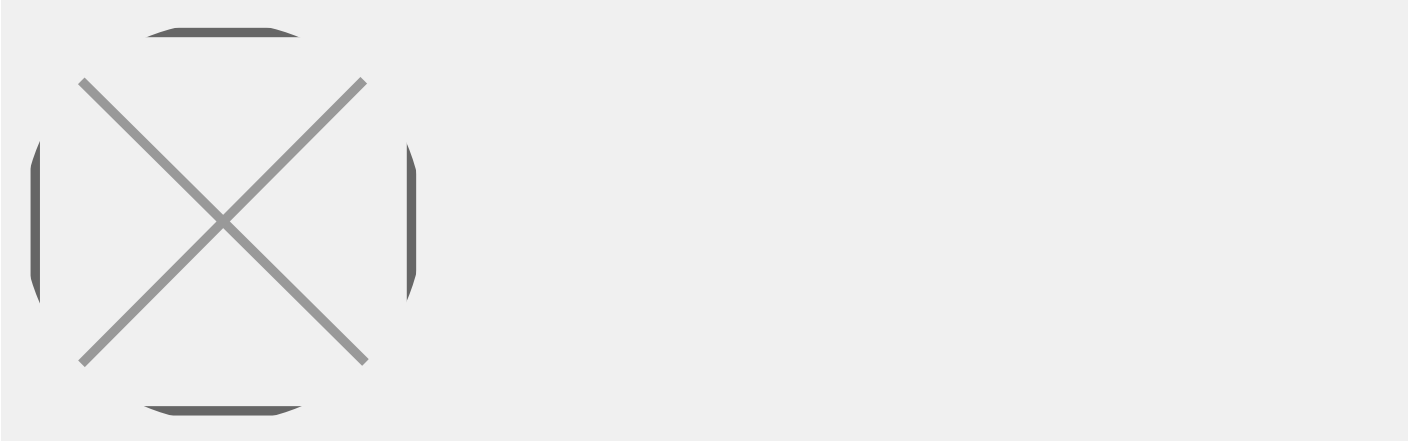
Interview with German Knop V., General Manager and CEO, Knop Chile



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Tags: Knop Chile

The Bayer Schering merger in 2006 saw you add Argentina and Bolivia to your existing main milestones and achievements of the company since you have been at the head?

My father first began importing homeopathic products and phytomedicines from France, Germany and England in 1920. He continued to study alternative therapies until finally in 1931 he began producing his own products out of the second floor of his pharmacy in Valparaiso, which eventually became the company's laboratory. In 1955 he moved the production facilities to a 555m2 building in the region of Quilpue and this became the first registered homeopathic laboratory in the company's history. I took over the company in 1982 and oversaw a quick expansion of the company which after only two years had expanded its manufacturing facilities to a total area of 2600m2. At this point I decided that it was best to build a brand new laboratory under the highest standards of production and with a layout of production identical to a professional pharmaceutical laboratory. This is when the opportunity to buy a large 5500m2 building in the industrial area of Quilpue arose and this became our current location for manufacturing. I remember my parents told me that the building was excessive and that I would never be able to fill it up, but in fact only 2 years later I had to expand the building in order to meet demand. Currently we are undertaking a further expansion to add another 1000m2 to the pharmaceutical laboratory, which by company policy only manufactures homeopathic and phytomedical products. Additionally, we are building a new 1000m2 facility for our food supplements production.
As for the achievements of the company, first and foremost is the fact that this is a family company that has survived over the decades even through the tough political and economic times that the

country has seen. In general, there is a trend for family companies not to survive beyond the third generation because of the lack of professionalism and seriousness with which the company is managed over time. Since I have been at the head of the company I have always projected to have this company survive through numerous generations by formalizing and professionalizing the internal structure and procedures. Furthermore, I have always guided the company believing in assuring the highest quality standards for our products and this is illustrated by the fact the we were the first laboratory in the country to earn the double certification of GMP and ISO 9001-2000, which we hold until today. Similarly, our plant for food supplements is also HACCP and GMP certified and all of our products are certified by the Colombian regulatory agency INVIMA.

