Interview: Pierre Montanaro, President & CEO, Pharmetics, Canada

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Pierre Montanaro, President and CEO of Pharmetics, discusses the history of his company's work in the private label business and future plans to expand into a wider variety of areas within the industry.

What opportunity did you see in moving your career from Pharmascience to Pharmetics?

The business opportunity was the excellent prospect of growth of the private label in the Canadian marketplace. Drug retailers in Canada place a huge focus on their store brands. Private label sales are on the rise and they represent a substantial profit center for all major drug, food and mass merchandisers in Canada.

Could you give us an insight into some of the key milestones and achievements of Pharmetics?

Pharmetics was founded in 1956 as mainly an importer and manufacturer of herbal health medicine. Growth was slow in the 1960s and 1970s, but this changed in the 1980s and 1990s particularly when the company saw an opportunity to take advantage of the growth of Private Label with major drug retail chains and shifted the focus of its business from mainly herbal medicine to natural health products. This was really the beginning of the growth of Private Label or Store brands in Canada.

During that time, the company sales grew quickly and Pharmetics became one of the major suppliers of Private Label Natural Health and OTC products in Canada. In 2011, the company was sold to Monitor Clipper Partners (MCP a highly successful private equity firm based in Boston). I was hired in September 2011 to re-build the business that had gone through a difficult period. My number one priority was to hire a new executive Management Team placing a strong focus on revamping the Quality and Marketing Teams. Historically, the company has been focused on the domestic sales of private label, but we have since expanded our business outside Canada by turning our attention with some selected products to the US and other export countries such as the Ukraine and the Middle East. At its peak, Pharmetics was an $80 million company, employing over 400 people. Today, we employ roughly 230 people. Our main manufacturing facility is in Laval. We also operate a pouching packaging facility in Burlington as well as a distribution center located in Cornwall.

How would you rate Canada in the OTC and supplemental market in terms of its position in the world?

The consumer health care products market is driven by strong fundamentals: the growing aging population, combined with a proactive approach to health and wellness by consumers. The nutritional and OTC markets have steadily expanded over the last 15 years due to many of the above factors. Consumers are looking for alternative solutions beyond the traditional drugs for their health and wellness. The consumer healthcare market is projected to increase by 1-2 percent annually over the next five years. Expanding private label supplement and OTC product portfolios is a key strategy to all Canadian retailers. Shoppers Drug Mart is forecasting to increase its Private Label “Life Brand” business from 19 percent of sales to 25 percent over the next five years. Wal-Mart’s goal is to increase its Private Label Sales by 21percent. The aging baby boomers remain the driving force in the supplement market as they view these products as an effective way to stay healthy but also to battle the unwanted physical changes of aging.

You mentioned China and India, and we know they are becoming increasingly important in manufacturing. How is Canada competing against these markets?

Countries like India and China can produce products at a very low cost, so Canada must consequently control its costs to remain competitive. The efficiency of the manufacturing process here must be exceptional. Conversely, producing in Canada provides more flexibility while lead times in the Far East are very long. Pharmetics sources many raw materials such as Vitamin C from abroad, but whether you want your final product to be from China is another question. Large retailers want high quality products at a reasonable price with exceptional service. Producing

locally provides a competitive advantage, as we are able to service our account with fairly short lead times. From a cost perspective, it is difficult to compete, when wages in countries like India are a fraction of what they are here. Ultimately, Canada is still a good place to be as there are large Drug Food and Mass Merchadisers looking to expand their store brands as a means to increase consumer loyalty.

What are some of the most important products that Pharmetics is producing today?

Despite high manufacturing costs due to stringent testing in Canada, the multivitamin business shows good growth potential as consumers are looking for convenience when taking supplements. Currently, hot lemon is our hottest largest product, and letter vitamins, analgesics, and ibuprofen tablets and caplets are also important products.

Presently, and due largely to the recent successes on Hot Lemon, OTC products represent two thirds of our total business. Vitamins and multivitamins used to represent a bigger proportion, but this segment has become very competitive. Over the last few years, branded companies have gone into private labels because retailers are pressuring them to produce the same product with their own label.

What separates Pharmetics from its competitors in terms of its dedication to the customer?

Pharmetics is a full service manufacturer of private label products providing label design and product development services to our valued customers. Because we are local, we can operate on very short lead times.

Competitive prices are the primary reason why people buy from us, followed by quality and service. Retailers expect a 97 percent or better service level, and when you are providing so many different skews and quantities of products, to provide a service level above 95 percent is not a small task.

What is your international strategy?

This has just started. We are exporting via a distributor our Hot Lemon Cough & Cold medicine in the Ukraine. The Middle East is another market that is very interesting for us, as are some of the former USSR states in Eastern Europe such as Belarus and Moldova; we are in the process of finalizing a deal with a partner, which will allow us to penetrate new export markets in the former USSR; we are looking at non-regulated countries too, and it is a process that is being engaged. This was not a core competency we had in-house when I joined the company but we are making strides.

What makes Pharmetics the international partner of choice?

We operate in a country where regulatory rules are very strict. This can be an important benefit for potential partners. Canada has a reputation for producing high quality products, which many countries lack. Pharmetics has not traditionally focused on export because the domestic private label business has been the principal focus. Our strategic plan now is to grow the export business with some core products, which will allow us to use fully our capacity to lower our costs and increase our efficiency and profits.

Where do you picture Pharmetics in five years?

The company will have doubled in size. Pharmetics will have re-hired many of the employees we had to layoff due to previous loss of business and most likely our shareholder MCP will have found the ideal strategic partner to sell its business. We have not yet reached our desired profitability, but we have a strong basis on which to build. The innovation aspect of the business will bolster our growth. So, launching new products and looking for new opportunities with potential Rx to OTC switches will be the key to our future growth

Pharmetics is open for business. The Vitamins and Supplements market is in constant evolution. We see this everyday with people moving from one vitamin complex to another and new vitamins taking the market by storm often based on new scientific evidence. Making national brand equivalent or better Nutraceutical or OTC Products will continue to be our main focus coupled with a big expansion in our contract manufacturing and export business to maximize capacity utilization. We are a company that is going to expand; our goal is to double in size.

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