

## CASE STUDY

# Achieving Sustainable Growth by Serving Low-Income Customers

Corporación Grupo Fybeca: Enabling Access to High Quality Pharmaceuticals and Personal Care Products in Ecuador

February 2017

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## ABOUT THE CASE STUDY

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## ACKNOWLEDGEMENTS

A special note of appreciation is extended to Corporación GPF. The author is grateful for the many insights provided by IFC colleagues Carolina Valenzuela, Kathleen Mignano, and Alexis Geaneotes. Special thanks to Renuka Rayasam for copy editing support and Groff Creative for the design.

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# Corporación Grupo Fybeca S.A. (GPF)

**Country:** Ecuador

**Sector:** Health and Retail

**IFC Investment:** \$30 million

The mid-1990s were a challenging time for low-income Ecuadorians that needed to access affordable, quality medicines. Because of political turmoil and a severe financial crisis, urban poverty increased from 35 percent to 65 percent between 1998 and mid-1999 in Ecuador.<sup>1</sup> The lack of universal public insurance meant that private spending on health was almost entirely out-of-pocket, with an estimated 61 percent on pharmaceuticals.<sup>2</sup>

Both the rural and urban poor were equally impacted by the crisis. At the time, about 45 percent of Ecuador's population resided in rural areas.<sup>3</sup> The rural poor had limited or no access to public health facilities and experienced medicine shortages because pharmacies were concentrated in cities with high population densities. Instead they turned to traditional healers, travelled great distances to purchase medicines they could barely afford, or went without medicines. In cities, pharmacies were plentiful, but they catered to middle and high-income customers, neglecting the urban poor.

Against this backdrop, Corporación Grupo Fybeca S.A. (GPF), a pharmaceutical retailer with a history of innovation, saw an opportunity to complement its high-end pharmacy chain, Fybeca, with a down market chain so that customers could access quality medicines at economical prices. In 2000, GPF launched SanaSana — its first pharmacy for low-income customers. GPF is a private holding company that dates back to 1930 with third and fourth generation family members still involved in management. The company employs 4,500 people and is committed to promoting gender equality — 65 percent of



its staff are women — and the values of trust, transparency, and a desire to serve others.

Today, there are 510 SanaSana pharmacies across 120 cities and towns in all 24 of Ecuador's provinces. Around 218 SanaSana pharmacies are located in rural areas, smaller cities, and towns. SanaSana is now the country's largest pharmaceutical chain of company-owned and managed stores and the second largest in market share. The brand has become prominent for selling prescription and non-prescription medicines, personal care products, general merchandise, and mobile phone airtime along with handling utility bill payments. In 2016, SanaSana pharmacies contributed to more than 50 percent of GPF's revenues.

## ESTABLISHING A PHARMACEUTICAL RETAIL FOOTPRINT

### The Early Years

GPF was founded by Galo Villamar Villafrute, a pioneer who helped shape Ecuador's pharmaceutical retail industry. In 1930, his father established a small drugstore in the historical district of Quito, the country's capital. After pursuing degrees in civil engineering and economics, Villamar took over the store in 1948.

Villamar offered competitive prices and more personalized service than the competition, which underpinned the company's growth. By the early 1950s he was able to acquire his largest competitor in Quito, Botica Pichincha. Villamar became one of the first in Ecuador to introduce packaged medicines in his pharmacies in addition to mixing and dispensing medical compounds, which was standard practice at the time. In 1957, with several pharmacies under his management, Villamar created the legal entity Farmacias Quito y Botica Pichincha C.A.

### Building a Brand

From 1965 to 1985, the company changed its name twice and began to unite all its pharmacies under the brand Fybeca. This brand would stick even though the official name of the company was changed to Farmacias y Comisariatos de

## THE STORY BEHIND THE NAME SANASANA

The SanaSana name is based on the popular Latin American song '*Sana sana colita de rana*,' which is sung to children when they are sick or get hurt. A central character in the song is a frog which has become SanaSana's iconic symbol and communicates the company's strategic concept of providing relief in one thousand ways.



Medicinas S.A. FARCOMED in 1985. By then the company had 14 pharmacies and Villamar's three children came on board.

