Interview: Juan Knobloch – President & Founder, Knobloch Information Group



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The president and founder of Knobloch Information Group, the leading supplier of market data to the pharmaceutical industry in Mexico, provides an in-depth overlook about the most important changes that are reshaping the Mexican pharmaceutical market.

Knobloch Information Group is the leading supplier of market data to the pharmaceutical industry in Mexico. What business opportunity did you identify when creating the company?

The firm was founded in 2000, shortly after I left IMS Health. Back in the days we started realizing that retailers were changing their purchasing patterns: they were still mainly buying from traditional wholesalers, but they also started sourcing products from smaller alternative distributors, as well as directly from manufacturers, not tracked by other data suppliers, meaning that part of the market was not being captured. Hence, instead of sell-in data, tracking volumes wholesalers sell to pharmacies, we decided to start tracking sell-out data, that is what is scanned at the counter, this also allowed us to measure the new product mix which was beginning to appear in drugstores. This made a tremendous change: first, in the quality of the data, and second because we started capturing the products that pharmacies were actually selling, independently on where they sourced the products.

We soon came to realize that the sell-out was higher than the sell-in reported by wholesalers, mainly due to two trends. On the one hand, pharmacies were increasingly acquiring low-price branded generics from approximately 500 minor distributors spread across Mexico and not tracked by our competitors; on the other, pharmacies – especially larger chains – had started developing their own private labels, which were delivered directly by contract-manufacturers to the chains, thus not tracked either.

What percentage of the Mexican market do you audit today?

We audit 99 percent of the private market. Today 70% of our data is comprised by direct sell-out information provided by pharmacy chains and other market players, such as supermarket chains. Taking into consideration also that independent pharmacies usually do not have resources and space to keep inventory, we can affirm that sell-in to this channel equals the sell-out of the point of sale, so we could consider that we are tracking nearly 85 percent of the Mexican market at sell-out level. Our panel is the largest in the country and encompasses information from 82 institutions among wholesalers (national and/or regional), drugstore chains with national, regional and local coverage, supermarkets, generic wholesalers, telemarketing firms and additional data suppliers.

We are also auditing via outsourcing the most important players in the institutional market – government.

Besides market information, what kind of additional services do you provide to the pharmaceutical industry?

We offer a number of services that span from market data; ad hoc reports; price scanning to know the real price at which products are sold to the public; product tracking to monitor the launch of a new product. We also provide information for the sales force: we estimate that up to 70 percent of the sales reps in Mexico are paid based on the results tracked via our audits – A.T.V.® Territorial Sales Management. Only few other countries in the world – I can count Germany, Argentina and Brazil – have companies like Knobloch Information Group, which compete directly with IMS Health to provide data to the pharma industry. A further competitive advantage we can leverage is that we produce everything in Mexico, which allows us to respond very promptly to our clients' needs.

What makes Mexico attractive for local and international companies alike and how much was the pharmaceutical market worth in 2014?

Mexico is a strategic market for the pharmaceutical industry: it occupies the 11th position amongst the 12 countries in the world with more than 100 million inhabitants and is projected to become the

13th pharmaceutical market by 2018. In general, we consider the Mexican market as a mature one, in which the private and institutional sectors play both a very important role. In 2014 the total pharmaceutical market had a value of nearly USD 16 billion (at pharmacy price), whereby approximately 74 percent corresponds to the private and 26 percent to the institutional market. In units, 2014 saw sales of 3.5 billion units (up 3.9 percent vs. 2013), with a 48 percent in the private market and 52 percent in the institutional one. It is important to mention that private market consumption is financed almost 100% by out-of-pocket expenses by patients.

What is the most striking aspect about the Mexican pharmaceutical market as of today?

During the last decade, we have seen an exponential growth in the sale of low-priced branded generic products as well as private labels, both in the audited as well as in the so-called alternative market. These two groups of products report the highest growth rate. Today in the private market only 63 percent of units move through audited channels (traditional wholesalers, national and regional drugstore chains, supermarkets and independent pharmacies), whereas 37 percent move through alternative channels. These channels encompass the low-priced branded generic drugstore chain *Farmacias Similares*, generics' drugstores and generic-only wholesale clubs, which are warehouses, where independent pharmacies go and buy directly low-priced branded generics. 15 years ago this alternative market did not even exist; in units today it represents almost 40 percent of the total private market. The combination of primary audited and alternative market reports a compound annual growth rate (CAGR) of 3.5 percent in units over the last decade, which demonstrates that the Mexican market has been growing, but in different channels.

What are the reasons behind the surge of this alternative market?

