

Eduardo Macchiavello CEO, Roemmers



Having a Latin American dimension, not only in the business but also in management, is a catalyst for sustainability

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Argentinian generics manufacturer Grupo Roemmers which celebrated its 100-year anniversary in 2021 has expanded steadily across the Latin America and Caribbean region since the mid-1970s with a successful strategy predicated on customising its offering to each country and balancing local management autonomy with a strong company culture, as Group CEO Eduardo Macchiavello outlines.

First of all, can you tell us about the new role you took on at the beginning of the year in the Latin American Association of Pharmaceutical Industries (ALIFAR)?

ALIFAR is the pharma association comprised of chambers from across Latin America that represent the industry on a national level. Historically, the president of ALIFAR rotates among those countries; the previous representative was from Brazil and this year it was Argentina's turn for the presidency. As I am president of the Industrial Chamber of Argentine Pharmaceutical Laboratories (CILFA) and I represent one of the largest companies in the sector in Argentina with a presence in all of Latin America I was elected as president, since in a way I represent the interest of national companies throughout the continent.

Although Latin America is a large and diverse continent, we have common interests. Firstly, the defence of national industry over patent excess, in the sense of restricting what can be patented by multinational companies to protect products. Also, monitoring what kind of patents can fall into abusive practices that limit free competition, putting national industries at a disadvantage. In

Argentina, patent laws exist and patents are respected, but there are things that cannot be patented, completely legally because these laws were passed by a panel of the World Trade Organisation (WTO). Some examples of objects that cannot be patented are second uses, polymorphs, associations, or variations that are not patentable in Mexico which is the practice of putting two drugs together and patenting the result without innovation. It is evident that Argentina seeks not to reward or grant monopolies to those who do not innovate. This struggle unites us in Latin America; we want to protect and grant patents to products that are beneficial to patients' welfare, not protect monopolies and individual interests.

The second interest that unites us in Latin America is people's access to medicines. All the national companies handle products of the same quality as those of the multinationals but at lower prices. The pandemic helped a lot in to move forwards in this regard because when the markets closed, it was the national companies who made sure that the countries were not out of supplies, something impossible for the multinationals, since most of them do not have factories in these Latin American countries. Therefore, the pandemic was a step forward in terms of valuing national industries.

This position in regard to patentability in the pharma industry can be seen as a somewhat old-fashioned stance, in a certain sense opposed to global trends in medical innovation.

From my experience when I was president of the Dominican Pharmaceutical Chamber (INFADOMI), we based the patent law there on Argentina's scriptures so that the Dominican Republic would have a law in line with that of a developing country. The resulting law has more advantages than the Argentinean one in terms of compulsory licenses. For example, if a company wants to patent a product in the country and has a dominant position, the regulator can grant a compulsory license in which the company is obliged to pay a royalty to the owner of the patent. Therefore, the countries that have created their laws after Argentina, nowadays have a more complete law according to the needs of the country.

The issue of patents is very relevant and these discussions are important for the continent regardless of what is happening in other parts of the world. Multinationals claimed that with a good patent law, countries would be promoting innovation and thus improving the health sector in each country. Therefore, imported products had regulated tariffs, charging a 50 percent tax, which led to lower rates. Immediately, the patent law was created, and the multinationals closed their plants and left an experience shared by other countries in LatAm when doing the same. At the same time, Brazil has a patent law that establishes that to have a patent for a product, you must produce it locally. In Argentina, the patent means to exploit while in Brazil it means to manufacture. Independently, after 20 years of the law, there are no laboratories manufacturing locally and nothing is innovated in Argentina; since the issue of innovation has more to do with the size of the country and its resources. Realistically, the innovations patented in our industry come mostly from Japan, parts of Europe and of course the United States, because they have a large market and the necessary volume to be able to invest, a level to which we at Roemmers cannot compare, even though we are one of the largest companies in Latin America at a national level! we do not have the capital to invest in basic research.