Fybeca pharmacies were between 140 and 900 square meters in area and targeted customers in the highest income brackets.<sup>4</sup> The family continued to modernize the business and innovate, becoming the first in Ecuador to introduce key elements of the United States' pharmacy model, which included self-service, over-the-counter, and personal care products, as well as gifts and discount



## GPF's Value Chain

### An Overview of Challenges and Solutions



#### Value Chain



#### Challenges in Serving Low-Income Customers



#### SanaSana's Solutions

Procurement & Product Development	Distribution	Marketing & Sales	Customer Service
<ul style="list-style-type: none"> <li>• Insufficient local supply of pharmaceuticals</li> <li>• High cost of imported pharmaceuticals</li> <li>• Limited availability of low-cost personal care products</li> </ul>	<ul style="list-style-type: none"> <li>• Saturation of distribution center capacity</li> </ul>	<ul style="list-style-type: none"> <li>• Customers' low purchasing power and erratic cash flow</li> <li>• Varying customer preferences</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of personalized service</li> </ul>
<ul style="list-style-type: none"> <li>• Purchase in bulk to lower procurement costs</li> <li>• Increase sales of generic pharmaceuticals</li> <li>• Develop private label affordable personal care products</li> </ul>	<ul style="list-style-type: none"> <li>• Build a state-of-the-art automated distribution center</li> </ul>	<ul style="list-style-type: none"> <li>• Offer low-cost pharmaceuticals and non-pharmaceuticals</li> <li>• Sell medicines in single units</li> <li>• Offer everyday low prices</li> <li>• Tailor discounts and promotions by location</li> <li>• Conduct regular market research on customer preferences</li> </ul>	<ul style="list-style-type: none"> <li>• Develop customer service protocol</li> <li>• Ensure consistent service through ongoing training</li> </ul>





cards, to increase customer convenience. In the years that followed, Fybeca became a household name and the company carried on its tradition of innovation, introducing home delivery, drive-through services, and eventually online shopping in 2014.

## GOING DOWN MARKET TO INCREASE GROWTH

In the mid-1990s, several political and economic events negatively affected Ecuador's economy, including a costly armed conflict with Peru. An international financial crisis spread to Latin America and oil prices dropped. By the late 1990s, Ecuador was in the midst of the worst economic crisis in its history. The country's currency depreciated rapidly and inflation reached more than 50 percent in 1999.<sup>5</sup>

By then the Villamar family owned 40 Fybeca pharmacies in four major cities, but they needed to evolve their strategy to grow the business during the crisis. In addition, they wanted to find a way to alleviate the economic hardship of Ecuadorians. The family believed that the moment was ripe for a double bottom line opportunity: they could offer high-quality medicines at economical prices to low-income customers, while earning a

reasonable profit. Decades of experience managing pharmacies, a robust distribution infrastructure, and strong brand name worked to their advantage. The strategy ushered in a new phase of growth for the company.

## SanaSana Pharmacies: Balancing Risk and Returns

In 2000, the Villamars opened the first SanaSana pharmacy in a low-income neighborhood outside Quito. SanaSana pharmacies provided affordable medicines and an ample assortment of non-pharmaceuticals. However, they carried a narrower range than Fybeca since they focused on basic everyday needs and had fewer brands. Stores were smaller in area than Fybeca, but offered personalized services and a quality experience in hygienic conditions. (Figure 1). By the end of 2000, there were ten stores in Quito and the port city Guayaquil. The stores, which operated under a newly created company called Econofarm SanaSana, created a great stir with their value proposition of low-cost products and good service, but, above all, because they were a bet on a new brand in the midst of an economic crisis.

## Determining the Product Mix

SanaSana aimed to become a fair-priced and quality pharmacy known for excellent service. To pick the



right products, company management analyzed all pharmaceuticals in Fybeka pharmacies and selected those that cost the least. They ended up selecting about 400 products to keep in stock. As the company researched the market, it learned that its customers desired a greater variety of products so it introduced diapers, shampoos, oral hygiene, and other items, as well as snacks, ice-cream, and beverages. SanaSana provided the benefits of a convenience store, while offering the largest variety of products in the low-income pharmacy market. In 2005, it also began to add services.

