Pharmerging shake-up: The new imperatives in a redefined world

The rapid growth rate of ‘pharmerging markets’, has increased the need for action and informed direction to ensure long-term success.

More than three years have passed since 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 emerging economies of China, Brazil, Russia, India, Mexico, Turkey and South Korea. Meanwhile, major developments and global recession have driven disparate rates of evolution in each of these countries. With a new raft of pharmerging markets now rapidly rising to the fore, the need for action and informed direction has never been greater. In response to the unprecedented change, and marking a major redefinition of the pharmerging opportunity, IMS provides the clearest pointers yet to the selection criteria, investment priorities, and critical factors for long-term success.

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In November 2006, IMS Health identified a seismic shift in the pharma markets of the world. There was a geographic swing away from the major developed powers of US, Japan, Canada and the top five European countries (UK, France, Germany, Italy and Spain) to a set of new, dynamic pharmerging markets. China, Brazil, Russia, India, Mexico, Turkey and South Korea were singled out for their exceptional performance and outstanding prospects for growth. They were expanding at nearly three times the world average rate and represented 13 per cent of the global pharmaceutical market. Plus, for the first time, they contributed more than a third of global pharmaceutical growth, marking a critical signpost to the future direction of the pharmaceutical business worldwide.

Such was the promise of the pharmerging markets in 2006 that each was forecast to grow in excess of 7.5 per cent through 2011, representing US$58bn in new growth. The biggest potential rewards were seen in China, anticipated to be the seventh largest pharmaceutical market by 2010.

**TODAY’S REALITY**

In the three years since the pharmerging markets were first called out, ongoing change and major new developments have continued to roil the commercial pharmaceutical landscape.

While patents have been expiring at a significant rate, the industry has failed to find new sources of revenue to fill the gap. Generics have increased their volume penetration; the biotech industry - a key growth area - has become chronically underfunded; and everywhere governments have been applying stricter cost controls on their pharmaceutical markets. Performance in the mature markets has continued to slow, further widening the regional gap in pharmaceutical growth contribution.

The worldwide economic crisis has also made its mark to varying degrees, according to the level of patient self-pay versus public funding and the policy responses implemented at government level. In many of these countries, the level of patient self-pay versus public funding is high and, due to the unprecedented pressures, governments have had to implement significant changes in healthcare policy. Russia, for example, with 40 per cent of GDP driven by revenue from oil and gas, has felt the impact of the recession and is now facing major change on a number of fronts, including a pending
realignment of pharmaceutical prices, potentially tighter restrictions on promotional activity and a redistribution of influence through the supply chain. Similarly, pharmaceutical growth is also decelerating in Turkey where government price cuts, mounting cost pressures and further impending access restrictions are challenging levels of profitability. Both countries are now experiencing severe currency and commodity price fluctuations. Mexico is also undergoing a pronounced pharma downturn with little expectation of immediate recovery as generics continue to strengthen their role and more stringent cost-containment measures take hold.

Conversely, other markets have continued to gather pace. China’s high economic and healthcare growth, for example, has accelerated, making the profile of this market quite distinct from all other pharmerging markets. South Korea, too, has also gained ground, now sharing the characteristics of the major developed nations. Meanwhile, in regions as far flung as North Africa and Latin America, Asia and Eastern Europe, a new set of pharmerging markets have now reached a threshold of economic development and volume of future growth that warrants close and immediate attention.

Against this background of change and progress, the need for clarity and informed direction has never been greater.

**PHARMERGING OPPORTUNITY REDEFINED**

In a major re-classification of global pharmaceutical markets, IMS has conducted a groundbreaking new analysis to bring the clearest characterisation yet of the current prospects and future priorities for pharmerging market growth. The study first divided the global economy into developed and emerging sectors, using a per capita GDP threshold of US$25,000. Countries classified as emerging were then sub-divided using a composite of macroeconomic metrics and market data including GDP and forecasts from IMS Market Prognosis, which are based on a rigorous evaluation of the key events impacting the pharmaceutical and healthcare industries worldwide. The new and refined definition ranked pharmerging markets on the basis of their minimum anticipated added value to the total pharmaceutical market between now and 2013 (Figure 1).
TIER 1: CHINA – IN A LEAGUE OF ITS OWN
With absolute GDP of US$7.9trn in 2008 and an expected value add of US$40bn to pharma through 2013, China is positioned firmly at the forefront of the pharmerging markets. Now the world’s third biggest economy and among the fastest growing consumer markets, the country is on the verge of becoming the world’s number one in economic output, forecast to overtake Japan and the US within a decade. It is already the largest market for several key industry sectors, including automobiles, mobile phones and TVs.

