Mi Farmacita Nacional: Scalable solution for Mexico’s poor?

15.965 Global Health Delivery and Management
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Mission & Context

- Mission: “Deliver drugs and special services to the ones with the greatest need in Mexico, providing affordable health, welfare and communication to the vast majority of households”
- For-profit institution with a franchise business structure
- Headquarters Location: Tijuana, Mexico

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>First store opens in Tijuana</td>
</tr>
<tr>
<td>2004</td>
<td>Five more stores open</td>
</tr>
<tr>
<td>2005</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>57 stores are open in 11 states in Mexico</td>
</tr>
<tr>
<td>?</td>
<td>?</td>
</tr>
</tbody>
</table>

Why does Mexico need help?

Official Unemployment of 4-5% does not tell the story:

- INEGI: Mexican Government Statistics Agency
  - 14.7% of employed earn less than $4.50
  - 39% of employed earn less than $9.00
  - 63.9% of employed do not have access to public or private healthcare institutions through employment

- Healthcare is delivered through the Ministry of Health:
  - Care is very decentralized without regulations or quality standards
    - Recently, the government has passed legislation to regulate generics and how antibiotics are sold
  - Only 13% of Mexico’s 4000 hospitals are certified
The Franchise as a Strategy

Ability to scale + Focus on quality = Sustainable Business Model?

- Proven business model
- Unregulated environment in Mexico favorable to fast expansion
- Limited capital required for franchisor

- Best practices shared with all franchisees
- Intense focus on drug quality (could bring down entire business)
- Dependable supply of products through partnerships

Need current financial information or trends on growth of franchises
Who?
- Consumer: low income Mexicans
- Franchisees: middle and upper class Mexicans

How much?
- $18,300 investment – half due upfront, remainder due after 20 mo
- 3.5% of monthly revenues

Services
- Low cost generic medicines
- 2054 available types of patented & generic medicines
- Basic Doctor consultations for $2 USD
- Beauty/Hygiene goods, Food, Filtered Water, Internet, Telephone
Laboratorios Collins
*Generic Drug Manufacturer*
Zapopan, Mexico

Grupo Farmaceutico
*Pharmaceutical Distributor*
Tijuana, Mexico

eMaksimus
*Digital Inventory System*

Mi Farmacita Nacional
*Headquarters*
Tijuana, Mexico

Mi Farmacita Nacional
*Franchise Owned*
Morella, Mexico

Mi Farmacita Nacional
*Franchise Owned*
Mexico City, Mexico

Mi Farmacita Nacional
*Franchise Owned*
Puerto Vallarta, Mexico

*Adapted from Sarkar 2009.*
Farmacias Similares

- Established in 1997
- Largest pharmacy chain in Latin America
- Located in every major city in Mexico
- Located within 2 kilometers of most Mi Farmacita stores
- Serves almost half of the Mexican population
Similar drugs are prevalent in Mexico but are not actually the same as the original drug.

2005: Regulations passed that all pharmaceuticals must demonstrate bioequivalency
- Slowly taking hold with additional incentives from government

2007: Progress for generics
- 6% of the pharmaceutical market
- Growing at 50% per year
- Estimated market potential = $2.2 billion

2010: Regulations passed that pharmacies can only sell antibiotics medication with a doctor’s prescription
- People can no longer self-medicate
Mi Farmacita

• On site doctors
• 60 locations
• Carries only tested generic medications
• Digital medical records

Farmacias Similares

• Targets low to middle income populations
• Low cost drugs
• Provides services such as telephone, internet, hygiene products, etc.

• Located adjacent to doctors
• 3400 locations
• Provides “similar” drugs, not tested generic
• 24 Hour care hotline
What makes Mi Farmacita unique?

- On-site doctors
- Partnership with distributor and manufacturer to offer low-cost drugs
- Only offers tested, generic medications
- Accessible locations
- Clean facilities and professional staff
- Good reputation and loyal customers
**Mi Farmacita faces challenges**

**Consumers and Competition**
How do you inform consumers that Generics are safer and offer more value?

**Leadership**
What is the VISION and PURPOSE of the company?

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Value to Consumer

"Similar" Medicines

Generics

**OR**
What we will do as leaders

**Expansion**
- Establish a clear plan for expansion and communicate this through the organization
- Determine what additional services
- Creditor

**Education**
- Educate consumers on the differences of generic and similar medicines to curb competition
- Provide education on prevalent health risks in Mexico: HIV, obesity/diet, pesticides

**Entente**
- Establish a clear public vision of what value Mi Farmacita brings to Public Health in Mexico
- Establish formal partnerships with Mexico’s Ministry of Health to collaborate on health problems
Data Required for Next Steps

