Pharmerging markets – opportunities for growth and change

The enormous opportunities that exist in the pharmerging markets will be realised only if the business acumen of Western pharma companies is partnered with in-depth knowledge of local customs and conventions.

Unprecedented changes in the global pharmaceutical market will alter the focus of all pharma companies in the future. The ‘pharmerging’ markets of China, Brazil, Mexico, South Korea, India, Turkey, and Russia represent billions of people who are becoming better educated and more able to afford quality healthcare. The opportunities in these markets are enormous, but the approaches are very different from those of Western countries. The best results will be achieved only when the business acumen of Western pharma is partnered with the social and cultural customs and conventions of countries in these pharmerging markets.

UNPRECEDENTED MARKET CHANGES

The year 2008 will be marked by unprecedented changes in the global pharmaceutical market; for the first time, the world’s seven key markets - US, Japan, UK, Germany, France, Spain, and Italy - will contribute less than 50 per cent of the industry’s growth. In 2008, global pharmaceutical sales will grow 5-6 per cent, to more than $735bn. While the US will remain the single largest market, growth here is slowing – it will account for 33 per cent of total gains in 2008, down from 52 per cent in 2002. At the same time, growth will reach double digits in the seven key markets of China, Brazil, Mexico, South Korea, India, Turkey, and Russia.

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Prior to SDG, he was a partner at Catenion Strategies, a strategy consulting firm based in Berlin. At Catenion he led numerous engagements, including a post-merger development portfolio review for a major pharma firm, helping a new entrant in oncology to define the late-stage development programme for a key brand that has since become a major player in the oncology space.

David was also chief scientific officer for Etiologics, where he was a member of the senior management team who led the purchase of Bayer’s pre-clinical respiratory capability. After leaving Etiologics, he served as an external consultant to AstraZeneca, helping to define its discovery medicine strategy for oncology.
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PHARMERGING MARKETS

The pharmerging markets have several elements in common, not least that rising gross domestic product (GDP) production will increase access to better medical care. Currently, pharmerging markets rely primarily on generic drugs. As the socioeconomic and educational levels in these countries continue to rise, the growing middle classes are driving a market for more innovative and branded drugs. At the same time, the rising standard of living and increasing life spans will shift the pharma focus away from infectious diseases toward cardiovascular disease, diabetes and other chronic illnesses.

With populations of these countries in the billions, this will have a major worldwide impact on pharma. For example, the World Health Organisation predicts that by 2030 diabetes will affect about 42.3 million people in China (up from 20.7 million in 2000), and 79.4 million people in India (up from 31.7 million in 2000).

Protection of intellectual property in pharmerging markets will improve with the ratification of the World Trade Organisation (WTO) amendment on Trade-Related Aspects of Intellectual Property Rights (TRIPS). However, some countries may find it advantageous to break patents on specific drugs as governments struggle to provide treatments for large patient populations.

Multinational corporations (MNCs) will be favoured in the pharmerging markets, because their marketing and sales skills are superior to those of local companies. MNCs also produce life-saving, innovative drugs that may not yet be available in developing countries.

PHARMERGING MARKETS: A CLOSER LOOK

Until relatively recently, little attention was paid to the potential of pharmerging markets. Today, however, these markets are becoming increasingly attractive to MNCs. In the year ended September 2007, the top 20 pharma companies increased sales in the pharmerging markets by about 10.5 per cent: considerably above the total market growth.

The predominance of Asian countries is not new. Historically, Asia has been one of the world’s most important financial markets. In 1820, for example, Asia had 59 per cent of the world’s GDP. By 1950 this share had dropped to 19 per cent, probably a consequence of the two World Wars. In 2001, the share was back up to 37 per cent and growing, with a 13 per cent share for Japan, 12 per cent for China, 5 per cent for India, and 13 per cent for the rest of Asia.

By 2040, the GDP of China is predicted to surpass that of the US. To take advantage of this growth potential, Western pharma must understand the cultures that will drive these pharmerging market.
China
With a population of 1.3 billion, more than the combined populations of the US and Europe, China provides the most visible opportunity in the growing pharmerging markets. The Chinese pharmaceutical market has more than tripled since 1997; by 2010 it is expected to double again, tying with the UK as the fifth largest market for ethical and over-the-counter (OTC) drugs. In 2008, the Chinese market will grow 14-15 per cent, to $17-21bn. Traditional Chinese medicine is now being balanced by Western medicines.

