Pedro Galvis – Managing Director, Merck Mexico

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Merck is getting “Fit for 2018”. Pedro Galvis, the company’s managing director for Mexico, discusses how the company’s transformation program, implemented in 2012, is ensuring future growth and how Mexico’s manufacturing cost competitiveness has driven further investment in production capacities.

What is the major challenge that R&D-driven multinational companies face in the Mexican marketplace?

Drug access at Mexican public healthcare institutions is currently the main issue for all multinational companies. I think this is where both the opportunities and challenges lie. The government has made important efforts to expand coverage to the 112-million population and this makes us optimistic. But we are still far from being a country where people have access to medical innovation. The system’s financial constraints are driving the decisions in terms of population access to innovation. It’s understandable but also regrettable, taking into consideration the size of Mexico’s population and economy.

We are working with the government and the authorities as a stakeholder interested in growing the population’s access to healthcare. The situation is improving and important initiatives are in place, such as Seguro Popular, but change is slow to come.

Since 2012, Merck has been implementing a transformation and growth program known as “Fit for 2018”. What is the vision behind this initiative?

“Fit for 2018” is a corporate initiative Merck wants to achieve by the 350th anniversary of the company. It started back in 2012 with the realignment of the company’s portfolio and the implementation of an efficiency program to increase productivity and profitability. The idea was to create a lean organization to start generating back growth in 2014-2015. And recently the group announced the acquisition of Sigma-Aldrich for USD 18 billion, meaning we are on track. We went through the efficiency phase and are back to growth again.

The “Fit for 2018” program has been a complete transformation for the organization worldwide in terms of management and structure of the divisions, with the objective of getting ready for the future. At Merck we say we do not think in quarters, but in generations. It’s a very different approach from that of other multinational companies, which are all suffering from patent cliff, harsh competition from generics and cost cuts. At Merck we have this transformation program in place but most resources coming from savings are re-invested in the areas and the regions able to drive growth in the future.

What is the importance of Latin America and Mexico for the Merck group?

In 2013 emerging markets represented 30 percent of sales at Merck, for the first time the largest share of sales after Europe. Indeed, among the top emerging markets you have strong players such as China and Asia-Pacific – but nowadays Latin America is the strongest growth engine in terms of value.

Mexico is among the top markets worldwide for the Merck Group: we are number two with the Consumer Health division and number 11 with Merck Serono. So, we are definitely in the spotlight! Moreover, we see Mexico as a strategic platform to increase participation in North and Latin America. As a matter of fact, one of our key projects is to start exporting Eutirox®, a drug for hypothyroidism, to the US. We are already exporting primary care products from Mexico to Germany and Spain, but hope to start exporting to the US in 2015.

Based on your more than ten years of experience in different countries in Latin America, what do you think are the main trends that differentiate Mexico from other markets in the region?

First and foremost, the size of the market thanks to its 112 million population. Next, despite being considered an emerging market, it resembles a mature market in several aspects, such as regulation and growth rate. It’s a double-edged sword sometimes, because expectations from headquarters are high as Merck Mexico grows at a double-digit rate; however, the market does not grow at the same rate. The other interesting dynamic comes from the government. Mexico behaves as a mature market, as we are witnessing a trend towards switching out-of-pocket and retail to a more institutional market. The government is achieving great things in terms of the competitiveness through the recent reforms; the thing is now to use these savings to reinvest in the health system and innovation, and not just in infrastructure or bureaucracy.

Merck’s 2013 annual report mentions that the company wants to step up its activities in China, Brazil and North America. What can we expect next from Mexico?

Growth is our key priority. We are very proud of our development: in 2014 we expect to grow at a rate three times higher than the market. In addition, we expect the pipeline and transformation program to kick in and accelerate growth for 2015. We’ll definitely see a growth in terms of revenues and in terms of exports to the region.

In 2013 you announced the intention to invest USD 10 million to increase manufacturing capacity in Mexico. What competitive advantages does the country offer in terms of manufacturing compared to other countries within the region?

Productivity-wise, Mexico is very competitive. We compete not only with regional, but also with international production sites at a global level. The level of productivity we can achieve in this type of environment is high thanks to the lower cost of manufacturing, but also specially due to the level of human capital available – Mexico offers the right mix. This is not only true in the pharmaceutical industry, but in other sectors, such as automotive. Having manufacturing located here in Mexico gives us flexibility and it pays off – we have one of the most competitive manufacturing costs worldwide.

Merck Serono is moving ahead to develop a biosimilars portfolio. What opportunities does the current regulatory framework in Mexico offer?

At Merck we have a division focusing on the development of biosimilar drugs, as we believe this is an area that will become increasingly important in the future: the changes that biotechnology is bringing to healthcare are a quantum leap, especially for diseases such as cancer. But we need to make this development available to the population. The biotech regulation in Mexico is state-of-the-art but is currently stuck and has not been defined further. We currently have the so-called *biolimbos* , biotech products that are not biosimilars because they have not proven their bioequivalence through clinical studies, but are on the market as they were approved before the 2012 regulation was in place. These products represent a grey area and we are eager to see how COFEPRIS (the Federal Commission for the Protection against Sanitary Risk) is going to regulate them. The first steps have been taken, but now we need to move further. Colombia, for example, just approved the access of biosimilars to the market. Compared to the EMEA and FDA, which are slow at defining requisites for biosimilars, COFEPRIS was faster, but is stuck now, although it really has the capacity to shape biotech regulation not just in Mexico, but also at a regional level.

Large pharmacy chains are taking an increasing share of distribution in Mexico, which is changing the landscape. How did you adapt your go-to-market strategy, especially for the consumer health division?

What is happening with distribution channels in Mexico is unique but it has been positive for healthcare coverage and access. Although COFEPRIS has regulated the practice of having physicians at points of sale, there are still some steps to be taken to make sure we do not have conflicts of interest. Without doubt, this practice has relieved pressure on the system.

Merck has very mature brands in Mexico, some of which have been on the market for more than 40 years, so we have continuously adapted our go-to-market strategy, and are still market leaders. There are copies and generics, but patients are loyal to our brands and to the added value we provide. We believe in the quality of our products as main driver for their success.

Which therapeutic areas are driving growth in Mexico today?

Oncology is one of our main drivers. Fertility is also playing an increasing important role: it is a hot topic for modern families and couples and we see a huge area of opportunity, especially taking into consideration that also the government is increasingly concerned with it as well. In primary care we are still growing at double-digit rates because of the type of diseases we cover, mainly diabetes and cardio-vascular pathologies, which are aligned with the burden of diseases of the Mexican population.

Where would you like to see Merck in Mexico in 2018?

The company is taking major steps to ensure future growth. We currently are among the top ten players in Mexico and we expect to remain in this position and be among the top five in terms of growth.

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