Interview with Luis Verduzco Koloffon, Genreal Director, Gelpharma

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Tags: Gelpharma

Gelpharma started in 1999 and its main strength lies in manufacturing. Please can you give us a more detailed history of the company and its major milestones since opening?

We started over forty years ago from a company called Vitae Laboratorios that for many years had two soft-gel products manufactured by the only soft-gel manufacturer at that time. At the end of the 1990’s, Vitae decided to acquire a soft-gel manufacturing line, but instead of integrating this into the company, we decided to create a new company called Gelpharma, in order to both specialize in this new pharmaceutical form and to provide a manufacturing service to not just Vitae, but other labs, and avoid any interference with Vitae’s core business in traditional pharma. We made Gelpharma a self-sustainable company that also provided soft-gel manufacturing services to other pharmaceutical companies.

We knew from the start that the demand for soft-gel was not met by the current market, and that there was only one real competitor. Soft-gel is a tricky pharmaceutical form to produce, and you have to be very careful at every stage of the manufacturing process, which is perhaps why there was little competition. This company almost had a monopoly on the market before we entered with Gelpharma, and they were no longer providing the high level of service to their customers that they had been previously-which is what allowed us to attract more customers and grow as we did.

We opened Gelpharma’s second production line in 2002, after which we bought more land and built four more production lines, which initiated operations in 2004 and 2005. Today we have six production lines in the new plant, and the same two lines still operating in our original plant. Our capacity is around 1.2 billion capsules annually, and this year we produced around 0.8 billion capsules so we still have a lot more potential, despite growing exponentially since the beginning.

How much of your manufacturing is for Gelpharma, and how much do you designate for third party contract manufacturing? Will you keep the same strategy moving forward?

Between 2002 and 2006 most of the products that Gelpharma was manufacturing were for the government market, using our own registrations, and we also sold to some big pharmacy chains for their private label businesses. We concentrated on those markets because of the high volume, and the fact that they were growing at the same rate as us: indeed we had to keep implementing new lines in order to keep up with the demand. Those were the glory years! In 2008, many of the products for the government that were very interesting for us started to reduce in terms of margin due to the number of competitors entering the market. This, with the addition of the global economic crisis pushed us to step back and analyze our markets; to determine on which products should we focus and on which products were no longer profitable. During this time of analysis, we realized that the private market didn’t have the same level of uncertainty as government market, so we changed direction and let go of our high volume government business, subsequently making up for it with a larger number of smaller clients in the private market.

We also started moving into the retail business where we already had one product, but no growth plan in place because all of our other capacity had been dedicated for government business. Since we had the time and patience, we started approaching Walmart, Costco, Comercial Mexicana and many other Mexican supermarket chains to offer our services as a private label manufacturer. This also opened up the door for pharmacy chains. Some of these new clients order in very large volumes and many others just order for one or two products, so we had to modify our manufacturing processes in order to become more flexible and pay attention to all of our clients.

After that, we used our foot in the door with private label medicine production in order to ask for our customers’ support regarding our own branded products. With that, we started to position some of our branded products that we knew would sell with regular demand, without the need for us to invest heavily in promotion. The two own-branded products that we started with have helped us enormously to start positioning the Gelpharma brand.

If you are manufacturing for pharmacy chains and supermarkets, how easy is it for you to negotiate with them in regards to promoting your own branded product in their stores? What is the advantage for them?

In some cases we have both- it is just about giving the customer the option to choose. There are always customers who prefer going to a pharmacy and buying a branded generic instead of a cheaper, private label generic, because they prefer the feeling of buying a more luxurious product as opposed to saving the most money possible. Providing our pharmacy and supermarket clients with both options covers every avenue for us, and for them.

In the last three years we have been positioning our brand in many retail stores and we found that our branded OTC products have been more effectively placed there in comparison to in pharmacy chains. This is because in many pharmacy chains, people go there only to buy their prescription medicines, and then they leave in a rush as they are just passing by. On the contrary in supermarkets, people have more time; they don’t go there to buy only one product, and they are already mentally prepared to spend more money. This is the same way supermarket chains started to realize that there was a market in selling pharmaceutical products, and we have been a part of that since it started in Mexico.

How do you sell the benefits of a more expensive soft-gel product over a cheaper, more traditional product?

