Interview with Guy Jean Savoir, CEO, Carnot Laboratories

22.08.2012

Tags: Carnot Laboratories

Carnot is celebrating 70 years as a company. There have been a lot of changes over this time, but more specifically over the last three to four years, please can you describe to us in your own words the evolution of the Mexican pharmaceutical industry, and the most impactful changes for the company?

In 2008 you could find a market that was extremely healthy and a feeling that both price and unit increases would continue to be prevalent; everything was easy. From 2008 until now there have been a lot of changes that significantly impacted the industry, both regulatory, financially and internally. Between 2002 and 2008 the Mexican industry committed price abuse and year after year there were price increases of around 25%, which was a huge mistake. It was possible at the time because Mexico didn't really have a generics law: you had non-generics and you had 'similares' that were targeting a different segment of the population. As a result of these prices increases, the public started having problems with out-of-pocket expenditure which became a significant incentive to change things.

On the economical side, Mexico has three large sources of capital: oil, tourism, and remittance which is the income from Mexicans working in the United States sending money home. In 2008 we had a really big problem with the global crisis; a negative migratory policy which reduced the remittance entering the country; the oil price dropped after being high for so long; and because of the war on drugs we had a significant drop in tourism. All together it pushed Mexico into a very

difficult economic situation, which had a strong impact on the population's power of acquisition- hence the draw towards generics.

The last thing that happened was the change in regulation; Mikel Arriola in COFEPRIS has been very hard at trying to make it work by understanding the needs of the people, the needs of the industry and matching them into something that actually gives results, and the generics law was passed allowing the public to find quality interchangeable generics at reasonable prices.

The compounding of those three events generated aggressive growth in the generics market: probably more aggressive than in Brazil and the United States, and as a result the private prescription market ended up losing a lot of business, generating difficult times.

Today you can find a tougher market; you have to be extremely price conscious when you launch a product on the market, you have to be aware of the added benefits of a differentiated product, and you also have to watch out when going into pure branded generics because of the promotional investment involved when it might end up getting switched for a pure generic at the pharmacy anyway.

Additionally to this there are the private label generics from the supermarket and pharmacy chains, and the pharmacy subsidized physician visits. The two together often create a conflict of interest.

Was this massive boom in generics what prompted Carnot to look further into foreign markets?

In short, yes. I had started the export side of the business in 2002 and proposed that we needed to diversify the company's risk and seek markets outside of Mexico, because our current operations were unsustainable in the long run.

We also have 130 people working on Research and Development in the company which gives us the potential to have differentiated products, giving significant protection against generics because we have patent protection allowing the higher revenues to continue growth and investment in further Research and Development.

So those are our two strategies: to seek export markets and continue releasing innovative products that meet currently unmet needs in the local market.

If exporting to foreign markets is one of your major strategies, four years ago you were entering Argentina and Colombia, but what is the situation now regarding export activity in Carnot?

So far we are in Colombia, Peru, Uruguay, we have a joint venture in Brazil and Argentina, and a new subsidiary in Venezuela. Plans that used to be just good ideas in the past are now operating

and functioning today, and in those markets there is good, healthy growth with an increasing middle class and growing purchasing power. Brazil is the next big one for us, and Venezuela is the next medium-sized market to tackle, both of which we are more confident about after having successfully entered and operated in other Latin American countries.

We are also going to transfer our export model outside of Latin America and we are currently looking for partners in North Africa, non-EU Eastern Europe, Middle East, South East Asia and West Africa.

In terms of your differentiated pipeline, do you see it as essential for your export business, or does it have more of an impact here in the local market because of the generics boom?

It is completely essential for our export business. When you export generics the only driving factor is price, which means you have to be very price conscious if you want to succeed and be competitive. This is not our business model- we have 130 people in Research and Development and we have decided that this is the side of the fence for us to be on. In fact, our differentiated pipeline was exactly what enabled us to successfully export and launch in different markets in the first place. When you successfully launch a differentiated product it gives you the reputation of a scientifically based, quality company which increases your access in the market.

Talking about differentiation, four years ago you were in the process of getting the licenses to sell one of your unique fertility products in the United States and Canada. How has that progressed?

We closed that license with Ferring Pharmaceuticals and they will launch the product for us in North America- right now we are going through the regulatory process. The product was launched in Mexico and we are selling it right now; it’s a success.

Also in our line of delayed-release injectable medicines, like our fertility product, is the lowest dose of hormonal replacement therapy that is available on the market. It contains a mix of P4 Progesterone and B17 Estronil, which is exactly what doctors are asking for. Hormone Replacement Therapy (HRT) is needed in order to prevent Osteoporosis and for women’s general health, but it needs to be given at the lowest dose possible. Our HRT is a twenty times lower dosage than the current oral HRTs which is a significant safety benefit, and we are looking for partners for this next big licensing agreement.

What do you think are Carnot’s most attractive qualities are in order for it to have been proven a good partner in business?

We have got good differentiated products with a world-class quality system, and we have the flexibility to price our products in a way that allows us to access developing markets.

Why do you think that other Mexican companies have not chosen to go abroad and export more outside of Central America?

They are starting to take that leap forward and if you look at the industry right now, there are many companies doing so. We were all late to do it, it's just that we were 'less late' that the others! It was because the Mexican market was so good between 2002 and 2008, everybody was really happy and we didn't need anything else.

Carnot offers young talent the chance to do a Master's degree paid for by the company. What kind of competition do you face in attracting the best talent in the industry, and to what extent would the company go in order to retain these young professionals once recruited?

We have two parts to our talent attraction- the Research and Development, and the Commercial side. The Research and Development continues to operate in the same way; we try to get the best students out of college, grow them within the company, and they can get their Masters with us. They become researchers with us, which is a strategy that continues to work. On the other hand, trying to become one of the first multi-national companies in Mexico means that you are looking for skills not readily available which makes it a challenge to recruit. Initially we hired some people from abroad to help us, but the idea is to start generating our own seeds of talent from within and create Export managers, Logistics managers and Area managers that have the capacity to do a great job.

Do you feel there is enough work being done in the academic institutions in Mexico to home-grow talent across the board?

I'll break it into two parts- for the Research and Development we are doing a lot more work with the institutions now than we were a few years ago which is great. We are happy that we can have agreements with them on various product developments. On the export and logistics side, the problem is that universities don't have anything specific and it is something that has developed as an industry need- they are not going to teach college students how to develop Latin American export networks for the pharmaceutical industry. This is the type of thing on which we need to train from within, at least during the beginning.

Where do you see Carnot positioned in five years from now, both in Research and Development and also going international?

We currently have an intensive Research and Development program planned for the next few years with some new additional new technologies being developed, so I see ourselves as a more innovative company to the one we have now and I also see the ability to license our technology platforms to other countries. This includes delayed-release injectable microsphere technology; orally dissolving delayed-release capsules; and an innovative platform for inhalable products.

On the international side, I expect to see us as a very well-placed company in all of the important Latin American markets, and a company that has a significant distribution network outside of Latin America.

Do you have a final message for our readers?

Don’t overlook Mexican innovation because there are some important technological developments being managed here by local laboratories. Quite a few companies here are working on innovation in a big way, and Mexico is a place where multinational companies might want to come and find out what we are doing, and to take our products into markets where we are not capable of going by ourselves.

See more interviews