

# KPMG Argentina - Mariano Sánchez, Partner in charge of healthcare

---



---

24.11.2014

---

*KPMG's lead healthcare consultant in Argentina gives an in-depth analysis of the long-term needs and objectives driving change in the industry, the structural issues that need to be overcome before progress towards these objectives can be made, and KPMG's role in helping the industry through this process.*

## **From a long-term and global perspective, what pressures is the healthcare system facing in Argentina?**

The Argentinian healthcare industry, of which the pharmaceutical industry is a key player, is facing many of the same trends that we see at the global level, which is an aging and growing population, and a need for a better value/cost relationship.

The current operating models for healthcare systems were all developed around the type of treatments and procedures that providers were able to invent and commercialize, and the pricing and payment systems have been based on the volume and cost of providing the service instead of the value that they provide. Thus the key challenge for any country is to find a way to start transitioning to new pricing and service models that can help to achieve better healthcare efficiency overall while improving access to care.

Such a transition will require a lot of changes such as giving more power to the patients and their families, and bringing pure-vendors firms such as pharmaceutical manufacturers into partnerships so that they are properly incentivized to participate in a value based pricing model. Another aspect of improving this value-cost relationship is investing in more diagnostic and preventative measures, and making use of the patient's home as the place to manage chronic illnesses.

**What are some of the first steps that need to be taken to start this transition to a new, better value model?**

The first step would be to ensure that we have good visibility on the treatments that patients are receiving, and the results that are being achieved. To develop good quality information on this question requires good data collection and a large sample size, and the challenge is that in Argentina a vast majority of data is still on paper and not digitized or is not available. Developing a centralized system for medical records would not only help to improve physicians' and patients' access to their medical histories (directly improving healthcare), but would also aid the collection of data that would help generate this sort of information and intelligence. This information in turn would help decision makers to better understand the strengths and flaws of the healthcare system as a whole, so that a longer-term reform strategy could be developed to improve spending efficiency in the future.

**What is the current state of the healthcare system in Argentina?**

Argentina currently has a very high level of spending on healthcare relative to other Latin American countries, currently at roughly 10 percent of GDP per year, and relative to this cost the value and quality is somewhat poor. This is because the healthcare system is very fragmented thus spending is not very efficient. There are four different healthcare systems being the public system, the private system, Unions organized social system, and PAMI (social security health insurance for senior citizens).

The Unions organized system is generally outsourced to private players at this point in time, yet there is an extra margin generally included by the union, and in many cases people are covered by more than one payer, yet there is no harmonization between the systems. For example, if someone with private health insurance goes to a public hospital and receives treatment, the public hospital does not always recover the cost of the treatment from the private insurer. Furthermore, the public system also bears the cost of treating a significant number of foreigners from neighbouring countries that come to Argentina for treatment.

On top of these structural issues, there are a variety of other areas in which there are large inefficiencies that could be easily improved upon; examples include the lack of a centralized system for medical records and delays in transferring medical records. There is also no common taxonomy between different health providers, and thus the exact definition of certain treatments is not consistent. This makes medical audits very essential to ensure that payers are charged for the correct procedures and costs, and thus there are a lot of resources being expended that could be eliminated if the system was more harmonized. The only significant barrier to eliminating these inefficiencies is the willingness of different stakeholders to change the status quo and make up front investments that will result in long term savings. This process will also require a strong political support to drive the change.

### **How well have the national plans introduced over the last ten years addressed these issues?**

The national plans have been very successful so far, but still must operate within the fragmented healthcare system and have a different operating model in each province. Unfortunately, the goals of these plans are symptomatic in the sense that they aim to improve the quality and accessibility of treatment in areas in which the system was ineffectual on its own. Thus, the plans are a topical solution, as they work to improve upon a fundamentally inefficient structure, instead of working to improve the structure itself (which would indirectly affect the quality and accessibility of healthcare).

