COMPANIES

Big pharma fights back from China scandal

News analysis Drugmakers see

growth after bribes probe, write **Andrew Ward** and

Patti Waldmeir

When Chinese authorities accused GlaxoSmithKline last summer of being the "godfather" at the centre of a network of corruption, big pharma braced for a prolonged period of turmoil in one of the world's fastestgrowing drugs markets.

China suddenly looked a more perilous place for western drugmakers to do business, and the following months saw a slowdown in sales as companies became more cautious in the way they marketed to doctors.

As time has passed, however, industry executives and analysts say the sense of crisis has gradually abated. Bruno Gensburger, external affairs director for Sanofi, the French company, in China, says the market is "back to its former abnormality".

"It has never been normal, but it does seem to be more quiet now."

By the end of last year most drugmakers, except GSK, had returned to strong growth in China and analysts expect the trend to have continued in the first quarter of 2014. Optimists see this as a

sign that last year's bribery scandal was nothing more than a temporary setback in the upward march of the Chinese pharmaceuticals market, which has been expanding at an average annual rate of 15 per cent.

Yet some in the local industry say it is too soon to conclude that the corruption storm has passed. Authorities are continuing to investigate GSK and nobody outside the Chinese government knows where the probe will lead.

While GSK has been the prime target - accused of making up to \$500m of payments to doctors in the form of travel, entertainment and cash - people familiar with the Chinese market say such practices have long been widespread.

Sinopharm, the state-owned Chinese drug group, were detained in January for questioning, and several western companies, including Eli Lilly, Sanofi and Novartis, have faced

whistleblower allegations. Many in the industry believe Beijing set out to make an example of GSK as part of the anti-graft drive by President Xi Jinping sending a message to drugmakers and doctors that cosy deals to sell medicines at inflated prices would no longer be tolerated.

GSK responded in December by scrapping individual sales targets for commercial staff in China and instead linking incentives to improved patient care and wider measures of performance. But no other companies followed suit. "It feels like business as usual," says a lawyer who works with drugmakers in China.

Novartis is among those reviewing incentives for

Many in the industry believe Beijing set out to make an example of GSK

Chinese employees. But Joe Jimenez, chief executive, is cautious about radical change. While stressing the Swiss group's commitment to compliance, he told the Financial Times: "We don't want to do anything that puts us at a competitive disadvantage.

Western drugmakers have been pouring resources into China to tap rising demand for medicines as the country's population becomes older, wealthier and more susceptible to "rich world" conditions such as diabetes and heart disease. It is forecast to become the world's second-biggest drugs market after the US by 2016, with sales of \$165bn, according to IMS Health, the research company.

Mr Jimenez says that, while the market has stabilised since last summer. some of the previous fizz has gone for good. "We are going to see more conservatism within hospitals and

Two former executives of among physicians that will slow growth a little."

Pascal Soriot, chief executive of AstraZeneca, told the FT that the Anglo-Swedish group had already embarked on a drive to strengthen compliance in China before the GSK probe: "We can never be sure that all 6,000 of our employees there are going to behave perfectly. But we are confident there is no systemic issue."

Some local industry insiders believe companies are being complacent. "People think GSK was just unlucky, or they think they have such good guanxi [government relations] that they are protected," says one, adding that he believes the Chinese crackdown will not stop at GSK. Potential

penalties against guilty companies could include a ban on sales to public hospitals in certain provinces under stronger blacklisting powers. US and European authorities might also take action if wrongdoing is found.

GSK acknowledged last July that some executives appeared to have broken Chinese laws and described the allegations as "shameful". Several Chinese GSK staff remain in detention and its former head of China operations, Mark Reilly, a Briton, is unable to leave the country. GSK said it was continuing to co-operate fully with authorities.

GSK's problems have provided an opportunity for rivals to gain market share, after the group saw Chinese sales fall 61 per cent yearon-year in the third quarter of 2013 and another 29 per cent in the fourth.

