Interview: Florent Darchez â?? General Manager, Servier Mexico

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Servier GM Florent Darchez, reveals how he turned around a Mexico affiliate that was losing market share to achieve and impressive sales growth of 30 percent a year. Darchez also shares his vision for further strengthening his organization.

We see that in 2016, around 60 percent of Servier revenues derived from emerging markets. In most of the BRIC countries, Servier was indeed among the first movers, and as a result now stands as one of the most prominent players in these markets. Nevertheless, in Mexico, Servier was not in the Top 50 in terms of market share when you took over in 2015. What are the historical reasons that explain such an underperformance in Mexico?

The first part of the explanation relates to the year we ultimately set up our own affiliate in Mexico: 2002. This is extremely late in comparison to the BRIC affiliates, but also in comparison to the vast majority of our competitors in the Mexican market. Before 2002, we had been selling our products in the country for decades through a complete licensing agreement (comprising manufacturing) with the Mexican company Sanfer, which notably included our two main brands: Daflon and Coversyl.

In 2002, we finally established our own footprint in the country, while this licensing agreement has not been renegotiated nor cancelled to this day. As a result, our portfolio mainly constituted of mature brands, beside three relatively new products: Procoralan, Protelos and Valdoxan. We also introduced an â??original copyâ?• of Daflon, while the latter continued to be distributed by Sanfer, like Coversyl, as part of our enduring licensing agreement. As a matter of fact, Servier then

penetrated the Mexican market without its two most important sales drivers globally, Daflon and Coversyl, which obviously still stands as a major performance hindrance.

Secondly, there has also been a noteworthy instability at the helm of the affiliate over the last thirteen years, as seven general managers successively held this position since we entered the market. This very high turnover explains the structural difficulties faced by the affiliate over its first decade of existence, as well as the pressure that was put on the GMsâ?? shoulders, who held the difficult responsibility to catch up as quickly as possible with similar performance levels as in our historical markets.

Considering this tough context, what was your first priority when you took over in March 2015?

My first objective was to work on the affiliateâ??s vision: what do we consider our fundamental mission here and how do we want to see our positioning in the Mexican market evolving in the upcoming years? In the meantime, I was liaising with our headquarters in Paris to establish ambitious but reachable growth objectives that would provide the affiliate with enough time and resources to ultimately trigger a sustainable and long-term growth.

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This was quite challenging, as I had to demonstrate to my management that not only the affiliate displayed serious and structural weaknesses, but also that the market was tougher, more complex and way more competitive than perceived. In this regard, the Mexican market lies in a relative in-between situation, as it cannot truly be considered a sheer mature market nor a real emerging one either.

Our objective is now very clear: we want to triple our sales from 174 million pesos [USD 9.5 million] from when I took over in 2015 to 600 million pesos [USD 33 million] by 2020. One and a half years after we agreed on this objective, I am particularly glad to say that the affiliate has already overcome the 300-million peso mark, displaying a 70 percent growth rate since we decided to change the affiliateâ??s direction.

Which measures did you introduce to operate this impressive turnaround?

The affiliate was not â??onlyâ?• underperforming: it was also losing market share year-on-year and had to cope with serious financial issues, putting our profitability and sustainability in the country at risk.

My first objective was to tackle our distribution problems. When I joined, the affiliate was offering huge discounts to the retail players, following a strategy based on artificially high distribution volumes and stocks, hoping that it would eventually boost pharmacy sales, which of course never happened. This ineffective strategy was furthermore in complete contradiction with Servierâ??s historical philosophy, which is essentially and primarily focused on building and strengthening a highly scientific promotion at doctor level.

I decided to put a stance at these practices. Naturally, the affiliatesâ?? sales collapsed immediately. We managed to resist to pressure of our distributors and then embarked on a healthier model: distribution companies only buy the stock they truly need, no discount is given, eventually moving to a fee-for-service distribution agreement.

The distribution part of the value chain is frequently described as being one of the most challenging for pharma general managers in Mexico. What is your assessment of the

situation?

The distribution sector clearly stands as one of the key specificities of the local eco-system that should absolutely draw the attention of any new GM taking over an affiliate in Mexico.

Only four different companies used to make up almost the totality of the distribution market: Nadro, FESA, Marzam, and Casa Saba. The latter, which used to hold a central position within the sector, went bankrupt in 2014, which generated important perturbations through the market, nurturing a growing consolidation within the sector. In the meantime, the distribution market in Mexico is utterly scattered from a geographic standpoint, as it is split between a variety of national and regional networks, which renders distribution services extremely costly.

Ten years ago the main players within the distribution sector were the wholesalers, while nowadays four pharmacies chains are controlling the market. These pharmacy chains have direct access to the customers and really add value to the distribution of the products. In this regard, a pharmaceutical company that wants to be successful in Mexico really needs to work at all levels of the distribution sector.

In many emerging markets, Servierâ??s focus remains on primary care. Nevertheless, this focus is set to be steadily supplemented by specialty pharma treatments, notably related to oncology. To what extent is this situation replicated in Mexico?