How would you evaluate Knop's development in terms of growth, revenue and market share?

This is something difficult to evaluate because the only data and rankings that are available are those published by IMS and their data does not take into consideration the prescription drug market. Nevertheless, we are aware that we are one of the leading laboratories for natural remedies including homeopathy, phytomedicines and food supplements. Furthermore we are amongst the top 3 manufacturers in the country with the highest growth for the last 4 years. We have been experiencing solid growth of more than 20% annually for the last five years, and our current goal is to double our sales in the next five years. Our growth is mostly due to the company's value of committing to research and development which leads to constant innovation; I like to call it R&D+I. We operate very much within a niche market that few other laboratories are present in, however, there has been a recent increase of interest by large pharmaceutical laboratories in the neutraceutical and phytomedicine segments.

Within this niche market, how open to you find that Chileans are to natural remedies and alternative therapies?

Chileans are extremely open to natural products and we have seen tremendous growth for this segment in the last few years, much more than the ethical market. This is a trend that is witnessed all around the world; if you take the US for example the alternative therapy market has been growing around 12% annually while prescription drugs grow about 2.5% per year.
Nonetheless, we have been developing programs with national universities to foster education in the homeopathic and phytomedicinal segments. Our goal is to have these medical areas included in school curriculum so that Chilean students can pursue a career in them. Furthermore, we have collaborative efforts with international academic institutions in countries like Germany, Spain and Australia.

As an example of a true Chilean pharmaceutical company with unique products and origins dating back to the 1930s, what would you say are the main challenges that Knop faces in

the Chilean pharmaceutical market today?

I think our main challenge is to be able to bring innovative products to the market through R&D. This is one of the pillars of our company, but over time it becomes increasingly difficult to create new products of the highest quality. Similarly, our second challenge is to be able to conduct a clinical trial for one of our phytomedicine or homeopathic products as a means to scientifically support its efficacy and safety as a credible medical treatment. This is very difficult to do with homeopathic products because they are generally personalized to the needs and conditions of the patient, but phytomedicines are easier to test because they act more similarly to chemically engineered pharmaceuticals. We currently have some medical trials for a phytomedicinal product for heart conditions and cholesterol. The product is derived from Chinese red yeast rice (Monascus Purpureus) that has been used for over one thousand years by traditional Chinese medicine for the treatment of cardiovascular diseases. The challenges today are to be able to isolate the active component in the plant and standardize the extract in order to ensure constant strength and quality. It is also essential to accomplish this while maintaining the harmonic balance of all the compounds in the plant as a means to limit any adverse effects that might be caused.
Addtionally, in Peru we are currently conducting clinical trials for our leading product, Paltomiel, which is the best-selling cough medicine in Chile. In fact, 45% of the total production of Paltomiel is being sold in Peru, so it has also become a great success in that country.
Originally we had established ourselves in Peru with our own office, but today we are represented by Laboratorio Chile in that country. Paltomiel is growing in Peru between 33-66% annually and when first introduce it grew at 80% per year.

What innovative marketing strategies has Knop undertaken to convince Chileans that natural alternative medicines, even though possibly more expensive than a generic chemical treatment, are as efficient to treat diseases and more beneficial to their overall health?

In Chile there was a certain tradition behind many of our products which were sold at my father’s pharmacy. When I took over the company I decided to focus on the best-selling products in order to better commercialize them. What I decided to do was to develop a new logo and register the Knop trademark that had not been done by my father. At that time Paltomiel that was selling 180 units per month, and I decided to revamp the image of the product by designing a new bottle and presentation for it. Most cough syrups used the same brown glass bottle back then, so I decided to make something entirely different with a brand new white plastic bottle with a different shape. This was a great success when you consider that at the beginning doctors were sceptical of our products and refused to prescribe them to patients, and today Paltomiel is the second most sold cough syrup in the market selling around 800,000 units per year. I have even received numerous offers from other companies to purchase the brand; these companies call it the Paltomiel

phenomenon, because they could not understand the impressive growth the product had without any publicity.