- Level of expansion since 2007
- Recent regulation implications
- Recent changes in the Mi Farmacita infrastructure
  - Is the social sector goal still intact?
www.mifarmacita.com
Guillermo Kravensky
Ramya Sarkar
Supplemental Information
Contributions
• Serves the poorest communities in Mexico
• Delivers high quality generic medicines
• how this fits with needs of the community it serves

Services
• Generic and Patent drugs
• Doctors
• Phone both
• Internet
• Purified water
• Cell phone recharge

Centralized Assets
• Marketing Materials
• Supply chain network
• eMakismus inventory network
# Franchise Investment

<table>
<thead>
<tr>
<th>Initial Investment per Franchise</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franchise payment to Mi Farmacita HQ¹</td>
<td>$18,300</td>
</tr>
<tr>
<td>First Payment - paid in full</td>
<td>$9,200</td>
</tr>
<tr>
<td>Remaining 50% is financed in 20 months</td>
<td>$9,200</td>
</tr>
<tr>
<td>Remodeling Costs² (construction, electricity, floors, walls, restrooms)</td>
<td>$4,600</td>
</tr>
<tr>
<td>Point of Sale System (E- Maksimus)</td>
<td>$1,700</td>
</tr>
<tr>
<td>Computers and Equipment (pharmacy and doctor's office, printers, cashier, barcode reader, internet)</td>
<td>$3,200</td>
</tr>
<tr>
<td>Shelves, tables, chairs, doctor's table, etc.</td>
<td>$4,100</td>
</tr>
<tr>
<td>Interior signs</td>
<td>$500</td>
</tr>
<tr>
<td>Exterior signs for the pharmacy and doctor's office</td>
<td>$1,800</td>
</tr>
<tr>
<td>Working capital</td>
<td>$1,400</td>
</tr>
<tr>
<td>Medical equipment for the doctor's office</td>
<td>$1,700</td>
</tr>
<tr>
<td>Advertising (flyers, promotional items, radio broadcast, etc.)</td>
<td>$1,400</td>
</tr>
<tr>
<td>Licenses and extras (insurance and other startup costs)</td>
<td>$500</td>
</tr>
<tr>
<td>Training to franchisees</td>
<td>$1,100</td>
</tr>
<tr>
<td>Initial inventory - Medicines (paid in full to the supplier)</td>
<td>$8,300</td>
</tr>
<tr>
<td><strong>Total Investment</strong></td>
<td><strong>$48,600</strong></td>
</tr>
</tbody>
</table>

1) Exchange rate of 1USD = 10.9 pesos  
2) The franchise cost does not include taxes  
3) All costs vary depending on the location and size of the establishment. Costs can be up to $100,000 at the high end.

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## Ownership Type Breakdown

<table>
<thead>
<tr>
<th>Ownership type</th>
<th># of franchises</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate</td>
<td>11</td>
<td>19%</td>
</tr>
<tr>
<td>Individual</td>
<td>35</td>
<td>61%</td>
</tr>
<tr>
<td>Partnership</td>
<td>8</td>
<td>14%</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>5%</td>
</tr>
</tbody>
</table>

## Yearly Sales and Outlet Data

<table>
<thead>
<tr>
<th>Year</th>
<th>Total sales (US$)</th>
<th># of outlets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$440,347</td>
<td>10</td>
</tr>
<tr>
<td>2005</td>
<td>$1,405,631</td>
<td>26</td>
</tr>
<tr>
<td>2006</td>
<td>$2,936,665</td>
<td>57</td>
</tr>
</tbody>
</table>

# Patent vs Mi Farmacita Prices

<table>
<thead>
<tr>
<th>Drug Name</th>
<th>Dosage</th>
<th>Patented</th>
<th>Mi Farmaceutia</th>
<th>Discount</th>
<th>Uses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loratadine</td>
<td>10 mg</td>
<td>$27.39</td>
<td>$10.00</td>
<td>64%</td>
<td>Antihistamine, allergies</td>
</tr>
<tr>
<td>Prednisone</td>
<td>5 mg, 30 ct</td>
<td>$15.78</td>
<td>$3.07</td>
<td>81%</td>
<td>Corticosteroid; immunospressant with numerous uses</td>
</tr>
<tr>
<td>Omeprazole</td>
<td>20 mg</td>
<td>$30.83</td>
<td>$14.59</td>
<td>53%</td>
<td>Ulcer treatment</td>
</tr>
<tr>
<td>Ketorolac</td>
<td>100 mg, 10 ct</td>
<td>$14.09</td>
<td>$2.98</td>
<td>79%</td>
<td>Analgesic; fever reducer</td>
</tr>
<tr>
<td>Nimesulid</td>
<td>100 mg, 10 ct</td>
<td>$11.56</td>
<td>$4.59</td>
<td>60%</td>
<td>Arthritis; cancer</td>
</tr>
<tr>
<td>Diclofenac sodium</td>
<td>100 mg, 20 ct</td>
<td>$27.39</td>
<td>$5.14</td>
<td>81%</td>
<td>Anti-inflammatory; arthritis</td>
</tr>
</tbody>
</table>