### Increasing Affordability






The majority of SanaSana customers were in the lower-middle and low-income brackets; they had incomes ranging from \$50 to \$200 per month and were very price sensitive.<sup>6</sup> In addition those customers at the lower end of this income range had unpredictable cash flows so they needed to make daily small purchases. The company pursued several strategies to keep its products affordable, including:



**1. OFFERING EVERYDAY LOW PRICES, SINGLE UNITS, AND DISCOUNTS:** In 2000, SanaSana pharmacies were launched with big discounts to attract customers and prove the concept of a low-cost pharmacy. Also, per regulation, medicines could be sold as single units making them very affordable. A pill of aspirin, for example, costs around \$0.05. Many people completed a full course of treatment by purchasing a single pill every day as they couldn't afford to buy a full prescription upfront.

By 2001, with 30 stores up and running and \$5 million in sales, the company successfully proved its concept. It began gradually reducing big discounts so it could open pharmacies in new locations and shift to building a financially sustainable model based on everyday low pricing. As the number of SanaSana pharmacies grew, the company tailored its discounts and promotions to customer preferences. (Box 1). It also introduced a rewards card so customers could earn points for purchases through promotions.

Figure 1: SanaSana Pharmacies at a Glance

Target Customers	Store Size	Locations	Staff	Product and Service Mix
				
Lower-middle and low-income customers between the ages of 26 and 45 years	40-150 square meters	Central, high-traffic locations that are easily accessible to customers by foot or by public transport	Up to five employees	Pharmaceuticals and a smaller variety of non-pharmaceuticals such as personal care, toys, gifts, seasonal items



## 2. LAUNCHING A PERSONAL CARE

**PRODUCTS LINE:** Given the limited local supply of affordable and small unit size personal care products, the company

launched the SanaSana private label in 2015 with local manufacturers. Today, stores stock more than 80 SanaSana private label products such as shampoos, deodorants, oral hygiene products, and razors with prices ranging from \$0.50 for toilet paper to \$8 for shampoo. Package sizes vary from single units, such as 20 milliliter sachets, to family packs and are between 5 percent and 15 percent cheaper than branded equivalents.



## 3. PARTNERING TO EXPAND GENERIC

**PHARMACEUTICALS:** Ecuador has a small pharmaceutical industry so the country relies on imports of branded and generic

pharmaceuticals. Generic medicines are a source of savings for low-income customers, but they represent only 6 percent of national sales given the preference for branded medicines and historically poor reputation of generics for quality.<sup>7</sup> This has been difficult to change, but there is now a greater emphasis on selling quality generics in the country. They also constitute 14 percent of sales volumes in SanaSana pharmacies. In order to increase its future sales of top-of-the-line generics, the company partnered with a leading pharmaceutical lab in Colombia in 2014.

Apart from these strategies, the company's ability to purchase in bulk enabled it to secure large volume discounts from suppliers and keep prices affordable for customers.

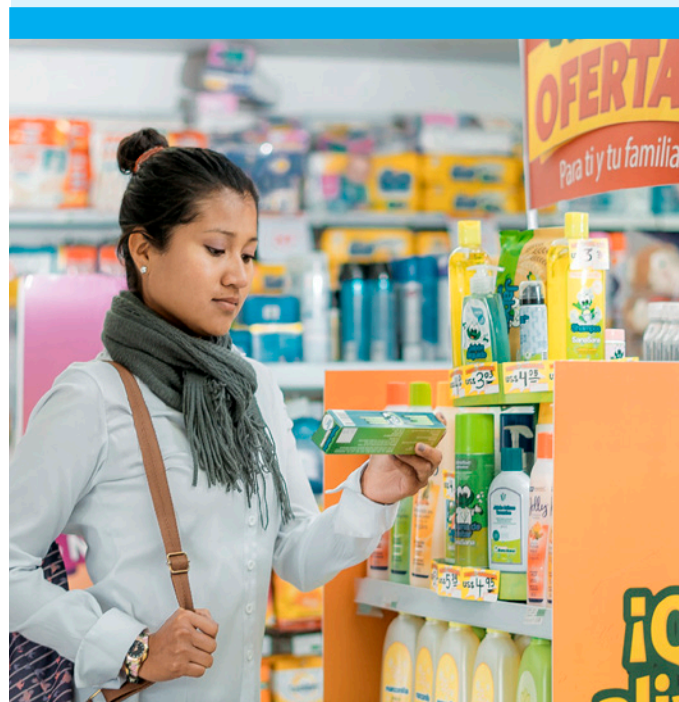
## Ensuring Quality

Quality is a key element of the SanaSana value proposition. The company procures products from reliable suppliers and maintains the right temperature and humidity conditions for storage at the distribution center, during transport, and at pharmacies. In addition, it trains staff in the storage and handling of medicines. Products past their expiration dates are collected and disposed of in accordance with national regulations.

