

Pius S. Hornstein – Country Chair Sanofi Brazil and General Manager Pharma



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Pius Hornstein, MSc, PhD, country chair Sanofi Brazil and general manager Pharma, shares his positive outlook on the Brazilian pharma market over the next few years and details Sanofi's strategy in Brazil; a "must-win" market for the company. Unsatisfied with being just the top-ranked multinational pharma company in Brazil, he wants to position Sanofi as a reference company for innovation and market operations within Brazil.

You were appointed country chair Sanofi Brazil & general manager Pharma in January 2015, having worked across Turkey and the Middle East, HQ in Paris, Switzerland, and Germany, to name just a few. What are some specificities of the Brazilian healthcare ecosystem that surprised you the most that you would like to highlight?

First and foremost, as Europeans, we tend to underestimate the size of the market and the dimensions of the country. We may be vaguely aware that Brazil is big, but we do not fully appreciate how big. Brazil is fifteen times bigger than France in geographical size and three times more populous. This highlights how big the market potential is.

Brazil also stands as an imperfect non-mature market. Some parts of the Brazilian pharmaceutical value chain have not matured at the same pace as Mexico, for instance, which is much more advanced in aspects like distribution and pharmacy chains. In particular there is no very dominant pharmacy chain present at country level in Brazil. What this means is that I expect to see a significant transformation within the Brazilian healthcare landscape in the next five to ten years. From the perspective of an entrepreneur, market change is always an opportunity. If a market is not changing, that should scare us! Change means opportunities.

While Brazil has a universal healthcare system, reflecting that everyone has access to it theoretically, what is particularly notable is that 50 percent of the market is out-of-pocket spending. This is fairly uncommon. We don't expect that this proportion will significantly change over the

next few years, due to the fact that the Brazilian government is financially constrained in terms of its healthcare expenditures. They probably cannot spend significantly more on healthcare over the next few years.

With Brazil only just recovering from a severe economic crisis, nevertheless the pharma industry has remained resilient and strong as the only industry growing through the crisis. What is your outlook for the Brazil market?

What is exciting is that the consensus of macroeconomic experts is that the Brazilian economy will recover slowly to reach moderate GDP growth levels over the next few years. In addition, Sanofi has conducted our own analysis on the pharma market and our belief is that the pharma market will see annual growth of between six to eight percent in the next five years. While this is lower than the two digit growth we saw in the 2000s, it is still very attractive compared to the global average of two to three percent.

What is important to note is that future market growth will need to come more from demand – i.e. volume growth – instead of price increases, for a number of reasons. First and foremost, inflation has reached historic lows, to two to four percent for the next year, for instance, which impacts the public sector, naturally, as public drug price increases are linked to inflation. As a result, to gain that six to eight percent growth, we need to follow a demand strategy, which is very different from a price strategy. Companies will need to focus on the quality of their treatments, the quality of their indications, the quality of their patient population segmentation, and so on. Furthermore, in the retail market, as the economy should slowly recover and Brazilians’ purchasing power increases, it is expected that this drives further demand on the out of pocket segment. While this situation is by no means ‘Alice in Wonderland’, we are seeing a new positive normality. We don’t expect a return to the difficulties of the past few years.

Sanofi, along with a handful of other players, is very strongly represented in two market segments – retail and non-retail. While we are not top in either – because one local tends to be larger in the retail segment, and few multinationals are larger in the non-retail segment – across the two, we are in a strong position in Brazil.

As a result of the duality of the Brazilian market, for a company the size of Sanofi, we need to be successful in both retail and non-retail segments. Non-retail is more innovation-driven while retail is more of a go-to-market driven model. The challenge in non-retail is that market access, and specifically, reimbursement at the SUS-level (national public health reimbursement system) is very challenging in Brazil, with long timelines, sometimes stretching to six or seven years. While this is an important driver for our business, as we wait for our innovations to reach the market, we need to continue to have a strong performance in the retail segment, in terms of both, value and volume.

For instance, out of the top ten products in Brazil across both markets, three are Sanofi products. Medley, our generics arm, has ranked first in top consumer awareness over the last eight years. In Diabetes and Cardiovascular, all our key products like Lantus®, Toujeo® and Praluent® are available here. Through Sanofi Genzyme, we have a strong oncology portfolio as well as one of the largest rare diseases presence in Brazil, ranking first, for instance, in Fabry disease and Gaucher disease. We treat a total of 1,000 patients across all the rare diseases areas we work in. Not to forget our strong presence in vaccines with our Sanofi Pasteur arm, playing a key role on prevention.

This is excellent news, especially given the global context for Sanofi as a company, which, prior to CEO Olivier Brandicourt's arrival in 2015, was perhaps facing an innovation deadlock, so to speak. How did his new company vision translate to the Brazilian market?

The global reorganization has enabled us to focus on our five Business Units, all of which are represented in Brazil. The diversity of our offerings here means that even if we have difficulties in some areas one year, it will be offset by positives in other areas. Overall, we are confident to consistently deliver sustained performance.

Another global focus is also to strengthen our biologics specialty medicine platform and increase presence in immunology and oncology. This is true for all affiliates, and there is always one unified company mission, which also captures local market realities and market opportunities. For instance, Sanofi will be selling its generics business in Europe, and at the same time decided to keep the generics arm in the emerging markets, as there is still significant growth potential.