The main driver was pricing. After the so-called 'Tequila crisis', which hit Mexico in 1994-95, the Mexican businessman Víctor Manuel González Torres understood that people needed a low-cost alternative to out-of-pocket healthcare expenses, so he decided to make a radical change. In 1997 he started the drugstore chain *Farmacias Similares* introducing a breakthrough model: selling low-priced generic drugs under the slogan '*Lo mismo, pero más barato*' (The same, but cheaper) and have physicians at the point of sale. The patient could undergo a medical visit for as low as USD 2 and get drugs up to 75 percent less expensive than in traditional pharmacies. It was a success. Today the chain counts nearly 5,000 points of sale across Mexico and has kept the same price positioning ever since. The launch of *Farmacias Similares* has been a game changer for the industry and retail sectors.

Historically Mexico has been a brand-driven market. Along with pricing, what has helped low-priced generics increase their penetration?

Genomma Lab developed a line of generic products under the brand Primer Nivel® and invested millions of pesos in TV advertising to talk about the benefits of this type of drugs. Under budget constraints, the government has also played an important role in promoting the use of generics. More recently private labels have bolstered this trend, as people highly trust large retailers such as the large pharmacy national, regional and supermarket chains. Also physicians and medical institutions have changed their prescription patterns. As a result, today approximately 20 percent of all prescriptions are generics. Twenty years ago, this would have been unthinkable.

What market segments are growing or decreasing most and why?

Some pharmaceutical companies are having a hard time in Mexico. Over the 2005-14 period the total private audited market shrunk by 2.1 percent in units, but the prescription market (excluding infant formulas) plumbed a remarkable 32.5 percent. If you do not take in consideration low-priced branded prescription drugs from local manufacturers, the drop in volume was even higher: 39 percent. Patients switched to low-priced branded generic drugs, pure generics and private labels. Today private labels represent approximately 12 percent of the total volume, and are growing exponentially. We estimate in future 90 percent of pure generics will be private labels.

Given the increasing share of private labels and low-priced branded generics, what opportunities do you see for pure generics?

Pure generics have mainly succeeded in the form of private labels. The remaining part have not succeeded in Mexico mainly because of high pricing, combined with low margins given to retail. It was natural for some big pharma companies to move into generics, but the Mexican market is very special and pure generics need the right strategic mix to be competitive.

A further dramatic change occurred regarding the retail sector, which is witnessing an increasing consolidation of pharmacies. How does it look today and how do you think it is going to change in the future?

This consolidation is expected to continue also in the near future. Drugstore and supermarket chains offer a positive point-of-sale experience to consumers and a number of benefits, such as free and fast home delivery, as well as loyalty programs and special discounts. As a result of the exponential growth of national and regional drugstore chains as well as supermarket chains, today five players account for 56 percent of the units sold in the pharmaceutical audited market.

We expect that for the year 2020 six players will make up approximately 65 percent of the total units sold in the private audited market.

How is this consolidation impacting other players, such as independent pharmacies and wholesalers?

In order to remain competitive against large chains and their private labels, independent pharmacies are increasingly buying low-priced branded generics to compete in price and product mix. As a result, they are slowly converting themselves into generic pharmacies. On the other hand, given that big chains are developing private labels and are increasingly sourcing directly from drug manufacturers, and independent pharmacies are increasingly buying low-priced branded generics, the market of traditional wholesalers is decreasing.

What about other product segments?

The same trend towards low-priced products is also true for branded OTC, which over the 2005-14 period decreased by 16 percent in units, whereas low-priced branded OTC have increased by almost 170 percent. The infant formula segment, on the contrary, is a very interesting market worth nearly USD 600 million with consistent growth in units and value.

What are your personal ambitions for the company and what can we expect from the pharmaceutical market in the near future?

Our company will continue to do what is does better – serve our clients which are our main driver by developing new important strategic services. There will always be opportunities and we do not foresee disruptive changes in the near future. An important factor is the growth of chronic-degenerative consumption in all segments of the market. This represents, and will continue representing, great opportunities for companies innovating in the area of high specialty and chronic-degenerative drugs. The market will become a specialty-oriented market: we expect it to be worth approximately 6 billion USD by 2020 (private and institutional). Although many companies are reducing their sales forces, I think it will continue being a key driver to maintain market share. Innovation should also be a strategic point, both from a product development point of view as well as with regard to new go-to-market strategies to take over market share from competitors.

Mexico offers important benefits: patent protection by local authorities, a continuous improvement and modernization of regulations by the regulatory authority COFEPRIS, controlled inflation, currency stability, as well as many potential opportunities for dynamic companies. Altogether,

Mexico is a market where pharmaceutical companies should be active players in the future. Also because – paraphrasing the words of the movie character Joe Black – I dare to say that “nothing is certain in this world but death, taxes and healthcare.”

On a personal note, we would like to thank all our data suppliers whom we regards as our partners, as well as our clients who trusted our company since its creation in 2000 to become the leading supplier of sales market data in Mexico.

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