## Box 1. Generating Customer Insights

Market research helps SanaSana adapt its product mix and promotions to customer preferences in different locations. Five years after launch, the company learned that women with young children were a significant proportion of its customer base so it introduced promotions and steep discounts for baby products such as diapers and formula.

A customer experience team now surveys patrons in stores every quarter to collect demographic information and assess their level of satisfaction, store experience, such as speed and quality of service, and product preferences including pricing. This information helps the company identify brand attributes that are most important to its customers. In addition, 'mystery shopper' surveys determine whether staff are providing good customer service.





## INITIAL EXPANSION OF SANASANA PHARMACIES

### Identifying Store Locations

In its early days, the company introduced SanaSana pharmacies in low-income neighborhoods of cities with a Fybeca presence, making it easier to distribute products to both types of stores on the same route. As a result, it was able to quickly grow the number of SanaSana pharmacies to 60 by 2003.

But the company also leased space so that it had the flexibility to shift locations as needed. In order to serve thousands of customers across Ecuador, the company identified new locations based on population size, demographics, employment rates, infrastructure, and other pharmacies. It also considered the availability of labor, particularly people with pharmaceutical knowledge and customer service experience.

### Developing Point-of-Sale Formats

As the company expanded its presence and product mix, it developed several point-of-sale formats as a one-size-fits-all approach didn't work for all locations. (Figure 2.)



**Counter-only Stores:** Pharmacies were rolled-out in the counter-only format in which medicines and a small selection of non-pharmaceuticals were sold from behind the counter. They worked well in high traffic locations, such as those near a bus stop, where customers expected quick service. The format also worked in rural areas given their small size and narrower product portfolios.



**Counter + Self-Service Stores:** With growing customer interest in non-pharmaceuticals, the company introduced a store format that featured self-service shelves in the front of the store for these products. Pharmaceuticals continued to be sold behind the counter. These pharmacies were suited to residential neighborhoods and locations where people had time to shop. The self-service format increased sales volume and more efficiently amortized fixed operational costs, enabling the company to offer a wider selection of non-pharmaceuticals at competitive prices.



**Large Format Store:** The SanaSana large format pharmacy was created to serve secondary cities that didn't have Fybeca

**Figure 2: SanaSana's Point-of-Sale Formats**

#### COUNTER-ONLY STORES



**Launch Year:** 2000

**Size:** ~40m<sup>2</sup> in area

**Footprint:** 278 stores as of 2016

**Products:**

- Pharmaceuticals and non-pharmaceuticals sold behind the counter
- Small selection of non-pharmaceuticals (e.g. personal care products, and some snacks and beverages)

#### COUNTER + SELF SERVICE STORES



**Launch Year:** 2004

**Size:** ~100m<sup>2</sup> in area

**Footprint:** 222 stores as of 2016

**Products:**

- Pharmaceuticals sold behind the counter and self-service non-pharmaceuticals
- Wider selection of non-pharmaceuticals

