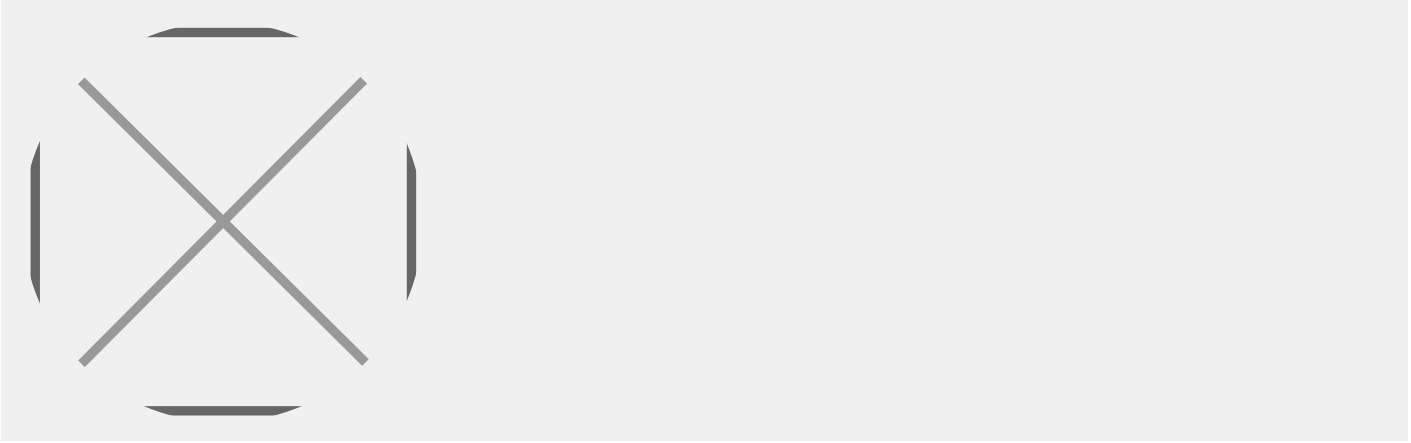
Interview with Emilio Sardi, Executive Vice President, Tecnoquímicas S.A.



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Mr. Sardi, Exec-VP of Tecnoquímicas, the No. 1 producer and distributor of generic pharmaceutical drugs in Colombia, explains what makes Tecnoquímicas different from their contemporaries and how it grew with the changing landscape of the Colombian market to regain their No. 1 spot.

emilio-sardi.jpg

What have been the constant factors that have allowed Tecnoquímicas to enjoy the degree of success it has experienced in the Colombian pharmaceutical market over the past seventy-six years?

We have a lot of motivation to succeed and we, as a company, particularly over the past few decades, have placed a great emphasis on personal selection and training. We have a very keen group of people working here. We have a dedicated commitment to quality which is rooted in a philosophical belief that the health of the pharmaceutical industry is measured by the quality of life of its customers. These are what I believe our main strengths to be, broadly speaking.

To be more precise I look at ourselves as being a marketing and distribution company since we are very strong in those areas as well. If you came to me fifteen years ago and asked me about the company's core business I would have said licensing since at the time we had licenses from many of the big pharmaceutical companies that were present in Colombia. We had to meet the specific quality standards for each one of those companies. Our plants were therefore better than any one of them because we had to please all of them. We had very strong quality controls in our

manufacturing processes.

But our strengths have now gravitated towards marketing and distribution. To be quite honest, we are not very good with cost containment. We want things to be of high quality, but to compensate for higher costs we have in place a strong marketing operation that promotes our line of quality products. Most pharmaceutical companies are not good at consumer marketing. We are. This has a lot to do with the fact that we are not completely pharmaceuticals. We have other lines in personal and consumer care. So we applied whatever we know about consumer marketing to everything that we do with our pharmaceutical division.

