The Pharmaceutical Industry in Mexico: New Challenges, New Leaders

Mexico's pharmaceutical industry is evolving rapidly. As conditions change, the leading organizations are redefining strategies and questioning existing paradigms. Industry leaders now need new skills to compete in an environment with changing dynamics and new rules.

We are living in a time of dramatic change in the pharmaceutical industry…

Mexico's pharmaceutical industry generates revenues of around $11 billion, making it the 11th largest pharma market in the world. In Latin America, Mexico comes in second after Brazil, which leads the region with $16 billion. In Mexico, the sector has been traditionally stable with large profit margins, but it is currently undergoing a rapid transformation. Although these changes were expected, companies are just now starting to adapt their strategies to the new conditions in very different ways. The changes cut across a number of areas including product development, competition, distribution, and regulation.

Generics
The adoption of generics has revolutionized the industry. Today, more than 60% of all units sold in the country are generic. In the private market, their growth has been exponential for the last few years. While new regulation has helped eliminate products that did not fulfill regulatory therapeutic efficiency, there are patients and doctors who are still wary of these products, which has allowed patented medicines to extend their life cycles. Nevertheless, generics will continue to drastically change the way the pharma companies do business, as patents continue to expire and few new products are introduced into the market.

New Players
In 2008, the Mexican government eliminated the mandatory manufacturing requirement allowing new companies to establish operations in the country, including Takeda, Daiichi Ranbaxy and Astellas. Other Mexican players who bet on niche OTC products, such as Genomma Lab, have experienced substantial growth. Given this heightened competition, local and global players need to modify their strategies and reposition themselves in the market.

Manufacturing
Companies are starting to leverage and develop global relations, including shutting down facilities and/or consolidating operations. Many global companies are transferring production to other regions, mainly to Asian countries with lower production costs and better tax advantages. Others are outsourcing production to third parties. For Mexican companies with excess capacity, contract manufacturing has also become an opportunity for additional business.
**Distribution Models**

Products have traditionally been sold through a few large distributors, which were able to reach thousands of independent drugstores throughout the country. For the last few years, supermarkets and drugstore chains have been gaining market share and the distributor’s role has lessened. To remain competitive, some of these distributors are pursuing vertical integration strategies, purchasing local drugstore chains and/or grouping them into purchasing unions. Pharmaceutical companies are now focusing on partnering with these newly organized sales channels, negotiating directly with supermarkets and drugstore chains and focusing efforts on the point-of-sale.

**Public Sector**

The public sector represents approximately 50% of total units sold in Mexico. Companies that had been reluctant to sell to public entities are now working through distributors and actively participating in public tenders. Specialized distributors serve as liaisons, facilitating negotiations and overseeing processes with public institutions, which can be complex and ambiguous.

**Regulation**

The Federal Commission for the Protection against Sanitary Risks (COFEPRIS) is working on aligning its regulation with the International Conference on Harmonization Guidelines (ICH). In this process, more than 6,000 applications for registry have been delayed, and as a result, companies needing to renew or introduce new products into the market have been seriously affected. As for biotechnology products, registration has become even more complicated as biotechnology products cannot be regulated under the same guidelines. COFEPRIS is working on establishing processes for the registry of these products.

...all of which has created a new paradigm

How are current conditions affecting the way pharmaceutical companies are doing business in Mexico? The changes in the industry have caused structural changes in both small and large companies; organizations are reinventing themselves through acquisitions, restructuring and/or focusing on new markets and products. Regulations and obstacles to enter the market have been modified, allowing increasingly free competition and the entry of newer players competing for market share in both the public and private sectors.

The “rules” of the game have also changed. Traditional bureaucratic and hierarchical structures are becoming more lean and efficient; sales mechanisms have changed and are now focused entirely on the client. Patients are better informed; they now play an active role in the purchasing process. New sales channels and new ways of marketing are changing the companies’ vision and strategy.

Companies that fail to adapt to the new reality will soon be out of the game.

**Leaders need to develop new skills to compete**

We held conversations with executives from a range of different companies, to hear their views on how to be successful in this new environment. These conversations revealed that leaders need to develop new skills to be successful, among them:

1. **Focus on the consumer and point of sale:** Leaders cannot lead organizations from their desks anymore; they need to be in the field. In our conversations, leaders concurred that now more than ever, pharmaceutical executives need to be close to the clients, the sales channels and the points of sale.

Pharmaceutical leaders cannot depend solely on distributors anymore to reach consumers. Today, supermarkets and drugstore chains hold a greater weight in the value chain, thus leaders must have a clear understanding of market trends and point-of-sale activity. Successful executives are those who:

“...we are spending more and more time in the field: close to doctors, patients and actively negotiating with distribution channels.”

Edvard Philipson, V.P Latin America, Ferring Pharmaceuticals

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“Leaders must understand their clients. Top rate academic credentials and abstract experience are not enough anymore to make a difference. Successful executives will be those that are close to the market, and who can understand day-to-day realities and take advantage of the opportunities as these arise.”

Edvard Philipson, V.P Latin America, Ferring Pharmaceuticals
• Understand end-user consumers and their competition at the point-of-sale
• Focus on partnering with channels to create both push and pull strategies, to implement integrated marketing plans
• Develop current strategies and channels for in merchandising, loyalty programs and marketing
• Understand how to lead intelligently focused sales efforts by actively participating in strategies focused on patient service

2. Adaptability and strategic market vision: New industry leaders must understand that circumstances have changed and that the industry will continue to redefine itself. The ability to adapt, as well as to identify breakthrough opportunities and envision trends is critical. Agile organizations will be able to continuously reinvent themselves, leveraging experiences from other sectors and other regions across the globe.

Creativity: The pharmaceutical industry has seen its margins fall drastically. As a result, executives must move away from traditional business models to maximize resources and improve operations. They must be creative in developing new tools and technologies, in identifying potential growth markets, and in developing new businesses and products.

3. Ability to take risks: Executives cannot remain buried in reports and corporate bureaucracy. Today’s leaders must be willing to take risks when trying new approaches and implementing new projects.

4. Integrity: Perhaps the most important skill that came up during our conversations was integrity, which is defined as the ability to maintain ethical values in an environment where ambiguous practices exist both in the public and private sectors. The public sector in Mexico is often feared by foreigners because of the complexity of its rules and processes. Pharma leaders must have the ability to define and support their company’s values, making sure ethical practices are followed by all team members throughout the organization. They must always do things fully convinced that they are acting in the best interest of their patients, their company and its employees, as well as the society in which we live.

In conclusion
Leaders in the pharmaceutical sector in Mexico must acquire the new skills required to help their companies compete in an environment that is being redefined faster than ever before. Success will be achieved by those who better understand these changes and develop their skills to take full advantage of the opportunities and address the challenges in the marketplace.

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