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Pharma tie-ups will lower prices

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Tie-ups between Indian low-cost producers and MNC innovators will lead to more research and output, particularly in areas where medicines are in short supply

Over the past decade, Indian companies have acquired global companies overseas; likewise, in the last few years, global pharmaceutical companies have acquired a few Indian generics companies. These developments have stoked fears of a price rise in drugs.

Would consolidation via mergers and acquisitions inevitably lead to price rise? Is there any evidence to support this popular misconception? The answer to both queries is 'No'.

COMPETITIVE SCENARIO

Consider the facts. The Indian pharma industry is the world's most fragmented market, with more than 10,000 small and medium-sized companies. These are numbers that China even cannot match. Consolidation in the pharma industry is likely to add muscle to distribution networks and reach, something not possible now due to the limited size of most pharma players.

Unique among countries, India has a complex market governed by its own dynamics, including price sensitivity. Furthermore, there are hundreds of generic versions for every single drug molecule. Prices rising on market consolidation cannot be taken as a foregone conclusion.

Competition will curtail prices. Even the savviest marketers have learnt this the hard way and have had to rewrite their strategies to compete in the hyper-competitive Indian markets.

From Hindustan Lever to Procter and Gamble, from Bharti Airtel to Reliance Communications, all companies have had to lower prices to survive in the Indian market. This ground experience probably suggests that a strategy based on higher volumes — rather than on higher prices — will work better in the Indian market. Given the vast number of generic players, and the fact that generics can be produced by any company, the default option in India should be lower price points, not higher prices.

TIE-UPS FOR INNOVATION

Lower prices don't ensure that patients get the medicines they need. Generic drugs have been available at lower price points for more than 50 years, yet accessibility to healthcare and drugs has been a perennial problem. Vaccines under the National Immunisation Programme are available free, yet the compliance rate is less than 60 per cent.

In essence, accessibility does not necessarily follow with lower prices but is contingent on an array of relevant issues, including the availability of infrastructure, human resources and healthcare insurance. Addressing these issues needs deep pockets and immense investments.

With finances a constraint for most generic companies, collaboration between generic and innovator companies could be an efficient means of using the best of both worlds to ensure the availability of cheaper and better drugs for the masses.

In the recent past, this is what has been happening. For example, in the tie-up with Syngene International (a Biocon Ltd subsidiary), Bristol Myers Squibb opened an R&D facility in Bangalore in March 2009 for discovery and early drug development. Jubilant Organosys Ltd and Eli Lilly & Company inked a discovery research collaboration in late 2005.

In November 2009, Jubilant announced that its four-year-old research collaboration with Eli Lilly had successfully delivered multiple discovery milestones and pre-clinical candidates, resulting in a five-year extension and expanded portfolio collaboration. In 2008, Lilly and Jubilant also established a joint venture, Vanthys Pharmaceuticals, for early stage drug development.

In June 2009, Dr Reddy's Laboratories announced a partnership with GlaxoSmithKline to develop and market select products across emerging markets outside India. There are other tie-ups along similar lines, seeking to harness India's low-cost manufacturing and talent, coupled with the added advantage of the world's second largest pool of English speakers.

EASIER AVAILABILITY

These collaborations indicate that Indian companies and pharma MNCs are gradually realising the win-win benefits of working together. In the long run, such tie-ups will offer economies of scale, boost margins and improve distribution networks for both partners, ensuring better penetration and easier availability of drugs. With nearly 70 per cent of the Indian population living in rural and semi-urban areas, almost 80 per cent of healthcare facilities and medical personnel are still based in cities and other urban zones.

Combining the best of Indian and multinational pharma companies, it may be possible for the joint venture entities to better penetrate areas that currently lack access to healthcare facilities and modern medicine. As India's FMCG and telecom companies discovered earlier, faster penetration levels and higher distribution reach are best achieved via lower margins and higher volumes. A potential positive spin-off for Indian and MNC joint ventures is that research into diseases endemic to India could receive a boost, since Indian companies possess the capabilities, incentive and inclination, while foreign partners have the financial wherewithal and appetite for risk to invest in such research.

FILLIP TO GENERIC DRUGS

Another point worth remembering is that India's Rs 1,00,000 crore pharma industry exports around 40 per cent of its products (these were worth Rs 39,000 crore in 2009).

India's pharma exports are largely low-cost generic drugs — its USP — marketed mainly in developing countries. Given this scenario, consolidation can only have patient-friendly connotations, which include low-priced drugs.

We must therefore make cooperation, not confrontation, the market mantra to ensure easier access to drugs for Indian patients, and to propel the Indian pharmaceutical industry into a global orbit.