

Interview with Claudio Bergamo dos Santos, CEO, Hypermarcas

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Hypermarcas is a huge, diversified corporation that sells everything from shampoo, to medicine. Would you consider it more of a consumer goods company that happens to sell pharmaceuticals, or the other way around?

The company's focus is on Health, Personal Care and Beauty products. In Brazil, the combination of these businesses under the same platform is quite synergetic. They share many resources, such as channels, clients, factories, media, raw materials, product development, among others. Also, the combination of them enables scale, which is quite critical nowadays.

Recently, given the fast speed of the Company growth in the last years, we have decided to split the management into two major Business Units: Pharma and Consumer, while maintaining corporate functions and back office services shared. This structure will allow Hypermarcas to focus more on specific organic growth opportunities, while taking advantage of synergies, efficiencies and scale, factors we consider critical to long term sustainable profitable growth.

You speak of the importance in having a uniquely Brazilian approach to Brazil. In our past interviews with MNCs, they are very proud to report that the constitution doesn't differentiate between companies with local or foreign capital, and that there are "no gringos" here. In your view is there a difference in the way international companies approach Brazil?

In fact, there are many international companies that have been in Brazil for many years - some have left, and some have stayed. But it all depends on how they view the country: Is Brazil a destination for their products and brands, or is it a regional country and emerging market with specific characteristics, where to compete they must do more than reapplying existing strategies from developed markets? In fact, Brazil is a unique emerging and enormous market, that requires specific strategy to successfully compete.

Historically, the market was very fragmented, with more than 50% of total market in the hands of Brazilian companies. Hypermarcas saw the opportunity to consolidate many successful family owned companies that were going through succession issues. Previously, these companies competed against each other, not taking advantage of the synergies that would have existed if they were grouped under the same platform.

The company performed many acquisitions - close to 25 since April 2008, when it became public - and continued to further develop many of these companies. As a result, Hypermarcas now has the best portfolio of businesses and brands in all major relevant markets, being the # 1 in OTCs, #1 in Branded Generics, #2 in RX, #2 in Dermo-Cosmetics, #1 in Condoms, #1 in Sweeteners, among others. The company delivers high levels of growth and high number of products launches,

supported by heavy investments on field sales forces, efficient operations, strong distribution and demand generation.

Though we've seen a rash of M&A activity, with an average industry EBITDA hovering at 20, do you anticipate much room for near-term consolidation in Brazil?

There are still some opportunities remaining for further consolidation, but we do believe we have acquired the best assets available in the last years. Hypermarcas M&A strategy was to acquire the best companies, which could be further developed and not "bargain" situations. Nowadays, if you go into a drug store, there is not a single section where Hypermarcas doesn't have a product - diapers, cosmetics, men's and women's care etc -, extending through OTC and generics. And, in many of these markets, we have relevant market shares and leadership positions.

What is the fastest moving channel in Brazil?

It is the drug store channel. Historically, Brazil had hyperinflation until not long ago. Therefore, people used to go to the hypermarkets at the beginning of each month to make their purchases, because they were afraid to erode the buying power of their salaries.

This had resulted in the very fast development of the hypermarket concept. In the meantime, drug stores started to win market share at neighbourhood convenience format. Drug stores slowly became the option for consumers to shop, for not only drugs, but also personal care products.

Nowadays, 40% of a drug store is personal care, so, positioning Hypermarcas in that environment was very important. After the acquisition of Mantecorp, on December of 2010, the company became the largest supplier for this channel.

What is the key differentiator at a product level? Is there innovation in product development as much as in brand and channel strategy?

There are many products that Brazilian people still don't use, when compared to the population of developed countries. As a result, you do not necessarily have to invent new molecules to do business in Brazil. It's a different mindset and a different approach. In mature economies everyone seems to have everything - multiple cars, televisions and wide access to medicines, for example. Here in Brazil, there are many untapped needs to be fulfilled.

We focus our products development more in innovation, as opposed to invention. For example, launching a new product with a different amount, a different package size, or different associations. This type of development is more concerned with consumer insights, doctor insights and market research, as opposed to scientific research. And given that, Brazil still has many, many unfulfilled needs. Lot can be done.

What are the biggest challenges at Hypermarcas? If not on the product development or branding side, what are the hardest elements in keeping a large entity's many moving parts running smoothly?

Hypermarcas has just passed through an intense wave of inorganic growth. Whenever a company sets such an ambitious target, like we did, it's necessary to focus more on M&A strategy. At the moment, Hypermarcas is focusing more in an organic and consistent growth, consolidations of operations and development of a new organization structure.

Brazil is a big country, but the size of the country itself imposes an eventual growth limit. What is the ceiling to Hypermarcas' growth? What is next?

In Brazil, people income will continue to grow for the next 15 to 20 years. The growth potential is huge, and given the unique platform we have developed, I can say that Hypermarcas is quite well

prepared to "sail with the strong winds ahead".

Where will that put Hypermarcas in the five or 10 year time horizon?

Currently, Hypermarcas is a R\$ 5 billion company in revenues. The company has the potential to double that in pure organic growth, excluding further M&A in the middle term.

Hypermarcas has succeeded where many international companies have failed. What would you describe as the recipe for tackling the Brazilian market for our international readers?

The recipe is this: use lots of common sense, think simple and act fast. We try to look at things like outsiders. And by looking from the outside, we may see opportunities that people on the inside don't. At Hypermarcas we have an a basic orientation towards finding solution, not problems. Finding problems is easy.

As an overall message about Brazil, I use to say that my generation grew up hearing that Brazil would be the country of the future. And, hopefully, now the future seems to have come. We believe that "The future is now" for Brazil.

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