Interview: General Directors, Rayere, Mexico

Rayere has been capitalizing on its two distinctive assets to differentiate itself from the competition: our outstanding manufacturing capacity and our unique R&D expertise

18.10.2016

Tags: Mexico, Rayere, Pharma, Pharmaceuticals, Generics,

The General Directors of Rayere explain how the historical Mexican pharma company has been leveraging its outstanding manufacturing capacity and product development expertise to become a thriving and reputed player in the patented segment, while the company now envisions to bring its high-quality quality products to international markets.

Rayere boasts more than 50 years of history and is one of the oldest Mexican pharmaceutical companies. How has the company been evolving over the last decade and where does Rayere stand today?

We see ourselves as a “boutique” Mexican pharmaceutical company, focused on the production of very high quality treatments and the development of patented generics. The segment in which we hold the highest brand recognition is respiratory diseases, but we have maintained our historical presence in other therapeutic areas, such as analgesics and anti-inflammatory products. Following the evolution of the Mexican generics market, especially in terms of pricing, Rayere has been capitalizing on its two distinctive assets to differentiate itself from the competition: our outstanding manufacturing capacity and our unique R&D expertise.

What have been the market trends that motivated you to adapt the company’s positioning over the recent years?

In 2010, Cofepris, Mexico’s regulatory agency, decided to fully open the door to international companies, and local manufacturing was not required anymore to sell treatments in Mexico. As a

result, many international competitors have been entering the generics market over the last six years, notably from China and India. However, many of these international companies didn't meet the heightened, recent regulations released by Cofepris when entering the market – and Cofepris gave them an additional delay to comply with our new regulatory framework. While they are now going through the lengthy process to upgrade their operational standards and meet Mexico's new norms and GMP, they are still authorized to distribute their treatments in Mexico. As a result, these international manufacturers can be evermore cost-competitive in comparison to the companies that have already significantly invested to comply with Cofepris' new requirements, such as Rayere.

In the meantime, some Mexican manufacturers have been increasing their manufacturing capacities, in order to compete with the large-volume approach implemented by these international companies. With this amplified competition, the heightened volume reaching the market and the implied price erosion, our products ended up being almost three times more expensive than those of our competitors. Competing in the traditional generics market became more and more unattractive from a margin point of view, given that our company's focus has historically always been centered on the utmost quality of our treatments, and not on our production volume or the broadness of our portfolio.

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The aforementioned market trends motivated us to concentrate our efforts on the patented, prescription market segment, where Rayere can offer lower prices than premium brands, while fully capitalizing on the unique quality of our treatments.

How is Rayere able to guarantee such quality standards?

We invested tremendous amounts of money in developing a cutting-edge manufacturing facility, which can compete with those of international manufacturers. As a matter of fact, our quality standards are closer to the ones required for injectable than for classical, chemical products. Furthermore, we are one of the few companies in Mexico that has already received a GMP certification from Cofepris.

In addition, we are currently expanding our manufacturing capacity with the construction of a new plant in Toluca. Our objective is to remain ahead of the Mexican industry in terms of quality. When designing this new facility, we looked at the GMPs already implemented in the most sophisticated markets of the world, in order to anticipate Cofepris' new regulations. In terms of strategic thinking, this plant has also been designed to receive EMA-approval, which would allow us to broaden our

export perspectives.

What were the main challenges you met when moving from the traditional generics market to the patented segment?

In the traditional market, we predominantly used to work with distributors. Moving to the patented business however implied to develop our own sales force, which now covers around 70 percent of the Mexican market. Building this commercial capacity has been particularly costly, and we may envision starting outsourcing some of our business development activitieswithin the upcoming months.

With 52 years of existence, we can fortunately rely on the outstanding brand recognition of our products, while Rayere as a company is perceived as an historical, respected player in the Mexican market. Mexican physicians are used to our products, and they know we have been consistently meeting their quality requirements over more than five decades. Although our products may be more expensive than those of our competitors, their quality is absolutely unrivalled within their price category. As matter of fact, some customers are asking us to further broaden our current portfolio of patented treatments, bringing new Rayere products to the market, while keeping on increasing our market share year after year.

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To what extent are you involved in the institutional market?

