

# REP RESILIENCE

## Pharmaceutical fine chemicals deal makers cleave to traditional codes in a sea of change

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**T**HE MANUFACTURING OF FINE chemicals and active pharmaceutical ingredients (APIs) traditionally has been conducted by a hard-to-navigate field of custom synthesis specialists based mainly in Western Europe. With the market for such chemicals located primarily in the U.S., manufacturers' representatives based in the states have played an important role in linking supply to demand.



**CUSTOMIZE** Davos' Robins says there is strength in numbers when covering the U.S. custom synthesis market.

The business of supplying chemicals to the pharmaceutical industry is changing rapidly, however. The supply side is moving east as low-cost producers in India and China get up to speed on quality and service. Meanwhile, several European manufacturers have opened sales offices in the U.S. in recent years, and API producers in increasing numbers are offering formulated dosage-form generic drugs—often directly to customers.

All of these trends are testing the mettle of manufacturers' representatives, a diverse group of companies whose approaches vary widely. They are a resilient group as well, according to managers at the largest of these firms, who claim they are sticking to their marketing plans with only minor adaptations, despite shifts in strategy and locale among the manufacturers they represent.

FIS, a generic API and contract fine chemicals producer based in Italy, is a typical manufacturer. The firm has established a one-person sales force in New Jersey and is investing in an expansion of its custom manufacturing capability in Italy. According to Marketing Manager Roger Laforce, FIS's U.S. manufacturers' rep—SST Corp. of Clifton, N.J.—now deals almost entirely with its generics business. FIS, he says, has assigned its own salesman to the custom business.

This move came, Laforce says, because FIS may not always be given a priority standing with a manufacturers' rep who works with multiple suppliers. Moreover, a contract manufacturing agreement requires a lot of interaction between supplier and customer, with a prolonged period of nurturing before any sale results—a scenario that Laforce and other custom manufacturers describe as antithetical to the sales-intensive business model of most manufacturers' reps.

Other European fine chemicals makers have set up sales operations in the U.S. PCAS did so last year, and Hovione recently set up a U.S. sales operation as well as a technical center with small-scale manufacturing capability. Both firms, like FIS, established their offices in New Jersey.

Executives with manufacturing reps agree that competition from suppliers is picking up. While many reps place their primary emphasis on marketing and distributing generic APIs, most have a custom manufacturing component to their business and claim they are still competitive given the size and expertise of their sales forces and their years of working with purchasers at major pharmaceutical companies.

Gary Vassallo, president of SST, says there is a "complete blending" of the roles played in marketing fine chemicals as marketing reps' traditional suppliers become both competitors and customers. "Our traditional role of representing our producers' APIs is beginning to modify or change because formulated prod-

uct is also being marketed by the same API bulk producers," he says. These companies may still look to SST to help them build a direct sales business, according to Vassallo.

"Our job is to continue to provide our supplier not only with our sales and marketing expertise, but also our regulatory expertise." He notes, for example, that SST has helped suppliers prepare for Food & Drug Administration audits.

**CURRENTLY**, 80% of SST's business is in distribution of generic APIs, mostly from European producers, Vassallo says. The company has also been representing Indian producers for about 12 years and is beginning to investigate opportunities to represent Chinese producers. Vassallo notes that part of the appeal of Asian-made APIs is the extension of patent protection in Europe under the Supplementary Protection Certificates, which provide up to five years of marketing exclusivity beyond patent expiry. But the big trend, he says, is toward the supply of formulated product.

At Interchem Corp., which does 75% of its business in generics, no big change is under way, according to Robert G. Golle, director of fine chemicals. "Historically, we have worked with Western European companies," he says. "We feel strongly that they have advantages that are still preferred by pharmaceutical companies."

The major drug companies are also still a key focus, as they are preferred customers for Interchem's 35 main suppliers. "The virtual pharmaceutical companies are looked at as posing more of a risk," Golle says. Most are working on one compound. If that project fails, the work invested in building a relationship with the customer is viewed by the manufacturer as wasted, he says. And relationships are ultimately the main stock-in-

trade of a manufacturers' representative, he says.

Golle emphasizes that Interchem, which claims to be the largest U.S. manufacturers' rep, is not ignoring small biotech companies. Nor is it ignoring Asia. The firm currently works with two suppliers in China. Kweeing Ngiam, a Singapore native on Interchem's sales staff, travels to the region to meet with prospective suppliers, he says.

Golle notes that Interchem continues to represent PCAS on APIs despite the French producer's recent establishment of a U.S. sales office. But he recognizes a grow-



Vassallo

ing perception among custom synthesis firms that they need to pursue contract work with their own U.S. sales force.

At Davos, which claims that nearly all of its work is in custom-manufactured drug intermediates and APIs, relationships with major U.S. customers are a key selling point, according to President H. Barry Robins. The company, which has partnered with buyers and sellers on the launch of six drugs, most recently a cancer therapy, works on an exclusive basis with a small group of producers, generally five or six at any time, Robins says.