We have always had to sell the benefits of buying a soft-gel product over more traditional tablets. Take the example of a traditional pain-killer; you can find it almost anywhere, and also extremely cheaply. On the other hand, the painkiller in a soft-gel format has a better appearance, is of higher quality, more easily swallowed, and has a faster action in the body- so much so that the customer will always feel the difference. If a customer uses a soft-gel product it also eliminates the possibility of a fake product because soft-gel manufacturing is a much more complex and expensive process in comparison to regular tablets.

So there are huge benefits to taking medicines in soft-gel format, but sometimes it is a challenge to transmit them to the customer.

How do you actually get this information across to your customers?

It’s a bit of a mystery, but we’ve seen it work with low-level popular pharmacy chains that focus on cheap products, without much input from us. I suppose it can be explained by the fact that yes, people do want cheap products, but if combined with high quality then customers will appreciate it

much more- so in the end they decide for themselves with no influence. Pharmacies put our products on their shelves, and it worked.

In terms of the ratio between your own branded products and what you produce through contract manufacturing, what have you seen grow more, and how do you want to continue in terms of strategy moving forward?

Both sides of the business are growing a lot, but at the moment we are giving higher priority to third party manufacturing for private labels. This is because the relationships we are forming between ourselves and the pharmacy chains, supermarkets and distributors by offering them such a good service, great products, and innovative developments year on year, are extremely important. If we don’t make those relationships robust now, maybe in a couple of years there will be another company offering the same service and we will lose market share. Firstly, we want to consolidate all the projects that we have been working on over the last few years, which take patience, but it will give us capital for the second stage of our plan which is to invest in positioning our brand.

When that competition does arrive, aside from maintaining a strong relationship with your current customers, how else will you ensure they do not move away from you, and into the hands of another manufacturer?

It’s the service that we give, and the ability to react to our customer’s demands in a very short time. This is very important for us because larger companies with several different management levels are not able to take decisions as fast as we can. The benefit we have is that we are a relatively small structure meaning we can react faster to clients’ demands; we can be very flexible regarding developments, and we can adapt effectively to what they want. We have done so many different projects for customers in the past, and sometimes they work, sometimes they don’t- but we always try something new if our customers ask for it. Every customer has a different strategy: some of them might want medical samples in different formats, in a blister pack or a sachet, or they might want different size presentations. We also have a design department and our own maintenance department that can manufacture different tools if we need them. In the past we have arranged blister packs in smiley faces for children, and another one with chewable capsules in different flavors: every client has a different requirement. Our level of flexibility gives us a sharp competitive edge.

When it comes to developing something completely new with an international pharmaceutical company and providing a dossier, we are also generally much faster than other companies.

Normally it would take around 12 to 18 months due to internal standard procedures and decision-making processes, but with us it usually takes between 4 and 6 months- basically from the moment we make the first pilot study, we write the dossier in the meantime, and then we provide the conclusions and final product. Because of the speed in which we do things, we have been able to add pharmaceutical forms that we didn't previously have onto a dossier at the last minute. From this, we have now adapted ourselves and are able to produce gels in both sachets, and hard capsules. I think since soft-gel capsules are so complicated to make, every other form seems relatively easy! It gives us the chance to compete in markets that we had not previously thought of: once we develop a form for one customer, we can then offer it to all our other customers as well.

I've read somewhere that Gelpharma is planning to export products to Latin America, can you tell us more about that?

As I mentioned earlier we are focusing on the market that we currently have; first contract manufacturing, and then building our own brands here in Mexico before we start looking at other markets. So we have put our exports on hold for the time being. It is easy to get distracted by opening our commercial structure to markets with which we are not familiarized without actually paying attention to our main market.

So far, the export markets we have already opened are mainly through pharmacy chains that have branches outside of Mexico, predominantly in South America, so we registered our drugs in those countries and they took care of the exportation side. Other exports we have achieved are through larger pharmaceutical companies who have licensed one of our drugs to sell outside of Mexico- for example, drugs that were very interesting for the government market here in Mexico, but now have great potential in government markets elsewhere in Latin America due to the lack of competition.

We haven't begun to position the actual brand of Gelpharma in export markets yet, but when we do, we will be in a suitable position to go there and do it ourselves.

You are focusing on your local market first, both establishing strong relationships with contract manufacturing and private label customers, and then moving onto positioning your own branded products. If we come back in four to five years' time, where will we find Gelpharma?

Our brand will have been very well established in the market, and our market share in contract manufacturing will be significantly higher, not only due to new customers, but because of much stronger relationships and bigger business with our current customers. We will continue growing in

the market because we have a wide range of products that we can bring out, and our pharmaceutical product portfolio will grow as well. You will see Gelpharma everywhere in Mexico!

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