George Baeder, an independent drug industry adviser, says GSK's overhaul of staff incentives risks a further hit on sales in the short term - but it puts the company on the right side of a global shift away from commissionbased pay in the sector.

"In the end it could be a competitive advantage," Mr Baeder says. "GSK has been forced to develop innovative solutions...ahead of the others that will ultimately be forced to figure out new approaches as well."

Additional reporting by Zhang Yan



A former salesman recalls his use of kickbacks

'I never met a doctor who refused a handout unless it was too little'

Speaking in low tones in a busy Starbucks coffee shop in central Shanghai, a young man recalls his experience as a former drug salesman for GlaxoSmithKline, writes Patti Waldmeir.

"We did get training in compliance," he says. "But then our team leader took us off individually to tell us how to offer kickbacks. We weren't allowed to talk about that in the office." The young man, who

declines to be named since his conduct may have been illegal, is in many ways typical of the vast salesforce of drug reps employed by domestic and foreign pharmaceutical companies in this country of 1.4bn people. He is 20-something and eager to make money.

"Our sales model was the same as other multinational

drug companies in China," he says: offering cash, meals or travel to low-paid doctors to encourage them to buy drugs. "GSK's sales targets were maybe more aggressive than most, but everyone was doing it,

domestic and foreign," he says. "But the bonus was very high if you reached those targets so that stimulated us to try every means to get there.' Big-ticket bribes were

laundered through travel agents whose fake invoicing practices are being investigated. But smaller kickbacks were paid in cash, or in kind, depending on an individual doctor's preference. "I bought fake tax receipts or collected receints from family and friends for taxis and meals. so that I could account to

the company for the amounts I gave to the doctors," he says.

The pay was good: a base salary of Rmb7,500 (\$1,200) a month - high by Shanghai standards – and a quarterly bonus of Rmb17,000 if sales targets were met (plus an additional 5 per cent of sales above the target). Then there was the Rmb5,000

quarterly bonus for visiting doctors: "This was easy to get, you could even make up doctors that you didn't visit," says the former salesman. Finally there was a monthly allowance of up to Rmb2.500 for taxis and

mobile phone fees. And what was the size of

the average kickback? "The industry average was 5 to 20 per cent of the value of the drug," he says, adding he never met a doctor who refused a handout "unless they thought it was too little". He says he left because of the risk of

> getting caught. Former colleagues who stayed "don't know what they are supposed to be

doing because

the former model

no longer works," he

says. "The company still wants them to talk to doctors about product information but it's very difficult to find doctors willing to listen without financial benefit." He says 40 per cent of

his former colleagues have left. The rest are studying for GSK's exam-based bonus scheme, which rewards staff partly based on product knowledge, and partly based on team sales targets. But he thinks this will not work: "Very few people will have an incentive to sell more because they can't be sure evervone else will work as hard as they do.'

GSK said: "The behaviour described by this exemployee is completely unacceptable and we have zero tolerance for unethical conduct of this kind. We believe the vast majority of our employees in China operate to the highest standards and anyone who does not has no place in our company.'

Additional reporting by Zhang Yan

Oil groups eye \$300bn sell-off

By Neil Hume in Lausanne

Private equity groups, commodities traders and sovereign wealth funds look set to become bigger investors in energy markets as major oil companies attempt to divest more than \$300bn of

That outlook, from senior financiers and traders at the FT Commodities Global Summit in Lausanne, underlines a major shift of ownership in energy mar-

"It is a buyer's market," said Marcel van Poecke, managing director of Carlyle International Energy Partners. "I've never seen a market where there are so many good assets for sale."

Major integrated oil companies have come under

pressure from shareholders to curb spending and improve returns after years of investing heavily in new production in increasingly challenging environments.

Many of them have trimmed capital expenditures in recent months and also announced ambitious

spent a record \$46bn last vear, recently announced that it would sell \$15bn worth of assets over the next two years.

divestments it has made

regions, such as the North

divestment programmes. Royal Dutch Shell, which

BP last year promised a further \$10bn of disposals to help fund higher returns to investors, on top of \$38bn in over the past three years.

