Daniel Del Conde â?? CEO, Grupo Somar, Quifa Mexico & Quifa do Brazil

> Our portfolio is deliberately diversified to mitigate reliance on any single segment

12.06.2024

Tags:

Mexico, Brazil, LatAm, Somar, Quifa

Four years ago, Daniel Del Conde left a career in multinational pharma to become the CEO of regional player Grupo Somar. He walks us through the companyâ??s activities â?? private labels; pure generics; private brand manufacturing, and prescription, its recent acquisition of Quifa, and the diversified portfolio that encompasses over 200 registrations and marketing authorizations in Mexico. In addition, he outlines the importance of Mexicoâ??s major pharmacy chains and discusses Somarâ??s MXN 300 million investment in innovation over the part six years.

The Somar group is privately owned by Advent International private equity. Can you shed some light on how the company is structured?

Grupo Somar is owned by Advent International, one of the top five global private equity firms. It has offices worldwide, including in Mexico and Latin America. They began managing Grupo Somar in 2018, and I joined the company in 2020.

The typical goal of any private equity firm is to enhance the companyâ??s finances and sales before planning an exit. Since Adventâ??s involvement, Grupo Somar acquired Perrigoâ??s Latin American operations, primarily in Mexico and Brazil. Perrigo had acquired local companies, which included manufacturing assets and product portfolios, making it self-sustaining with its production facilities.

Their operations consisted of three production plants in Mexico, where 92 percent of its sales are concentrated, with the remaining 8 percent in Brazil. Additionally, we retained a global brand, Niquitin, a nicotine patch for quitting smoking, which we market in Brazil. In Mexico, Perrigo now operates under the name Quifa.

Today, Grupo Somar functions as an umbrella brand, encompassing six companies: the original three from 2017 â??Serral, Advaita, and Lakesideâ?? and the three acquired from Perrigo. Thus, Grupo Somar is a holding entity for these companies under the private equity umbrella, and our business strategy is divided into four divisions/verticals: private labels; pure generics; private brand manufacturing, and prescription.

How would you characterize the management style in light of the fact that Somar is owned by a private equity firm? How has this shaped the companyâ??s strategy and priorities?

My previous experience with large pharmaceutical companies, such as Novartis and Sandoz, focused mainly on long-term planning. However, working with private equity, particularly under Advent International, requires more of a short and medium-term style, typically within a five-year horizon. Despite this, Advent has not solely prioritized short-term gains; they have invested over MXN 300 million in our pipeline since the acquisition in 2017. From an almost nonexistent pipeline before the acquisition, we launched 11 new products last year and have 55 in development.

When Advent acquires a new company, it implements a value creation plan formulated even before the purchase. In acquiring Grupo Somar, it collaborated with Boston Consulting Group and Parthenon to create a comprehensive plan. This included strategic investments in specific therapeutic areas and products. Upon my arrival in 2020, a robust road map was already in place, though we have made significant adjustments to align with evolving priorities.

For instance, we decided to centralize our R&D efforts in Ramos Arizpe, Coahuila (near Monterrey), where Quifa has production facilities. This decision consolidated our operations and enhanced efficiency. Currently, we have 60 people working in R&D and pilot plants and six production facilities capable of producing nearly all pharmaceutical forms except injectables.

Somar has extensive manufacturing capabilities. Does this stand to change?

We constantly review our manufacturing setup to respond to market dynamics. Our manufacturing capabilities provide flexibility and strategically position us, particularly in contract manufacturing in Mexico. This aligns with one of our key divisions/verticals, private labels, and pure generics. For a generic player, in-house production is essential to maintain competitiveness and manage the P&L effectively.

Additionally, our business lines are integrated across multiple pharma companies, each contributing to different verticals. For example, our Brand generics division, Advaita and Lakeside, focuses on sales force-intensive brand promotion, particularly in antibiotics, pain, and urology. We also participate in the pharma depot model, servicing pharmacists directly.

