Interview with Francisco Medone Crovetto, CEO, ITF-Labomed

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Labomed was bought by Italfarmaco in 2009, but aside from that, what have been the main milestones and achievements of Labomed since its creation in 1968?

When I came to Labomed in 1997, I began a process of renewing the company's product portfolio and changing the overall profile of Labomed. Back then there were still many challenges for the Chilean market in regards to patent protection and overall regulation. Furthermore, Chile's market size and high competition made me realize that as a non-innovative company the best way for me to grow was through licensing agreements. I then proceeded to look for licensing partners to bring new products into the market, and today 50% of our products are licensed and the other 50% are our own branded generics. My idea was to position the company as the ideal partner for anyone that wanted to be present in Chile, and because of this we currently have licensing agreements with partners from Japan, Italy and Switzerland. The main challenge for us in Chile is to find opportunities for growth in this market where most patients pay out of their pocket money because the public payment system is still inefficient.

What changes have been brought to the operations of Labomed since it was acquired? What synergies and complementarities have been created?

We previously had a licensing agreement with Italfarmaco and then later a joint-venture as well. Our relationship was quite solid previous to the acquisition, so the adaptation process has been

effortless. No management positions were affected by the move and the operations of Labomed have remained almost entirely unchanged. Due to my previous experience in large multinational pharmaceutical companies, I managed Labomed's activities in the same way those companies are run and this made the transition into the larger Italfarmaco group quite simple.
The Italfarmaco group is growing very quickly and currently has operations in Italy, Spain, Greece, Russia, Portugal and now Turkey as well. Being part of a larger group has broadened the horizons for Labomed and further expanded our perspectives. The group has a large pipeline of products, either entirely their own or developed by companies of which the group is a shareholder. For all these reasons we feel that Labomed now has greater opportunities to grow and has a broad support system to back its operations. On the other hand, the acquisition was a great opportunity for Italfarmaco to enter the Chilean pharmaceutical market that is characterized by high entry barriers.

Your pharmaceutical products range from therapies for cardiovascular diseases to conditions of the central nervous system. How has your portfolio developed in Chile? What therapeutic areas is Labomed favoring in the Chilean context?

The company has been growing selectively by focusing on strategic therapeutic areas. Specifically, our main therapeutic areas are cardiovascular, central nervous system and dermatology. Our products today cover over 29% of the prescription market in Chile and we have achieved this growth through differentiation and specialization. Labomed is only active in the prescription drug market and today we are ranked as the 22nd most important pharmaceutical company in Chile with 1.6% market share. If we only consider the areas that are relevant to our products, then the market share is estimated at 5%.
Around 55% of our products have been launched since 1997 which represents a very active renewal of our portfolio. We want to be recognized by our innovation and quality and want to be competitive because of this, not because of low prices. Additionally, our manufacturing plant that was built in 1996 is now used for contract manufacturing activities for some of the large multinational pharmaceutical companies such as Bristol Myers Squibb, Sanofi Aventis and Pharma Investi, among others.

Chile's local pharmaceutical industry is renowned for producing high-quality and accessible similar and generic products. What are the advantages for companies to manufacture generic products in Chile? What international standards of manufacturing do you abide by?

It is hard to say that there are advantages to producing in Chile in comparison to other countries. Perhaps the one thing that does makes Chile a favourable market for manufacturing is the

country’s general commitment to free trade and an open economy. This makes the import and export of products a lot easier, because tariff rates are very favourable considering that Chile has 18 free trade agreements. The average duty rate is said to be 6% today, but in reality because of all the free trade agreements that Chile is a part of, the real average duty is between 1.1% and 1.5%. Furthermore, the Chilean economy and political scene is very predictable, and this provides stability to investors and companies that are present here. In terms of other financial incentives, the government does not provide subsidies of any kind.
As for the manufacturing standards that we follow, we produce all of our products under GMP standards as dictated by the WHO. Internally, as Italfarmaco, we have aspirations to have a manufacturing plant that is certified by EMEA to raise the standards of our production.

The distribution channels for pharmaceutical products are controlled mostly by the three major pharmacy chains in the country. How has this impacted the business activities of Labomed? How has the company dealt with such an environment?

This hasn’t really been an issue for us even though we don’t provide incentives to the clerks at the points of sale. Until now the level of prescriptions issued for our products is about the same as our sales, so we don’t perceive a problem in our prescriptions being substituted with other products. Our philosophy has always been to be a partner of the pharmaceutical chains instead of confronting them as rivals. We consider that this is the best approach because it is a long-term philosophy of how to interact with our distributors and it avoids getting into price wars. If we had decided to provide incentives in order for them to favour our products, there would always be someone else with a deeper pocket that would be willing to offer better incentives. Luckily, this approach that has always been used by Labomed is in line with Italfarmaco’s philosophies because they view the situation in the same way. The idea is that we don’t just sell products, but rather we build brands – it is the push vs. pull approach, and Labomed has decided to take the pull route.

Due to the high level of competition within the Chilean pharmaceutical market, many of the local manufacturers are now looking to tap into new markets by exporting their products. What plans does Labomed have to internationalize its portfolio?

Now that we belong to the larger Italfarmaco group we have plans to enter with our products to Peru and Colombia. We currently only have operations in Chile and we have some minimal exports to Bolivia. The reason why we haven’t yet explored new markets is because we prefer to break into a market through a joint-venture or an acquisition of a local company. We prefer not to have only a distribution of our products in other countries, so currently we are exploring what options are available in those markets that I mentioned. An analysis was made to understand if it was possible

to tap other markets in the region but it was concluded that Brazil and Mexico were too large for us, Argentina and Venezuela are too complicated to enter, and Ecuador is interesting but somewhat unstable, so we will have to wait to see how the situation develops there in the future.

Given the strong manufacturing capacity of the Chilean industry, what is the role of contract manufacturing for Labomed's activities? What is Labomed doing to be considered as a partner of choice for contract manufacturing?

First of all we are a laboratory with a certain level of prestige in the country and this is reassuring for our partners. This prestige is not only in terms of the quality of products that we produce, but also in the level of confidentiality that we provide to our clients. Our partners know that whatever confidential data or knowledge that they provide us for contract manufacturing activities will remain safe and secure, and therefore they have no fears of their products being copied. This is the level of quality and service that we offer and there are very few companies in Chile that can provide such reassurances.

What is your vision for Labomed for the next 3 to 5 years and what is your final message for our readers of Pharmaceutical Executive about the commitment of Labomed to Chile?

At Labomed, it is our aim to be amongst the top 15 laboratories in Chile and to attain a total market share of a 2.4%. For your readers, I would like to tell them that they should trust and invest in the future of Chile that strives to be like the Switzerland of Latin America. This is a very trustworthy country with hardworking people and ultimately it is a place where you can expect a level of stability that guarantees investments to be safe and productive. Our government is always working to improve our society and one of their priorities is to meet the economic needs of the country and of our international partners.

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