Interview with Tomas Luke Marcelo G. Agana III, President & CEO, PHAREX HealthCorp

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Mr. Agana, you have been in Pharex HealthCorp for more than twenty years. Can you give to our readers an overview of Pharex and what have been the main achievements of the company that you are most proud of?

Pharex is actually short for Pharmaceutical Excellence, which is something we have been very proud of. We are a wholly-owned subsidiary of Pascual Laboratories, and our our principal company has been in the business for sixty-four years.

Pharex Health Corporation was established in 1973 as an exclusive distributor for Pascuallab, but around 1988, when the Generics Act was signed, the owners, (the Pascual family,) felt that they should capitalize on the emerging market of generics so Pharex was spun off as a generics subsidiary. Meanwhile the distribution of Pascual Laboratories was transferred to Metro Drug.

When Pharex started, in 1988, the business model was pretty straightforward as a generic company: we were going straight to the retailers, convincing them that they should stock up in generics because once the Generics Law was signed the first impulse would be to look for the generic counterparts. However the owners, particularly our Chairman at that time, Dr. Abraham Pascual, felt that we were not capitalizing on the opportunity to promote the brand. We felt that we were not really a “generic generic” company; there is a brand, Pharex, and it stands for quality.

That is the reason I was hired in 1990 from the advertising industry. I had to come up with an innovative promotional program to start developing the Pharex brand, especially to the doctors. Since we needed a doctor base, we went from hospital to hospital with a very lean field force, convincing doctors that Pharex was a viable alternative to the innovator brands that they were prescribing. What we became known for during this time, and something I am most proud of, was to develop a unibrand strategy instead of giving multibrands to different products. Unibranding was a very innovative concept; we were the first to talk about a company brand. All we needed was Pharex as a company and a unibrand.

We started with antibiotics, which was the first line of anti-infective that we went into. Our first doctor base, the ones that were very receptive to generics in the 90s, was composed of general practitioners (GPs), particularly the health sector's government doctors. It was pretty slow in terms of growth in the mid 90s, because people still perceived generics to be of a lower quality. We continued to impress upon them that we have quality products because we are made by Pascual Laboratories and they are aware of the manufacturing excellence of Pascual.

We wanted to come off as a very professional field force, so we were doing product presentations, and we were the first company here in the Philippines to make an audio-visual presentation for a company. We also never forgot the importance of the retail trade, so even as the ethical business and the doctors business was growing we made sure that we maintained a strong relationship with the retailers. In the mid 90s Mercury let us in; it took us about three or four years to convince them that we were a quality generics company. When they let Pharex in we reached the critical mass that was needed. We have been very happy with the kind of relationship that we have with Mercury and we have duplicated that with all the other retailers. That is why we are proud to be the generics of choice when it comes to most of the major retailers and wholesalers in the country.

With that good base of retailer relationships and a growing prescription demand for our products, our business started to really take off at the turn of the millennium, and we saw double-digit growth for the following seven to eight years, continuing up to now. We are very happy, it has been a very successful run for Pharex. At that time the number one generic was Unilab (it used to be called Unilab Generics, they renamed it RiteMed around 2002, if I am not mistaken) but we are proud to say that last year we have overtaken them so we are now the number one unibranded generics in the country. Modesty aside, we have done pretty well!

Pharex has continued to show double-digits growth despite the downward trend in the industry. What is your formula for the success?

Our focus on doctors was a very important thing which we continue up to now and that we would never leave. But this focus has to be coupled with trying to be more innovative and cost effective. We are not one of those companies that just lavishly give expensive things to get doctors' prescriptions because we believe that eventually that also creates a credibility problem – since we are trying to bring down prices we cannot spend so much. We are proud to say that we have not travelled that road, even if it does cost us some patronage. We are very proud that there is a growing doctors base that believes in what we are doing and those are the ones that we try to support and reinforce.

The other aspect is never letting go off the relationship with the trade. Now multinationals have finally woken up to the reality that the trade influence is there and it will continue to grow. So you need to protect and develop those relationships.

