

# korean generics: beyond the gloom

By Mark Sungrae Kim

To grow and prosper, Korean generic drug firms need to focus on building high caliber teams.

These are gloomy days for South Korea's generic drugs industry. Competition is ferocious and domestic drug prices are falling steadily, cutting into already-thin margins. Generic drug makers from India are making inroads, and the Korea-United States free trade agreement (FTA) looms on the horizon.

"The FTA is a big blow and a big concern for our industry," said KT Moon, vice president of the Korean Pharmaceutical Manufacturers Association, in June. The FTA will force Korea to change patent, copyright and trade mark laws, giving greater protection to patent holders.

"The outlook for the domestic pharmaceutical market is bleak," says leading pharmaceutical analyst Sang-Youn Hwang of Mirae Asset Securities. "Drug prices are falling year by year, and will inevitably drop 3 to 4% next year following government guidance." Historically, Korean pharmaceutical firms have focused on producing generic drugs. In most developed markets, Hwang

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says, the market share of generics is between 25-30%, but in Korea this number is a staggering 70%, leaving very little room for domestic growth.

### Slow Growth At Home

Hwang's views are borne out by the numbers. In 2006, the top four pharmaceutical companies in Korea in terms of revenue were Korean. During that year, the top 10 Korean pharmaceutical firms typically had revenue growth of about 6% in Korea, whereas their top ten international counterparts enjoyed revenue growth of 15%.

The right people can lead changes, provide innovation and the latest industry know-how, improve processes, and broaden a firm's network. The pharmaceuticals industry is based on knowledge, regulation, and dealing with human life. Each step of the pharmaceutical value chain needs the best people possible.

The sector is well aware of this and companies are focusing on ways to be more competitive at home, as well as increasing market share in new markets overseas. On the home front, generic firms are trying to become "super generic," bringing generic drugs to market just as a patent expires. As for overseas markets, the relatively low penetration of generics in the United States makes this an important growth market.

Both of these trends place tremendous demands on the human capital requirements in a tight talent market, but perhaps the last remaining way for Korea's pharmaceutical companies to stand out is the people they hire. In a market where everyone's strategy is similar, the firms with the best people will execute the business strategy more efficiently, and help develop more nuanced approaches to a commoditized market.

"The people we hire can make a big difference," says B.S. Moon, Senior Manager of CJ CheilJedang Corp. "The right people can lead changes, provide innovation and the latest industry know-how, improve processes, and broaden a firm's network. The pharmaceuticals industry is based on knowledge, regulation, and dealing with human life. Each step of the pharmaceutical value chain needs the best people possible."

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Super generic firms require quality assurance professionals of the highest caliber to bring new products to market, but unfortunately such people already work for the international drug companies, who offer packages that Korean firms find difficult to match. Regulatory affairs people, in tight supply in every market, are also essential for the super generic model to work, as they can usher new products through the regulatory maze before going to market.

As for new markets overseas, Korean firms are looking abroad for executives to represent them, particularly in the United States. Here their challenge is somewhat easier, for there is a relatively larger pharmaceutical talent pool in the United States. There are also a large number of retired pharmaceutical executives in their fifties and sixties who can be enticed to return to the workforce.

### The Right People For Competitive Edge

Generic firms that fill these vital roles quickly can gain a competitive edge over both their domestic and foreign rivals. A key element to ensuring the right people are hired and that turnover is reduced is a forward looking human resources department. In general, Korean pharmaceutical firms need to be far more proactive in talent management, as opposed to merely taking all their direction from senior management.

Top HR people understand a company's business strategy and proactively put systems in place to ensure that their organization is, from a talent perspective, staffed to cope with Korea's fierce business environment. They concentrate on people, building bench strength, coaching, and ensuring people are successful. There is a significant difference in companies that have strong, strategic HR people and those that don't.

"HR systems and practices in some Korean pharmaceutical companies are quite old-fashioned, I think," says a head of HR at a leading Korean pharmaceutical firm. "There is much room for improvements and change... but in the culture of the Korean pharmaceutical industry it is hard for a single manager to make a big difference. Corporate cultures are very conservative and strict. Though everyone knows the environment is changing rapidly, they hardly move. It's not easy for newcomers even to survive. If he survives and succeeds in opening

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the hearts of his colleagues, maybe then he will get the chance to make changes – but it will take quite a long time, I think.”

As for attracting executives from multinationals who are conversant with international best practice, Korean firms can stress that a role with them will be a challenging one in a rapidly changing regulatory and competitive environment. In regard to compensation, Korean firms will need to invest if they are to bring aboard top talent with international experience: executives moving from a pharmaceutical major will see a role with a smaller company as a risk, and will want to be compensated accordingly.

“Leading domestic companies are spending their profits from generics and reinvesting them into super generics,” says Moon. “But given intense competition, companies need very adaptable people if they are prosper in such an environment. Good HR people are an important part of the solution.”

There is no easy solution for the challenges facing Korea’s generic drug firms. That said, in a tight market it is the team with the best talent that stands to

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win – talent with international experience that can bring fresh ideas to an increasingly commoditized market. What’s more, the drive for change must come from the top. Hiring the right HR manager is not enough: the CEO and board must commit the entire company to a new way of looking at the importance of people.

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