#### LARGE FORMAT STORES



**Launch Year:** 2011

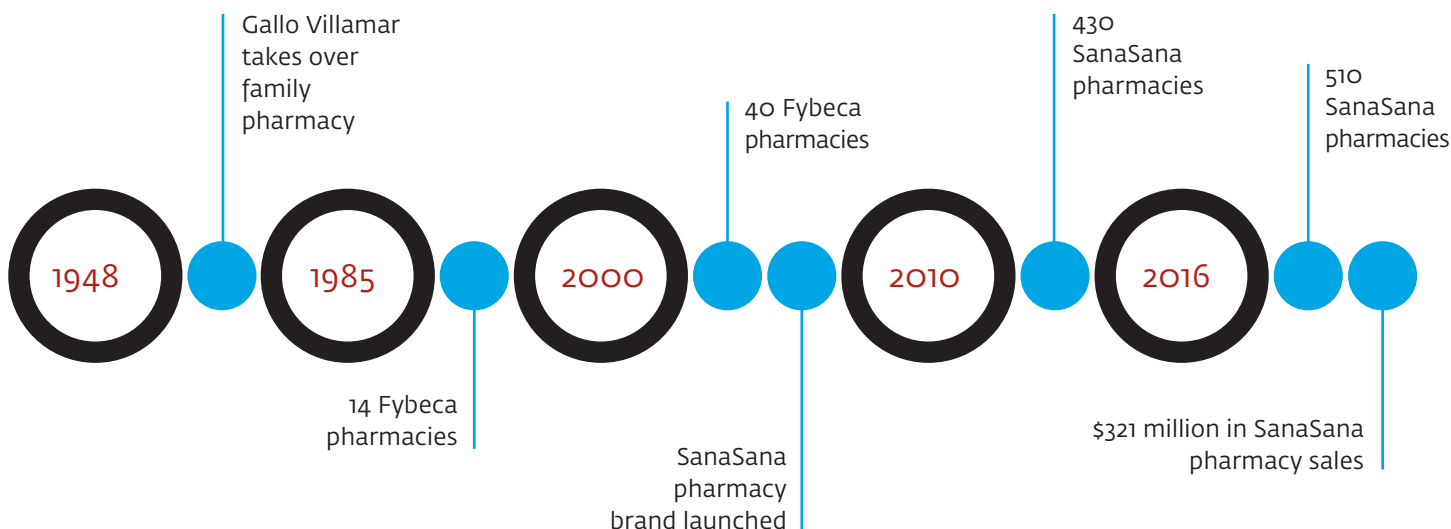
**Size:** ~150m<sup>2</sup> in area

**Footprint:** 10 stores as of 2016

**Products:**

- Pharmaceuticals sold behind the counter and self-service non-pharmaceuticals
- Largest selection of non-pharmaceuticals (e.g. beauty and child care products, food and beverages, gift items)

**Figure 3: Key Milestones in GPF's History**



stores. They were typically located in public squares to generate foot traffic. By offering the largest selection of branded and generic products in these stores, the company could reach customers across all income segments.

### **Building a Customer Service Ethic**

SanaSana customers not only valued affordable prices, but also personalized service. The private sector typically minimized the importance of customer service for the low-income segment, but surveys of SanaSana customers indicated that they preferred it. While the company emphasized customer service from the start, as it expanded it needed to embed this ethic within its work culture and standardize its practices. In 2002, it introduced a protocol which focused on timely attention, kindness, and provision of advice among other elements. The protocol was incorporated into staff inductions and key concepts were reinforced through ongoing training to ensure consistent service.

### **SERVING THE NATIONAL MARKET**

SanaSana grew rapidly from 2000 to 2015. The company knew that for the model to be successful it would need to achieve scale so that it could dilute costs.

Competitors targeting the low-income segment entered the market within a few years of the first SanaSana pharmacy, but the company had the advantage of being a first mover and viewed competitors positively. By replicating its model, competitors helped SanaSana build its brand as a leading innovator.

The company focused on expanding into locations not adequately served by pharmacies offering a large selection of products and services, better prices, and an enhanced customer experience. During this phase, it experienced challenges such as identifying ideal rental spots at the right prices, managing store expansion within limits set by the government, and working with available labor. Expansion slowed during the 2008-2009 financial crisis and picked up



in 2010 when the company acquired *Farmacias Victoria's* 75 drugstores.

Between 2011 and 2016 it also expanded its network with 44 franchise outlets. As small entrepreneurs, the franchise owners had good connections to the community and were attuned to their customers' needs. Over time, however, the company found that franchises had a less defined commercial culture and faced difficulties in obtaining finance. In response, the company introduced strategies such as segmentation of franchisees, financial assistance, operational and IT support, and tailored commercial strategies.

As SanaSana pharmacies grew in popularity, they became models for better business practices and good customer service in the industry. To maintain these standards and prepare for the future, the company started investing in its workforce.

## Talent Management

Offering a consistent, quality experience in SanaSana pharmacies meant recruiting the right people and investing in their training. It was easier to attract people to work in pharmacies in small towns and rural areas where SanaSana was the employer of choice. In large cities, however, the company faced typical retail industry difficulties in retaining staff. Millennials in particular worked for a few years and moved on to other jobs. Learning to efficiently manage this personnel turnover became a critical competence for the company.