We participate in some public tenders, as soon as it is possible to make a reasonable margin, which is not frequent given our aforementioned manufacturing cost. Nevertheless, we don’t see any future value coming from the institutional market: the number of companies involved in this segment keeps on increasing and prices continue to plummet year on year.

In this regard, Mexican social security institutions are unfortunately focusing their cost-containment efforts on the lower value part of their medicine purchasing, which is hardly understandable. Nowadays, in the institutional market, pills with price tags below 10 pesos [USD 50 cents] make up 75 percent of the total volume. By decreasing these pills’ price by 20 percent, the total savings made by the public system would not be higher than 2.5 percent of their current medicine budget. However, if the institutions could get a 20 percent discount for the pills from 500 pesos [around USD25] and up, they would make a 10 percent saving on their total medicine purchasing.

As a result, what are the most promising growth prospects you identify for the company in the upcoming years?

Rayere has been developing a real expertise in patented products over the past decade. The same in-house R&D team has been maturing the development of six patented products: two of them have already been introduced to the market, and we are about to register two new patents in the upcoming months. Actually, these products have already caught the attention of Mexican and international companies implanted in the country. As a matter of fact, we are currently licensing-out two of our patented treatments to a well-established Mexican company, which helps us generate additional incomes. Furthermore, three other prestigious international companies have also displayed a strong interest in our patents, which stands as a great recognition of the quality of the treatments we can develop.

When patenting our products, we don’t content ourselves with local registration, but look for the highest international standards possible. All our patented treatments are registered following the Patent Cooperation Treaty (PCT), which is –once again – absolutely unique among the Mexican landscape.

Considering the success we had with our first two patented products in Mexico, we have already started to work with legal partners to establish the new international markets where we could register our patents. We also currently look for business partners, including international pharmaceutical companies that could help us in bringing and distributing these products in and to new countries. We are notably looking at markets protected by strong intellectual property regulations, such as the European Union, the USA, Canada and also South Korea. Given our geographic proximity, we are also looking at registering our products in different countries in Central and South America, including Brazil.

From a financial standpoint, how do you plan to sustain the international development of the company?

In our domestic and international expansion, our most valuable asset indisputably is the “IP” capital we have been gathering over the past decade. Over our 52 years of history, we have historically been following a steady, cautious growth approach, which has allowed us to increase our market share and reputation, while many of our competitors were wiped off the map.

As a result, we would like to maintain Rayere as a family business as long as possible. The vast majority of Mexican pharma manufacturers, ever those part of the top 20 and already holding international operations, are still privately owned, family businesses. This proves that it could be a successful business model, even for ambitious companies. As soon as our current revenues allow us to nurture the further development of the company, we will then favor a privately owned,

organic growth approach.

How would you rate the level of support that the Mexican government has been offering to Mexican manufacturers?

When NAFTA came into effect in 1994, the Mexican government really believed free-trade agreements would be critical to develop the technological capacity of our industrial eco-system. Our government has thus been busy closing a large number of similar agreements with other countries, in which Mexico has constantly been positioning itself as a manufacturing gateway to the US. In a way, this positioning paid off, and multinationals started to increase their footprint in Mexico, mainly by setting up substantial manufacturing plants in Mexico to export to the US.

Nevertheless, most of the Mexican companies have never managed to become the preferred suppliers of these international manufacturers. As a result, local companies have not yet been really benefitting from this manufacturing development, and the most tangible results we hold so far include the hundreds of thousands manufacturing jobs it created.

These outcomes will not be enough to nurture the technological transition of our overall industry. In my opinion, we still lack of a comprehensive, integrated industrial policy that could propel our economy to the next step and truly create value from the international opportunities we hold.

On behalf of Rayere, what is your final message to our international readers?

We are one of the few Mexican pharma companies that has already truly proven its capacity to translate great, innovative ideas into high-quality final products. Rayere holds the expertise and the capability to exceed our customers' expectations throughout the entire value chain, from the design and the development of our product to its manufacturing. In the meantime, we unquestionably stand as an historical player in the Mexican market, which has been successful gathering a loyal team of collaborators that has contributed to all our recent successes and achievements. In this regard, we stand as a complete pharmaceutical company, a leader in patented treatment development and manufacturing, which is ready to bring its expertise and high quality products to new international markets.

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