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MARKETING STRATEGY OF PHARMACEUTICAL INDUSTRY: AN EMPIRICAL STUDY

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Abstract

The recent economic downturn, healthcare reform in many countries and less disposable income for customers has made the generic option more attractive to payers, insurance companies and consumers concerned with managing their costs. As a result, the generic drug makers have been making inroads in the product sales of the branded products and this along with patent expiration have led to projections of an increase in generic sales of $12 billion dollars from $18 billion in 2008 to $30 billion in 2012. The Food and Drug Administration (FDA) in the Unites States and other like organizations in other countries have as one of their main mandates, the health and safety of the society. Big Pharma could partner with these agencies by leveraging some of the cutting edge technology; they (big Pharma) have to speed up their processes, a win-win proposition. This would also require a higher level of communication and openness than currently exists so the needs and safety of patients are put first in all interactions.

Keyword: Economic downturn, Generic drug, Food and Drug Administration (FDA), Organization

Introduction

Many big Pharma companies have responded to the current business climate by engaging in a variety of strategies aimed at paving the way for future success. Examples of this are, Merck's recent merger with Schering Plough, a move aimed at consolidation based on perceived pipeline synergies, the Pfizer buyout of Wyeth and Roche's acquisition of Genentech. Others have pursued the path of diversification as is the case with Johnson and Johnson, Novartis or Abbot that have significant business activities outside of the traditional pharmaceutical arena engaging in areas such as consumer products, healthcare services, medical devices and medical diagnostics. Yet other companies have taken the path of focusing on the 'Emerging Markets' that are in some ways considered largely untapped potential like AstraZeneca and GlaxoSmithKline's focus on China and India respectively.

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These are examples of changes that point to the fact that many Pharma companies do not see the current situation as a temporary setback. Many are making the decision to work with former competitors (Eli Lilly, Merck and Pfizer working on Oncology in Asia,) or revamp their research capabilities as seen with Eli Lilly and Covance recently signing a 3 year biotechnology services agreement where Lilly will test bioproducts at Covance's new biotech facility (Lilly February 26, 2010 press release). Companies are also trying to improve their manufacturing capacity and efficiency (many with a variety of Six Sigma process improvements) and commercial models (Merck embarking on a new way of engaging with their customers) in order to be successful in the future.

Pharmaceutical Industry Issues

(Limited Approval of New Chemical Entities)

New Chemical Entities (NCEs) are the compounds that emerge from the process of drug discovery. Research done by IMS research shows that there has been a significant decline in the number of NCEs launched over the last ten years. In the NCE launches from 45 in 1999 down to approximately 27 by the end of 2009. This phenomenon has not been restricted to just a few therapeutic areas or companies and is compounded by the fact that the value of the launches that have occurred are significantly less than in the years when blockbusters drugs provided significant increase in revenue.

The reason for this decline has been attributed to many factors including increased scrutiny and higher safety standards dictated by the Food and Drug Administration (FDA) authorities, broad portfolio of early stage therapeutic products being looked at but with not much success in creating novel medicines in the vast majority of the areas, despite advances in technology and processes. Regardless of the reasons, the companies have to deal with the reality that there are less new products being approved and therefore they are failing to achieve their potential to provide treatment for patients and commercial benefits to their companies. While the solution to this problem starts in the area of research and development (R&D), the business aspects are of critical importance. It takes about 10–12 years to bring a medicine to market from discovery through launch. While it may be possible to decrease this time using better processes and technology, fixing the business model where each company invests in R& D from discovery through product launch (lifecycle management) is just

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as critical. Additionally, companies need to make better portfolio decisions that enables them to sharpen the focus of their investments and where possible look for opportunities to work with other entities to share the cost of R&D as well as the business risks.

