Interview with Gabriel Zavala, Commercial General Director, Farmacias del Ahorro

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Tags: Farmacias del Ahorro

First of all, congratulations on the new distribution warehouse in Lerma, State of Mexico . You mentioned that there were two more to come: can you give us a bit more information about timings and differentiation strategies moving forward in terms of distribution to increase your share of the pharmacy market?

Thank you. There will be two more distribution warehouses to be opened which will replace three currently operating warehouses that are much smaller and currently located in Queretero, Puebla and Mexico City. The most recently opened warehouse will account for 70% of the units that we buy directly; and right now we buy 50% from the wholesalers and 50% directly. The next one will be in Villa Hermosa, to be opened in 18 months, and the third large warehouse will be opened in Monterrey in about four to five years.

You also mentioned that the company will be going from one thousand pharmacies currently, to two thousand in five years' time. Where will your focus be in terms of geographical location? Will you be looking at a different market segment, or simply expanding the existing customer segment?

Another company strategy besides these mega warehouses will indeed be to continue opening more pharmacies. Today in the south of the republic we are the leaders in the industry, for example in cities like Tuxtla Gutierrez, Villa Hermosa, and Merida; we have a strong presence in that region- which is growing- and we are growing with them. In Mexico City, we have roughly one

hundred and fifty pharmacies and we can easily open the same number again in the whole Metropolitan zone. In the north we have strong competition, not just from other pharmaceutical chains but also supermarket chains. Luckily, our pharmacy concept is quite different from the rest and we are confident this will tip the edge in the competition; we use a counter-concept with no large store, which is a real advantage.

So having small pharmacy units is one of the company's competitive edges. Why do you think your competitors, aside from the supermarkets chains, have not adopted this strategy as well?

Many years ago the other pharmacies opted for the concept of a pharmacy shop, using more space, but with the ability to diversify their products and services and offer dry goods, bakeries, butchers, and locksmiths. But Farmacias del Ahorro only started around twenty years ago, we are the youngest chain in the market and we started the concept of having just a counter from the beginning because we decided to specialize in medicine from the beginning, and it has turned out to be a competitive advantage. If you are sick, you don't want to walk through the whole shop to get your medicine, you can just arrive outside in your car.

What kind of services is Farmacia del Ahorro adding in order to continually be more competitive?

Firstly we have a fantastic loyalty program called 'Monedero del Ahorro' which is the most subscribed to loyalty scheme in Mexico, not just for pharmacies, for any business. More than 10% of the Mexican population uses the card at least monthly. If you purchase something from Farmacias del Ahorro we give you money back on your card with which you can buy anything in the pharmacy. When a customer has reached $100 Mexican pesos credit on their card, we give them another $100 to spend, all of which has helped to contribute to the sheer success of the scheme, and the satisfaction of our customers.

We also have ticket outlets in the pharmacies where you can go to pick up pre-purchased tickets for events; and another major value-added service that we have introduced is the presences of physicians on our premises. We currently have more than 1,200 doctors present across 96% of our pharmacies, and we have over 600,000 consultations performed in our stores every month. We introduced the doctors over two years ago after the antibiotics law changed and we do not tell our doctors what to prescribe, they are free to prescribe whatever they like in a neutral way without influence from either ourselves, or the pharmaceutical company sales representatives.

Last but not least, we also have a magazine that we distribute throughout our stores and inside newspapers that is filled with offers, discounts and promotions, and everything in that magazine is connected to the loyalty card. It has been a success for us, for our providers, and of course for our

customers – everybody wins.

How do you select the products that will be discounted each month?

I just contact my providers, and in order to be in our promotional booklet, we come to an agreement on the discounts they will provide, and the money that we put on the customers' loyalty cards. It is a great opportunity for them to be in the booklet.

You mentioned the Private Label business; can you tell you a little bit more about how it works and the strategy behind it?

We started eight years ago in the private label business with just ten products, and right now we have more than 500 products. It has been one of the most successful initiatives of the company to date, and we have 25 different laboratories making our products, including both national and international laboratories. The laboratories know that the market is changing, but some of them don't want to enter into the change because they are going to lose profit. The market is knocking on our doors now asking for generics, so of course we are going to sell what the consumer is asking us to.

Hector Valle from IMS Health told us that they conduct 10,000 surveys every month in 19 major cities across Mexico in order to gauge the level of public awareness over generics, and it has increased enormously over the last few years. From your perspective as having direct contact with the consumer, how do you think the public perception of generics has changed?

It has changed enormously. Only 8% of people who come to our pharmacies have a prescription, the other 92% simply ask for a medicine and we offer two or three different options to choose from. From the people who have a prescription with a product on, we provide them with the correct medicine. If the customer asks for the generic medicine, we have to have it in stock otherwise they will leave our pharmacy and go to the competition: there is a huge demand. A few years ago, Mexicans didn't know about generic medicines and believed they were bad quality, but right now everybody knows the truth- that there are very high quality generic drugs at a reasonable price.

You mentioned earlier that now you now buy 50/50 wholesalers and buying directly from pharmaceutical companies. What was the situation a couple of years ago, and how do you see it in the future?

A couple of years ago we bought 90% of our products from the distributors and 10% from the pharmaceutical companies to store directly in our warehouses. Today it is 50/50 in value, but in units it is roughly 60/40 favoring direct purchasing from the pharmaceutical companies. The

distributors will always be necessary in the future, and especially for products that have low movement at the point of sale, for example one unit sold per month in every pharmacy. We need to have those products available in our pharmacies, but it would be very expensive if we had them both in the pharmacies, and stored in our warehouses. The wholesalers often produce a better bottom line depending on the different offers they receive by buying in bulk from the pharmaceutical companies. At the same time, we will be prepared for ongoing changes in the market with the infrastructure to support more laboratories if they wish to sell directly.

In terms of distributing in very poor or rural areas, would it also be beneficial to have a distribution company in order to avoid any security problems?

We don’t open pharmacies in zones that are very insecure, or that have severe security issues. We do have our problems, but not very often because we try to avoid the situation.

What challenges do you find in recruiting pharmacists here, and what level of training are they required to do in order to become one?

Today we have the lowest staff turnover rate in the industry, but it wasn’t always that way. A few years ago we were recruiting young people between 18 and 25 years of age due to the physical nature of the job- always having to stand up for hours at a time. We had a high turnover because there was not a high sense of responsibility or loyalty in the people we hired; and because most place provide the same wage they would frequently change jobs according to where their friends or cousins were working at the time. We then changed three things: we introduced a commission scheme, we raised the average recruiting age to 25 to 40 years of age, and we opened a training center for basic health and in-house processes. With this, we reduced staff turnover significantly.

We have been told that you are the ‘mind’ behind the current successes of Farmacias del Ahorro. What do you like about your job and what keeps you motivated every day?

The company gives me space and supports me in all my decisions. I am excited about the project of the company because when I started seven years ago, there was a high incidence of insecurity at the point of sale, and there were only 200 pharmacies across the whole country. With my experience I thought I could really change things and the first thing I did was to change our situation with the distributors, secondly I went to the laboratories in order to buy directly from them, and now we are on target to grow 100% in five years, starting from last year, and to have 2000 pharmacies open and operating across the country.

Many years ago power in the industry was in the hands of the pharmaceutical companies, a few years after that it was in the hands of the distributors, and today we have it in the points of sale.

Things happen in this company: it is exciting, we are relatively new, the market is changing and there are no limits to our growth.

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