Contemporary Business Strategies of Indian Leading Pharmaceutical Companies to Avail the Scope of Emerging Global Pharmaceutical Business

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Abstract:

The global pharmaceutical market is going to experience a boom of nearly 800 billion US dollar growth by 2014 which will drag up the total market value to 1.1 trillion US dollar. India having a huge branded generics is the fastest growing pharmaceutical market in the world. With a good GDP growth rate indicating economic prosperity a lot of more customers are demanding pharmaceutical products in the domestic market. So it is deemed essential to observe the scope, functions and marketing strategies of emerging global pharmaceutical market. The relevance of the performance and strategies are also felt to be judged. The study envisaged analysis of the existing global pharmaceutical product sales and growth along with the projected counterpart, India’s leading pharmaceutical companies’ performance and marketing strategies adopted as well as challenges and issues in the way of smooth functioning of the marketing system of pharmaceutical business. To focus on the marketing strategy adopted in search for growing trend of pharmaceutical business multiple case study technique was adopted. From the top ten multinational pharmaceutical companies five were purposively selected based on their market share in the Indian pharmaceutical market, marketed product focusing the therapy, strategies of growth and major acquisitions and disinvestment criteria. The companies selected as sample are Abott India Ltd, Dr. Reddy’s Lab Ltd, Torrent Pharma Ltd, Torrent Pharma Ltd, Pfizer and Alembic. To analyze the business conditions of the sample companies their current annual reports were studied with a comparative note. The qualitative data of the market strategies of the company were collected by Delphie method taking the zonal sales managers as respondents. The paper reflected a sign of hope that the Government is increasing its commitments towards extending health care services to the poor and unprivileged. It also recommended that the Government should also take suitable policy measures like SEZ facilities to promote the business of pharmaceutical companies so that things can be produced at low cost which may reach huge number of rural customers maintaining proper quality.

Key words: demand-supply drivers, CAGR, acquisition, collaboration.
Introduction:

The existence of huge branded generics developed India as one of the fastest growing pharmaceutical market of the world. India is presently holding the twelfth position in the world as per pharmaceutical business is concerned. The cumulative average growth rate (CAGR) of pharmaceutical market of India shows 15 per cent projected growth during 2010 to 2014. It is faster than the projected GDP growth rate of India which is around 8%. Only China is in a little better position when an inter country comparison is drawn. It is also expected that within 2014 India will be world’s fourth large pharmaceutical market just after USA, Japan and China. The global pharmaceutical market is expected to grow nearly 800 billion US dollar by 2014. The total value of the market then will be 1.1 trillion US dollars. In Indian context the market will show nearly 8 billion US dollar value this year. It is also expected that India’s annual turnover will be doubled within 2015. Not only that the retail sales in the Indian in the Indian pharmaceutical market raised by 18 per cent in 2009 it is quite fine while considering the industrial slowdown due to recession across the global economy.

Mckinsey (2009) expressed his view that Indian pharmaceutical market ill grow at the rate of 10-14 per cent; to touch 40 billion US dollar by 2015.

ORG IMS (2009) as a business intelligence firm provided the fact that Indian pharmaceutical market as per secondary sales for the month of March 2009 was higher at 18.4 per cent as compared to 13.30 per cent growth in February 2009 although it had been dipped by 1.2 per cent in October 2008 due to shifting of the consumers to cheap brands and stockists facing a financial crunch. They have also commented that, due to economic prosperity, a lot of more customers are entering organized health care producing antibiotics and acute therapists. The consumption of metro cities and rural market helped to accelerate the sales. Both the urban and semi-urban area are the areas of concern for India based as well as the MNC dealing with pharmaceutical business in India.

Realizing the importance of the study stated above, the following specific objectives were set:

Objectives:

1) To analyze the existing global pharmaceutical product sales and growth along with the projected counterpart.
2) Comparative study of India’s leading pharmaceutical companies’ performance and marketing strategies adopted.
3) To study the challenges and issues in the way of smooth functioning of the marketing system of pharmaceutical business.

Methodology:

To fulfill the objectives stated above the methodology was adopted as follows:

The study was done on both secondary and primary data with time frame of 2009-2010 regarding global business situation of the pharmaceutical industries. The major resource of secondary data was ORG IMS market intelligence report of 2009. This data was tallied with data of IMS Health, Market prognosis, March 2010.
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A simple cumulative average growth rate (CAGR) both existing and projected were calculated to look at the business trend. The emerging trend, business strategies and constraints aced are provided here in a descriptive way. To make it simple and straight and touching the major constraint issues.

