Interview: Peter Erlbacher, Chief Operations Officer, Spanish Latin America, Aspen Labs Mexico



07.08.2012

Tags: Aspen, innovation, R&D, distribution, manufacturing, regulation, pricing

The Aspen Group identified Latin America as a "large developing market where it can leverage its substantial intellectual property portfolio and manufacturing infrastructure". What was the original strategy behind getting the best from the Mexican market – specifically with the acquisition of the Latin America business from India-based Strides Arcolab Limited (Strides), and how has it lived up to expectations since Aspen entered the market in 2007?

Initially Aspen's 2007 transaction with Strides took the form of a 50/50 joint venture. We were looking for an opportunity to acquire an existing business that could provide a platform which we could really build on and that we could make the necessary changes to in terms of the business strategy. The business model in place was very focused on institutional sales with non-branded generics and it was very reliant on tenders. We knew that this was not an environment where Aspen would like to be in as a core business, as our strength lies in manufacturing, commercial activities and marketing. We are a very brand-driven business so we needed a platform from which we could achieve growth in a much more accelerated way than a green-field investment.

We saw that this opportunity would provide Aspen with a footprint in Brazil, which is by far the largest pharmaceutical market in Latin America, followed by Mexico and Venezuela.

Aspen's Mexican and Venezuelan operations were not very big at the time, nor did we have structured sales teams in place. There were only a few key accounts and staff working on tenders and the impulse market, together with distribution companies. It was not a business based on

promotion.

When Aspen moved into Latin America, we had already negotiated on a global basis with multinational companies like GlaxoSmithKline, and were therefore able to source global products that offered existing brand equity. This approach enabled Aspen to enter the Latin American market immediately and to gain credibility from the start of our private market operations.

We established Aspen Labs in Mexico with a small hospital team that promoted an injectable medicine portfolio that had been acquired from Strides. We rapidly expanded the portfolio with branded products and a small team of some 15 sales representatives who targeted private hospitals.

In 2009, Aspen started to implement a structure that would enable us to enter into the private ethical market, or the prescription-based business. That is where we started to build up our sales and marketing team, and took over the promotion of the products that we previously acquired from Iroko comprising a portfolio of anti-inflammatory, antihypertensive and cardiovascular products. Aspen's field force started promoting the products to doctors, they generated scripts and tried to reverse the declining trend in these products due to lack of promotion from their previous owners. At the same time, we were launching a small portfolio of locally developed and manufactured branded generics. The combination of the two would provide a strong platform with greater brand recognition for future Aspen branded generics.

Since then, Aspen Labs has performed incredibly well: we have delivered significant growth, more than trebling our turnover in the last three years. Organic growth is gaining momentum, and we are now securing new product registrations that were submitted through Aspen's South African pipeline.

In Mexico you have both the rejuvenated innovative portfolio from GSK and MSD, plus the locally developed unbranded generics for government tenders. Do you expect future growth to come from Aspen's own branded products?

Yes, so far most of this has come from our branded generic pipeline in South Africa while we identify appropriate local products to license.

Aspen Venezuela, which reports into Mexican-based Aspen Labs, is performing well. Aspen Venezuela has much higher product launch success rates and registrations are being achieved at a much quicker pace than in Mexico. This is allowing Aspen to show sustainable growth in the Venezuelan market, as well as bolstering our presence in Mexico. Aspen Pharma in Brazil has also been more successful in terms of acquiring new products to license, and has enjoyed more favourable business opportunities.

In each of the Latin American markets where Aspen has established a business, we have achieved success by transitioning from a hospital-focused and opportunistic market business, to a branded and promotion driven business; all of which provides for the prospect of future sustainable growth.

Brazil already had a more robust business in place delivering revenue of about $80 million USD when we took it over. The company had a solid structure, higher reach, and they also benefitted from a strong and experienced management team. They had close contacts with multinational companies and more of a chance to identify sourcing opportunities which we had not been able to do as yet in the Mexican market.

We are currently broadening our portfolio in Mexico and incorporating new therapeutic categories such as central nervous system (“CNS”) and cardiovascular, where we already have a number of reputable products. This will give us more opportunities to identify additional products to complement our existing portfolio in these segments. It will also allow us to increase our field force in terms of geographic coverage as well as our market segmentation through specialty teams that are equipped to execute more focused promotions.

So, moving forward, will Aspen be focusing on this inclusive business model, or will it attribute more importance to finding new partners, or own product manufacturing for example?

