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Indian pharma's emerging foray

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Home-grown pharmaceutical companies are scripting a new strategy for growth in the $837 billion global pharmaceuticals market. Having tapped the stricter regulated markets of the US, Japan, France, Italy, the UK, Germany, Spain and Canada, domestic pharmaceutical companies are establishing ground in the rest of the world (ROW) markets such as China, Brazil, Russia, India, Mexico, Turkey and South Korea. These markets are expected to grow at a pace of 14-17% through 2014, while major developed markets will grow at 3-6%, reports IMS Health. Importantly, they are expected to represent 12% of the global pharmaceutical market by 2011, marking a critical signpost to the future direction of the pharmaceutical business worldwide.

Respective governments in the ROW markets are looking at reducing the healthcare expenditure and are increasingly looking at generic drugs to provide them with reduced healthcare costs. They are also improving their intellectual property (IP) and regulatory markets. A key point here is the fundamentals of these burgeoning economies remain strong. This offers Indian pharmaceutical companies an opportunity to increase their market share. At the same time, the ROW markets are price sensitive and hence it is more of volume business which Indian pharmaceutical companies will have to play very cautiously.
Satish Reddy, managing director, Dr Reddy's Laboratories says, "We have a strong presence both in the highly regulated markets like the US, UK and Germany and in emerging markets of India and Russia. We are building our presence in other emerging markets of Venezuela, Romania and CIS (Belarus, Ukraine and Kazakhstan)."

Interestingly, Dr Reddy's inked a marketing deal with GlaxoSmithKline (GSK) in June last year to foray into these fast-growing pharmaceutical markets. "We now have the power of around 7,000 sales representatives of GSK in the emerging markets, through which our products would flow to patients everywhere around the globe. In fact, the company crossed the Rs 1,000-crore mark in FY10 in India driven by volume growth of 16% by brands such as Nixe, Omez, Stamlo, Razo D and Reditux. The growth strategy is more through in-licensing deals," Reddy says, adding that emerging markets would be the company's key focus.

A couple of years back, when IMS Health first coined the term 'pharmerging market' in recognition of the major shift in growth away from the mature, developed economies to the seven fast-growing rest of world markets such as China, Brazil, Russia, India, Mexico, Turkey and South Korea—there were apprehensions about the businesses coming from these areas as it is more of volume business than the prices. A herd mentality ensured which resulted in crowing of these markets.

This was followed by a seismic shift in the pharmaceutical markets of the world. The acceptance of a generic portfolio has been a key factor that has led the momentum to spread wings in the rest of world markets. According to a recent IMS Health market prognosis, while the key developed markets of the US, Europe and Japan will continue to dominate the market and contribute almost 82% ($660 billion) of the global pharmaceuticals market, they are estimated to grow at a slower rate of 3-6%. The rest of world markets are projected to grow at a 14-17% pace through 2014.

For the Indian pharmaceutical companies comes the need to look afresh at their ROW strategy. They need to fundamentally reassess their geographic portfolios to take account of the complexities of each market and their likely evolution over time. Thus, this will determine where, when and how to capture business growth opportunities.

Glenn Saldanha, CEO and managing director, Glenmark Pharmaceuticals, says, “The focus for Glenmark is to build a sizeable presence in each of these markets and position ourselves as a specialty player rather than a generics manufacturer. It is for this reason that we have invested in building capabilities in each of the ROW markets.” Saldanha stresses that the company’s approach to brand building and focusing on the requirements of the local needs has helped it to position itself as a serious player in each of these markets. “This approach will enable us to build a sustainable business model which will ensure consistent growth over a long period,” he adds.

For Glenmark Pharmaceuticals, the ROW market is basically divided into four clusters which are Latin America, Africa/Middle East, CIS and South East Asia. Brazil is the largest market and Glenmark established its presence in the market through an acquisition in 2004. “We have already registered revenue in excess of Rs 150 crore, which will make the company as one of the largest Indian players in this market,” says Saldanha. “The focus clearly remains on to building brands and position ourself as a specialty player in each of these markets. Our focus areas are dermatology, respiratory, gynaecology and oncology,” he adds. Similarly, Cipla feels that there are stronger prospects in the emerging markets, driven by lower regulatory barriers, limited competition and better profitability. The company’s joint managing director Amar Lulla says, “More than 70% of our revenue comes from the rest of world markets. Our growth strategy for this fiscal would be to file new registrations, launch new products and enter into newer categories in these markets as they are significant.” Company officials feel that the developed markets are highly regulated and exposed to litigation risk. On the other hand, emerging markets offer higher growth opportunities due to lower entry barriers, limited competition and higher profitability.

In the case of Ranbaxy, the pharmaceutical major registered strong performance in emerging markets in Latin America, Africa and CIS in the last fiscal. These markets are critical to the growth plans at Sun Pharmaceuticals too. A senior Sun Pharmaceuticals official says, “With a five year CAGR of 42%, these ROW markets are a vital part of our global plans. We have created a footprint with marketing staff, specialty registrations and doctor coverage in 40 markets across Brazil, Mexico, South Africa, Russia, China, the Middle East and neighbouring countries. We have also recently acquired plants in Mexico and Brazil and expect to file products out of these sites.”

On a similar note, Vinod Dhawan, president (Asia, Africa, Middle East and Asia) and business development, Lupin feels that with commendable organic growth, strategic alliances and prudent acquisitions, the company has achieved significant momentum in the ROW markets. In FY 2009-10, the ROW markets contributed around 16% of its total revenues at Rs 852 crore. “We are now looking at entering the Latin American markets through acquiring companies that have strong presence in segments such as cardiovascular and oral contraceptives,” he adds.

According to Ajit Mahadevan, partner, life sciences practice, Ernst & Young, some of the recent multinational deals in the Indian generics segment are testimony to the growing interest of the drug companies in ROW markets. These include expanded relationship of Pfizer with Aurobindo as well as a deal with Claris Lifesciences; acquisition of Ranbaxy by Daiichi Sankyo; acquisition of South-Africa based Aspen by GlaxoSmithKline (GSK) and thereafter the license and supply agreement with Strides Arcolab and Onco Therapies and Dr Reddy's Laboratories.

Success in the new world order requires an urgent and major reassessment of strategic to recognise that the future pharmaceutical industry will be different from the past. Therefore, domestic pharmaceutical companies must focus their time and energy on re-evaluating priorities in the ROW markets. Building the necessary organisational competencies to embrace the complexities, tailoring their portfolios, and adapt their business models must be their key focus. With the right fundamentals in place, they can pursue the business opportunity coming their way.