There is a clear agenda to increase the domestic pharma industry, working with Western companies to establish drug discovery and development centres. Western firms have also expressed their willingness to license products in China to help ensure the success of local companies. Evidence shows that China is being positioned as a centre for drug discovery. The country offers an attractive venue for R&D, with the costs of medical research and testing typically 30 per cent to 60 per cent lower than in Western countries.

With education a primary goal among Chinese people of all socioeconomic levels, large numbers of scientists are available to work in drug development. However, the infrastructure does not yet support regulatory compliance, and questions about bureaucracy, quality of data and timeliness retard the progress of medical research.

Drug distribution strategy in China is evolving, and the government aims to reduce approximately 10,000 wholesalers and distributors to around 100.

The Chinese government is strongly involved in healthcare policy, overseeing annual price cuts, enforced generic

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prescribing, and an anti-corruption campaign that targets promotional activity, product approvals and manufacturing. In addition, the government has made provisions for all national health insurance to cover all citizens by 2010. Hospitals charge a profit on drugs distributed, so physicians tend to prescribe drugs that are financially favourable but may not be the best treatment choice. Physicians are government employees who obtain and distribute products based on local requirements; they cannot be approached directly by pharmaceutical reps.

India
India too has a large population and a favorable GDP growth rate. As in China, improved education and the growing middle class will create increased purchasing power, leading to demands for innovative drugs and treatments. Currently, the Indian pharma market is underpenetrated and underserved. The government’s key policy priority of wide access to healthcare will create efficient infrastructures and increased reimbursements that will help to foster pharmaceutical growth and development. Outsourcing support staff to India has been extremely successful for a number of Western non-pharmaceutical companies, as a result it is viewed as an ideal place for pharma to look to outsource. Indian companies have demonstrated expertise in chemical engineering and cost-efficient manufacturing. For example, if the indexed total manufacturing cost per unit in a typical European manufacturing plant is 100, an Indian manufacturer, using 90 per cent Indian raw materials, will be able to produce the same product for an index total of 57.

The local pharma market in India is one of the largest in the world. Support of clinical research activities has increased thanks to the wealth of information technology (IT) expertise, but clinical trials have been limited due to lack of medical expertise. Research physicians tend to have expertise only in certain therapeutic areas, such as oncology.

OTHER PHARMERGING MARKETS
The five smaller countries in the pharmerging markets have advantages and disadvantages similar to those of China and India. In Brazil, the recovering economy is increasing the size of the middle class and decreasing the size of the lower-income population. Greater availability of disposable income is spurring renewed interest in healthcare spending, for both self-care and prescribed drugs. South Korea is a very strong reimbursement market and traditionally the government has supported major investments in healthcare. Russia has expanded clinical research operations (CROs) rapidly over the last few years, and this will continue with increased access to patients and improvements in research quality.

3. IN 2008 MATURE MARKETS GROW IN LOW SINGLE DIGITS AND PHARMERGING MARKETS GROW BY 13-14%

<table>
<thead>
<tr>
<th>Region</th>
<th>Size:</th>
<th>Growth forecast:</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>$290-300bn</td>
<td>2-3%</td>
</tr>
<tr>
<td>“Pharmerging” markets</td>
<td>$90-94bn</td>
<td>13-14%</td>
</tr>
<tr>
<td>Top 5 Europe</td>
<td>$150-160bn</td>
<td>4-5%</td>
</tr>
<tr>
<td>Japan</td>
<td>$71-75bn</td>
<td>0-1%</td>
</tr>
<tr>
<td>Rest of World</td>
<td>$145-155bn</td>
<td>7-8%</td>
</tr>
<tr>
<td>Global market</td>
<td>$760-770bn</td>
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MANAGING RISKS AND CHALLENGES
Entering any new market, whether domestic or international, involves inherent risks. Yet only 64 per cent of companies with headquarters in the pharmerging markets have documented risk management strategies that cover these markets, and only 33 per cent of companies in developed markets have such strategies.

Risk must be managed proactively, and consider the potential impact of strategic, regulatory and compliance issues. A risk management plan should consider the risk-benefit trade-offs based on short- and long-term revenue, required investment, capability and fit, technical risk and market risk.

