

Interview with Manuel Fernando Loaiza Sotomayor, President, BagÃ³ Brazil

28.07.2012

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responsible for some 85% of pharmaceutical production, and last week Minister Pimentel was in the city of Sao Paulo elaborating on his BrazilMaior plan with strategic initiatives for specific sectors. I'm interested to know the point of view from Rio de Janeiro â what recommendations would you give to increase the competitiveness and growth of the pharma industry?

First of all, it's important to point out that the role of government is not to create wealth â it's to create an environment in which entrepreneurs can flourish, minds can expand and technology can reach new frontiers. What we lack is a framework to encourage companies. Health is about the population, it is not merely an issue of politics or industry, and it should therefore become a priority. Regarding taxes alone, there are 27 states with 27 different tax laws. Each state incentive tax breaks do not work because the federal government applies taxes that counter balance those tax breaks.

I am following the development of Minister Pimentel plan. It seems that pharmaceutical innovation is not part of his plan, particularly because every time the issue comes out he changes the subject! The president was elected by the Brazilian people on the basis of health as a key issue. Today President Russel is divided between innovation and access to health through Farmacia Popular. I believe providing free medication and other initiatives are far more political attractive than creating a framework for pharmaceutical innovation. That's the real issue â how to improve innovation and the health of the population at the same time.

The idea is PPP, but it's not the solution since pharmaceutical business community needs a good framework. In industries like automotive, innovation is easy â it just a question of money! With health, it's more complicated.

Therefore, what would you recommend?

The first recommendation is to give shareholders confidence. We need a strong legal framework, where government and private industry have limits that allow them to work together looking a better future to the population. We need legal framework that states each side role to avoid repetition of decisions and political wars.

It's difficult for any company to invest in Brazil. Government is currently building a pharmaceutical basket through Ordinance MS 843, 2 June 2005 which establish the Brazilian Network of Public Drug Production.

I think we need to work in a common solution for the country's health private and government together.

You said before about the many changes you've seen here at BagÃ³. Can you elaborate on these?

Most obviously, big American and European companies have been buying local companies. According to IMS the market was increasing in the last years in disproportional measure. But a big part of the story around growth is that the increase we see is not real - it's merely a change in the IMS panel, due to electronic invoicing.

The question arises: How do you analyze this market? It's impossible! It's impossible to see the future when you don't know the present, when the numbers you see now may not actually reflect the true picture of the market.

What does Brazil represent in the overall portfolio of BagÃ³?

It's totally important especially now after 10 years Brazil is Bago's future. In the beginning there was a joint venture with Merck, however the partnership was over in a short period of time. BagÃ³'s Brazilian operations are now totally different from those in other countries. BagÃ³'s management now has confidence in Brazil, and we have a lot of business here.

Many companies are looking for good partners in Brazil. Why? The big companies are in Brazil. But many middle and small sized companies are looking for a certain kind of partner to enter in Brazil. What kind of partner? An ethical partner with experience. Then the question inevitably arises: why not choose a Brazilian company?

It seems like a logical question.

The answer is: because most of the Brazilian companies operate only in Brazil. The necessity today is to cover South America - treat all countries as a one. Who is in all of them? Of companies based in Latin America, only BagÃ³. Others may be in Argentina, Mexico, and Brazil, but BagÃ³ is present in Chile, Ecuador, Peru, Bolivia, Paraguay, etc. We are an excellent entry point solution for a broad array of therapeutic areas. In oncology, cardiology, and OTC products, BagÃ³ is a good option for the future.

Do you have a case study or example of successful product launches and this fast decision-making in action?

A good example is Keflex, which is a product of Eli Lilly. After three attempts to launch it the return was still very bad. One day in 2005 they decided to sell the Keflex brand. In our first we presented a model and what I thought should be done with the brand. Finally, two years later we bought the product.

The new strategy recognized that we couldn't increase sales on a product with 15 generics, and 15 of them branded! But we realized that although it would be difficult to increase sales, perhaps we could stop the decrease. First off we decided to decrease all expenses. We investigated the possibility of visiting doctors without giving so many samples. Experts told us: "NO! THAT'S IMPOSSIBLE!" But we did it. Then: it's impossible to decrease the distributor's discount. We showed them that was better a small discount of high sales, that a big discount of small sales. We manage to decrease all the other expenses along the way. Within one year we were generating far more money for this product.

You are a regular author of articles for a variety of trade journals, including a recent piece about the book *Maior Vendedor do Mundo* by Og Mandino. What's your management philosophy?

I have a totally positive attitude all the time, both in my professional and personal life. One example from my personal life is an anecdote concerning the family crest of my name. I have a crest for each

of my names, Loaiza and Sotomayor. Seven years ago, my son asked me: what about my crest? I am happily married with my wife, whose last name is Delgado, so it was necessary to create a new crest incorporating this new name for my son. Of course, the history of the name goes back many years, and had many rulers, but this practice of heraldry finished centuries ago. People said it would be impossible to create a new one. Therefore, I studied two years to create my own family crest, with my own evidence, based on history and research.

Then same as in my personal life I must to create a new crest in the job incorporating the ethical principles, the values and the discipline to give every day the best of us in order to obtain good results and health services.

What is your vision for the future of BagÃ³? Where do you want to bring the company over a five or 10 year time horizon?

In seven years, you will see BagÃ³ in the top 10 companies in Brazil. When I say this, people don't believe me but if you look at our growth since 2001, it has followed an exponential curve. It's like a mountain. They told me it was impossible, but I have reached the summit of my Chimborazo, so to speak the highest peak of my native Ecuador, at 6268m. Now I need a new mountain!

The biggest challenges right now are investing in new cosmetic launches and ensuring a top-notch distribution, because it's impossible to grow so fast with currently distributors alone. It's not a philosophical issue, it's a logistics issue. With 300 companies, how can they pay attention to all of them?

I don't want a big factory or a big salesforce. I want a big profit. I want to create a structure into which I can put products, and each one will contribute profit. Recently, I visited one of Brazil's largest generics companies. They were proud to have volumes in the millions and millions of units. But what's their profit? 0.01%! BagÃ³ is a micro-company by comparison, yet earns the same amount of profit. Brazilian people tend to have overarching ambitions but I want to be number one in the world while losing sight of the true goal.

What's your final message to Pharmaceutical Executive readers?

I invite them to know Brazil, a large and very nice country with a high level of competition. A place where you can learn a lot of concepts and strategies that are not in any book or university. Working here is a great experience that makes you a stronger and better person. Of course, this is mainly due to the great heart of the Brazilian people. It's difficult, and often complicated, but you learn a lot. Some years here is more than a Harvard MBA!

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