Fuelled by a massive population of 1.3bn people, aggressive government spending on healthcare and an increasing demand for drugs to treat chronic diseases, China’s pharmaceutical sector grew by an astonishing 26 per cent in 2008. At the heart of its healthcare transformation is a landmark US$125bn stimulus package targeting substantial improvement to the nation’s healthcare infrastructure and near universal health coverage by 2011 – a move that is projected to double the size of China’s pharmaceutical market through 2013.

Companies that do not broaden their drug development and launch planning process to include early, in-depth analysis of this blockbuster market run the risk of leaving significant potential on the table. Yet the challenges posed by increased local competition, evolving government intervention and uncertainty around healthcare reform make the road to China far from smooth and worthy of intensive and creative planning.

TIER 2: BRAZIL, RUSSIA, INDIA
With GDP of between US$2-4trn in 2008, Brazil, Russia and India are each expected to add US$5-15bn to the pharmaceutical market through 2013. Notwithstanding these prospects, balancing their relative benefits and risks will be paramount to developing a clear position for future business in these markets.

Opportunities for investment in Brazil include alliances with local laboratories for broader medical detailing and greater agility at the POS, as well as an increase in public awareness and diagnosis rates through public relations. The ability to work with governments to shape healthcare policy, along with the growth of private health insurance, is also a plus. However, it must be weighed against intensive competition among other entrants as well as government cost-containment initiatives and investment in public laboratories.

The Russian market has experienced high double-digit growth over the last five years and offers clear potential from increased private insurance, positive developments in the reimbursement system and improvements in physician education. However, low levels of knowledge about prevention, diagnosis and treatment at primary care level and the lack of clinical standards and guidelines impede successful management of chronic disease.

Companies looking to invest in this vast and complex market must also be prepared for likely pressure on prices, the influence of powerful lobbies for local firms and a strong desire to redress the balance towards local manufacturers combined with growing government power over drug prescribing.

In India, a number of recent developments has been of benefit to outside manufacturers, not least the establishment of Intellectual Property Rights (IPR), as well as a rising middle-class population, emerging rural markets and improvements in medical infrastructure. The worry is the dominance of local firms and lack of enforcement to implement the IPR regulations. Competition from copycat generics and low-cost biosimilars is also a feature of the local market in the absence of a stringent approval process.
TIER 3: FAST FOLLOWERS
Following fast in the wake of the Tier 1 and Tier 2 markets is a group of 13 far flung nations ranging from Argentina to Egypt, Pakistan to Poland, and the Ukraine to Vietnam. Generating GDP of under US$2trn in 2008, with anticipated value add of US$1-5bn through 2013, these hitherto lesser-known pharmaceutical markets offer rich opportunities for growth.

Romania, for example, has been a consistently high-performing market relative to its Central and Eastern European (CEE) peers. Currently growing at nearly 23 per cent, the country is undergoing many major changes that will positively impact the pharmaceutical sector over the next few years. These include improvements in public hospital quality, increases in health insurance contributions, healthcare decentralisation, extended reimbursement for pensioners and healthcare screening for chronic diseases.

Vietnam is also an increasingly attractive market, with particularly strong and expanding opportunities in the 65+ patient category, an enlarging private insurance sector and increased public funding that will significantly boost growth in the hospital sector. Egypt, too, offers rising potential with the fastest growing population. And Argentina’s combination of high healthcare spending, attractive market access and a rising elderly population is highly conducive for successful investment.