Ideally, we want laboratories that have a future and are supplying medicines to the population. However, the reality is that there are many multinational companies that are looking to partner with local companies, as having their own structure within Latin American countries is not in their interest because of the costs that such structures imply. Therefore, there will continue to be products with patents and companies that own them, but they will increasingly seek to partner with national

companies that have links with governments, social security and the distribution network to handle all the logistics in these countries.

Could you tell us about Roemmers, its history and strategic positioning?

Roemmers is a company with 100 years of history, founded by a German who came to Argentina in 1920. It grew in Argentina but today we have a presence throughout Latin America, which is a rare characteristic among Latin American companies. For example, Brazilian or Mexican companies face such a large market, that in principle they did not aim to expand and conquer other markets outside their own, something that has hardly changed in the last few years. On the other hand, the Argentinians, due to the economic ups and downs of the country, have been conquering other markets outside the country. We introduce ourselves to the multinationals as a strategic partner to manage the contracts of these multinationals in Latin America. We have Laboratorios Siegfried – our second brand – which is solidly positioned in Latin America.

Our portfolio is characterised by its abundance of branded generics because we have a quality that we back up with a brand. In Argentina, it is not like in the US where a product is innovated and patented and once the patent expires, a thousand generics come out that only demonstrate bioequivalence; this figure does not exist in this way because it would be very expensive to assume the costs of bioequivalence tests for each country in Latin America.

How did Roemmers go from being the leader in Argentina to a major player in Latin America? What strategy has facilitated this process?

Our expansion across the continent has been based on strategic acquisitions with a local vision of the business. As an example, the most important market for us currently is Mexico, because the company Siegfried, which we acquired in 1993 and had a return on investment of around USD 2.5 million, has today evolved into a USD 400 million business. It has 1000 employees, two plants and is the number one company in Mexico. In addition to Siegfried, we have Bessor Pharma and the sum of these two companies added to the representation of Novartis in Mexico puts us in first place.

Roemmers has focused on entering markets by registering brands and then buying a small local company or connecting with a distributor to settle down and start growing. It is a long process; from making the decision to the first sale it can take four or five years and many more to become profitable. This is the process we have done in all the countries we are in, but once the barrier is broken it is worth it. We are not contract manufacturers making products inexpensively for someone else to sell, but we have our own company and brand that has our own quality standards that we fully support. That has always been our strategy. For example, in 2008 we bought a very small company in Ecuador – Deutsch Pharma – which was selling USD 4 million and had a good structure, with a medical visit. Later we started to register brands and take medical visits. The project grew and today we make in sales USD 100 million in Ecuador, we have two plants and we have consolidated our position in the country. It is our opinion, that inserting yourself in the market and in the country is not the same as presenting yourself as an importer, because as the latter you are investing in the country and promoting the local economy.

It is important to clarify that Roemmers does not participate in the tender market, we concentrate on branded generics in the private market at the level of pharmacies or doctors' prescriptions.

How has Roemmers financed its expansion? Leveraging debt in such a volatile environment is certainly not easy!

Our way of growing has been with our own capital, as we have acquired small assets. But about five or six years ago we had a major deal, which was the sale of two key Roche brands, so we needed a quick injection of capital and therefore negotiated with the International Finance Corporation (IFC) in Mexico, which gave us a large loan in Mexican pesos at a very good rate. They have been an extraordinary capital partner, and it has allowed us to acquire two regional brands throughout Latin America. Later we did something similar in Colombia with Novartis and again IFC gave us a loan. In Brazil, we had the opportunity to buy an over-the-counter (OTC) pharminochemical company which we did not have and again it was the IFC who gave us the loan. It is an organisation that works very well and they have supported us during these processes in a very good way. This has not limited us, as some may think. We have simply grown as much as our capital allows us to.

How significant a moment was Roemmers' entry into the massive but challenging Brazilian market in 1994 and how has the company developed there since then?

When we talk about Brazil, we could be referring to the Brazilian continent! It is a country with 200 million inhabitants in a vast expanse of land, which in turn brings enormous geographical particularities when it comes to understanding them and doing business.