These are the main factors that have carried on for us but since dynamics are changing, we will continue to change and that is the part that I cannot reveal! With competitors coming in, especially the multinationals with generic brands being launched in the country, we have to be two or three steps ahead of them, and we are.

How do you plan to sustain your double-digit growth with all these new players coming?

We have to redefine our strategy. We are now in a unique position in the industry where we can start to innovate and change certain things. We believe that the industry is ripe for innovation. We would like to be at the forefront of changing certain things when it comes to detailing. I believe Asians are still very relational and we will continue to build on that. There is a minor road that you can take without spending too much, capitalizing on the technologies available to make it more efficient.

The other thing that we have already started is direct consumer discussions. There are limitations when it comes to ethical marketing or ethical advertising in the Philippines. You cannot go directly to them but there are ways of talking to them, one of which is expanding your OTC line. That is where we have been pretty successful for the past four years: our number one product now is a vitamin, Pharex B-Complex, which we promote quite heavily through mass media. Even if you are talking about just one product, Pharex B-Complex, since Pharex is an umbrella brand, a company brand, then we are promoting the Pharex brand in general – even if we are not able to talk to customers directly about hypertension they understand all of our products are from the same company who makes the one they trust, Pharex B-Complex. In the Philippines there is still a lot of brand loyalty so we will reinforce that, and this is something major that we will continue to do for

the upcoming years.

There are a lot of innovations to be made! Even when it comes to building the relationship with the drugstores and talking about products, there is room for innovation. We are pretty proud of what we have done so far, and we will continue to innovate in the future.

Pharex pioneered unibranding in the Philippines. What is the advantage you saw of being unibranded in this market?

As mentioned, brand loyalty remains strong for the Filipinos and the lower you go down in the socio-economic scale, the stronger the brand loyalty is. Brand is still there, so that is the first important thing.

Unibranding gives us the economies of scale, so it is important for us to sustain what we are doing. We could have easily branded a lot of our medicines but you can just imagine the promotional costs that we would have had to sustain for each brand. We found that unibranding was a very economic way to promote a brand in a very brand loyal environment.

When we started down this path, we were not 100% sure of how the results would be but we are now seeing the positive effects. We now want to reinforce our corporate image, so on top of doing product promotions we have a corporate mass media campaign that will reinforce the products' promotion.

There is a place for multibranding in the market, and we were happy to see competitors doing well while following a multibrand strategy. But we believe that unibranding is something that will sustain Pharex; something that will give us the economies of scale needed to be able to fight a more price-conscious market.

There is a limited number of unibrand products that can be physically carried by a pharmacy in a market like the Philippines. Currently in the Philippines there are three main players in unibranded generics: Pharex, RiteMed and Winthrop. Why should retailers choose to carry Pharex instead of the other brands?

When it comes to relationships with trade, one of the things that matter are those relationships that have lasted. Pharex has been around for twenty years, so you are talking about a company who has been with Filipinos for many years, and this is something we have been capitalizing on. It is not as if we were resting on our laurels either. Even as we developed a relationship with the client, we take care of the trade and the bigger we get the more resources we have to make those relationships stronger. That kind of heritage would be pretty difficult to duplicate for new players,

so no reason why they should turn to the others!

At the same time, we love our competitors because if they do something well we ask ourselves why we did not think of that, and that motivates us to do better.

Pharex has developed the Pharex Economix program and applied it in the distribution and marketing. Has this been one of the factors that allowed you to be the preferred brand in the unibranded category?

Yes! The term Pharex Economix simply encapsulates everything that we have been doing. We define Pharex Economix as the most economical choice in these hard times because you get quality and value for money, which is the most important thing right now. On a deeper level, Pharex Economix explains to the doctors why we are economical, that is why we have been sharing the idea of economies of scale and unibranding.