Being in the top five is a strategic goal across all our markets. This drives our decisions to acquire, launch new products, or divest as necessary to maintain our competitive edge and market relevance.

In a country where out-of-pocket spending and over-the-counter (OTC) purchases are prevalent, the competitive landscape must be intense. Does this translate into substantial marketing expenditures for the company?

Our focus on OTC products drives our marketing strategy, particularly in the impulse market. For brands like Quifa, our investment is more targeted toward brand building and distribution to reach local pharmacies rather than mass media. While you may not find our products in national chains, they are readily available in smaller, more remote pharmacies, catering to the diverse needs of consumers nationwide.

Pharmacies appear to play a significant role in this market. How do they fit into your business model?

Pharmacies are vital in our third business model: private label manufacturing. While many national chains opt for contract manufacturing, we differentiate ourselves by owning the registration and marketing authorization for these private-label products. Take the Similares chain, where we produce products under our registration, allowing them to focus on sales through their channels. This model has proven sustainable, with pharmacies like Similares maintaining market presence and generating significant revenues, particularly in OTC and vitamin segments. Additionally, our fourth vertical, contract manufacturing for third-party pharma companies, further expands our reach, with a diverse clientele spanning national, regional, and multinational companies.

Is there a particular segment driving the companyâ??s growth, or is it evenly distributed across the various businesses?

Our portfolio is deliberately diversified to mitigate reliance on any single segment. We hold over 200 registrations and marketing authorizations in Mexico alone, ensuring a robust presence across various markets. Our largest brand contributes only 6 percent of our total sales, highlighting our commitment to maintaining a balanced revenue stream. The recent acquisition of Quifa further solidified our position, particularly in the contract manufacturing sector, adding to the overall resilience of our portfolio. Additionally, while often overlooked, government sales account for 4 percent of our revenue, adding another layer of stability to our business.

Considering the growth rate of the Mexican economy at 3.2 percent, do you believe that local and generic companies are the ones benefitting the most from current social policies and bottom-up approaches?

The landscape has been shifting in favor of national and regional companies, particularly in the generic sector, for quite some time now. Over the past 12 years, these companies have consistently outpaced multinationals in Mexicoâ??s pharmaceutical market. This trend has only been amplified recently, with last yearâ??s pharma market growth reaching almost 8 percent, outstripping the economyâ??s growth rate.

National and regional companies have consistently demonstrated growth rates two to three points higher than multinationals, reflecting their agility and responsiveness to market demands. Factors such as accessibility and affordability have propelled segments like the impulse and private label markets, driving faster growth than patented products. In essence, the dominance of generics, especially in the pure generics segment, underscores their resilience and adaptability in the Mexican pharmaceutical landscape.

Can Somarâ??s success be attributed to their ability to cultivate direct channels and alternative methods of reaching patients?

While it is tempting to attribute our success to direct patient outreach, the reality is more nuanced. The key players driving accessibility and affordability in the market are the major pharmacy chains, such as Similares and Farmacias Guadalajara. These entities have made significant strides in making affordable generics accessible to the population. As their suppliers, our mission is aligned with theirs: to provide high-quality, affordable products to a population where over 50 percent live in poverty or lack access to essential services. While social security historically played a role in addressing these needs, recent challenges have led to the growth of private generics, further emphasizing the importance of accessibility and affordability in the pharmaceutical landscape.

You mentioned the focus on R&D. How does this align with your portfolio strategy? Are you solely focused on developing your own portfolio, or are you also exploring collaborations and acquisitions to expand your offerings?

Our approach to innovation is multifaceted. While we may not be delving into cutting-edge fields like CAR-T therapy, we strive to bring novel solutions. This could involve introducing new pharmaceutical forms, exploring differentiated dosing regimens, or enhancing patient-friendly therapies.