POWER SWING GATHERS MOMENTUM
The huge swing of power to the 17 pharmerging markets is set to intensify as they continue to gain share at the expense of the US and top five European markets. Powered by China, shored by Brazil, Russia and India, and spurred by the impetus of the new Tier 3 fast followers, these markets have delivered an outstanding 37 per cent of global growth in 2009, and are forecasted to reach as much as 48 per cent by 2013 (Figure 2). The pharmerging markets will be the biggest contributor to global growth in the next five years.

LOOKING FORWARD TO 2011
With the key essentials in place to drive the market forward, these traditionally peripheral economies are gearing up to turn the tables on the established pharmaceutical world order. By 2011, eight pharmerging markets will have taken their place in the top 20 global rankings, with China positioned as the third largest market in the World (Figure 5). For many years simply a minor concern, the pharmerging sector in these markets is fast becoming the platform that will carry global pharmaceutical performance through the next decade and beyond.

IMPERATIVE FOR ACTION
The dramatic change in the rank order of countries that will drive future growth brings a renewed sense of urgency to the management agenda of an industry already under pressure. For all pharmaceutical manufacturers comes the need to look afresh at their pharmerging strategy; fundamentally reassess their geographic portfolios to take account of the complexities of each market and their likely evolution over time; and determine where, when and how to capture business before the growth opportunities plateau. Three key elements will be critical to success:

1. ACKNOWLEDGE AND ADDRESS THE URGENCY
To date, multinational performance in the pharmerging sector has been mixed. A few high-profile pharmaceutical companies have been quick to gain a foothold, several
with notable success in generating growth. Among the early movers were Swiss-based Nycomed which, having entered the Russian market in the early 1990s is now ranked number 11 among Russian pharmaceutical companies. Bayer, too, has achieved much of its recent growth from investments in China and Turkey.

Elsewhere, there are signs that more companies are positioning themselves to build or buy market share in the pharmerging markets. Recent examples include the sanofi-aventis’ acquisition of generics manufacturers in Brazil (Medley) and Mexico (Kendrick). The move made the French company Latin America’s leader in this market. Similarly, GSK’s expanded partnership with Aspen has paved the way for its increased access to the wider African market.

More recently still, Novartis has committed to major investments in China, including US$1bn on R&D over the next five years and $125 million to buy an 85 per cent stake in a privately held vaccine company.

Overall, European pharmaceutical companies have generally fared better than their US-based counterparts in establishing a local presence. Novartis, Bayer and Novo Nordisk, for example, have all achieved good penetration in Russia while many US players such as Pfizer and BMS have yet to play catch up.

By and large, however, most global drug companies remain under-exposed and under-performing in the pharmerging markets, despite the fact that these new growth engines account for nearly half of the global population. In 2009, the world’s top 17 pharmaceutical manufacturers derived just 0.9 per cent of their combined sales from China; 2.9 per cent from the Tier 2 markets of Brazil, India and Russia; and 5.6 per cent from the Tier 3 markets. Clearly, securing only single-digit percentages of annual sales from a sector that offers a virtual clean slate for pharmaceutical investment leaves significant potential untapped. Companies must act now and act fast to respond to the market changes and seize the opportunities within them.

2. UNDERSTAND AND EMBRACE THE COMPLEXITY

Getting to grips with the many factors that differentiate the pharmerging markets, not only from those in the developed sector but also from each other, is a key priority. Dynamic, volatile and liable to rapid change, these are highly complex and disparate markets and companies in search of fast and easy gains will find themselves on perilous ground.

Despite the fact that Argentina, Poland and
Thailand, for example, are all expected to add between US$2-3 billion in sales through 2013, from an economic, healthcare, regulatory, P&R and market access perspective they are quite divergent.

Where Argentina’s drug approval process is among the fastest in the world, in Thailand registration typically takes one to two years. While the Polish market is dominated by public health insurance, in Argentina patients and their employers bear the lion’s share of total healthcare costs in the form of insurance premiums and out-of-pocket payments. And while Thailand is only just increasing its focus on containing drug costs through pricing, in Poland reimbursed drugs are already subject to regular discretionary price cuts.