Major oil companies are not only selling mid- and downstream assets, but also upstream assets in mature

Sea, or difficult ones, including Nigeria. The majors have sold already or have put for sale about \$5bn worth of oilfields in Nigeria, for example. The buyers are homegrown oil companies.

'We see more and more assets being sold by major oil companies," said Mr van Poecke, adding that there was an estimated \$300bn of assets worldwide on the market.

'So that gives a good potential for good returns. Especially if you focus outside the US," said Mr van Poecke, adding that most of the private capital was chasing opportunities in North America. "Outside the US there is less capital available. So it is a buyer's

market.' Mr van Poecke was a founder of Petroplus Holdings, which became

Europe's largest independent oil refinery before it was taken private in 2005 by Carlyle and Riverstone.

At the same time, commodities traders are investing in physical assets such as refineries, oil terminals and petrol stations to expand their trading opportunities and offset margin pressure in their core busi-

Earlier this year Vitol, the world's biggest independent oil trader, paid \$2.6bn to buy an oil refinery and petrol station network in Australia from Royal Dutch Shell. To help finance its deal, Vitol linked up with the Abu Dhabi Investment Council.

Additional reporting by Guy Chazan in London

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- Experience working in the international organization or UN family is an advantage;

Interested candidates should submit application online with detailed resume and UN Personal History Form (P11) by 14 April 2014. Qualified female candidates are strongly encouraged to apply. Only shortlisted candidates will be notified

Ecommerce site Westwing raises €72m

HOUSEHOLD GOODS

By Robert Cookson

Westwing, a German online home furnishings retailer backed by Rocket Internet, has raised €72m from investors including London hedge fund Odey Asset Management.

The new funding round brings the total amount invested in Westwing to €150m, making the Munichbased company one of the best-funded ecommerce start-ups outside the US.

Westwing is one of the fastest-growing companies backed by Rocket Internet, a Berlin-based start-up incubator owned by the Samwer brothers. Rocket is often called a "clone factory": it specialises in taking ideas that have worked in the US and implementing them

Westwing is one of the few companies in the portfolio that Rocket joined as

Founded in 2011, Westwing sells everything from sofas to lamps in "flash sales" lasting four days. It almost tripled revenues to €110m in 2013, up from €41m in 2012 and €0.5m in 2011. The company's business

big discounts with brands that want to sell surplus inventory. The "flash sales" model was pioneered by French company Vente Privée in

to other sectors. According to Westwing, the global "home and living" market is worth about €400bn – about the same size as the fashion market

and chief executive, said the company intends to use the proceeds of its fundraising to accelerate the expansion of its operations in 10

building from scratch. Russia and France. The and logistics. "That's mascompany, which offers ucts on its site each week, already has six logistics centres worldwide that receive goods from brands then

model involves negotiating investment in warehouses

online fashion more than a decade ago and has spread

but at an earlier stage in

about 3,500-5,000 new prodship them to consumers.

"We can ship everything from a sofa to a crystal glass set," Mr Smalla said, explaining the need for

the shift to online shopping. Stefan Smalla, founder

The German retailer sold an investor rather than markets including Brazil, 2.8m products last year





the start of 2012

sively expensive.' To attract customers to its site, Westwing offers home furnishings at an average 37 per cent discount to the manufacturer's suggested retail price. It competes with tradi-

tional home furnishing retailers such as Ikea as well as other "flash sale" specialists. Westwing has deliberately stayed outside the US, where rivals include One Kings Lane.

The company places keen emphasis on product selection and careful presentation. Offering articles and videos alongside its products, it describes itself as a 'shoppable magazine".

Westwing last year sold more than 2.8m products, with more than a third of sales conducted on mobile devices. Rocket and the companies in its investment portfolio - such as Lazada and Zalora - have raised much more than \$2bn since



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