How strategic is the Brazilian market to Sanofi globally and how committed is Sanofi to Brazil?

Brazil is the second-largest emerging market for Sanofi globally, ranking after China. The country is highly relevant for Sanofi's emerging market strategy – we are one of the "Must Wins" in Sanofi's portfolio. This is certainly a great responsibility for me as GM, but more importantly, a great pleasure!

One way of answering your question is to look at the Brazilian government's Productive Development Partnerships (PDP) initiative. There are roughly 86 PDPs currently being discussed. Out of those 86, only one company has actually successfully engaged in a PDP, transferred the technology to the local partner, where the local partner has subsequently successfully produced, distributed and sold the resulting products in Brazil.

That company is Sanofi, through Sanofi Pasteur, with our flu vaccine PDP. We are the first and only company to have a successful PDP. This gives you an indication of not only our commitment to Brazil but our capabilities.

Earlier this year, the Ministry of Health issued a new PDP list with over 50 priority products, including three core products for Sanofi. After a long internal discussion at both corporate and local levels, we decided to submit a PDP proposal for each of them. This is highly notable as it is not easy for a MNC to engage in such a program, especially for core products. There is still a long path to go as the Ministry of Health needs to do a first selection, then an evaluation, and then the negotiations, but it was a significant decision for Sanofi in Brazil.

In addition, Sanofi has a strong manufacturing footprint in Brazil, which has the largest industrial hub for Sanofi outside of Europe, being responsible for 90 percent of the volume of our products sold in Brazil. We also have a strong commitment in supply chain, having recently just constructed a new distribution center the size of five football fields in 2015, representing a EUR200 million [USD 238 million] investment from 2015 to 2020.

In such a highly complex market, Sanofi has nevertheless managed to accomplish significant achievements in your time. What are some key factors for success you could perhaps share?

Certainly, when I joined Sanofi Brazil as Country Manager, many companies were not successful because it is such a complex market. It may be easy to grow in Brazil because it is an emerging market but it is not easy to grow sustainably and profitably, in the long term. Any healthy business needs to be ethical while growing at a decent operating margin to support continuing investment into the country.

The top priority for us was to establish the highest level of ethics and integrity within our organization. It is not secret that corruption is a significant challenge in Brazil, so fundamental ethics management is even more critical for an affiliate like us. In this area, we focused extensively on training as the first pillar of being ethical and compliant. Today, Sanofi Brazil is one of the best trained affiliates globally for Sanofi with 98 percent adherence to internal training programs.

We also drive ourselves to innovate more. Innovative medicines come from global, but as explained, within this market structure, we cannot sit and wait for new innovations because the business still needs to grow between the launch of breakthrough therapies! We drive innovation in terms of how we do business, what is our go-to market model, how do we implement it, and so on.

Innovation comes fundamentally from diversity: gender balance, experience mix, age. We began with a focus on gender diversity, and today, around 49 percent of Sanofi employees here are female. More notably, at the management level, more than 40 percent are female. 50 percent of our industrial management team in Suzano manufacturing plant are already female. All this was accomplished not through quotas but a clear strategy. For instance, a recruitment procedure that specifies to have at least one female and one male candidate for any role. Our hiring managers can select whoever they want, but they need to have the opportunity to choose between the two.

Another example is Sanofi new office premises. What is innovative is that we followed a co-creation principle, bringing in two representatives from each business unit or function within Sanofi to design the office according to their needs, involving over 40 ambassadors. We moved in two months ago, and conducted a satisfaction survey three weeks ago. The result was a 91 percent satisfaction rate. We also have an open plan office; no one has an office. We want to make a strong point about co-working, collaboration and co-creation.

We also pride ourselves on being environmentally friendly and sustainable. We removed wastebaskets from all desks to encourage people not to print paper. We have all the latest videoconferencing facilities in all meeting rooms in a plug-and-play set-up. Having 100% LED lights in the office, we save 35 percent in electrical energy. Due to new hydraulic structures, we consume 40 percent less water than before. Early in 2018, we expect to be the first pharma company in Brazil as well as the first Sanofi affiliate in the world to receive the LEED platinum certification for our office.

Ultimately, we want to have a positive impact on society across all areas.

Having established such an impressive track record for Sanofi Brazil already, how would you like to continue to position Sanofi in Brazil over the next few years?

As a company, our global ambition is to be among the top three companies in the world, in order to drive our mission to make a difference in empowering lives. We are happy to have already achieved the position of the top international company in the Brazilian market so we wanted to drive ourselves even further.

Sanofi's ambition in Brazil is to be the reference company in health and innovation: not only among the biggest, be the company that people look up to in the areas of bringing innovation, allying

with our patients, developing our people. We also want to be a reference in terms of digital innovation, as well as how we conduct business more generally. This is how we manifest our global aspiration in the local context.

A final message?

Brazil is a unique and fairly complex country that will constantly surprise you. Despite challenges, the people here are very positive and warm. As a company, if you can embrace how Brazil works and add something further of value, you can be successful.

It is by no means an easy market, but it is unequivocally a highly attractive market. No multinational company can have a successful emerging market strategy without being successful in Brazil.

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