Interview: Pablo Escandón – President and CEO, Nadro – Mexico



13.05.2015

Tags: distribution, logistics

Pablo

Escandón shares his experience as CEO of Nadro and how retail changes have transformed the Mexican market, his perspectives on the accessibility of medicine for Mexicans and the challenges of implementing global coverage insurance.

At the beginning of 2014 one of the most important distributors, Casa Saba, collapsed. What opportunities does this offer to the market and to Nadro?

Some businesses disappear and others spring up, but there will always be competition because there are always young and strong companies moving up in the market. We have to keep going and innovating. The specialized wholesalers like Nadro, are responsible for the physical movement of products, and provide innovation by different means such as promoting small stores and making them more competitive. We help them improve their level of service and increase the fill rate they offer to their consumers. The process of taking products from the manufacturer to the distributor's warehouse and then to the retailer can be improved through technological processes, improvements in inventory management, and also by providing financing to these stores. One of the most significant issues from a pharmaceutical wholesalers' perspective is providing working capital to retailers. The bigger retail chains have the capacity to finance themselves but the small and mid-sized independent stores have very few alternatives when it comes to financing.

Distributors are also servicing the needs of the Mexican government, providing services to the big national institutions, especially the Mexican Social Security Institute (IMSS) and the Institute for Social Security and Services for State Workers (ISSSTE), as well as to the local health systems in the 32 states (through the *Seguro Popular* program, or Popular Insurance), all of which use different distribution and dispensation methods to provide medicl access to the population.

Given that Seguro Popular has increased in size to insure 55 million, significant change have been required to provide coverage for such a large population across the country. This service provided by the government is a turning point on the road towards universal coverage. One of the most significant programs promoted by Mercedes Juan López, Mexico's secretary of health, is a network to advance universal coverage. Total and absolute universal coverage is very difficult to attain, nevertheless a progressive increase in coverage is something that can be done and is happening. Despite many difficulties and limited resources, Mexico's health system is advancing with strong efforts made by IMSS, ISSSTE and Seguro Popular. Universal coverage was promoted originally by *Fundación Mexicana para la Salud* or Mexican Health Foundation (Funsalud) when now Secretary Mercedes Juan López presided it. Creating universal coverage is one of the main issues pursued by the government.

What kind of partnerships are you envisioning, given the role of the private sector and the move of the Mexican health system towards increasing convergence?

The participation of the private sector will increase as long as it provides growing coverage and supports the national objective of universal coverage. Throughout the world, private sector provides health services, and they are an asset because they promote competition and focus on the use of technology, as well as monitoring the efforts and effectiveness of health programs. In Mexico, there is a very strong and clear coordination between the private sector and the government, institutions, and IMSS. We believe that, step-by-step, the private sector will play a more significant role in the provision of healthcare services to the population under the various government programs.

What role could Nadro play in this scenario?

We are servicing some government institutions and the entire private sector, from the largest pharmaceutical retailers to private hospitals and small independent stores. We are also focused on one of the most specific needs that Mexico has: the lack of pain management products and palliative care for suffering patients. Being aware of this problem, we are looking to coordinate efforts with institutions such as Funsalud and some pharmaceutical manufacturers that provide

these palliative products: distribution has to be handled correctly and under strict compliance with the law.

The Federal Commission for the Protection Against Sanitary Risk (COFEPRIS) has recently changed its regulation in this area and is now up-to-date with these critical aspects of health. We foresee a significant advancement in providing access to these medications: we have to help this progress and respond to the need for palliative products in Mexico.

What are the most important challenges Mexico poses in terms of supply chain management to the pharma industry and how do you help your clients overcome these challenges?

The challenges are to be able to provide a mechanism whereby we can make an everyday delivery to each store, and supply every product across the whole country in a timely and efficient fashion. This enables stores to have adequate stock and provide a high level of service to the consumer. If this is not achieved, the service will never achieve the high standards the store needs to be competitive.

Being one of the few companies in Mexico with an ISO cold-chain certification, we are prepared to handle all aspects of cold-chain storage and distribution of products like vaccines and high specialty pharmaceuticals: we do this through specialized installations and special packaging in our warehouses, which requires high tech monitoring.

You provide all sorts of services to pharmacies, which include advisory and training. What kind of opportunities do you see in these specific services and why?

We are helping small stores to improve their performance with a special focus outside Mexico City. By design, the big pharmaceutical chains and public institutions are mainly in the big urban centers, therefore these small stores are the de facto the only options of health in smaller communities. It is important to help their inventory management and become more professional and improve.

We also focus on promoting ethical values when it comes to preventing the substitution of medicines at the point of sale. Sometimes it is simply more advantageous for the retailer to substitute one drug for another. However, the only one that has a capacity to decide on a given prescription is the doctor who prescribed it in the first place. This is not clearly understood in Mexico, thus we are pushing to ensure that prescriptions are and should not be substituted. Around that we have created a program: Circulo de la Salud, (Circle Of Health), with around 7,000 stores

affiliates in the country that participate in this program, with which are focusing on a very strong effort of professionalization, ethics and promotional activity. We anticipate a very drastic change in the observance of prescriptions by retailers. This approach of ethics by a specialized distributor is a new angle that had not been developed before.

How do you think the retail sector will change in the future?

The entrance of significant new players in the retail pharma sector like Alliance Boots and Walgreens, as well as FEMSA have had a favorable effect on the Mexican market by promoting competition in the sector. These brand retailers are encouraging the process of modernization of independent retailers and mid-sized chains.

There are three big segments in the retail service: The first are the pharmacy chains with the three large brands: Farmacias Guadalajara, Farmacias del Ahorro, and Farmacias Benavides; second, the supermarket chains, and third, all the rest, which includes regional chains, small and mid-sized retailers, and mom & pop stores.

Some of them are organized in an efficient supply chain, others in purchase groups, and the rest are independent, small stores. This third sector is made up of 14,000 independent stores. We service all three segments but we have adopted specific responsibility for promoting the third one, composed of small companies spread all over the country, to strengthen their capacity, to make sure that they can provide a better service to their local communities and to help them grow. The changes in the sector are improving the level and quality of the service provided by all three sectors.

What are your next steps? Where would you like to see the company in five years?

We understand that our core business is not only traditional wholesale and distribution, but also in providing and articulating solutions in health care. There are multiple needs, services to supply, and diverse opportunities in the health sector in Mexico. We see other ways of creating value for manufacturers, retailers, suppliers, doctors and even ways of servicing patients directly. We are also providing guidance for the patients to find stores that offer ethical services and guarantee a professional response.

What has been your “golden rule” to managing the business in a market like Mexico?

We are not a commercial company but a company working in the health sector. Our operations provide an effective link in the supply chain. Our motto is *Más y mejor salud*, More and better health. Whatever we do, our actions are focused on supporting the provision of health services and

improve the quality of health. It is a very general concept that we are trying to extend to Funsalud.

One of the main challenges in our country is that the Mexican population is aging very fast. This implies a very strong increase in the demand for health services coupled on the other hand with the fact that Mexico has limited resources. Therefore, the short/medium term question is how are we going to cope with this very strong growth of demand on the health services, in the face of a limited growth on the supply side of this equation. The task is therefore to understand the outlook of the government, join forces in order to work together towards universal coverage for the Mexican population.

Having a healthy population is certainly a competitive advantage for our country that we must seek in the global arena.

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