The major constraints were ranked according to prioritization by the respondents. As the sample companies number is small, the homogeneity test was not applied.

**Review of Literatures:**

Rangekar (2004) opined that, the women’s health segment emerges stronger as the young age faster and old stay younger. The demand for life-saving and life-cycle drugs are the key demand drivers. He also opined that the challenges of pharmaceutical industry are declining growth rate, reduced margins and drug safety corners. He also raised the issue of patent management and mounting litigation cost of pharmaceutical companies and it’s after effect.

Saxena (2005) expressed his view that, the current shift in the marketing strategy is work by multinational pharmaceutical companies. It is now high end development that is being carried out by leading companies. The other companies are increasingly finding themselves competing against or working with new innovation based companies.

Smith (2000) reflected on new intellectual property (IP) laws that recognize product patents on pharmaceuticals. New law is for changing the existing practice where the Indian drug companies are freely copying molecules from MNCs, to sell within India and other non-patent conforming markets with reference to Exclusive Marketing Rights amendment to the 1970 Patent Act( ratified on April 19, 1999).

Ernst and Young (2005) expressed their comparative views that, pharmaceutical companies’ operation in India are more vertically integrated than they are in China. Also they found from survey that markets are changing more rapidly in China than in India.

Clark (2004) opined that, being threatened under TRIPS many pharmaceutical companies are targeting generic markets of developed countries. Of particular interest to multinationals is the fact than Indian companies are not always waiting for patent expiration before seeking marketing approval. In the context of marketing cost he gave his view that, on average, manufacturers devote 9% of revenues to marketing when the MNCs bear 50% higher selling cost.
Result and Discussions:

Emerging global demand

All the companies which are operating global as well as local business in India opined that the type of demand of the pharmaceutical product of the market has been changed now-a-days. In one side the supplementary medicine and nutrition medicines are demanded by the consumers showing their income effect, and in another side the child medicines, women’s medicine for pre menopause and post menopause and other recently evolved and attention creating diseases like diabetes, obesity etc are showing increased demand in pharmaceutical market. Now –a –days more than 65% of the world market is captured by recently attention creating diseases like Diabetes, nutrition and cardio vascular drugs since last five years. Pfizer is playing a leading role in this sector by producing and manufacturing drugs of cardio vascular, diabetes and sexual dysfunctions. Abott is also playing leading role in marketing of obesity and ulcer preventing drugs.

Table 1: Global Sales and Growth of pharmaceutical Products during 2005 – 2009.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales US $ BN</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>600</td>
<td>7.5</td>
</tr>
<tr>
<td>2006</td>
<td>650</td>
<td>7.0</td>
</tr>
<tr>
<td>2007</td>
<td>720</td>
<td>7.0</td>
</tr>
<tr>
<td>2008</td>
<td>780</td>
<td>5.5</td>
</tr>
<tr>
<td>2009</td>
<td>800</td>
<td>6.2</td>
</tr>
</tbody>
</table>


Table 1 reflected that the global sales during last five years had steeply increased. It was also noticed that there was slight reduction in the rate of growth of sales in the year 2008 and again it rose in the year 2009. But in an overall analysis the CAGR of 6.7 % indicated that it was a steady growth rate. In 2009 global sales touched 800 Billion US dollar which was a remarkable achievement of this sector to note.

Table 2: Projected Global Sales and Growth of pharmaceutical Products during 2010 – 2014.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales US $ BN</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>850</td>
<td>5.0</td>
</tr>
<tr>
<td>2011</td>
<td>910</td>
<td>6.8</td>
</tr>
<tr>
<td>2012</td>
<td>990</td>
<td>6.0</td>
</tr>
<tr>
<td>2013</td>
<td>1050</td>
<td>6.8</td>
</tr>
<tr>
<td>2014</td>
<td>1140</td>
<td>7.0</td>
</tr>
</tbody>
</table>


Table 2 focused on the projected global sales and its growth which can serve only an Idea on estimation of global demand of pharmaceutical products. Although the projected sales and growth rates was observed to be low in the initial years, afterwards it is expected to rise up and maintain a steady growth rate around 7 % which actually made the cumulative average growth rate around 5.8 %.
Existing demand and supply drivers of Indian pharmaceutical market:

The domestic pharmaceutical production accounts for 8% of the world’s pharmaceutical production. This is an interesting point to note in terms of supply of pharmaceutical products. Another important fact is that, the country accounts for less than 2% of the world market. The possible reasons about the facts as revealed from the study is that, most of the leading pharmaceutical industries are export oriented, the competition regarding generics and original products are also acute, the highly skilled labour get good opportunities abroad, per capita expenditure on pharmaceutical products is low, rural and poor population can not afford high price of medicines. The overabundance of diseases in India and with the domestic drug sales by $ 5 billion India is a very desirable market for the drug companies. In spite of low income, the consumers showed high pharmaceutical product purchasing habit. Even the exchange rate (46.78) is hiking; the pharmaceutical market volume is large. The survey of the companies revealed that the companies are assuming that investment, income and drug prices will rise depending on the driving macro-economic factors like:

- Time frame of Indian Economic Prosperity.
- The variation of the market towards liberalization.
- Customer’s tolerance to high price medicine.

Table 3: Comparative study of business of sample pharmaceutical companies (2009-2010)

<table>
<thead>
<tr>
<th>Sl no</th>
<th>Pharma companies</th>
<th>Business turnover (Rs in million)</th>
<th>Net profit (Rs in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Abott India Ltd</td>
<td>8063.9831 4th</td>
<td>778.985 3rd</td>
</tr>
<tr>
<td>2</td>
<td>Dr. Reddy’s Lab Ltd</td>
<td>10158 2nd</td>
<td>1068 2nd</td>
</tr>
<tr>
<td>3</td>
<td>Torrent Pharma Ltd</td>
<td>14579.581 1st</td>
<td>2073.677 1st</td>
</tr>
<tr>
<td>4</td>
<td>Pfizer</td>
<td>233.9421</td>
<td>40.3945</td>
</tr>
<tr>
<td>5</td>
<td>Alembic</td>
<td>10320 3rd</td>
<td>395.4 4th</td>
</tr>
</tbody>
</table>

Source: Annual reports of respective companies, 2009.

Table 3 succinctly delineated the comparative position of the existing business conditions of five sample pharmaceutical companies. The highest business turnover was observed in case of Torrent Pharmaceuticals Ltd followed by Dr. Reddy’s Lab Ltd, Alembic and Abott India Ltd respectively. While comparing in terms of net profit it was found that Torrent Pharmaceuticals Ltd was again in the topmost position followed by Dr. Reddy’s Lab Ltd and Abott India Ltd. It was also observed that while comparing between Abott India Ltd and Alembic it was observed that being less turnover Alembic secured a larger net profit. This reveals their marketing efficiency by minimizing marketing cost making optimum strategies for the same. They had emphasized on customer centric behavior and CRM focus to attain superior competitive index.

Sample pharmaceutical company wise business strategies:

The Indian pharmaceutical industry is going through structural change with lesser number of products available for introduction due to patent regime effective from 2005 and increased focus of MNCs in Indian Pharmaceutical Market on account of block buster products going off patent in developed markets. The business environment will continue to remain
challenging characterized by intense competition, margin pressures and regulatory interventions. These changes pose many challenges and opportunities to companies operating in this environment. Keeping this in mind the major pharmaceutical companies made their respective action plan in the arena of marketing strategies as follows:

**Abott India limited:**

Abott had taken the strategy of acquisition of the potential company like Piramal Healthcare. This is eyeing at being a leader in the Indian branded generic market. In May 2010 they acquired Solvey Pharmaceuticals. To expand global market of Russia, China and India Abott had planned to collaborate with Zydus Cadilla. Now the company targeted the expected sales of more than Rs $ 2.5 billion by next ten years. At present global turnover of the company is $ 25.90 billion and market captured Rs 16547.04 in million.

**Dr. Reddy’s Laboratories Ltd**

This company had built up a strategic partnership with Glaxo Smithkline Private Limited (GSK) to develop and market selected products across emerging markets outside India. This will expand in emerging economies. This company targeted for 25% growth rate and taken their strategies by 2012-2013 as follows;

- Core business growth of India, Russia and North America.
- Rationalization of business model.
- Cost optimization and restructuring initiatives.

The company is rising at 23% CAGR where the gross sales increased by Rs 68833 million in 2009-10 in spite of Rs 7030 million increase in expenditure.