Roemmers entered Brazil in 1994 when it bought a family company called Farmoquímica (FQM) with profits of around USD 5 million. Until about 10 years ago it was managed by our Brazilian partner, from whom we bought his part and now we are in charge; but we always keep a Brazilian partner on board as he is fundamental in this market.

Brazil is our second largest market with USD 400 million, just after Mexico. It represents a lot for us. It differs from Argentina because while in Argentina we work a lot with generics and we make the equivalence, in Brazil we do not. Our strategy in general is to adapt to each market and make the best decisions within that market and not replicate what we do in Argentina, because we would lose time and money. So in Brazil, we have Roche licences and products in different therapeutic classes. Each market is particular and you have to understand them separately.

Is the model of licensing products from multinational companies something Roemmers is interested in?

No, the licence limits you. We have licences with Novartis but it is not our goal to have licences in general. There was a large company in Argentina that dedicated the last 20 years to obtaining licences, but the results were not optimal, since licences give a very small profit margin that does not help growth. In addition, when the patent expires, many cheaper copies emerge and steal the market from the initial product.

What do you see in the future for Roemmers?

Roemmers is made up of many companies that together have almost 20 percent of the Argentinean pharmaceutical market, to which we must also add a distribution company and participation in drugstores. It is the same strategy of gradual growth and various brands in different therapeutic

areas that we still have many opportunities in Latin America. Although our presence is very strong in Mexico, Colombia, Brazil and other countries, we still have a long way to go to reach the level we have in Argentina. That is why we prefer to stay in Latin America and continue our strategy in the continent, as we know the market and our developments and portfolio can cope with these businesses. Going to other countries would be a more complicated competition and would ultimately raise our standards by increasing prices for Latin America, which would alter our established market. In short, we are committed to Latin American leadership and growth.

What is the future in terms of leadership for the sustainability pillar group?

It has already gone from a family business to a professionally managed company and now we are focused on making the business outside Argentina prosper. That is why we always have people from the country to help us understand the country better and form better strategies. In addition, I have focused for the last 10 years on training young professionals who will be the future of the group and will continue its legacy. These young people are trained in Argentina and then sent to Ecuador, Colombia, Peru and the other countries where we are based. Our managers are under 50 years old, all trained in the company here in Argentina.

Having a Latin American dimension, not only in the business but also in management, is in my opinion a catalyst for sustainability in the future. Here at Roemmers, we have trained people from all countries; for example, our manager in Brazil is Uruguayan, in Mexico he is Dominican and so on and so forth. The important thing is that they are trained by the company because when you acquire a company abroad and the management has not been exposed to the parent company, you lose synergies and familiarity with the business. I want managers to be the ones who decide what is launched in each country and not expect those decisions to come from HQ. We don't have a management structure that controls Latin America, there is autonomy over the portfolio, you just have to show that you are growing and the decisions generate benefits for everyone, including patients.

How does the unstable global and regional outlook currently affect Roemmers' business?

The abundance of conflicts is latent, starting with the war in Ukraine, with economic and supply repercussions for our industry. Although the economic issue is central, political instabilities such as those in Peru or Chile are classic Latin American problems and in some ways, we have already experienced them, so they are not part of our background.

It is important to note that in general terms health issues remain stable and there is not much variation between a left or right-wing government, and we are not in the government markets but in the private market.

Do you have any final message from Roemmers or ALIFAR that you would like to share with our readers?

We have to coexist with innovative companies, what we have to rethink is whether the prize for innovation is monopoly or whether this model needs to change. Where innovation is rewarded through royalties to those who innovate as happens with music and in other industries to prevent prices from being exaggerated, since the health budget that countries have is limited and, even if we don't want to, there will come a time when certain products and treatments will not be

accessible to the vast majority because social security will not be able to cover them. Therefore, we must have a bit of social vision and see if it is time to reform the patent law so that the future is fair.

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