In the retail sector, good benefits, training, and career progression can alleviate retention challenges and these strategies have helped GPF. To attract and retain youth who value skill development, GPF offers one of the strongest benefits packages in the industry along with training. Now about 65 percent of GPF's workforce is under the age of 30 years.

In 2014, the company launched a "corporate university," which is an in-house training unit that provides employees between two to three years of technical training in sales,

## THE GPF UMBRELLA

In 2010, the holding company GPF was established to bring together all of the Villamar family's businesses. These included the pharmacy chains Fybeca and SanaSana, the distribution and shared services center Provefarma, and Abefarm S.A., which handles corporate accounts and business-to-business initiatives.

The Villamar family has an 84 percent stake in GPF and the remaining 16 percent is owned by other investors.



Good benefits, training, and career progression can alleviate retention challenges.

## COMMITMENT TO GENDER EQUITY

In 2016, GPF became the fourth company in Ecuador to sign “The 7 Principles for the Empowerment of Women” with United Nations Women.

3 of 7  
members of  
the board of  
directors are  
women

6 of 10  
employees are  
women

67%  
of women  
employees  
hold  
management  
positions

pharmacology, leadership, and customer service. Senior supervisors and top performers conduct trainings. Today, nearly 2,400 people are employed in SanaSana pharmacies and 10 percent undergo training every year. An online training program will be rolled-out in 2017 to reach staff in remote locations and reduce training costs.

## INCREASING PRODUCTIVITY AND EFFICIENCY THROUGH TECHNOLOGY

In 2013, GPF began an ambitious project to modernize its technological and distribution capabilities as well as to improve its value proposition and customer experience, in order to prepare for the future. In addition, these investments will help to increase process efficiencies and control, enhance big-data processing and business intelligence capabilities, and increase logistics reliability and productivity.

### Shifting from Manual to Automated Distribution

In 1990, the Villamars established the company Provefarma to handle distribution for its growing number of Fybeca pharmacies. Provefarma initially operated several small distribution centers, but in 2005 it built a 10,000 square

meter distribution center south of Quito to centrally handle logistics for Fybeca and SanaSana pharmacies. More than 500 suppliers delivered products for sorting, storage, and shipment to stores — the latter outsourced to transportation companies. The distribution center had sufficient capacity to serve both Fybeca and SanaSana pharmacies for more than a decade.

By late 2011, rapid business growth led to saturation of its capacity and productivity began to decrease due to labor intensive processes. Labor costs had also increased significantly, making the distribution operation less efficient and profitable.

In 2011, the company decided to build a second 12,250 square meter warehouse and rent distribution centers while construction was underway. It also commissioned several studies from international experts who concluded that the best solution to improve logistics was to install automated processes in the new warehouse.

By installing automated, semi-automated, and manual equipment and using the latest layout and workflow designs, a single distribution center would be sufficient for the next decade. This state-of-the-art facility was completed at the end of 2016. It is the first-of-its-kind in Ecuador and one of the few automated retail distribution centers in Latin America. Its key features include a single space for warehousing functions, a mix of manpower and automated warehouse-handling technologies for loading, sorting, picking, and packing of products, and an increase in storage capacity by 40 percent.

With these advancements, GPF expects to lower labor costs, improve productivity, and boost throughput by 30 percent. It will also be able to increase the frequency of deliveries, optimize delivery truck capacity, and implement product traceability with the new distribution center.

### Integrated Retail Management System

Prior to its distribution center upgrade, GPF invested in retail management and business intelligence software systems in 2015, which will be fully implemented by 2018.



The systems will evolve how the company gathers and uses information from its customers, suppliers, distribution center, stores, and other stakeholders. They will integrate financial enterprise resource planning (ERP), warehouse management, point-of-sale, and other retail management subsystems.

The new systems will improve processes such as demand planning, supply chain, customer loyalty, financial management, and business intelligence. The changes in core technologies will enhance the customer experience, increase business agility and improve financial performance.

The future of retail involves developing personalized solutions and emotional connections with customers. It also involves operating with streamlined processes that are efficient and provide business flexibility. State-of-the-art technology is necessary to attain these capabilities, and GPF is leading the use of such technologies in Ecuador and in the region.