Up until 1995 we were #1 in the pharmaceutical market with an 8% market share due in large part to our license agreements. We were the market leader by a comfortable margin; our next closes competitor only had about 4% market share. We had a very simple life. Then in the 1990s came a wave of multinational pharmaceutical mergers and acquisitions. When two companies merged, one of them typically had a local operation or enough size to come to Colombia so as a result we lost our licenses. By 1999 we found ourselves with only a 2% market share which was rapidly shrinking. We had to rebuild our line and we did it through marketing.

Again, we have a very strong commitment to quality. I will not accept anything that is below par. But you can have a very good quality but no one knows about it. In our case we got the public to know about it. We rebuilt our line and our generic products and have grown back to the position where we are now. It was a very hard, uphill battle rebuild our lines but we managed to do so and climb from 2% back to first place.

Regarding our distribution strengths, when I joined Tecnoquímicas pharmaceuticals was only approximately 17% of the business. Over the years pharmaceuticals eventually grew to about 40%. But as the other business lines grew as well, it gave us strong and efficient distribution capabilities since we were, and currently are, handling volumes that no company in the industry has.

While Tecnoquímicas has a long presence as a distributor throughout the Americas it has recently embarked on an internationalization acquisition strategy. What were the origins of this trend?

It began about fifteen years ago when I started to talk about internationalization to the company's owners.

Would you call yourself the architect behind the internationalization strategy?

I was more so the stimulator of the internationalization strategy. The reason being is that this is a very conservative company. It is a very closely managed, conservative company that did not originally think about internationalization.

Strategically, the international push made sense because Colombian market is extremely competitive, especially in generics. When you have a large market share, it is very difficult to increase it. For example, our brand of digestive solid competed head-to-head with Alka Seltzer and was able to rise from 20% market share twenty years ago to 54% now. But when you get to 54% of the market, how much higher can you get? It is much easier to go to other markets which you can do so with the right marketing technology. We were able to enter Ecuador in 1993 when we bought a Colombian company that have had an operation there. Now we have a strong enough marketing methodology that would enable us to successfully compete in other countries. Wherever we go, we make sure to have a base of sales rather than starting from scratch.

With this international orientation we made the move two years ago to hire someone to oversee international expansion. Ecuador still reports to me but our new international vice-president is in charge of the new company, Teramed, which we bought in El Salvador and is looking for acquisitions in Peru and the rest of Central America. We can become very strong in Central America because of the state of the market and because it is made up of small countries that are not necessarily interesting for the big multinationals. We can dedicate to that region targeted and direct attention that perhaps multinationals would not. Our idea is to buy strong companies in each country and then become a dominant player in the whole area. That is what were are trying to do and we have fairly advanced talks in those countries. Hopefully in the first half of this year we will buy one, perhaps two companies in Central America and then have complete operations set up.

We are also looking at Peru since it makes geographical sense. Consultants whom we spoke with advised us first to go into the very appealing large markets – Mexico, Brazil, and Argentina. I like humility. I would much rather go to the smaller markets, learn about them, develop a good management system for an international company, and then try to penetrate one of the bigger ones. If that does happen down the road, my initial tendency would be to expand into Mexico first.

What role did the International Finance Corporation's (IFC) investment in Tecnoquímicas play in the push towards internationalization?

It was a very lucky coincidence for me, as an advocate of internationalizing. When we began thinking about expanding abroad the IFC approached us and encouraged us to internationalize. Their idea was for local companies to become regional. They wanted a wave of regional companies, particularly companies good at selling generics, to expand abroad in order to help out poor countries and fulfill the World Bank's social commitment. That gave me another strong argument to present to our owners and it made the decision easier. Again, consider that we are a family run company. To have someone from the outside, especially a multi-lateral agency, come here and tell us what to do is not an easy adjustment. We were already on the way towards expansion overseas but the IFC pitch was the perfect fit.