Davos, however, does supply fine chemicals on a project-by-project basis, sometimes to the manufacturers it represents, and sometimes from Asia. The company, with a full-time Indian chemist on staff, has placed greater emphasis on developing relationships with manufacturers in India, Robins adds.

Robins says European and Asian suppliers that set up small sales operations in the U.S. will have a hard time without the assistance of third-party sales representatives. "We have 20 employees, and we still can't cover the whole U.S. market for custom synthesis." He says there is little overlap in technologies offered by the companies Davos represents, which limits any conflict of interest when his firm pursues a custom manufacturing contract.

According to Ed Richman, president of Richman Chemical, which does more than 80% of its work in custom manufacturing, the job of representing suppliers extends to project management services. The company sometimes takes a financial position in projects, an approach that has helped it get through the recent slump in contract manufacturing, Richman says.

"We have an extremely high retention rate on existing business," he says. "Part of this is having the right customers." In a reverse of the traditional supply route, many of the company's customers are in Europe, he says, and many of the manufacturers it represents are in the U.S. Richman predicts that his firm's customers will increasingly come from the virtual and biotech sectors, given that the locus of innovation is shifting to the smaller firms.

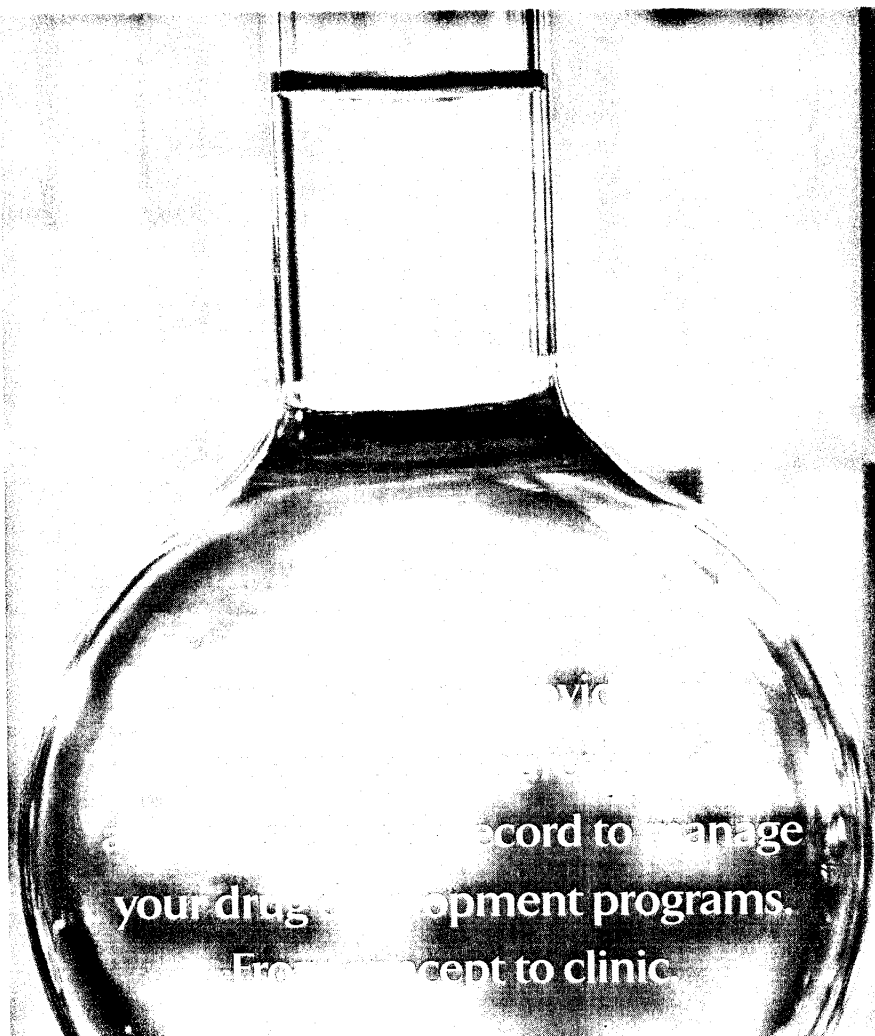
**UNDENIABLY**, there is a steady shift on the supply side to India and China. Aceto, another major manufacturers' rep, has a staff of 28 salespeople in Shanghai. The company has been doing business in China since the 1980s, according to Frank DeBenedittis, senior vice president of pharmaceutical chemicals, and 31% of its chemicals currently come from China.

Few major manufacturers' representatives have made such a push into Asia, creating an opportunity for small players with an intimate knowledge of markets in China and India. One New Jersey-based firm, Kingchem, is seeing business take off after years of resistance to Chinese products on the part of U.S. pharmaceutical industry purchasers.

"Purchasers wanted to save their companies money, but they didn't want to lose their jobs," says Stephen Wang, president

of Kingchem, which represents only Chinese suppliers. He claims that concerns about quality and reliability have eased as Western drugmakers become more experienced with Chinese suppliers.

Kingchem, which has formed two manufacturing and research joint ventures in China, has experienced 20% average annual sales growth over the past three years, Wang says, nearly double that of some larger competitors that represent manufacturers in Western Europe. ■



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