Russian pharmaceutical market – overview

Source: Pharma Poland News

July 2006
Last year, the Russian pharmaceutical market expanded at an unprecedentedly high rate of 35%, much higher than the US, West European and Central and East European pharma markets. This growth was chiefly boosted through the Beneficiary Drug Provision Programme, launched last year. Also important was the fast development of pharmacy chains and the continued high rate of medicine counterfeiting.

Overall market performance

In 2005 the Russian pharmaceuticals market was worth approx. $9bn in consumer prices and $7.2bn in wholesaler prices, according to the DSM Group, a company monitoring the Russian pharma market. The market recorded high 35% year-on-year growth in consumer prices, representing a staggering jump in comparison with the neighbouring Poland whose pharma market expanded by a little over 7% last year.

At the end of Q1 2006, the Russian pharma market reached $1.48bn, up 18% year-on-year. According to DSM forecasts, the Russian pharma market may be worth $10bn by the end of this year, growing by 10% in comparison with 2005.

According to Aidar Ishmukhametov, the chairman of the board of directors of Remedium, a group of firms analysing the Russian pharma market, post-Soviet markets can be characterised by low medicinal costs, low packaging costs, rapidly developing pharmaceutical chains and a large assortment of medicines still well-known from the Soviet period. According to Remedium, the Russian pharma market expanded by 43% to $6.5bn in 2005.

However, one of the most serious problems in Russia is the continued counterfeiting of medicines, mostly antibiotics, which are being sold also through private pharmacies. Sales of false medicines remain high. Although, it is said that there are less counterfeit preparations on the market, i.e. around 20% less last year than in 2004, their value in 2005 was estimated at $300m.

Market growth drivers

One of the most important factors driving Russian drug market growth has been the governmental Beneficiary Drug Provision Programme (DLO), introduced last year in compensation for the cancellation of certain social welfare benefits. Under the programme, over 14m Russians (mostly retirees) are provided with medicines subsidised by the federal budget. Last year, sales of pharmaceuticals available under the DLO contributed as much as 20% of the abovementioned total market growth of 35%. According to the Russian Ministry of Health and Social Development, last year the DLO segment’s value amounted to approx. $1.37bn in consumer prices and $1.27bn in wholesale prices, equalling approx. 15% of market value. In total, 154m beneficiary prescriptions were written in 2005.

It is worth noting that the average price per pack of DLO drugs was over six times higher than the average price of a drug unit sold in the retail segment, according to the DSM Group ($6.3 vs. $1). This has made the programme drugs very attractive to companies on the Russian pharma market, despite delays in payment from the State and the fact that the State pays for them at below their commercial value. According to the DSM Group, all pharma distributors participating in the DLO significantly increased sales. There were over 90 companies entitled to dispense medicines under the DLO.
The development of the parapharmaceutical products segment, marketing such goods as nutritional supplements and beauty products, represented another significant factor contributing to growth on the Russian pharma market.

Last year, this segment was worth $1.65bn in retail prices, which was 41% more than in 2004. This was achieved chiefly thanks to the development of pharmacy chains in Russia and the rising popularity of healthy lifestyles, accompanied by the growth of Russian’s disposable income. Personal incomes are expected to grow further, which will continue to drive the pharma market, in particular, the sales of parapharmaceuticals.

**Rx and OTC**

Unlike the Polish market, where sales of Rx and OTC products divide roughly 70% and 30%, respectively, in Russia, the percentages are almost equal, with slight Rx drugs dominance. However, the Russian market is home to an interesting phenomenon, which does not take place in Poland, of pharmacies frequently selling Rx medicines without prescription. As a consequence, the division between Rx and OTC segments should be treated with caution.

In 2005 the prescription segment amounted to over $2bn and OTC to $1.9bn in Russia. This corresponded to a 53% share of Rx drugs, 4 p.p. down year-on-year, and a 47% share of OTC medicines, 4 p.p. up.