Over the past five years, we have significantly ramped up our innovation efforts, increasing our Freshness Index from 2 percent to above 12 percent. This index reflects the percentage of sales represented by products launched in the last five years, highlighting our commitment to introducing new and innovative products. Last year alone, we launched 11 products across all our verticals, underscoring our dedication to portfolio expansion and diversification.

Somarâ??s approach to product strategy seems to involve a combination of in-house R&D, partnerships, and acquisitions. Can you elaborate on how you are shaping your future portfolio?

We adopt a three-pronged approach to our future portfolio strategy. Firstly, we prioritize in-house R&D efforts, focusing on innovation that enhances patient experience and treatment outcomes. Secondly, we explore opportunities to acquire finished products. However, due to limitations on licensing and our private equity ownership structure, we emphasize the importance of owning our assets rather than relying solely on distribution partnerships. Lastly, we allocate significant resources to our R&D lab, with yearly CAPEX and OPEX budgets enabling us to invest in innovation and pipeline development. Over the past six years, we have invested over MXN 300 million pesos, resulting in a robust pipeline of 55 products slated for launch over the next five years.

How important is the Brazilian market? Are you aiming to build a significant presence in Brazil and what about other markets?

Let me begin by talking about Mexico. In that market, we are the second largest player in the pharmaceutical market in terms of units sold, and we rank in the top 20 by value. This robust position makes us one of the biggest manufacturers in the country. We are also well-placed for the nearshoring opportunities that could benefit Mexico.

In Brazil, our current presence is smaller, with a focus on a single brand, specifically in the nicotine replacement therapy (NRT) market. We are the only company offering a sustained-release nicotine patch in Brazil, and our strategy is to grow within this segment.

While expanding our existing product range into Brazil is possible, our immediate goal is solidifying our position in the NRT market and exploring opportunities in the vitamins, minerals, and supplements (VMS) sector. Considering Brazilâ??s large consumer base, which adds almost 400 million potential consumers when combined with Mexico, we see significant growth opportunities.

Our focus remains on leveraging our strengths in Mexico while carefully expanding and exploring strategic opportunities in Brazil and potentially the US market through nearshoring initiatives.

Our facilities in Mexico are well-equipped for production. Three of our six production facilities are FDA-approved, and all meet COFEPRIS GMP standards. This positions us well for potential nearshoring projects to supply the US market.

What are the next steps for Somar?

Our immediate focus is on integrating Serral and Quifa into a unified entity. While we have made significant strides over the past two years, work remains to be done, particularly in aligning systems and culture across both organizations.

Additionally, we remain committed to delivering new and innovative products to patients across all our markets, including Mexico, Latin America, and potentially the US. This involves continually expanding our product portfolio and enhancing treatment modalities to meet evolving patient needs. For instance, we recently launched a novel product in Mexico that combines ibuprofen with diphenhydramine, addressing a gap in the market for such a formulation.

We also aim to ensure widespread access to our products, particularly for patients in Mexico who rely on out-of-pocket purchases or public sector support for healthcare.

Our strategy revolves around sustained growth, innovation, and expanding our market reach to benefit patients and drive value for our stakeholders.

Many pharma executives dream of venturing out on their own but hesitate due to fear or uncertainty. What advice would you give them?

I leaped from a comfortable position in a multinational to become the CEO of Somar four years ago. While being at the helm of a local or regional player is more challenging, the rewards are far more significant. As a CEO, I can make decisions from product launches to investment strategies, which is much more fulfilling than simply executing directives from headquarters. It is a different level of responsibility and complexity, but ultimately, it is gratifying to see the direct impact of my decisions on the companyâ??s success.

Any final thoughts you would like to share with our international audience about Mexico?

Mexico is in a prime position economically and geopolitically, especially with the current trend of nearshoring and a strong Peso. We need to capitalize on this opportunity by investing in our manufacturing capabilities and positioning Mexico as a key player in the global market. With the right investments and strategic initiatives, Mexico can become a major player in the new era of manufacturing and trade.

[See more interviews]