

Interview: Sebastien Aguetant - President, Delpharm, France



In my opinion, the trend of CMO pharma manufacturing has only just begun

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Sebastien Aguetant, president of the French Association of Pharmaceutical Contract Manufacturers (SPIS) and president of leading French CMO Delpharm, discusses the evolutions and growing significance of contract manufacturing, how CMO pharma manufacturing has only just begun, and how Delpharm with its ten sites in France is a reliable partner of choice.

What have been the key milestones in the development of Delpharm as a French manufacturing success story?

Delpharm's story began more than 20 years ago when we acquired our first plant. At the time, the company was part of a family business named Laboratoires Aguetant. My uncle ran the business and acquired many competing companies in order to gain a bigger market share. The acquisition of a firm called Delmas Perfusion allowed us to enter the manufacturing industry in 1988. With the acquisition of the company we also gained many different pharmaceutical-related plants and factories. Delpharm was dedicated to the workforce that was already in place. Instead of getting rid of the previous staff, we decided not to dispose of those plants and in turn include them in our final business strategy. Finally, Delpharm began to manufacture for pharmaceutical companies.

After a few years, we realized that the manufacturing business was very profitable. To develop the Contract Manufacturing Organization (CMO) business, Xavier Castelli, who is now a partner in the company, was hired in 1993. He predicted and forecasted the rise of CMO-pharma partnerships. At the time, manufacturing was only 20 percent of the overall Laboratoires Aguettant business; we saw potential for further growth. At this point in time, we realized that we needed to invest in more advanced technologies to properly develop the CMO business.

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I joined the company in 1996. In 2004 with Xavier Castelli we disinvested and bought shares from Laboratoires Aguettant so that we could personally own Delpharm and develop the business ourselves.

We have led Delpharm to what it is today, that is to say a company generating revenues of EUR 380 million (USD 430 million), with a workforce of 2,500 across the ten manufacturing plants we own. We produce all manner of forms from solids, pastes, and liquids to injectables and biotechnical-related products

You are also President of the *Syndicat Professionnel des Industriels sous-traitants de la Santé (Spis)*, the French association of Pharma CMOs. What can you tell us about the CMO industry and how it started?

If we were to look at the progressive development of the CMO business as a whole, we can see the shift between in-house production to outsourcing to CMOs in the 1960s. CMOs established more efficiency through a split in the value chain. This in turn not only created a better pricing model, but established a standard outsourcing manufacturing procedure in all different types of industries. The pharma industry was the latecomer of all other industries in the CMO business. The realization of the need to outsource only became a reality in the 1990s. Due to the incredibly high margins that the pharma industry was making at the time, the sector as a whole neglected to notice the high price tag of internal manufacturing.

Additionally, all CEOs of large pharma groups at the time were scientists. It was only at the end of the 1980s that CEOs with a background in business, finance, marketing and law began leading large pharma companies. This not only created a trend towards mergers and acquisitions between pharma companies but also created a tighter budget in the pharma world, where a sales orientated approach was adopted. This new generation of CEOs saw the value and understood the importance of outsourcing production to manufacturing plants that could develop a wide range of technologies in order to deliver great quality products at better prices to our counterparts.

How do you see the CMO industry today? What is the future for pharma manufacturing?

In my opinion a good CMO has at least 20 clients. Bringing in more clients will ultimately lower your breakeven point. Since CMOs' main costs are fixed and the variable is nearly irrelevant; having a greater number of clients will maximize your capacities and absorb your fixed cost.

In my opinion, the trend of CMO pharma manufacturing has only just begun. In 1996, when I started Delpharm, only five percent of pharma manufacturing was done by CMOs. Today it is about 30 to 35 percent. This number is going to increase in the coming years to probably 60 to 80 percent. Indeed, it is challenging for pharma companies to increase or decrease production based on fluctuation of demand; therefore working with CMOs reduces inefficiencies. Outsourced production is the future of the pharma industry since it allows pharma companies to achieve better quality, flexibility and productivity at cheaper prices.

How do you manage to successfully convert these inexpensive factories - that pharma firms themselves consider underperforming and sometimes even obsolete - into vehicles for even greater sales volume and for scaling the production value chain?

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I believe that the key to success in the CMO industry is to remain competitive. At Delpharm, it takes us two to four years to implement measures and turn an underperforming plant into a competitive factory. In order to achieve this, we have a three step plan of action for the people we work with, the industrial sector, and the commercial sector.

Our people are the most important asset to the company; we provide the optimal working space in order for our employees to have a happy and comfortable work experience, this in turn can help transform the plant into a productive and successful operation. By making our plants more competitive we are not only preventing them from becoming inefficient; but we are also creating jobs in France. Our second step is to focus on the industrial side of the business. In order to perform better, we see the importance of developing in small steps to then be more flexible and adapt to the fluctuation of the market. Our third objective is focus on the commercial side of our activity which consists of developing our clientele and bringing in new clients.

Cost reduction is not the ultimate goal, but in order to work for multiple clients, we need to be able to meet market demand. Our main objective is to increase production to reduce unit costs. Earning a few cents on a few million boxes is what ultimately makes the difference!

What is extremely important in the CMO industry is to stay innovative. The only way this can be achieved is through maintaining a close proximity to clients. R&D and manufacturing are two causes that are linked and should be in close proximity to each other to boost efficiency and foster innovation. Delocalizing manufacturing in remote countries is a not strategic choice since the ultimate value of R&D is its final application.

How supportive is the French government to the manufacturing industry?

The challenge is to deal with certain French constraints, such as the 35 hours work week, early retirement, and social wellness. These small constraints make it hard to reach the best possible productivity level compared with CMOs in other countries.

The environment in France for manufacturing is highly regulated. For example, we have to comply with the *Bilan Carbone* (Carbon Footprint) regulations which oblige companies to measure how much [carbon dioxide](#) they emit. Another example would be the enforcement of measures against noise in urban areas. This means that companies must buy expensive material to reduce the noise burden from their machines. In the end, France has the tools to be competitive but cannot use them. The US is a very good example of resource productivity as it manages to protect its business sector and create a very favorable atmosphere for companies. Ultimately, the US has created the most competitive CMO market in the world.

What will be the next game-changers and disruptive forces in the pharma manufacturing sector?

It has been said that 3D printing could be a threat to the CMO industry; however I personally do not agree with this statement. The integration of 3D printing in pharma technologies would have to be heavily tested for many years before being mass produced. Those tests take time and would allow us the time to adapt to this new technology. The pharma industry is a very predictable market and evidence of this can be seen from the last 20 years. 3D printing will be the future of the pharma industry and this technology will take time to adapt, approximately the same amount of time allotted to creating a new drug. This will not disrupt future business for CMOs, but will in turn create more profit and opportunity.

Delpharm will continue to produce the highest quality products at a fair price and ensure great services to our clients. Our goal for the future is to grow internationally, for big and mid-size clients. We are starting to develop into emerging countries which will be the future of CMOs once mature markets are overworked.

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