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Our situation in Mexico is extremely different than in other affiliates all over the world, whether we talk of pharma-emerging or more mature markets. While Servier stands as a key and historical player in most of these countries, we are a very young, weak and no process affiliate in Mexico. Although most of our brands are already mature, they do not boast the same notoriety as in other markets. The affiliate has not grown up enough yet to provide these products with a similar level of field support as in other countries. Moreover, our products are on the higher end of the price spectrum, which doesnâ??t ease market penetration. Nevertheless, the vast majority of our portfolio is patented and will remain protected up until 2020-2025. This is absolutely paramount, as â?? although mature products make up 72 percent of the retail sector â?? we see that as soon as generics are introduced, volumes dramatically collapse in Mexico. As a conclusion, Mexicoâ??s portfolio remains far from reaching the transition phase, as we are actually only building and strengthening our mature but patented product portfolio, centered on the retail market.

Nevertheless, we see that the focus on this mature but patented product portfolio could be transformed into a formidable opportunity. As anywhere else, a lot of big pharma is steadily leaving the retail market to concentrate their efforts on specialty pharma, which logically provides us with more space to develop and reach our growth target. In the meantime, as our products are still patented, we are not facing the competition of the thriving domestic manufacturers, which are among the fastest-growing companies on the retail market.

Servier is a doctor company and building knowledge-based relationships with physicians is at the core of our DNA. To raise awareness around our brands and truly introduce Servier to the market, I decided to primarily concentrate our field strategy on high-potential doctors, primarily visiting specialists in our main therapeutic areas. I also doubled our portfolio in the launching phase, meaning that we sell both our patented products and copies of our own products. This effort will provide us with much more commercial flexibility when patents are about to expire.

Finally, I am slowly starting to prepare the market entry for our upcoming specialty products, although it isnâ??t our main focus for the moment, as these products will not reach the Mexican

market anytime soon as a consequence of the market access barriers that hinder and delay the registration of innovative treatments in Mexico.

Many voices in the industry have praised the improvements recently realized by Cofepris, Mexicoâ??s sanitary agency, in terms of market access. What do you identify as the remaining bottlenecks to simplify market acces?

I acknowledge the important improvements that have been achieved. In comparison to other countries with similar development levels and market size, market access in Mexico and Cofeprisâ?? efficiency in general are remarkable.

However, some of the Cofeprisâ?? improvements have also been realized by moving hurdles before Cofeprisâ?? registration stage. Cofepris indeed implemented a new pre-approval phase by creating the Committee for New Molecules. However, the usual waiting time for an appointment is too long. The process request a particularly high amount of data. However, Cofepris still struggles to actually comply with their claim to treat any new registration request in the committed schedule.

Although Cofepris has undoubtedly reduced the duration of their own approval procedures, they have failed to decrease the total time needed to register a product by creating new registration procedures.

In the meantime, the enduring desire of regulatory agencies to ease market access for generics led them to lower their approval requirements. For one of my product that went off-patent, the scientific analysis of recently approved generics showed that these generics do not display the exact same chemical dosage. In this regard, they should not be considered as generics but rather as mere copies of our two products.

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After this first step, molecules need to be evaluated by the National Council of Public Health that fundamentally estimates whether or not a given molecule should be reimbursed. Once again, this stage should not take more than a year but frequently lasts up to two or three years. I also regret that the relationship between pharmaceutical companies and this Council remains extremely formal, while more flexibility would indisputably ramp up the overall process.

As soon as this Council approves a molecule, companies need to replicate the same process with the different social security institutes. Furthermore, the most important ones (IMSS, ISSSTE, Seguro Popular) face tremendous financial pressure, which hinders the likelihood to get these new molecules registered. This results in very limited access to new innovative molecules for IMSS and ISSTEâ??s 85 million beneficiaries. Most of these new treatments target oncology, diabetes and cardio-vascular diseases, which are the main diseases affecting the Mexican population.

When we met with Servierâ??s CEO, Mr. Laureau, he explained the companyâ??s objective to grow the revenues from four to five billion euros within the next five years. What do you see as the key success factors in Mexico to contribute to this objective?

When taking over, I implemented a 3R strategy: â??resetâ?•, â??rebuildâ?• and â??reconquerâ?•. The â??resetâ?• part was finalized last year, in a close collaboration with the headquarters, while we just finished the â??rebuildâ?•, displaying fantastic outcomes in terms of sales. In the reconquer phase, we will remain extremely ambitious but we want to do it the â??Servier wayâ?•: investing in our people, which are the basis of our affiliate, to steadily create a structure that can deliver strong

sales performance year-on-year on a long-term basis.

In Mexico, our portfolio is centered on chronic diseases and particularly tailored to the local populationâ??s needs and most of said portfolio is still patented, which protects us from generics competition. Building on our vision, shared and carried out by the entire affiliate, I am confident we will soon reach our 600-milion pesos target, perhaps even before schedule.

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