We want to keep the mix as it is in our inclusive business model, rather than run an exclusive model. We also have a local manufacturing facility which gives us a competitive edge in terms of local developments, tendered products and annual bidding with social security – IMSS and ISSSTE, whilst still considering business opportunities with ‘Seguro Popular’, where we have already worked with certain state level distributors.

At the same time there are also opportunities in manufacturing for other players in the market; pharmacy or supermarket chains. Alongside this, we are identifying opportunities in promotion-based brands, which add real value to our product portfolio. These are not products that we would exclude from the tender business either as we are in the fortunate position where we can cover all the markets through our established structured teams.

Many multinational companies are seeking opportunities in branded generics, and there have been several acquisitions in recent years such as Medley from Sanofi and Sandoz from Novartis. What is Aspen’s strategic plan to compete against such strong companies in the Mexican market?

We do see companies opening up their generic divisions. They are developing branded generics and in addition, they are also starting to move into the alternative market working with pharmacy and supermarket chains with store or private label brands. Some of them have started to shift their

promotion focus to niche markets or to products that are still under patent. Promotion efforts for doctor visits are likely to be reduced due to the high degree of substitution at the point of sale. This is a market trend requiring acknowledgement as it is expected to increase. The multinationals have identified it and they are responding with their own branded generics.

Aspen's pipeline from South Africa is based on generic products suitable for rapidly expanding therapeutic categories. Chronic degenerative diseases are becoming increasingly important in the Mexican market including diabetes and cardiovascular disease, which is primarily driven by obesity.We also expect growth in the CNS area with our pipeline being appropriately geared for this and other categories.

Mature brands also offer significant opportunities which validate Aspen's activities in identifying tail end brands in different fast-growing segments. We are expanding our strategy for these products to ensure effective promotion to the doctor and at point of sale, which has become increasingly relevant.

Aspen Labs has also plans to increase its activity in the over-the-counter ("OTC") sector through a pharmacy team that will ensure increased Aspen presence in pharmacies. This strategy will enable us to have a proper team in place that, on the one hand, promotes OTC products with point of sale activities, and on the other hand, makes sure we continue to build strong relationships with both the independent pharmacies and pharmacy chains.

In April 2012, we acquired a portfolio of well-established OTC products from GSK, important not only for Mexico, but even more so for Central America.

Promoting mature brands has been one of Aspen's success stories as a Group – many territories across the Aspen business network have proven that they have the expertise and commercial capacity to extend the lifecycle of these mature brands and grow them.

What would you say sets Aspen apart from the rest of the competition in terms of sales strategy and human talent?

Brand selection remains key: we went through a very diligent process before acquiring market leading, quality brands that have renowned credibility with doctors.

These products also enjoy market credibility which has resulted in increased demand, despite generics being introduced by many competitors at a local level.

Aspen has paid keen attention to sourcing talented people and strong commercial team leaders in sales and marketing. We are in the fortunate position of having very committed, professional and experienced employees who are brand experts.

When Aspen entered Mexico, what was the image of the company? The image we have is a South African company that was very strong in HIV. Was that concept brought to Mexico when you started?

Our market entry strategy was not populated with public relations activities. We elected to introduce reputable brands acquired from GSK and MSD to the market, which we combined with Aspen's local products. This approach has been beneficial to the Group. Establishing brand equity takes significant financial investment and time, and it's fair to say that Aspen is not a household brand in Latin America as yet. Of significance though is that Aspen is acknowledged as the pre-eminent pharmaceutical manufacturer in the southern hemisphere and is being globally recognized for manufacturing and distributing high quality medicine at affordable prices – not only from a generic perspective, but also from an innovative product perspective.

The Aspen Group is a supplier of branded and generic products in more than 100 countries across the globe and of consumer and nutritional products in selected territories. Aspen has 18 manufacturing facilities at 13 sites on 5 continents and is represented in South Africa, Australia, Hong Kong, Philippines, Kenya, Tanzania, Uganda, Dubai, Germany, Ireland, Mauritius, Brazil, Mexico and Venezuela.

In Mexico, our major business is still focused on innovator products and previously patented products. Branded generics represent less than a quarter of our business in that market.

A number of OTC product launches are planned in order to expand the OTC division and provide for increased point of sale visibility. These launches will also be supported by promotional and public relations campaigns to all leading stakeholders in the market – the distributors, the medical community and the patients – in order to enhance brand equity that is synonymous with Aspen's quality, affordable medicines.