Changing dynamics create greater risks in pharmerging markets than in the traditional markets. Risks may include abuse of intellectual property rights, contradictory regulatory issues, corruption and entrenched local competition for the generic drug market.

National disasters can impact the economy substantially if diminished growth in GDP lowers pharmaceutical expenditures. Asked to consider important risks in the pharmerging markets, pharmaceutical executives in developed markets named instability of existing infrastructure, political unrest, excessive regulatory requirements and the pool of inexperienced workers.

The varying infrastructures that exist in pharmerging markets offer a number of opportunities for business development. For example, South Korea is a highly developed country with a strong infrastructure. The Indian infrastructure supports the development of many small companies; the result is that none is large enough to acquire a large Western pharmaceutical company.

It is rumoured that China has $2,500bn to invest in the pharma industry, but disputes about intellectual property rights are preventing disbursement of these funds. Unfortunately, this has a negative effect on research.

Political unrest in the pharmerging countries is becoming less problematic as the benefits of maintaining stability in today’s global marketplace become more apparent. However, it would be a mistake to apply Western standards and ignore local cultures.

Marketing success requires an understanding of the key local markets, cultural beliefs and in-depth knowledge of acceptable practices to ensure the integrity of a pharmaceutical product from the point of production to the point of dispensing.

GENERICS AND REIMBURSEMENT
With strong government support for reimbursement, South Korea has few problems with excess regulation; entire departments are dedicated to processing national reimbursement claims. In contrast, in China the manufacturer must apply to each local authority separately in order to obtain reimbursement.

The pool of scientists and technicians in pharmerging markets is growing, but the extent to which this growth is occurring differs markedly from one country to another. India has a wealth of talented, experienced, and well-qualified workers, especially in IT and communications, and a strong capability for producing quality generic drugs.

4. EMERGING MARKETS WILL CONTRIBUTE ONE-THIRD OF TOTAL GLOBAL GROWTH IN 2011
South Korea is strong in the area of generic drugs and the talent pool in China grows stronger every year. However, this wealth of talent comes at a price, particularly in China and India, as local workers who were employed by US and European countries are returning and requesting Western salaries, significantly increasing the wage bill.

Setting appropriate drug prices poses a major challenge in the pharmerging markets. Clearly, price must reflect the...
costs of development and manufacturing, but medicinal products must also be affordable and acceptable according to the healthcare policies of the local government. Competing with local companies must have a positive effect on the local economy, balancing benefits for the company with benefits for the country. Causing local companies to collapse may remove competition, but it can also destroy the innovative powers of those with the most local experience.

Opportunities in the pharmerging markets are not limited to drug sales. Many companies may benefit by reducing the costs of manufacturing and providing additional supplies of product, rather than by increasing sales. Other viable options for Western producers include drug discovery and discovery servicing, including biology, chemistry, and screening services; local and global pre-clinical and clinical development; IT and manufacturing services; ingredient sourcing; and local and regional medical support.

The pharmerging markets will remain volatile for some time and continuing assessment of risks will determine which factors most influence the growth of revenue and profitability. Ultimately, success or failure in these markets will depend on the quality and integrity of the data collected and its acceptance by key regulatory authorities in the West.

FUTURE OF GLOBAL MARKETING
As education and personal income in the pharmerging markets improve, demands for premium drugs and related services will grow. Increasing presence and profits in these markets will depend on partnerships between Western and pharmerging companies.

Social responsibility will demand that people of any age, health, wealth, status or location will have access to healthcare. Ensuring ready availability of health services will require cooperation with local and national governments.

Clinical research in the pharmerging markets should occur at local levels, with experienced clinical research workers who are familiar with both local and global processes and quality programmes. This will guarantee compliance with local regulations and continued training of local personnel, resulting in high-quality data that will be readily acceptable to regulatory agencies.

Short-term goals for success in the pharmerging markets should focus on preventing and treating communicable diseases in these vast populations. Long-term goals should focus on treating chronic diseases.

Pharma may best achieve these goals by exploring opportunities for growth through vertical integration of drug research and development, diagnostics, clinics, and pharmacies.

To learn more about the way in which IMS can help you to identify opportunities in pharmerging markets please contact David Campbell at dcampbell@uk.imshealth.com
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