

The Pharmaceutical Industry in Mexico: Doing Business with the Public Sector



The public sector today represents an important growth opportunity for the pharmaceutical industry. Companies focus their attention on this sector and discover that specific abilities are required to be successful in it.

In Mexico, as in the rest of the world, the pharmaceutical industry is undergoing changes that are modifying its dynamics and structure. Loss of patents and the growth of the generic market have caused many organizations to transform their strategies. Companies are restructuring, reinventing themselves or acquiring other companies in certain segments. Others are selling divisions that no longer are strategic.

Mexico, even though it is an emerging market, has limited growth potential in the pharmaceutical industry. The expectation for 2011 is below 3%. In previous years (2009/2010), it grew 2%. Other Latin American countries like Argentina, Brazil, Ecuador and Venezuela are growing at steady double-digit numbers.¹ Despite these figures, Mexico still is the 10th largest market in the world for healthcare products, a market that has become increasingly competitive every day with the loss of patents and the growth of generic products.

In the private sector, the lack of innovative products and the expanding market share of generics have caused the total market value not only to stop growing but to decrease.

In the public sector, health policies are aiming to give access to health services to the low-income population through programs such as Seguro Popular. This program, which started in 2004, today provides protection to 49 million people. Estimates show that 87%² of the total population currently has some type of insurance coverage. It is important to add that the health expenditure in Mexico is only 5.9% of the gross domestic product, while in some countries belonging to the Organisation for Economic Co-operation and Development, the average is 9%.

With this increased coverage, government institutions aiming to give medical services to a larger extent of the population will have a greater demand for medicine. This represents a huge opportunity for healthcare organizations that will have to transform to participate jointly with authorities and become business partners instead of suppliers.

¹ Source: IMS Health-México, 2009

² Source: Instituto Mexicano del Seguro Social, 2010

Why is it so complex?

The public sector in Mexico represents around 50% of total healthcare units sold in 2010; in monetary values, it was less than 30%. The public sector is a fragmented and complex market, with each of the major institutions managing its own processes and priorities. In 2010, the Instituto Mexicano del Seguro Social represented 43% of total healthcare purchases. Other institutions, like the Ministry of Health (including Seguro Popular), represented 26%; Institute for Social Security and Services State Workers (ISSSTE) represented 15%; and Petróleos Mexicanos, or PEMEX, and Secretariat of National Defense, or Sedena, together represented 5%.³ The remaining 11% is divided between decentralized institutions. In addition, the Ministry of Health does not centralize purchases but buys its supplies through state and municipal entities; the processes are complex, and so is distribution, i.e., the ISSSTE has nearly 800 delivery points.

Many global companies are biased against public sector practices, although, today, such attitudes are not enough to prevent organizations from participating in this segment.

Doing business with the public sector requires knowledge, capabilities and skills different from those necessary in other markets. Executives require extensive knowledge on processes, regulations and protocols, as well as an awareness of the risks involved. Leaders also need to be persistent, to be process oriented and to have solid values. But what kinds of specific competencies are essential to be successful in this sector? And what type of talent is required?

How to do business with the Public Sector

As mentioned above, skills vary from those required for clients in other sectors. Not everybody has the ability to understand, adapt and negotiate the dynamics of this market. What makes the difference? Why are there extremely successful companies thriving in this market and some that have not been able to participate in it? Price clearly is a factor, but this is not the most important variable. We spoke with executives in the field and identified the critical competencies that have made these leaders successful:

1. Holistic view on business development: It is not enough to participate in tenders and go through all the paperwork. Executives need to understand the business cycle that starts with the patient. They need to know how the patient will have access to the product, where, who will prescribe it and why. They also need to be aware of who the key decision makers are at different levels: doctors prescribing the product in rural vs. urban areas, purchasing personnel from a financial point of view, legislative chambers and government authorities. Distribution aspects also need to be managed to ensure delivery to the patient.

Executives must have solid strategic skills and the business acumen to comprehend the dynamics and drivers of the sector, being able to assertively identify where and how to add value.

2. Adequate expectation management: Sales quotas should be defined around circumstances and realities of the country. Sales potential depends not only on estimated patient populations but also on accurate diagnosis and prescription, product access, distribution and recurrence. Defining potential sales requires setting realistic expectations based on a thorough analysis that includes market risks. Executives must view these analytical capabilities with a pragmatic focus and integrate all pertinent elements.

“In order to do business with the public sector, the pharmaceutical industry must adjust from being only suppliers to becoming active partners in all economic aspects of the public sector health system: optimizing costs and budgets and managing the economic impact of initiatives and projects. The industry must act jointly with government authorities to make the most use of resources—illness prevention, medicine costs, patient care and client service.”

Diego Ayala, Senior Consultant,
IMS Health-México

“Demand is generated with patients and doctors at the base of the pyramid; negotiations are closed at the tip.”

Alfredo Merino, General Director,
Fresenius de México

³ IMS Health-México, 2009

3. Management of ambiguity: Purchasing processes in the public sector take a long time, and strategies must be adapted to different scenarios. Besides being analytical, leaders must read the signs and be creative in adjusting their strategies to new variables and conditions. In some cases, managers must be willing to take risks and invest without any certainty. Mauro Trevisani, a Brazilian and Director General at Distribuidora Marzam (Mexico's third largest drug distribution company) related to us that one of his greatest strengths is his resilience, common in leaders in Latin American countries.

4. Assertiveness in making decisions and negotiations: Whether it is the General Director of the company or Head of the Area who leads negotiations, he/she must have the capability and empowerment to make decisions with common sense and sound judgment. Guillermo Arvizu, Head of Institutional Sales at AstraZeneca México, commented that successful leaders need to develop business opportunities that meet stakeholders' expectations in an environment where "executives must be able to fly over the swamp without muddying their feathers." It means going through all the complex processes, procedures and negotiations without compromising the company's goals or values. Assertive negotiating is key—understanding the market and its drivers, knowing who the players are, taking the right approach and adapting to the circumstances are the factors that determine success.

“There is no certainty when working with the government—executives need to be flexible and able to easily accommodate varying conditions and situations. The ideal person leading the area also must have the capability and authority to make timely decisions.”

Rogelio Ambrosi, Director General , Merck de México

Conclusion

The Mexican market, as the 10th largest market in the world for healthcare products, is highly attractive to many organizations. Government is deploying public policies aimed at expanding access to health services for the population, and the public sector thus is becoming increasingly attractive. Pharmaceutical companies that once were reluctant now are evaluating opportunities and developing strategies to enter this market. Industry leaders are discovering they need to develop different capabilities in their teams to successfully participate. It is only then that executives will improve their company's growth challenges within a highly competitive, complex and uncertain environment.

Today, the Mexican pharmaceutical market is similar to a zero-sum game due to its limited growth; only the highest qualified players will be able to profit from the opportunities rising in strategic areas such as the public sector and make their companies grow at the expense of their competitors. The race for talent has begun.

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