Interview: Pedro Ferraz da Costa, President, Iberfar, Portugal

23.12.2013

Tags: Biotechnology, Iberfar

Pedro Ferraz da Costa, CMO Iberfar’s president, discusses generic competition in Portugal, his company’s expansion into Angola and southern Africa, and the company’s competitive advantages with its various subsidiaries.

There is some debate whether or not the Portuguese market is a predictable market. From your experience, what is the market’s predictability?

In terms of public finance, the National Health Service (NHS) is unsustainable. It was easy to predict that the government would take every possible measure to reduce expenditure. On the other hand, there are evaluations from the courts that have revised public accounts indicating that money is not very well used. For me it was not a surprise that government would act violently to reduce prices and curb consumption, which was excessive in many cases. Too many drugs have been prescribed and price levels have been very high, as in many EU countries. Prices in other continents are much lower. But companies need time to adapt, and Portugal’s difficulty is that its labor laws are very rigid. It was a painful process for companies and in the majority of cases the first measure possible was to fire younger people and keep the older generation, which is not sustainable for the future.

In 2003, generic competition was introduced in Portugal. Generic products were priced around 65 percent of the original product, which was very high, although this is the norm throughout Europe.

Today, many important drugs are priced so low that generic producers in Portugal have enormous difficulty in competing. Now generics are a commodity produced worldwide. Companies were not adapted to that. As a consequence, the balance sheets of companies have been degraded, financial resources are shorter, and future investments become more difficult.

As a CMO, Iberfar used to produce small batches for the internal market, and we have been trying since 2005 to switch to bigger batches, at least in the European market. Change has been slow. There are so many regulatory rigidities that even if we are more competitive the prospect of having to change registration in every individual European country is not an incentive for companies selling products. Iberfar could never produce such a reduction that would incentive its clients to change registration. If you have solid market share this is less of an issue; but if you have to gain market share it takes much time.

Where is Iberfar most active today?

The company has certainly adapted over the years, but our fastest area of growth today is in Angola where we have a 140-person operation with $40 million turnover, a partnership with two other companies, and a 20 percent growth rate. There are huge opportunities, and it is predictable. The government is trying to expand healthcare to a bigger part of the population and it is working. The price level and margins are very high, so it is a healthy business with expansion possibilities. From Angola we think we can build up an operation that would cover southern Africa.

What is your general internationalization strategy?

We do not think we have the size to make more than one bet, thus our emphasis is in Angola. We could expand from Angola to other places, using products adapted to individual local needs. For instance, pediatrics is very important, especially in Angola where the birth rate is 5.8 children per family. From there we could build up in other southern African countries, although we would have to work with prices far below the EU level. However, we realized that we could use suppliers from developing countries to import to Angola.

Everything in Portugal is organized to be expensive. It is difficult to conceive that we can keep the same number of pharmacies and quality of service. Europe will now be forced to invent new distribution systems that are more economic, mainly for long term therapies and to make the best use of the money. The situation is still very tense between different players. There were almost no relations between the pharmaceutical association and pharmacist association here for more than 20 years because of differing opinions on what was best. We need more cooperation to find more economic arrangements to provide good service to consumers at an affordable price.

Could manufacturing be an engine for economic recovery?

Manufacturing has decreased so much that it is difficult to know if it will play a national role. Portugal is reduced to five factories now, employing only 1,000 people. We will therefore build up on a small basis. However, for manufacturing I believe that the Portuguese can be the “Germans of the South”: predictable, on time, according to the rules, and cheaper. We have very good workers; although many older workers did not have much professional training. The only way Portugal can modernize operations is to grow sufficiently and hire many new people, which will also make the country more competitive.

Economic struggle often mandates outsourcing. Have the last couple of years attracted more business to Iberfar?

Part of the turnover reduction of branded products was filled by generics. That market disappeared and will not come back. I think that for many products, finding a new CMO will not be a solution, because products will be out of competition in any case. Europe had products for many years that were perhaps not blockbusters yet were very stable in sales with good pricing and without competition. This is being severely reduced, primarily through activities and products. Iberfar is a shareholder in a biotech company and we think we will have prospects in that field. Our decision to invest there was based on the idea that it would be easier to step into an established company with its own vision than try to introduce the vision here.

What are you primary growth drivers for Iberfar?

Innovation in products that will be used in long-term therapy, namely in conjunction with the prescription of other products will be a driver. Iberfar will have to stay in a niche. We could and would like to use the Portuguese as a trial market and to start licensing or exporting products to other areas. Emerging markets will be very important. We were very hopeful that a new trade agreement between the EU and US would create more transatlantic trade. Today nobody knows if this commission will finish negotiations, but it would help the pharmaceutical sector to implement worldwide rules rather than regulate country by country. We live in a global market, and in pharmaceuticals there are many nationally regulated aspects, which adds unnecessary complexity. It means additional administrative barriers.

Your subsidiary Logifarma acts as a logistics provider to some of the biggest names in the industry, 57 companies. Why do they choose you as a partner?

Firstly, the fact that Logifarma comes from a pharmaceutical rather than logistics background makes us much more aware of pharmaceutical companies' needs. Even the layout of Logifarma is established as a pharmaceutical company. It is a sensible flow and provides security. Secondly, we have invested greatly in IT, so our systems can interact with information systems of our customers in a very effective way. We have been through this process where our clients change over Europe multiple times, and it is not the first time Logifarma is the fastest to adapt. This provides trust to customers. We know what a pharmaceutical product is and we have established a very good information technology capability. We have a very transparent operation system, so every customer knows where the product is and has the ability to control all settings related to delivery of a product. We also have a very low level of errors.

What makes Iberfar the partner of choice for industry in general?

Iberfar is very predictable. We have a very good international reputation because we have never copied products. The company has always respected IP and we have worked with almost every big international company, all of which are happy. Iberfar's relationships with its customers are always well founded and trustworthy. One must be clear and direct in terms of what you expect from your partner. This is something that is in our DNA.

What is your strategy for the future of Iberfar?

It depends on the area. In pharmaceutical logistics, international partnerships are important, even with Portugal's current conditions. In the future, companies will look for a single European provider for logistics. Either you are in a network or you are out. Even if you are price competitive, without a network you will not get new customers. Logifarma has the capability and it is a business that will expand to offer companies that only have one or two products in the Portuguese market the possibility to operate without an affiliate here. That is the case with biotech products. There we are able to perform most functions required by regulatory authorities and collect money on their behalf.

It is very simple for companies to have a predictable operation here. To have growth we have to find new activities because the older ones will decrease or die. Here in our manufacturing, we would like to have a higher share of production for European-wide products. We have some already and we would like that part to grow. Everything that is solely produced for the internal market will decrease. We would like to increase the share of our own production, either developed on our own or in partnerships with others. We are trying to establish a good assessment system where we can interact with many innovative young companies in the biotech sector, where we could give them a market view and help them to come to market, where they normally have difficulty. We would not integrate fully with those businesses, rather we could certainly play an important role.

To read more interviews and articles on Portugal, and to download the latest free report on the country, click here.

See more interviews