Partnerships are the backbone of the model

SUPPLIER
Laboratorios Collins
• Sells generic drugs to Grupo Farmacéutico at a discount

DISTRIBUTION
Grupo Farmacéutico
• Uses distribution network to efficiently supply high quality drugs

RETAILER
Mi Farmacita National
• Sells products to the community
### Monthly Cost Statement

<table>
<thead>
<tr>
<th>Sample Monthly P&amp;L for a Franchise - $USD</th>
<th>Monthly</th>
<th>Yearly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$6,537</td>
<td>$78,440</td>
</tr>
<tr>
<td>Doctor Consultations</td>
<td>$298</td>
<td>$3,578</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$6,835</td>
<td>$82,018</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>$3,138</td>
<td>$37,651</td>
</tr>
<tr>
<td>Profit sharing (Generics)</td>
<td>$327</td>
<td>$3,922</td>
</tr>
<tr>
<td>Monthly Franchise Fee (3.5%)</td>
<td>$229</td>
<td>$2,745</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>$3,142</td>
<td>$37,700</td>
</tr>
<tr>
<td>Fixed Salaries</td>
<td>$1,083</td>
<td>$12,996</td>
</tr>
<tr>
<td>Rent</td>
<td>$321</td>
<td>$3,853</td>
</tr>
<tr>
<td>Electricity</td>
<td>$92</td>
<td>$1,101</td>
</tr>
<tr>
<td>Water</td>
<td>$23</td>
<td>$275</td>
</tr>
<tr>
<td>Consumables and telephone</td>
<td>$229</td>
<td>$2,752</td>
</tr>
<tr>
<td>Operating Costs</td>
<td>$1,748</td>
<td>$20,978</td>
</tr>
<tr>
<td>Profit Before Tax</td>
<td>$1,067</td>
<td>$12,805</td>
</tr>
</tbody>
</table>

### P&L Inputs - Monthly

<table>
<thead>
<tr>
<th>Manager</th>
<th>Clerk</th>
<th>Doctor</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Salaries</td>
<td>$349</td>
<td>$275</td>
<td>$459</td>
</tr>
<tr>
<td>Profit sharing (Generics)</td>
<td>$109</td>
<td>-</td>
<td>$218</td>
</tr>
<tr>
<td>Total</td>
<td>$458</td>
<td>$275</td>
<td>$677</td>
</tr>
</tbody>
</table>

- Average Consultations per Day: 5
- Price per Consultation: $2.29
- Monthly Consultation Revenues: $298

Exchange Rate: 10.9 pesos = $1 USD

Additional services include: 24 hour call service,
Increase sales manager and assistant sales manager to recruit new franchise owners
Offer credit via bank agreements to potential low income franchisees to increase number of stores

Doctors
- Having qualified doctors readily available for hire via online application
- Increase doctor salaries via referrals and cross-subsidizing
Education

Mass press campaign about generics vs similar drugs & recurring checkups

Physicians and pharmacists will educate:

- Generics vs similar
- Regular check-ups
- Migrant Health Issues/ pesticides
- Obesity/ diabetes
- HIV
Leverage online health record system to partner with Ministry of Health
- Epidemics
- Clinical trials
- Enforcement of similar drugs
- CCT- Oportunides/ Progresa

Use this as a strategic weapon to compete more aggressively with Similares
What we will do as leaders

- **Leverage the new generic drug regulations**
  - Take advantage of Mi Farmacita’s direct connection to Laboratorios Collins and their discounted rates on generics
  - Mi Farmacita does not have to change their stock or their value chain to fall in accordance with the new law
  - Change their marketing materials to better inform customers of their value over competitors

- **Distribution system**
  - Use of Grupo Farmacéutico is good for price control and centralizing stock flows
  - Major issues with stock outs or procuring medication that Laboratorios Collins does not carry
  - Why did the past CEO leave?

- **Where to expand**
  - Because of competition, focus on certain areas to build a niche
  - Create a brand in Tijuana and build on that