**Torrent Pharmaceuticals Ltd.**

The Company has identified several growth initiatives, part of which has since been rolled out as detailed below:

Following are the areas where action has been initiated, the results of which are expected to flow in the foreseeable future:

- Geographical expansion to cover Tier II to VI cities
- Increasing sales force to expand doctor coverage in metros
- Consolidating recent entry in Gynecology
- Accelerate growth through increasing doctor coverage, product exposure to new medical specialties, increased product focus, territorial expansion, new product introductions, new therapeutic areas and building strong sales operations systems.

Further growth areas are:

- Emerging market segments like organized buyer groups, pharmacy chains and corporate hospitals.
- Leverage on the strong franchise, specialized sales force and distribution built in the domestic market by in-licensing of molecules.
- Product and assets acquisition opportunities.
Use of information technology for efficient customer servicing and improved sales productivity.

**Pfizer:**

90.90% revenue of this company comes from biopharmaceutical business where 8.4% comes from diversified business and 0.7% comes from other areas of business. The strategies which were already taken and implemented are as follows:

- Created emerging markets Business Unit to seize opportunities in the fastest growing bio-pharmaceutical market.
- Investing in the right market to be premiere competitive position.
- Strong relation with local partners which is the key for achieving the double digit revenue growth.
- Profitably growing diversified business like animal, consumer health care, nutrition.
- Continuously reducing cost, improving productivity, making cost structure flexible.

**Alembic:**

A consolidated sale of Rs 1134 crores achieved in 2009-10 with a growth of 10.40% over previous year loss of Rs 35 crores which is a remarkable performance to note. To attain superior competitive position the company is going to create new division. Alembic emphasized on ‘Customer Centric Behaviour and CRM Focus’.

It has been witnessed by domestic pharmaceutical industry that with increase in GDP and per capita income more customers are able to afford organized healthcare. This is very important and advantageous for a Company like Alembic which has the strength in the acute therapy segments since this would be the first line of defense. Alembic has also started consolidation process for its product line in lifestyle disease segment and is registering growth. It is also looking at various other high growth and niche areas in the domestic segment. Alembic has had a history of having a very good equity with its customers and has successfully built up multiple large brands.

With India becoming a hub for manufacturing and research operations, Alembic looks to get significant growth from this area as well. The manufacturing facilities have passed successful inspections from regulatory bodies across the world and USFDA status being confirmed to both API and Solid Dosage facilities stands as a testimony to that. Our research labs are well equipped to develop new products and formulations at a competitive cost. Low cost of products and strong intellectual property are going to be the two most important drivers in the international generics markets. Alembic has strived to show excellence in both these areas in development as well as manufacturing.

**Prioritized constraints:**

- Fluctuation in foreign exchange, depreciation of rupees and volatile movement of US dollar.
- Lack of infrastructure i.e. transports facility and power.
- Scantiness in the new patent regime: Provisions related to Sec 3(d) of the Patent (Amendment) Act 2005 prevent ever-greening of drug patents as it does not allow patenting new uses of an existing drug.
Limitation of funds from FIs, venture capitalists and the government.

Regulatory hurdles: Increasing due diligence and compliance with standards leads to cost overrunning and delay in new product launches.

Intense competition: Strong pricing competition among local manufacturers leads to low margins and limited capital to support R&D. Competition will further intensify from big generic players participating in the Indian market to leverage the cost advantage and large resource pool.

Conclusion:
With a lot of scopes a few obnoxious matters are also emerging in the pharmaceutical market. To get escape from TRIPS, many pharmaceutical companies are searching for suitable strategies to capture the generic markets in developed countries. The Indian companies are searching for loopholes of TRIPS for their existence in future. The pharmaceutical companies are feeling the heat of competition for promoting any brand in physician directed way. The feedback from the dispensaries should also be taken for proper production and follow the ideal route of marketing. The medical representatives’ union, strike against merger and acquisition decision of companies and patent regime transformation are some emerging problems too in the way. The customer desire centric pharmaceutical business is the key which the major pharmaceutical companies adopted along with rural based expansion. It is a sign of hope that the Government is increasing its commitments towards extending health care services to the poor and unprivileged. Government is rapidly increasing the public healthcare expenditure in areas such as preventive care, improving access to quality healthcare for the rural population and investing in healthcare delivery infrastructure. The Government should also take suitable policy measures like SEZ facilities to promote the business of pharmaceutical companies so that things can be produced at low cost which may reach huge number of rural customers maintaining proper quality.

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