That speaks a lot about the significance, role, and importance of Tecnoquímicas in Colombia. Does the idea that Tecnoquímicas is more than just a company, but fulfills a higher social purpose, penetrate into the corporate mentality here?

Yes, we do believe that. I am not saying that this is a charity operation, of course. But we are very happy to be in a business where we can help the social good. I say this despite the fact that we try to sell our generics at a higher price than other generics. But the prices that we sell at are still much lower than the prices of branded medicines. In that way I feel that we are lending a service to a consumer. I would say that the World Bank and IFC looked at us because they saw that we were doing things the right way, realized that our mutual goals aligned, and therefore tried to push us abroad. In fact, part of the specifications of the contract when they invested in us included commitments from us to buy foreign companies because they wanted to be certain that we went to other countries.

What are Tecnoquímicas' growth expectations for the years ahead?

We sold about $350 million in 2009. We expect to reach the $1 billion mark within five years. To do so we need to make some acquisitions, again, as part of the plan established by the IFC investment. We are planning something in the realm of 15-20% revenue growth each year for the next five years plus acquisitions to take us into the $1 billion turnover threshold. We are working hard towards that and I believe it is reachable.

Will that growth mainly come from pharmaceuticals?

Almost all of it will come from pharmaceuticals. When the IFC came here with their investment they only wanted the pharmaceutical business. Similarly, we are only looking only at pharmaceutical companies for acquisitions.

How has Tecnoquímicas' infrastructure of plants and distribution chains, present throughout all of Colombia, allowed it to rise above the competition?

To be honest, our plants are not particularly efficient. We have quality plants that are certified with Buenas Prácticas de Manufactura. But I would not say that we have large batches. We have many products so our batches are smaller, which is not particularly efficient. This goes back to our marketing focus. We put a lot of emphasis on quality. We know that our costs are higher than what you need to compete in very tough markets. We try to make up for that with good marketing by letting people know that we have quality products.

Colombia has a big problem in the sense that there are so-called pharmaceutical companies that are not truly pharmaceutical companies. The way the legislation is set up and which I am pushing Bogotá very hard to change is that anyone can set up a pharmaceutical company without a plant. All you need to do is set up an office, go to China, purchase raw materials, get someone to make

the finished goods here, go to tender, and sell at very low prices. Unfortunately, it happens quite often. I believe that whoever goes into pharmaceuticals should have a plant, a firm commitment to the business, and much more of an industry know-how than merely what to buy and what to sell. Because of that inefficiency in the system, we do not normally go into tenders and when we do, we normally lose. The so-called “pharma” companies very often beat our prices because we buy the top quality raw materials in order to ensure the highest caliber of our products. But once we get to the market we are very strong competition for the expensive brands or even generics.

Is Tecnoquímicas still active in licensing and third party manufacturing?

We are looking for licenses. The time for big licenses has passed because of the mergers. But there are small companies in Europe or Asia that have small products so we look for them. Whatever innovation we have comes from licensing. I just returned from Europe and we have a list of ten to twelve products of which we will select two to three to launch as ethical products to market to doctors.

What is Tecnoquímicas’ strategy for seeking alliances? How do you go about finding the right partners abroad?

We attend various business networking conferences where participants research each other. Many attendees know our ranking in the region. If I can offer them a region of their interest then we form a suitable partnership. That is one of the reasons why I was pushing for internationalization, in order to offer possible partners a greater region. Either we go to those meetings and we find one or two products or someone learns about us through magazines or IMS and they contact us. There are even people still around from the old days who used to work in multinationals whom I am still in contact with to network licensing agreements. But it is not that frequent. It is hard to get new products.

Being an industry leader with a committed track-record of dedicated service to Colombia, what are the main inroads and achievements that Tecnoquímicas has in the field of Corporate Social Responsibility?