The distribution channels for pharmaceutical products are controlled mostly by the three major pharmacy chains in the country. Was this a driving factor to open your own pharmacy chains? How have you been dealing with such competition?

Knop has about 450 registered homeopathic products for medical use, and this was too large of an amount for the regular pharmacies to manage. The big chains only wanted to sell my blockbuster products because those are the ones that would be profitable for them. This made it very difficult for us to introduce our products into the market, also because the chains wanted to see proof of sales and efficacy before a product was sold in their pharmacies. Our strategy was then to sell our products in the small independent pharmacies that were still prominent in those days, with about 2200 of them in 1982. That number today has decreased to 600 and we foresee that very soon it will only be half of that. Around 1989 I began to notice this trend of independent pharmacies being bought out or closed due to the intensifying competition from the three main pharmacy chains. The three main players were notorious for buying at very low prices and for delaying payments to their suppliers sometimes up to 130 days after delivery. It was at this point that I decided Knop would have to establish its own set of pharmacies around the country in order to successfully sell our products at the prices that they deserved.

There is much room for improvement in the areas of regulation and pharmaco-vigilance of the local pharmaceutical industry. Has this been an issue for Knop as a company that aims to build a reputable international image?

There are some advantages and disadvantages to the work of the ISP, but in general we have been able to position ourselves to create opportunities out of the current regulatory environment. A clear disadvantage for Knop lies in the long registration and approval times that are required for developing a new product. Fortunately, we are the only phytomedicinal and homeopathic laboratory that has GMP certification and that operates under the highest quality standards required by the authorities. Furthermore, we also produce around 30% of the natural ingredients and herbs that are the active components of our products, which allows us to have full control of the quality of all the ingredients of our products. All the other pharmaceutical laboratories in Chile are importing their active ingredients and are only responsible for mixing the components to produce the finished product. Being a medical doctor myself, I have always had a deep commitment to R&D and innovation and I think these are the factors that have made the difference in terms of us being able to build a reputable image in Chile and abroad.

You have very impressive manufacturing facilities that were in fact the first in the country to achieve a double certification for both ISO and GMP standards. Given your capacity to

produce the highest quality products, has Knop explored the possibility of contract manufacturing for international partners and what makes you the partner of choice for such activities?

Yes, we currently conduct contract manufacturing for some partners. We produce some private label products for the large pharmacy chains here in Chile and are open to develop all kinds of partnerships for contract manufacturing. For example, we produce a variation of our Paltomiel cough syrup for a German laboratory in Peru. The most common product that is produced for other companies is our propolis family of products of which more than 50% of production is sold under private labels. The manufacturing plant is currently only working one shift so there is plenty of room for expanding the production activities in the future. We are also investing a lot in bringing the most modern technology and machinery to our production plant and this allows us to be very efficient in our manufacturing processes. Additionally, we are currently implementing a new pharmacovigilance project with dedicated medical doctors and pharmacists for these activities. Ultimately our partners are aware of these facts and over the years we have shown to be a serious company with strong quality assurance and this is why they come to us.

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

I foresee that this company is going to grow considerably in the future in Chile and abroad, not only through our own products but also through joint ventures and partnerships with other laboratories. For example, Knop was recently certified by the Colombian regulatory agency, INVIMA, to freely commercialize our products in that country and soon we will be certified in Peru as well. We are also looking beyond the South American market; particularly we would like to introduce our food supplements into the North American market. In this line, we recently attended the Anaheim Expo for natural health products where we developed connections with companies in the US and Mexico, as well as some Asian countries like Taiwan and China. Our products are very competitively priced so this gives us a great advantage on an international scale.

To your readers I would like to say that we are a company committed to quality and professionalism always working under the highest standards. Our work ethic is also centered on the principles of innovation and teamwork. Even though Knop is a family company our structure is entirely professionalized and we always consider what is in the best interest of the company's future. We have prepared our laboratory not only in its physical capabilities but also in the highest standards of quality and our ability to support international partnerships. The way I see it, we are sitting on a volcano that is currently active but we are waiting for the large explosion to come.

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