Yet OTC drugs prevail in sales volume. In 2005 this segment accounted for 74% of total market volume (2.9bn packs sold in 2005) and Rx 26% (over 1bn packs). According to DSM, this trend might continue or be augmented upon the introduction of the Regulation on the procedure of selling drug products in December 2005, which is to introduce more stringent oversight over Rx drug sales in pharmacies.

**Russian pharma market – proportion in Rx and OTC pharmacy sales (%), 2004 and 2005**

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th></th>
<th>Volume</th>
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<tbody>
<tr>
<td>2004</td>
<td>43</td>
<td>57</td>
<td>70</td>
<td>74</td>
</tr>
<tr>
<td>2005</td>
<td>47</td>
<td>53</td>
<td>30</td>
<td>26</td>
</tr>
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Source: DSM, 2006
Imports and exports

Similar to the Polish pharma market, the Russian market is dominated by imported pharmaceuticals. Last year, the pharmacy sales of imported pharmaceuticals amounted to $3bn, i.e. 75% of the total market (excluding Beneficiary Drug Provision Programme, hospital market and parapharmaceuticals). Domestic drugs accounted for the remaining 25%, i.e. $983m in pharmaceutical sales. Thus, the share of domestic medicines increased slightly, by 2 p.p., in 2005, in comparison with 2004. This was the result of greater promotional efforts of domestic manufacturers. Domestic production might well continue to rise as Russian manufactures, which are constructing and purchasing pharmaceutical plants, continue to intensify their marketing activities.

Meanwhile, in volume terms, the proportions are reversed. Last year 31% of drug packages sold in Russia were imported and 69% were produced in the country. In absolute terms, 1,222 packages were imported and 2,698 were of domestic origin. Here also the share of imported drugs decreased slightly, by 3 p.p., in comparison to 2004.

Russian pharma market value – domestically manufactured and imported drugs, retail sales (%), 2004 and 2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestically manufactured</th>
<th>Imported</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>23</td>
<td>77</td>
</tr>
<tr>
<td>2005</td>
<td>25</td>
<td>75</td>
</tr>
</tbody>
</table>

Source: DSM, 2006

Taking the total pharma market in Russia into consideration, the value of drug imports amounted to $4.7bn in customs prices, i.e. excluding taxes totaling 20.15%. The import value rose by 55% in comparison to 2004. According to DSM, over half of all medicines were imported to Russia by distribution companies and a third by representatives of foreign companies. Direct import companies and domestic drug manufacturers accounted for a smaller part of the pharma import market.

From among distributors, Protek is the largest Russian pharma importer. In 2005 it enjoyed a 27% share in import value, followed by SIA International with a nearly 23% share. Their market rivals had less than 10% market shares last year.
Main ATC categories

In 200, medicines used to treat alimentary track and metabolism ailments were the ATC category which generated the greatest sales in 2005, of over $750m (retail sales value), 5% more than in the previous year. This category had a 19% share in the total pharmacy market in Russia.

The next largest category, nervous system drugs, recorded approx. $200m less in sales –$542m in 2005, up nearly 6% year-on-year. The third largest category, respiratory system drugs, grew by almost 11% year-on-year to close to $450m in 2005.

Interestingly, medicines used in the treatment of cardiovascular system disorders, which came in fourth, recorded a sales drop of over 7% last year, down to $444m. This is very different from the Polish market, on which cardiovascular medicines have been in the lead, with gradual growth over the last several years, followed by the alimentary track and metabolism segment and, next, central nervous system medications.

In 2005 the most spectacular sales growth was recorded by genitourinary system drugs and sex hormones, which expanded by over 18% in comparison to 2004.