We have always been very involved in this field but more so lately considering the IFC investment in Tecnoquímicas. So far as environmental preservation we are not only obeying current rules but we have adopted stricter World Bank corporate environmental standards. There is a strong belief in this company, starting from the top with our president, in education. It is a field in which our president strongly believes in. We give out about 250 scholarships per year. 300 people per year within the company can go to graduate school here as an expense paid for by the company. We have even set up a corporate university. We believe that we, as a corporation, have skills and strengths in marketing that cannot be found even in universities.
e go far beyond what is taught at any school. We have courses here to teach those skills to our

people in a very structured manner.

What is your analysis of the current Emergencia Social? It is commonly referred to as a crisis but out of every crisis comes opportunity. Are there opportunities for generic laboratories that are coming out of this crisis?

I write in the local newspaper every other week and my last article was about this. I believe that most of what the government has done is right. They were mistaken, however, in the way they treated doctors. There are a few doctors who do not behave ethically but that is not general, and they did not receive fair and just discipline from the government. Also, the government was wrong in the way they treated higher income patients. Those 10 million people, after all, are the ones paying for the social health system and now the government wants them to pay more. That is unfair and backlash is naturally expected.

There are ten to twelve decrees that came out of the crisis, most of which are very sound because they address inefficiencies in the system, poor money management, and corruption.

So far as pharmaceuticals, the multinational companies have set up a system that is really ripping off the country. They are selling their products at prices that are two to five times higher than what they charge in other countries. Furthermore, they are using the legal system to have patients apply for those products. The judges, some of whom are corrupt, some of whom are just plain ignorant, were going along with motives and desires of the multinationals. We, as national laboratories, are trying to push for the government to handle this in the proper manner. We don't think that price controls will do much. What they have to do is let us compete. Presently they do not allow us to register because of intellectual property laws that go way beyond the World Trade Organization rules. I cannot say if that is because of corruption or ignorance. But if we could compete in those products, customers would see prices that are much lower. In one of those decrees, the mandate to inform about margins and prices would eventually clear out many improper things going on, would incentivize competition, and local companies would benefit. The government has to realize that it is giving away too much money to the multinational companies all so that free trade agreements can be ratified. If the system becomes more rational we will be able to compete and enter new markets. Overall, what is going on right now is unacceptable. We are a poor country and the way they are ripping off the system is intolerable. There is no reason for multinational companies to sell their products in Colombia at several times the world prices. I think parallel imports should be allowed in Colombia. The country should be allowed to buy those same goods in other countries where they are cheaper. What is happening is criminal. They are really condemning people to die by selling at prices that are way too high. Because of all this the system is close to collapsing.

What can come out of this for Tecnoquímicas? How can Tecnoquímicas benefit?

We don’t know just yet because I don’t know how the government will react. But what I do hope is that the government allows local companies to register their products without undue difficulty. I understand the need to have a sound system for registration. I just discussed my disdain for fly-by-night operations that allow anyone to register a pharmaceutical product. I whole-heartedly agree that there needs to be rules; but sound and fair rules. They cannot be so excessive so that they impede competition. What the government has done is erect barriers that make it impossible to compete and which give multinationals a monopoly. However, the issue is finally on the table and the system is becoming more rational. My main hope is that, as part of that rationality, local companies will be allowed to compete more against the multinationals. That is an opportunity that presents itself for Tecnoquímicas and other local companies.

What is the main goal that you want to see accomplished under your leadership as Executive Vice-President?

I want to hit that $1 billion mark or at the very least be very certain that it will be achieved.

What would be your final message to the readers of Pharmaceutical Executive about the future of Tecnoquímicas?

I am looking forward to the next few years because they will be very dynamic ones for this company. We will grow at a much faster rate than in previous years. Because of our growth, this company will give a lot of opportunity to people in the Colombian pharmaceutical industry as a whole. We cannot sustain triple sales growth with just the personnel that we have on board now; we will inevitably be forced to grow our staff as well. This company will be a very good place for Colombians in the pharmaceutical industry to come to work for.

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