## MANAGING CORPORATE GOVERNANCE

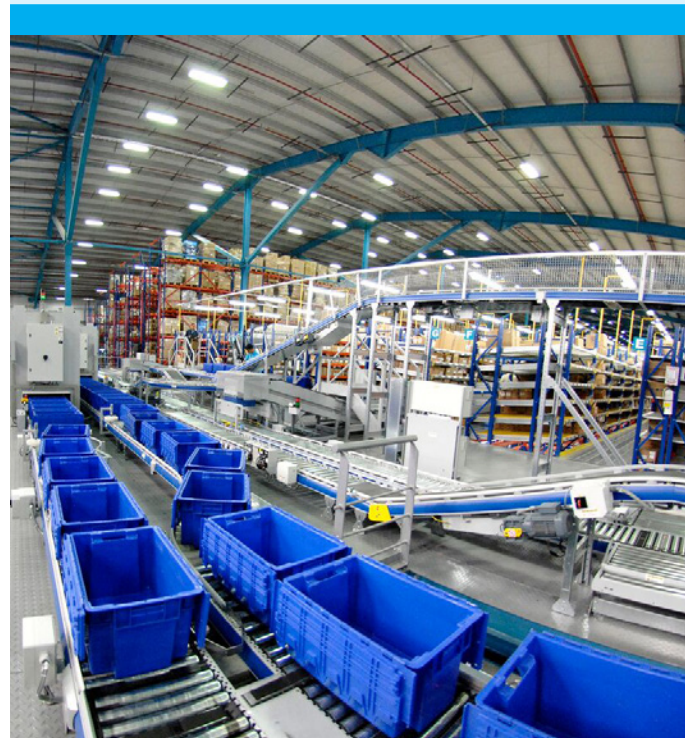
Family-owned businesses often grapple with corporate governance issues, which can be problematic as the businesses grow and seek investment. To position itself for growth, GPF took several steps to improve its corporate governance:

- First, the company strengthened its board of directors in 2010 by including independent directors along with shareholding family members. In addition, it created a formal “Family Protocol” to define the roles, rights, and obligations of shareholding family members, further promoting a meritocratic, results-based culture.
- Second, GPF recruited outside talent for key senior management positions such as the CEO and CFO, both of whom are professionals with ample corporate experience and no ties to the family. Independent professionals also hold the majority of second tier executive positions.

## IFC’S ROLE AND VALUE ADD

In 2015, GPF was in the process of implementing a \$52 million technology-based project to improve distribution and retail management capabilities. It needed long-term financing to support these investments, but local banks only offered loans with tenors of up to three years. IFC stepped in, providing a corporate A-loan of up to \$30 million with an 8-year tenor. This funding would also finance existing store renovation and new store construction. In addition, IFC could share knowledge such as input on GPF’s business model and organization structure based on its global industry expertise and network of clients.

For IFC, the loan to GPF aligns with its strategy in Ecuador to finance projects that facilitate economic inclusion. It also fits well with IFC’s health strategy to provide access to affordable and quality medicines. GPF was an attractive opportunity given its national presence, strong corporate governance, and focus on providing quality medicines and personal care products to low-income consumers.



- Third, although it is not required for a private company, GPF is committed to increasing transparency by publishing an annual sustainability report that adheres to international sustainability guidelines set by the Global Reporting Initiative.<sup>8</sup> It is the only pharmaceutical retail company in Ecuador to do so.

## LOOKING AHEAD

Today there are more than 6,200 pharmacies in Ecuador and competition is fierce among pharmacies that serve the low-income market segment. GPF will need to continue its tradition of innovation to stay ahead of the competition. The company sees itself transitioning from a provider of healthcare products to one that also offers healthcare solutions. Toward this end, it is developing the concept of the 'SanaSana 2.0 store' to offer even greater convenience for low-income customers. In 2017, for example, the company plans to pilot partnerships with physicians to add walk-in clinics and labs to its stores.



## ENDNOTES

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- 8 GRI is an international, independent organization that helps businesses, governments and other organizations to understand and communicate the impact of business on human rights, corruption and other sustainability issues. Its reporting framework is widely used in the world.



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