

Interview: Arnaud Gobet - Chairman, Innothera, France



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The President of Innothera talks about their unique business model, being in both the drug production and compression stockings businesses, how

almost 95 percent of their drug production is exported, primarily to emerging countries, and why there is a very hopeful future for medium-sized companies that are ready to embrace the technologies of the future and are willing to internationalize.

2014 was a successful year for Innothera with sales amounted to 162 million euros (174 million USD). What have been the key growth drivers and achievements for the business over recent years?

We have two key drivers of our growth. The first is the export of drugs, an area which we have been specialized for around 40 years. We mostly export to emerging countries because we have drugs well fitted for daily pathologies, current treatments, especially in gynecology, venous disease and more broadly speaking all pathologies related to women's health. Forty years ago we first started by exporting to the traditional French-speaking countries, namely the Maghreb region and French-speaking Africa. Since then we have developed all over the world, notably exporting to the Russian-speaking markets for the last 25 years. Today we are present in over 100 countries, in dynamic pharmaceutical markets with extremely good growth potential.

Our second key focus area is compression stockings. This is a new activity for Innothera, since traditionally we were a drug company. Just over 20 years ago, in 1993, we decided to invest in this new field. We realized that venous disease treatment was mostly treated in France by drug therapy whereas all around the world the most recognized treatment was compression stockings. We started off by acquiring a small factory in Switzerland because it was necessary to acquire a minimum amount of know-how in this area. Due to the relatively high prevalence of venous disease in France, and as our business was growing, our factory in Switzerland became too small, leading us to build a new facility in Eastern France. This business remains integral to Innothera. We have witnessed steady growth with a market that is growing by five to six percent every year.

This dual model of manufacturing both pharmaceutical products and compression stockings seems to be rather unique. Are there other companies which follow such a business model?

It is indeed quite a unique model. Our competitors in compression stockings are exclusively medical textile companies, they are not involved in the manufacturing of drugs. It is true that these are two very different business, with different cultures. While the process of launching a new drug takes at least a few years, in the compression stockings business the process is much faster, the competition is harder, and the regulatory system is less challenging. Culturally in the company we have two different mind-sets, which creates a good understanding of “time”; in our drugs business we think in years and in our compression stockings business we think in months, and this creates a good dynamic between our teams.

Compression stockings is a very complicated business. There are a few key elements required to be successful. First is production, where we have a range of around two thousand variants and products references: from the size, color and type of product to the strength of compression. We are constantly evaluating stocks, distribution, and quantities, which requires very sophisticated industrial production. The marketing is also very complex. We have to deal with each pharmacy, meaning we have ten thousand direct customers in France. We also have to interact directly with doctors, as it is doctors who decide whether to prescribe our products.

The Nomexy factory, specializing in the manufacture of compression stockings, has undergone numerous investments over the years. Can you tell us more about the importance of such investments?

We have two types of investments when it comes to our Nomexy facility. First we have to invest in capacity building, with our volumes increasing by five to ten percent ever year. The second type of

investment concerns what we call vertical integration. Some people say that it is not a good idea to be an industrialist, preferring to subcontract as much as possible of their industrial activity. At Innothera, we take exactly the opposite approach. In our field we integrate all industrial activities, starting from the raw materials to the finished product.

Innothera is unusual in that 100 percent of its manufacturing is based in France. What do you see as the advantages of manufacturing in this country?

In the compression stockings business it is important to produce very close to your main market. Concerning such products, our main markets are in Europe and primarily in France. It is particularly important to produce in France when you are dealing with high added value industrial production. If there is not a high added value to your product, one might take a different approach, as it is true that the cost of production in France is significantly higher than in many other countries. Given that we are launching new products every year, we require a strong connection between the customer, product development and industrial production, ensuring that we all work closely together. This is something that is very hard to achieve if you have a production site that is outside of France and even more difficult if you manufacture outside of Europe, which can lead to customs issues and challenges around culture and language. While production costs may be higher in France, if you can develop your product faster and in better conditions, you more than compensate for this fact.

When it comes to our second business area, that of drug production, I attach less importance to the issue of manufacturing in France. We however also have a factory for drug production in France; so here the question arises as to why it is in our interest to produce in France, given that we do not have the same need to launch new products at the same rate as we do in our medical devices business. The answer is that as we export to an increasing number of countries, given that we work in around 20 different languages, increasingly each country needs a specific package. Producing in France makes sense for us given the close involvement of our regulatory department, consisting of around 30 people. Drug exportation requires a close relationship between our regulatory and marketing departments, and being close to production is an advantage.

What is your strategy when choosing which country to export your drugs to?

We are focused on smaller markets. A small market for a big pharma company can still be a significant market for us! A country such as Moldova, where we recently celebrated the 20th anniversary of our presence, is a significant market for Innothera. We export almost 95 percent of our drugs beyond France and are doing well in South America, the entire African continent as well as the Middle East and Russian speaking markets.

You have been the head of Innothera for over 30 years, since 1984. What will the next 30 years bring?

It is true that I have been at the head of this company for quite a long time now. The Innothera of 30 years ago and the Innothera of today are really two different companies. Our sales turnover has increased 8 to 10 times over. Twenty years ago we did not have the compression stockings business. Our drugs were mostly sold on the French market. Today we are all over the world.

Our evolution has been in part due to a clear strategy, but equally due to grasping opportunities as they arise and a very important element, called luck... The key point is to have a general vision for the company. We are a company that is medically driven and specialized in the treatment of daily pathologies. We will always remain close to the needs of our customers and open to any innovation, any product, which could be adapted to daily pathological treatments. Furthermore, there are many new start-ups in our field, mostly in medical devices, and I am sure that we will have the opportunity to collaborate with other companies and eventually to acquire some other businesses.

What is the final message you would like to be heard around the world?

Today we have two types of companies that people dream of working for: the powerful and prestigious big pharma companies with over 100 thousand people, and the small intellectual start-up companies with 5 to 10 employees. Companies with just a few thousand employees can also be exciting and interesting environments to work in. There is a very hopeful future for medium-sized companies such as Innothera, provided that we embrace the technologies of the future and are open to exporting our products abroad - which we are.

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