Another major component of Pharex Economics is the way Pharex is able to source materials. We have been telling doctors and our clients that the advantage of Pharex is that we are not beholden to any mother company supplying us the transfer priced-medicines – we are able to shop globally for the best price and quality APIs or fix those combinations. That gives us the chance to really get the best value when it comes to raw materials and when it comes to products. That is how Pharex Economix plays out on a macro level.

Another aspect is the economies of scale that we are enjoying when it comes to the volumes. Since we are big we are able to command certain concessions to our suppliers because we are here to stay and our volumes will continue to increase.

The second level that Pharex is educating doctors about is the Pharex Ecomix, which is also a takeoff of pharmacoeconomics. We are telling them that at the pharmaeconomic level we are also the best choice because even if our prices are low, our quality remains the same. We are not the lowest price, (and we know that,) but we would like to say that we maintain high quality and our medicines are effective.

The Philippines is a big and dispersed country, so with regards to distribution, geographical coverage is critical. Historically the pharmaceutical industry targeted the urban areas, while the rural areas were often left aside. At Pharex, how do you ensure maximum geographical coverage within the Philippines?

Currently, we are distributed by Zuellig and they remain to be our partner. Zuellig has the widest reach and, in terms of economies of scale, we are able to maximize the leverage that they have

with the existing channel structures.

Having said that, of course this is still a very urban structure and we cannot go away from that yet because of the way economics plays out. Urban centers are still attractive places to live, and in the Philippines, urban migration follows where the capital flows.

Pharex is looking at the rural areas but we believe that we will first have to have a radical marketing change to be able to reach them. Existing channels are built to support where the money is and the money is still in the urban centers. So it will have to be a different model with alternative distribution structures that would have to be tapped. We will find the right strategy – we have actually started working on that but it is not just a distribution model, it has to include product innovation, as we do not believe that what we have right now would have the same success in rural areas.

Besides the national market, a number of local companies are now looking abroad, at the South East Asia region, especially with the ASEAN harmonization coming up. As a national champion in the generics, does Pharex have ambitions to go behind the national borders?

Pharex has always been ambitious! We do have international ambitions, but we believe that part of the success of Pharex is because we know the distribution and the marketing in the Philippines so well. We are proceeding with a lot of caution in terms of expanding. Even if we are ambitious, we do not want to rush into a new country thinking that what we have here will play out there. We believe in customization and a lot of localization in marketing practices. We are trying to study which market we will be able to penetrate first. The one that we would penetrate first would be the one that would mirror what we have in the Philippines because that is what we know.

Talking about your ambitions, as Pharex is short for Pharmaceutical Excellence, what excellences would you like the company to achieve in the next five years?

The dream, the vision is to have a Pharex product in each and every household in the country. It is very ambitious because medicines are penetrating only 25-30% of the population, so if Pharex is able to have one product in every household, then we would have done our part. It is a big vision and we want to get there. That is why we will also get into rural distribution, and we will make sure that we have the products and the channels to serve every household.

What would be your final message on behalf of Pharex to the local community and to the international readers of Pharmaceutical Executive?

We like to think that the pharmaceutical industry here in the Philippines can be a model for other smaller emerging markets when it comes to the pharmaceutical industry.

Pharex has been very innovative and we have been leading the way. In a message to our friendly competitors out there we would like to tell them to work on uplifting the state of the industry, particularly when it comes to more innovative and cost effective ways of promoting to our constituents – both to our doctors and to our retail trade. There must be a way that we can champion more innovative and more efficient ways and not just be stuck on what we have been doing in the past. That is something that I am challenging not only us but everybody else in the industry to do. We know that prices will continue to go down for a lot of the molecules that we are in and if we do not do something about that, if we do not change our ways, everybody will just fall on the wayside.

To the global industry we would say that we like to think that there is a place for what innovators are doing and there is a place for what generics are doing. We continue to see that there are really no competitors but just partners-to-be, because in certain areas we can still work together. This is especially true at the global level of trying to provide for the poor. We have our own poverty level in the Philippines that needs to be addressed and cannot continue to accept that we are serving only 30% of the population.

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