### **What were the key drivers of the changes the major structural changes to the industry over the last 15 years?**

The first big change that we saw following the crisis in 2001 was that a significant number of multinational pharmaceutical companies started to sell their production facilities in Argentina and reposition themselves as distributors. The other big catalyst for change at the time was the passage of the generics law in 2001. Later, the government put in place the controls on imports that we see today, and instituted the “national preference” policies in many parts of the healthcare industry. Together, these three factors drove the development of the Argentinian pharmaceutical industry over the past 15 years, as some of the larger local companies were able to acquire high-tech manufacturing facilities from multinational companies at liquidation prices, and then were given a privileged position in the market and protected from foreign competition. Another result of these changes was the increasing prevalence of distribution and licensing agreements between multinational and Argentine laboratories, as the local labs built better distribution and marketing infrastructure and investing in manufacturing capabilities in Argentina became less attractive.

The general expectation is that there will be some reversal to these trends in the near future, as the import and price controls will likely be relaxed and steps will be taken to make Argentina attractive as an investment environment. However, the most important trend is still being driven by a global need for better value in healthcare. Tackling this problem through improving incentives instead of controlling costs could be the right way to move forward. For example, incentives could be introduced to encourage pharmaceutical companies to develop products that bring a value to the market that is currently unmet, perhaps by linking a portion of reimbursement to clinical data.

**What are the biggest risks for pharmaceutical companies in Argentina at present?**

The biggest risks for pharmaceutical companies in Argentina relate to the following business risk factors:

- Intellectual property protection and generic competition;
- Interest rates/currency exposure/inflation;
- Manufacturing processes/product supply/raw materials;
- Political instability;
- Failure or adverse impact of productivity initiatives/failure to implement business strategy;
- and
- Anti-bribery and corruption legislation.

**As the head of transactions for KPMG Buenos Aires, what is your impression of the current M&A environment in Argentina?**

The M&A activity in Argentina has been suffering since 2010 when a number of new policies were introduced. These policies included the limitation to freely distribute dividends and import certain raw materials and finished goods, which has made Argentina an unattractive environment for any company with a globalized or trade based operating model. Additionally, a new tax on shares and dividend transactions was established. All these factors dampened the M&A activity to the extent that Argentina's M&A value to GDP ratio is far below the global average.

**With regard to your pharmaceutical clients, what are some of the common strategies that you use to help them streamline their costs?**

Our services are designed to mirror our support to the client's lifecycle.

What does this mean? We analyze the client's problems and offer them integrated solutions by bringing together the best group of professionals in their areas and leveraging their knowledge with specific industry leadership in each team.

Our integrated teams – discipline and industry expertise – are able to analyze the issues from a broader perspective aiming to seek for long-lasting value added solutions to the clients' problem. Through this combination of skills and experiences we help clients develop a coherent, rigorous, and creative strategy that takes into account relevant trends, competition, and structural issues.

Our pharmaceutical clients agree that sustainable changes and better values are a direct result of an integrated approach which not only provides better outcomes, but also can cut costs significantly.

When looking at costs we focus on the client's current cost structure, its current operating model and overall long term strategy as industry expert external investors. We work with them in creating comprehensive baselines and sustainable value improvement hypothesis leveraging on our experience and hard data as regards to what other are doing – benchmarks – and what their cost structure looks like. We extract best practices and performances indicators and apply those to the business case.

Hypothesis are quantified in terms of potential savings and plans are designed to be driven across the operations. Usually, once we determine why the costs are higher, finding a solution or adjustment that can reduce them, is relatively straightforward.

We also do assist clients in optimizing their financial structure, with regards to overall leverage, working capital, project finance initiatives and debt structure. This is perceived as extremely valuable, especially in Argentina where interest rates and financial costs are quite high and, thus, the level of savings that can be achieved from relatively minor adjustments can be quite significant.

In summary, we assist our clients from strategy to implementation.

### **What sets KPMG apart from the competition?**

KPMG has decided at the global level that healthcare is a priority sector for us, and as part of this initiative we have built a very strong global team that acts as a resource for healthcare consultants like myself in all of our offices around the world. Therefore, the value that we can bring to clients isn't just what my team or I know, but what all of the knowledge KPMG has developed globally can contribute to your business.

To visit the company profile of KPMG Argentina on PharmaBoardroom, [click here](#).

To read more articles and interviews from Argentina, and to download PharmaBoardroom's latest free report on the country, [click here](#).

**[See more interviews](#)**