Aspen is South Africa's leading pharmaceutical manufacturer in the private and public sectors and has based its reputation on producing high quality medicines that people can trust and which are affordable. Aspen is also the leading pharmaceutical company in Australia where one in seven scripts is for Aspen products. Aspen has embarked on expanding its Asia Pacific presence since establishing Aspen Australia in 2001. More recently Aspen Philippines was launched and an office was established in Hong Kong a few years ago. In addition to Latin America, Asia Pacific and sub-Saharan Africa are considered to be valuable emerging markets for Aspen's global expansion strategy.

You said it was the people that make the difference in Aspen. What is your opinion of the talent pool in Mexico, and how well it fits with the company's values, challenges and philosophy?

Mexico has a wealth of well-educated and hard-working people, and I think that level of commitment and talent is reflected across the different functional areas of our organization. We have a much more entrepreneurial approach and we expect our people to hold the same values and standards; to operate within the business as if it was their own. We have a strong creative team with astute marketing expertise but also with a thorough understanding of the financials behind the product.

The level of responsibility and empowerment that our local people receive is probably fairly difficult to find in a multinational company. We are fast at taking decisions, and they are well thought out with due consideration given to financial and risk exposure.

On a personal basis, when did you join Aspen, and where were you before?

After finishing my Master Degree at the Vienna University of Economics and Business Administration, I started working with PriceWaterhouseCoopers here in Mexico City; first in audit and then in business advisory services. We were managing mergers and acquisitions across different industries in Mexico. Some of those projects were in the pharmaceutical industry, providing advisory services to multinational companies looking for local opportunities. That was when I first made contact with Aspen.

When the mergers and acquisitions market declined as a consequence of the global financial crisis in 2008, I decided to join Aspen Labs in Mexico. It was not a start-up operation, but the start of a new business model which gave me the chance to build up the private market business, set up the structure, and to establish a new organization with a lot of new people in different functional areas.

I have been with the Group for three and a half years now and it has been a very interesting career to date. My initial appointment was as a financial controller, but after six months I took up the position as CFO. In August 2011 I was appointed COO for Spanish Latin America, with full responsibility for Aspen Labs.

My experience demonstrates Aspen’s commitment to providing personal growth opportunities to employees who are passionate and committed and understand their business.

Where do you see the challenging competition pushing the Mexican market in the next few years?

Something that represents a major challenge to all players in the branded market is the rapid growth of pharmacy chains and the rising level of generic substitution at the point of sale. Today, an increasing number of patients go to doctors operating inside the pharmacies, and no longer to traditional doctors if they know they just need a script for a product with which they are already familiar: and this trend will continue to grow.

As a result, traditional independent pharmacies will get weaker due to the increased presence of the larger chains and their store brands. For the first time we see the traditional private ethical market decreasing in both values and volumes. This does not mean that the Mexican pharmaceutical market is shrinking as a whole; but it is nowadays primarily the 'alternative market' that is gaining importance and market share.

You have been with Aspen for three and a half years. Where could we expect the business to be in three years from now?

Our focused growth strategy is to build up the Latin American business to be the third pillar in the Group alongside South Africa and Australia. Those two countries are currently competing in terms of Group revenue: in Australia, almost 15 percent of all scripts are generated for Aspen products, and in South Africa, it is one out of four prescriptions. It will be very difficult to match those results in Mexico in the short-term, but we have a very robust pipeline which will provide us with strong growth for the years to come.

But, if we really want to become one of the leading players in the Latin American market, we also need to look at acquisition and licensing opportunities in the major pharmaceutical markets of the Americas.

Our objective is clear: we want to be among the top 20 pharmaceutical companies in the near future, not only in Mexico, but also across Latin America. We are confident that this can be achieved – both as a result of our organic growth and also through acquisitions. To do it, we need to drive the organizational growth of our operations in Brazil, Mexico and Venezuela; establish and embed the Aspen culture; and retain the passion that the employees have for working at Aspen by ensuring due recognition for personal and professional growth. It is fundamental that we invest in continuous education and growth possibilities for our employees.

Aspen as a group is geared around growth – from a business perspective and also in terms of its people. We aim to reassure our people that they are part of a Group that will in time, have a formidable presence in this market just as it has in other territories.

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

See more interviews