Interview: Carlos De Kruyff – Partner & Managing Director, CDM Labs, Mexico



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In charge of

transforming the Monterrey-based family business of dermatological distribution into a Mexican corporate success story, Carlos de Kruyff, shares some of his most pertinent insights on the industry. He speaks about the company's history and innovative commercialization scheme, the transformative regulatory landscape today, as well as their role in improving the Mexican population's health literacy regarding proper skin care.

Mr. De Kruyff, you have spearheaded CDM Labs for the last two years, but have had over 20 years of experience in the pharmaceutical industry. Could you please provide an introduction and a background of the company, as well as of yourself to our global executive readers?

CDM Labs was born in 1991 through the vision of a renowned Monterrey-based dermatologist, Dr. Jose Ocampo Cardiani. He is well reputed in the field as the Head of Dermatology at the University of Nuevo Leon and the President of CILAD at the Colegio Ibero-Latinoamericano de Dermatología, which is an association for doctors in Latin America and Spain. Aside from spearheading a successful clinic in Monterrey, he is also a global speaker who is invited to conduct lectures all over the world. Leveraging his high standing in the field, alongside his wife, Sonia Garza, Dr. Ocampo decided to found a dermatological distribution company that represents foreign brands and introduces them to the Mexican market. The first brand to be exclusively distributed by the company was Genové, a Barcelona-based brand that has been very well received in the country

and is the staple of our portfolio.

In the general sense, there are two typical paths to commercialization in the dermatological landscape: namely the direct-to-market path and through distributors. Distribution companies such as ours are typically chosen for large economies such as Brazil, Argentina and Mexico as they are the most cost-effective models for multinationals to enter the market. We are able to represent well-known international brands because of the reputation that we have built in the market through intricate knowledge of the local landscape. Though the current business model is predominantly anchored on the stewardship of foreign brands in Mexico, the company also aspires to create its own proprietary brand in the near future.

The company's main portfolio is essentially divided into three segments: Genové Dermatologistics, ACM Laboratoire Dermatologique and the LSI line. How would you describe your product offering and which is your current growth driver?

Genové Dermatologics is the company's key growth driver, representing 85 percent of sales. This is due to the legacy partnership that CDM Labs has had with the Barcelona-based company since its inception. Secondly, ACM Laboratoire Dermatologique, is a French-based company that consists of ten percent of the portfolio and our partnership with them has been strong for two years. Lastly, the LSI line makes up five percent of the portfolio as our novel partnership with them began one year ago.

Our objective is to continually expand this portfolio and add lines that are complementary to each other. One of the main risks that a distributor faces is the possibility that the multinational companies that they represent opens a subsidiary in the country once their products gain critical mass. Therefore, it is in our best interests to have a diverse line of products to spread the level of sales accordingly and minimize our risks. In the overarching sense, we plan to expand outside of the dermocosmetics field and also gain traction in the pharmaceutical and medical devices milieus to cover the entire dermatology field.

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Having initially begun as a family company, there has also been a strong push to implement a more corporate image for the company in recent years. I was brought into the company in 2014 – as someone outside of the family with a strong track record in the field – with a clear mandate to bring the company to a new level. Knowing Dr. Jose Ocampo Cardiani well, the level of trust was implicit and I had a depth of understanding of the business. Moreover, an Advisory Board has been implemented, comprised of people with strong expertise in the business who meet every three months and analyze results, review strategies and define investments. Through this there has been more of a structure put in place in terms of presenting projects and deciding on strategic approaches, especially in regards to the portfolio. Given that all of the family members are

dermatologists, products have been added on an ad hoc basis in the past purely based on the recommendations of family members. Having a more structured approach was imperative in instilling a more professional culture for the company.

Given the increasing prominence of pharmacy chains in the country, how has your commercialization scheme changed accordingly?

The Mexican dermatological landscape is undergoing a transformative period driven by new players emerging in the market in recent years. In the past, the options for commercialization channels were narrowed through wholesalers such as Marzam, Nadro and Farmacos. Today, pharmacy chains are the main avenues for the population to solve their dermatological needs. Pharmacy chains such as Farmacias del Ahorro, San Pablo, Benavides and Farmacias Guadalajara are dominating the market. Furthermore, most supermarket chains also carry their own pharmacy segment, saturating the market and circumventing the wholesaler business model.