Similarly, disease profiles, treatment paradigms and diagnostic rates in the pharmerging markets are not only noticeably different from those of the major developed countries but also subtly distinct between the various tiers. Discrete differences in key market segments, including the role of generics, are a further challenge. Even at country level within the different groupings, disparities are apparent. Each environment is unique. Thus, what is important in China will be very different to what matters in Russia, Indonesia and elsewhere.

Extensive geographic diversity within countries adds a further layer of complexity. Russia, for example, is a vast and diverse geography with 26 regions and pockets of wealth but many, much poorer cities. Equally, the wide differential between areas and cities across China, each with their own characteristics, physician attitudes, drivers of prescribing and levels of income and affordability, underscores the importance of building city and region-based strategies when expanding in this market. Lack of uniformity in implementing government guidelines is also an issue, making on-the-ground knowledge of each local situation critical.

The competitive arena in pharmerging markets is also very different from that in the mature countries, with power in the hands of local companies who know the operating environment well. While the large multinational pharmaceutical companies have no doubt increased their presence in China, for example, they continue to be outnumbered and outperformed by local manufacturers with their strong geographic reach, wide distribution networks, flexible promotional methods, and close engagement with local governments and hospitals.

Understanding the divergence and distinctiveness of the pharmerging markets will be essential to judicious and rewarding investment in the opportunities they offer. Due focus on generating timely, relevant, on-the-
ground insights into their health system dynamics, the national and local economic situation, the degree of infrastructure development, regulatory or government controls, pricing and market access issues and evolving competitive dynamics will be key to this process.

3. ADAPT AND TAILOR YOUR STRATEGY

Since every pharmerging economy is unique and no one country can be defined as a single market, adaptability and customisation are key. This means choosing the right portfolio to ensure alignment with the high growth opportunities and local customer needs; building the right sales and distribution model, with the right balance of depth and breadth to increase productivity and ROI; setting the right price and market access strategies that will maximise product value; and establishing the right people and leadership to ensure successful execution on the ground.

As companies look to accelerate their plans for investment they must focus quickly on differentiation and use this to drive the value of their business forward.

Already there are benchmarks and models for success:

- The experience of GSK in India is one example of an effective local, tailored strategy based on a portfolio that was radically different from that of its global range. GSK is now the number-three player in India with only one of its leading 10 products in the world’s top seven countries achieving any sales in this market.
- In Latin America, Novartis and AstraZeneca have taken innovative steps to improve market access through discounts and extra customer service, introducing customer service cards to drive more prescriptions in the region.
- Similarly, Novo Nordisk has raised its profile in Russia by increasing disease awareness of diabetes in the form of a mobile test centre accessible to all parts of the population.
- Local adaptation has enabled Novartis to make significant inroads into Russia with a strong focus on OTC and generics, local market acquisitions, a solid base of human resources and strong commitment to the establishment of local government relationships.

GOING FORWARD

As current growth trends continue materially to alter the size and structure of the global pharmaceutical landscape, the dramatic swing in power to the pharmerging markets, which was first brought to light by IMS Health in 2006, will only intensify.

Despite some detours in their rate and pace of evolution since then, the fundamentals of these burgeoning economies remains strong. Comprehensive reanalysis of the market indicates that 17 high-performing pharmerging nations, already amounting to a significant consolidated value, are about to overturn the established pharmaceutical world order.

Rich in opportunities and growth potential, no company can afford to ignore them. But theirs is a constantly evolving story; more changes can be expected, competitive pressures are increasing, the challenges are many and the clock is ticking fast.

Success in the new world order requires an urgent and major reassessment of strategic goals in recognition of the fact that the future pharmaceutical industry will be a very different one from the past. Companies must focus their time and energy on re-evaluating their priorities in the pharmerging markets and build the necessary organisational competencies to embrace the complexities, tailor their portfolios, and adapt their business models accordingly. With the right fundamentals in place, and the ability to fulfil tactical execution efficiently, they can be positioned to pursue and leverage the pharmerging markets as the major source of growth they represent.

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