Interview Part Two: Teodoro Ferrer and Julien Bello, Co-founders, Generika, Philippines



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In the second part of a two-part interview, Generika Philippines co-founders, Teodoro Ferrer and Julien Bello, go on to discuss the future of generic medicines in the Philippines, the compnay's toughest competitors and challenges, and their strategies for success over the next five years.

Who provides more competition today: Mercury or The Generics Pharmacy?

Julien: The two are formidable competitors. While Mercury has been the reference in the sector for decades, we also need to respect The Generics Pharmacy in successfully positioning itself aggressively in the market, to the point where they have generated the public perception that they are the company best representing the generic industry. We need to give them credit for this, even though Generika is the real pioneer of generic retail distribution in the country.

Teodoro: The owners of The Generics Pharmacy (TGP) have been in the distribution of medicines for many years. They opened one retail store near their office ahead of us, but Generika is the first private retail chain focused on generic medicines. We were operating 16 company stores before TGP started its franchising model. In fact, they were our supplier as a wholesaler until they recognized the market potential and decided to continue on their own. Using franchising as the growth model, they went from wholesaler to retailer, and expanded quickly with massive advertising. We keep a close eye on the competitive strategies and moves of both Mercury and

TGP as they are much bigger than us. However, we are confident, especially as our own store network already has 462 outlets, that our business model will hold its own in the market place and grow. We shall continue to offer quality generic medicines at competitive prices, use computerization, air-conditioning and other technologies to gain an edge, be customer-centric, and provide community services and other social benefits as part of our advocacy.

What other factors would you name being key to Generika's success?

Teodoro: From the very beginning, a very big decision has been to air condition our stores, because medicines are sensitive to temperature. Any temperature over 30 degrees Celsius can degrade the quality of the product. In the Philippines, especially during summer, temperatures easily reach up to 36 degrees Celsius. Not all chains have air-conditioning in place. From our point of view, we do not want to compromise on quality. We have also been very keen on providing quality medicines as well as quality service to our customers. We believe the various community services that we provide has also been a big help in creating awareness and goodwill in the areas that we serve.

You have 462 locations today. Did you expect such a footprint ten years ago?

Teodoro: Our vision is to be the leading national chain for generic medicines, and 10 years ago when we started from scratch without any knowledge of the pharmaceutical or retail industry, it was just a dream. Looking back, sometimes I feel surprised that we have actually gotten this far and reached this size. Looking forward, we are even more determined to realize fully our vision.

Cash and liquidity certainly isn't easy either. What do you see as an ideal balance between wholly owned and franchised outlets?

Julien: Generally speaking, we try to meet the expectations of our franchisees. This means that we should provide them with the opportunity to expand. Franchising will thus continue to be the primary engine of growth for us. At the same time, we are becoming increasingly demanding in terms of our expectations of what the franchisee should do, in monitoring compliance, operational standards, compliance to the franchise agreement, etc. In case our expectations are not being met, other franchisees or the company can step in and take over the operation. The future will thus be a combination of both, though franchising will remain the primary source of growth.

Out of our total number of outlets, the vast majority comes from franchisees with more than one outlet. This year, 80 percent of the new franchised outlets are actually coming from existing franchisees. Our existing franchisees are thus also in expansion mode, and we certainly want to prioritize them over newcomers.

Teodoro: The franchising model has been the fastest way to grow because we had limited resources heretofore. Now, however, we are discussing internally how we will move forward in the next five to ten years. We expect that we will open many more company stores, but franchising will continue to have a preeminent position in our store network for years to come.

Although we have many good franchisees, one lesson we have learned is that some franchisees have difficulty to manage their business properly; they may pay late, not have pharmacists available, fail to comply with store standards, etc. This is why we prefer to expand through existing franchisees that have proven that they have the financial and operational capability to operate our stores successfully and according to our standards. We want to upgrade our operations and ensure consistency.

Do you foresee a bright future for Generika?

Teodoro: You will certainly see us coming out with new products, enhanced services, more stores, etc., and we will be taking advantage of related business opportunities that we see. It will be a bright and more prosperous future for Generika.

Julien: Soon, we will also come up with ‘MedPadala’, an electronic way to send money that is meant to purchase medicines at Generika. The idea is to make it possible for Filipinos, in the country or abroad, to buy electronic gift vouchers online or in the Generika stores. These vouchers will contain a code that can simply be forwarded by SMS and immediately redeemed by the receiver at a Generika store. In essence, when Filipinos send money to each other, this system is a way to guarantee that the funds are being spent on medicines.

We see this as a way to generate additional revenues to our stores, which is our responsibility as the franchisor. The initiative opens the door to the world of overseas Filipino workers (OFWs) to Generika and is centered around information technology (IT) and marketing.

Teodoro: The current annual US dollar amount in overseas remittances is roughly 21 billion. A sizable portion of that money is going to medicines. Our system provides the assurance that the money is being spent on medicines, rather than other goods or services. Domestically too, there are many remittances that are being used to purchase medicines.

Julien: Med Padala will be launched in three steps. First, we will make the vouchers available for sale in the stores. In a second step, people will be able to buy them online. In a third and last step, we will have some third party chains to sell MedPadala for us. This three-phased approach will be supported by advertising once our frontliners are ready. We have already started training our staff

internally at a national level.

Teodoro: Our new initiatives, such as MedPadala and the opportunitiy to become a merchant partner of PhilHealth, may very well change profoundly the traditional relationship between drugstores and patients. Before, there was no close relationship between drugstores and customers while, now, we want to bring this relationship to a higher level. In my opinion, our ability to revolutionize is related to the fact that we do not come from the industry. We are not bound by what has been done for many decades.

They say that resting is rusting. What keeps you going?

Teodoro: Sometimes I ask myself that question. But after all the blessings I have received in life, I feel it is time to give back to society, and to continue to do this as long as I am healthy and strong. Actually, Generika gives me a sense of personal fulfillment and achievement as well as the drive and desire to get up and go on.

What is more rewarding: being the leading national chain or having a significant social impact?

Julien: We can be proud to say that we have been part of a movement that has made medicines much more affordable in the Philippines. Obviously, we are not solely responsible for this, but we certainly are the pioneers in spite of very aggressive competition. If you were to compare the scenario ten years ago and now, you would see that ten years ago we were really driven by this sad reality: high prices in a country with a very poor population and almost no retailing of generic medicines. The situation back then did not make sense, and we went full speed to make a change. Now, we would not even enter into the market as a new player because the level of competition is already high. That we have helped make a change is what gives me the most fulfilment.

Teodoro: We threw a stone in the pond that created a ripple. Soon afterwards, others started throwing stones in the pond. The combined effect has been very good for the generic medicine industry and has created many benefits to the population. There has been a major chain reaction: prices have come down, many new players have opened generic medicine outlets, branded pharmacies have put more generics in their stores, innovative MNCs are going into generics, etc.

Do you see yourself expanding beyond the Philippines one day?

Teodoro: That thought has come to mind but it has not been a priority on our agenda. However, depending on how ASEAN harmonization is implemented starting in 2015, we may take a closer look at this opportunity.

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