), PT Orshonovo (no information available)