In the context of CDM Labs, our commercialization scheme is predominantly anchored on our close relationships with physicians. 35 percent of our products are sold directly to doctors and independent pharmacies as they are the key influencers in the sector. However, the complication of this segment lies in payment collection. Therefore, we also utilize niche distributors, whose selling business model is to sell to doctors themselves. It has been advantageous to use these distributors due to a wider coverage of doctors and quicker collection of payments. National distributors have been an asset because they mitigate the risk that we face, while providing us with more exposure with a financially sound business model. This area is growing fast because they are undercutting the market of the wholesalers who typically have very small margins.

While the commercialization landscape is changing, the regulatory landscape is also undergoing a transformative period as more stringent regulations are increasingly being imposed on dermatological products. What are some of the regulatory changes that you foresee and what proactive measures are CDM Labs taking in this regard?

More meticulous regulatory processes are needed in the industry because there have been some well-known global brands that do not adhere to best practices. A higher criteria for manufacturing processes, GMP standards and evidence-based product-testing is imperative in order to elevate the profile of the industry. Regulators have traditionally been more lax with dermatological products, relative to pharmaceuticals and other products in the healthcare spectrum, as they are less invasive or life-threatening. Nonetheless, as the industry grows and pharma regulations become more stringent, the dermatological sector is following suit.

In this vein, there has been a wave of product reviews in the sector, especially for specific items that have been in the industry for over 60 years. Typical cases have resulted in product withdrawals which – although unfortunate –mean that higher criteria is being enforced. In the

context of CDM Labs in particular, strong regulation compliance is inherent in our business model because we represent international brands with high registration standards. European regulatory standards are extremely high and have also been re-verified by COFEPRIS in order for them to enter the country. Therefore, although we as an industry are apprehensive about the change as a whole, CDM Labs is confident that it is equipped to face the challenges ahead.

How would you describe the key challenges in the market today?

The dermatological market represent a very small niche of the pharma market, amounting to almost seven percent. There are products in the pharma sector that have an even greater market capture than the entire derma sector combined. The dermatology segment accounts for a very small proportion of the total pharmaceutical market, growing only 3.5 percent in 2016. Therefore, the challenge for the industry is to develop the dermatological sector together with healthcare authorities.

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In Mexico, there are less than 2,000 dermatologists for a country with an approximate population of 120 million. This ratio is starkly inferior to other Latin American countries such as Brazil, which has a population of around 210 million and over 8,000 dermatologists. That is why some other specialists such as GPs, pediatricians and aesthetic doctors are in certain ways filling this gap. While it is positive that the pharmacy chains are increasingly becoming more saturated, it is also providing a false sentiment that the market is growing rapidly when there are still larger gaps to fill.

In the sociological context, what is the epidemiological profile of Mexico regarding skin conditions and what are the key targeted areas here?

The challenge in Mexico is the low level of health literacy, especially for skin care. While there is a growing influx of dermatological products gradually saturating pharmacy shelves, a quick survey on the street would reveal that only about one in ten people regularly use sunscreen, for instance. Health education is embedded in our business model, but the responsibility cannot fall solely on one company. There needs to be further collaboration between all stakeholders to improve basic skin care in the country.

Moreover, Mexico is a young country with an average age of 27. Unlike Europe and Asia where there is a greater emphasis on an increasingly ageing population, the needs of Mexico are for conditions such as acne, atopic dermatitis, melasma, and skin cancer. The health message here carries a more preventive tone in order to prepare young adults for a healthier life ahead.

What do you believe is the role of CDM Labs in improving the dermatological health of the Mexican population?

Addressing dermatological issues should not only be directed to patients, but more importantly, to

dermatologists as the skin specialist. The clinical part should not be disregarded and it is important to communicate that derma products are not solely for vanity, but are part of a person's overall healthcare. Given the company's history, one of our key strengths is our relationship with dermatologists. We are a strong proponent of a collaborative model in the industry as a whole, which has not been traditionally present as companies were more focused on their commercial agendas and were less open to a flow of ideas between them. As a Mexican company, we are also more engaged in the health of the Mexican population as a whole, with a long-term vision for the country. Our goal is to promote collaboration amongst the industry, societies, associations, and government, to improve the state of Mexican dermatology.

What is your final overarching message that you want to share with our global executive readers in the healthcare industry?

The dermatology market in Mexico is promising. For as long as there is innovation, there will be an opportunity in Mexico. Aside from the fact that it is a market starved for innovation, the unequal purchasing power of the population plays a large role in maintaining the disparity of healthcare in the country. 50 million Mexicans live in poverty. The population target is only 15 percent, which are consuming most of the products in the country. Therefore, there needs to be a concerted effort to make innovation more pervasive. As long as companies have something different and of value to offer, the market will embrace it.

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