Russian pharma market – sales value of the largest ATC categories, retail (pharmacy) sales ($m), 2004 and 2005

<table>
<thead>
<tr>
<th>ATC Category</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alimentary tract and metabolism</td>
<td>719</td>
<td>756</td>
</tr>
<tr>
<td>Nervous system drugs</td>
<td>513</td>
<td>542</td>
</tr>
<tr>
<td>Respiratory system drugs</td>
<td>402</td>
<td>446</td>
</tr>
<tr>
<td>Cardiovascular system drugs</td>
<td>479</td>
<td>444</td>
</tr>
<tr>
<td>Antibiotics for systemic use</td>
<td>309</td>
<td>326</td>
</tr>
<tr>
<td>Genitourinary system drugs and sex hormones</td>
<td>266</td>
<td>315</td>
</tr>
</tbody>
</table>

Source: DSM, 2006
Top market players

In 2005 a total of 988 drug manufacturers sold their products on the Russian pharmaceutical market, with Sanofi-Aventis still in the leading position, despite an 8% fall in sales (Sanofi and Aventis combined) in comparison to 2004, according to DSM. Its decline was the steepest sales slip among the 20 largest pharma manufacturers. The company has become leader on the Russian pharmaceuticals market following the global merger of Sanofi and Aventis in 2005.

Overall, the 20 largest players on the Russian drug market are predominantly foreign in origin, much akin to the Polish market. Pharmstandard, the only Russian firm in the top 20, was the third largest by sales value in 2005. Interestingly, in sales volume, it was leader last year, with Sanofi-Aventis, second largest manufacturer in volume terms, lagging far behind with over four times lower sales volume. Pharmstandard sold over 270m packages of medicine last year.

The five firms with sales values exceeding $100m in 2005 were Sanofi-Aventis, Berlin-Chemie/A.Menarini, Pharmstandard, Pfizer and Gedeon Richter.

With regard to sales indices, Schering AG saw the highest growth in sales value in 2005, of 34% in comparison with 2004, followed by Lek DD and Pfizer. In addition to Sanofi-Aventis, Gedeon Richter, KRKA and Actavis also recorded lower sales.

Distribution

By the end of Q1 2006, Russia had approx. 20,000 pharmacies and 100 drug distributors. Unlike the manufacturing sector, both retail and wholesale distribution in the Russian pharmaceutical sector are dominated by domestic companies. Yet, only seven distribution companies are present in more than seven federal regions in Russia; these are:

- Protek CV – 30% share in the Russian market, annual turnover above $1.2bn,
- SIA International,
- Rosta,
- Katren NPK,
- Shreya Corporation – a branch office of the Indian Shreya Life Sciences,
- Biotek – distribution and manufacturing holding, operating in 76 regions in Russia,
- Apteka-Holding – has a strong regional presence, acquired by Alliance UniChem in Q1 2006.

International concerns have been eyeing the Russian pharmaceuticals distribution branch with much interest. Apteka-Holding was recently acquired by the British-owned Alliance UniChem (AU), one of the biggest distributors of pharmaceuticals in Europe, for $31.3m. AU’s has much larger plans; it is considering the possibility of buying another Russian pharmacy chain. In April this year the firm began talks with five pharmaceutical chains – 36,6, Doktor Stoletov, Itek, Vita and Natur Produkt. According to market speculations, AU is primarily interested in buying the market leader – the 36,6 chain.
Growing importance of chains

Over the past two years, the development of regional pharmacy chains has been the leading trend on the Russian pharma distribution market. The two most important regional markets in the country are Moscow city, with approx. $80m in pharmacy sales last year, and St. Petersburg, with four times smaller sales. The two represent market entry points for most chain operators, which strengthen their positions in capital cities first and only then expand to other regions, by both purchasing smaller chains and opening their own pharmacies.

The selected leading pharmacy chains in Russia, 2005

<table>
<thead>
<tr>
<th>Name</th>
<th>Annual turnover (2005)</th>
<th>Number of pharmacies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharmacy Chain 36,6</td>
<td>$300m</td>
<td>445</td>
</tr>
<tr>
<td>Pharmacor</td>
<td>$140m</td>
<td>200</td>
</tr>
<tr>
<td>Rigla</td>
<td>$107m</td>
<td>360</td>
</tr>
<tr>
<td>Implozia</td>
<td>$90m</td>
<td>268</td>
</tr>
<tr>
<td>O3</td>
<td>$89m</td>
<td>140</td>
</tr>
</tbody>
</table>

Source: DSM, 2006
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