

# Interview: Stefano Carlacci General Manager, Kronos Laboratories, Ecuador

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*Stefano Carlacci, general manager of Kronos Laboratories recently took over the reins of the family business his grandfather created in the 1960s. He elaborates on the company's shift of focus away from the institutional market to focus on the private non-traditional market and maquila services and shares his plans of expansion outside the country to compensate for the difficult market conditions in Ecuador and fulfil a childhood dream of positioning the company as a regional reference.*

## **Could you briefly introduce Kronos Laboratories to our international readers?**

Kronos Laboratories is an Ecuadorian family company with 40 years of existence in the market and a 100 percent national capital. My grandfather, a visiting doctor for Roche Laboratories in the 1960s, decided to leverage his market knowledge to create his own pharmaceutical company. Kronos Laboratories initially started as a pharmacy preparing its own formulations. Little by little, my grandfather's family invested in the business, notably with the acquisition of a piece of land in Guayaquil, where it would establish its manufacturing plant.

The second generation reinforced the company's infrastructure and business model with the acquisition of manufacturing equipment to increase the company's productivity. Kronos became an industrial manufacturer of high quality medicines. Following these investments, Kronos Laboratories obtained good manufacturing practices according to the standards of the Association of

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Pharmaceutical Laboratories of Ecuador (ALFE) [the association of domestic producers Ed.].

In the last 15 years, following my uncle's realization that the government was about to increase its investments in the healthcare market, our company focused its activities in the institutional market. In this regard, we developed several products such as antibiotics, injectable forms, and semi-solids for various molecules with the commitment of constantly actualizing the products we had in our portfolio. Such decision took the company to a new level of growth and by 2011 our revenues surpassed USD 10million.

[Featured\_in]

### **What have been some of the main developments since you took over the reins of the company?**

I have been working for the family firm for the past 12 years. As I took over the position of general manager in 2017, the company's business was still largely dependent on the institutional market. Unfortunately, this meant that the company had been suffering from instability in this market over the course of the last three years. Furthermore, we were destabilized by the heightened state of competition of this market as the government undertook a series of large public tenders to cater to the needs of the public health system. From this point, it appeared that the institutional market was no longer a lucrative opportunity for our family company. Moreover, the market was now attributed to basic molecules and low price providers regardless of the provider's commitment to the national market and their ability to show sanitary registrations.

Therefore, I took the decision to increase the company's foothold in the private market. From an 80-20 revenue split in favor of the institutional market, my actions have led the company to a more balanced revenue split with 40 percent of our revenues now stemming from the private market. In a nutshell, we have decided to shift away from traditional medicines and focus on the new opportunities that non-traditional segment have to offer. As a result of these choices and the launch of multiple products such as collagen, natural fibers, vitamins, proteins and dietary supplements, Kronos Laboratories is performing very well and has recovered a double digit growth which I intend to replicate this year.

The company also manufactures on behalf of local producers. I intend to increase the share of our business related to such third party production activities. More specifically, Kronos Laboratories is looking forward to expanding these types of services to international companies and exporting these products to other countries in the region. Our plant currently produces many formulations in dosage forms such as solids, semi-solids, injectable, creams, gels and powders. I believe that the company's responsiveness, manufacturing quality and ability to deliver reasonably priced solutions with no compromise on the quality, are assets that can help us be a successful third-party manufacturing partner. I want to highlight that Kronos is open for collaboration, notably with international pharmaceutical companies and that our plant is open for visit in the case a production agreement is of interest for them.

Finally, I wish to commence cross border activities on behalf of the company. We are currently registering a product with the Peruvian health agency and considering the possibility for Kronos to export to Guatemala, Bolivia and Central American countries. The latter appears to be an attractive market for Latin American pharmaceutical companies.

### **Why is domestic participation very low in the Ecuadorian pharmaceutical market?**

We have spoken to the administration about the problems and the difficulties their policies were creating for us. The manner in which the current policies affect domestic producers are a unique

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example of reverse national preference. In countries such as Colombia, the participation of domestic manufacturers is much higher than the one found in Ecuador, simply as a result of unfavorable politics for Ecuadorian-based manufacturers. The situation goes as far as national players looking to establish their manufacturing plants in Peru because the conditions are more favorable there.

Additionally, despite the Andean nationalism, our citizens do not seem to trust the quality of medical supplies produced in Ecuador. In fact, Ecuadorian consumers openly share their preference for Chilean and other imported products. These are some of the elements that have led to the low market share value of domestic production in our national pharmaceutical industry. Specifically, the domestic producers sell for no more than 16 percent of the market's value. In comparison, Colombian and Peruvian domestic production represent around 40 percent of their respective national markets' value.

Also, for the safety of our patients, national producers face strict quality controls at each stage of their production and commercialization processes. For instance, the regulatory health authorities supervise the conditions in which raw materials are imported. I am convinced these are good measures, however, distribution entities of international companies, whether independent or affiliated to a company, are not subject to the same controls prior to any product's arrival in the country. This creates unfair conditions that oblige us to increase our production and commercialization costs to fully comply with the sanitary regulations, without the guarantee that our competitors are implementing the same measures. Also, the government has lifted taxes on the import of finished medical supplies to improve the affordability of products for Ecuadorian patients. On the other hand, it forgot to lift taxes on machines and some raw materials used in the production of medicines in the country. This creates an imbalance, which has a negative effect on the competitiveness of domestic producers.

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### **What opportunities do you see in the private pharmaceutical market and how do you wish to position your company's portfolio to maximize your performance there?**

The private market in Ecuador is growing at a rapid pace, which I expect to be sustained for the next few years. Furthermore, the opportunities offered by the private market are highly profitable in comparison to those in the public market, especially in the non-traditional OTC segments. Indeed, anything related to personal care, natural treatments and healthy lifestyle is riding a tide of popularity. Having said this, the company's success in the private market is highly related to consumer perceptions and strength at the point of sale. Therefore, we have to make the right choices marketing-wise to position our products and achieve our goal to contribute to the population's health. Increasing our presence at the point of sale is requiring to meet and convince the strong pharmacy chains of the country that our products are worth selling and promoting.

We intend to compete based on the fact our 40 years of experience in the market guarantee our product's reliability and quality. Indeed, As an Ecuadorian laboratory, producing on the national territory, we have established that the company would never sacrifice the quality of its production to offer lower costs. Our company has a lifelong focus on the development of affordable products, and therefore, we are committed to delivering high quality products that are not excessive in price. For this reason, Kronos has been consistently searching for formulations it could produce at a competitive rate and investing in the equipment that would allow us to match high quality products and profitable opportunities in the market.

### **What is your ambition for Kronos Laboratories?**

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I have many plans and projects ongoing, all of which are directed at expanding the company's operations both nationally and regionally, as such has been my dream ever since I was a child.

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