Interview: José Pérez de Gracia – President, Farmacias Plaza – Puerto Rico



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José Pérez de Gracia, president of Farmacias Plaza, discusses the environment between multinational chains and local pharmacies as well as his own plan for extended growth throughout Puerto Rico in the future.

A couple of multinational pharmacy chains could be said to control a large monopoly of the market share in Puerto Rico. What is your assessment of the situation in terms of such corporations' market share compared to smaller organizations?

Before the first Walgreens was opened in Puerto Rico in 1963, the pharmacy sector enjoyed a 'bonanza' because everything was purchased from local pharmacy companies. However, the key turning point came around twenty years ago when multinational companies increased their presence here in Puerto Rico. Now there are several chains, not just the numerous pharmacy departments of Walgreens, but also those of CVS, Kmart, Costco and Sam's Club. This has, of course, had an impact on the local pharmacy community which has been compelled to reinvent itself and change the merchandise it offers. So whereas we were originally dedicated solely to medicine and perfume, we have also started selling groceries and essential goods.

Puerto Rican pharmacy companies and chains evidently have to make a great effort in order to compete with multinationals. As such, many local pharmacies have organized themselves into groups such as Farmacias Aliadas did, which is made up of around twenty pharmacies. By joining

forces they are trying to be more competitive. Farmacias Plaza does not belong to any group but rather has its own strategy to contend with the competition. Firstly, we work hard to secure the best possible prices. In addition, we possess a central warehouse and we have created our own merchandising department. The latter carries out analysis of the markets, products, and our special offers as advertised in the Monthly Shopper and also the television and radio advertisements. This approach has meant that we have been able to sustain our sales rather than seeing them drop.

What are the main concerns of the pharmacy community here in Puerto Rico?

At the moment, local pharmacies are worried by the island's current financial climate because of the liquidity issues which would ensue if the government were not to pay us at the set time. In our case, we send a bi-monthly invoice to the government Health Program which amounts to between $250,000 and $300,000. As a result, they recently owed us around $810,000. In addition, this is a problem which would only affect the local pharmacies as the multinational chains do not serve people who are on the government's Health Plan. So Walgreens, CVS and Kmart will remain unperturbed by this issue.

Another significant concern for the local pharmacy community is keeping the clientele captivated. We currently have fourteen pharmacies with 26 pharmacists and an annual turnover of between $20 and $45 million. Having already changed our merchandising and started offering a more diverse range of products, we are now looking for the next step to expand the pharmacy and ensure customer loyalty. We have decided that the small pharmacy store model is no longer sustainable so we are going to start acquiring larger spaces of 10,000 to 15,000 square feet and begin closing the smaller stores. We already have a pharmacy store of 10,000 feet which we have been using as a trial run and it is going very well. We have had this space for two years and its development and sales have been continuously increasing because we are offering the same options as the US pharmacy chains. We have offers from various shopping centers including a store which used to be occupied by Walgreens. As the economic situation is not good, the price they are offering us per square foot is very low so we are considering moving into that.

Is there a way for the different local pharmacies to speak with one voice at the local or federal government?

The Pharmacy Association has around 500-600 members and represents us very well at the moment. This organization is very active and is on the lookout for laws which could have an impact on the way local pharmacies function. As voters, we are able to exert some pressure on the government to ensure they hear our voices and, as a result, help us find a solution to resolve our

problem. The Pharmacy Association also helps owners to make necessary changes to remain competitive, for example, by moving into larger stores when a store of 3,000 square feet is no longer a profitable business model. In addition, they are keeping an eye on the laws which may help or hinder us as well as reducing the likelihood of multinationals like Walgreens gaining a monopoly of the market.

As the largest local pharmacy chain in Puerto Rico, what is Farmacias Plaza's greatest achievement?

In terms of growth, we are starting to develop larger pharmacies which are allowing us to offer our customers a larger variety of products rather than only being able to collect their prescriptions. As well as acquiring larger pharmacies, we are also considering expanding to other cities out with the metropolitan area and also locations where a Walgreens is already present. With regard to sales, we buy many things directly from China and by dealing directly with the suppliers we are able to secure the best price possible. We also pay Proctor and Gamble monthly which has helped us a lot with our promotional project in the Monthly Shopper, a highly circulated newspaper in Puerto Rico.

Will it be possible to have a Farmacias Plaza present everywhere on the island?

As I mentioned previously, we are looking to set up shop in new locations throughout Puerto Rico. If there was a partner company which could help fund this expansion we could grow at a much faster rate, however, as we are working with our own budget we will have to take it step by step.

Are there any benefits for local pharmacies from having so many companies manufacturing here?

Unfortunately, we do not benefit at all as we do not receive any drugs or products directly from the plants. Although the products are made here, they are shipped to headquarters in the US and sold to subsidiary companies which then sell them to us at the same price as in the US. The reason for this is to protect the market and prevent people buying medicine at a reduced price here and selling it on to the US.

However, they sell those products at a much lower price to other countries because they have to compete with German, French and British medicine as well as the high volume of generic drugs produced in India. Additionally, they have started putting unique identification numbers on every medicine bottle so that they can identify exactly where they came from and control where it goes.

Are most of the drugs that you sell in your pharmacies generics?

Over 75 percent of the drugs that we sell are generics. This has to do with the third party programs which, for financial reasons, have set up a procedure which dictates which drugs should be offered to patients first in order to ensure that patients are prescribed generic drugs whenever available. If there are no generic drugs available, they are of course prescribed branded products. In order to be prescribed a branded product when a generic alternative is already available, there must be a specific reason, such as secondary effects, outlined by the doctor or the drug will not be covered by the Plan Medico and the patient will have to pay for it out of their own pocket. The people here in Puerto Rico have already become used to generic drugs because we are obliged to offer them the cheaper, generic option unless there is a specific reason why they need the brand.

What is your vision for the next five years for Farmacias Plaza?

My primary goal is to move beyond our current core area and establish the company in other towns. My second objective is to have all our pharmacies with at least 10,000 square feet or more as this is the most profitable business model for us.

Do people recognize and know about the Farmacias Plaza brand?

We are very well positioned. Several years ago we carried out a survey which showed that the public in Bayamón preferred us to Walgreens. However, the situation has since changed because, whereas at that point there were few Walgreens in that area, there are now fourteen Walgreens and four CVS chains. Thus, the competition is high.

Do you have a final message for our readers?

Medicine has been evolving in terms of medicinal practice and also in terms of the resources available for detecting illnesses. There are many laboratories which carry out many, very precise tests and measure what is taking place within a person’s body. It is, therefore, very important to go through with the required medical visits and analysis to be adequately treated. As a result, it is also vital that the patient is aware of the importance of completing the prescribed treatment as this will increase their lifespan. One of the concerns that the third party programs have outlined is the decrease in cost efficiency as patients who do not follow these procedures develop future problems which could have been prevented by following this procedure. The third party programs are, consequently, considering rewarding pharmacies whose patients fit this profile by following the recommended procedures.

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