Regulatory Changes and Political Impact

The recent (2006–2010) economic downturn has in many situations intensified and refocused people's attention on regulation in the Pharma industry. Some of the arguments in the fall of 2009 healthcare debate in the United States are a prime example. The debate has been driven both by the need for the improvement in the regulatory process to meet the current needs of all the stakeholders as well as the stated and in some cases implied need to ensure that the expected benefits are aligned with the cost for the insurance, products and services. This reality will prompt and, in many cases, force big Pharma companies to revamp their cost structures as governments, insurance companies, payors and patients focus on reducing the spending on healthcare. Figure 6 shows the cost forecast by the Congressional Budget Office which will rise to 25% of the US GDP by 2025 if the current trend continues. These cost and other related issues could be seen more as the symptom of the underlying problem. The real issue is that there is a need for Pharma companies to be able to demonstrate the value they bring to their patients and other stakeholders. In other words, show the value that can be provided to the patient by the products they submit for approval, especially where they are in therapeutic areas that are already being addressed while the needs of many others are not met or are underserved.

Regulation also impacts many other issues and stakeholders concerned about issues like Global Warming (the effects of manufacturing plants on the environment) Animal Rights groups (resistance to testing in animals) and many other groups. These groups often have not only the monetary resources but also the political connections that can make it very difficult for Pharma companies to operate to their full potential in many countries and markets. Pharma companies would be well served to understand the concerns and improve these relationships and not get into a situation where they have trouble marketing and selling their products after clearing the high hurdle of research and development and passing product efficacy and safety clinical trials.

Big Pharma companies have a responsibility to their shareholders, investors, employees and patients to operate in a way that will ensure their viability for the long term. That is the only way that they will be able to continue to provide and improve the medicines that societies depend on them to produce.

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The threats to the industry are from

(a) Ever greening strategy of MNCs for denying and limiting the patent cliff opportunities with debatable recourse to TRIPs and FTAs

(b) Increasingly stringent regulatory and non- tariff barriers to generics markets in developed countries

(c) Increased competition for generics and bio- generics production in terms of high capacity and production costs (d) High- entry barriers to enable market share in development of new drugs.

Review of literature

Tousely and Clark (1943) have defined a market as a place or area where buyers and sellers work together.

According to Philippe Malaval, Branding is an effective, competitive strategy in industrial brand. A strong brand blocks out competitive penetration.

Research Methodology

Research methodology is systematic designs to ensure valid and reliable results that address the research aims and objectives.

The Methodology involved many phases. The data / information were sourced from:

1. Secondary Data from the available literature based on previous studies, Websites of manufacturing companies, published data of public limited companies etc
2. A Pilot study in Nagpur with a small group of Customers, Dealers and manufacturers to gain some preliminary exposure. (20 customers, 10 dealers & 2 manufacturers)
3. Primary Data from the survey of the sample population which features 200 customers, 100 dealers and 10 manufacturers.
4. Seven Focus group discussions in middle part of India consisting of a total number of 54 persons (36 customers and 18 dealers). This helped to validate the data and findings.

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Pilot Survey

To understand the general perceptions of the segment, their attitudes, approaches, a small group of 32 persons were interviewed in depth consisting of 20 customers, 10 dealers and 2 manufacturers of Drugs. From this study, the basic directions regarding the approach to the problem and the inputs for the preparation of the questionnaire were obtained .The basic habits of the respondents were generally understood.

Three detailed questionnaires were prepared for customers, dealers and manufacturers. These were prepared with the information gathered and assessments, acting as the basic inputs, along with the findings from the survey of literature. The questionnaires collected the basic information on the respondent including his age, designation, purpose of the use, brands of Drugs they are using, how long they are using the brand, whether they have changed their brand etc.

Terms of Reference (TOR)

(i) To articulate the long term goals to be achieved in terms of growth, competitiveness and share in global trade for the domestic Drugs & Pharmaceutical Industries.

(ii) To review the current status of domestic Pharmaceuticals Sector highlighting the achievements during the 11th Plan and reasons for major deviation/shortfall, if any, in respect of fulfilment of targets and identifying areas of strength and weakness of the Indian industry vis- à- vis international Drugs and Pharmaceuticals Industry.

(iii) To benchmark indigenous drugs & pharmaceuticals industry against international drugs & pharmaceuticals industry and suggest appropriate measures for bridging the gaps where necessary, including the needs for further R&D activities and/or technology collaboration for upgrading technology.

(iv) To examine the structure and capability of the domestic drugs & pharmaceutical industry, its export trend & performance and identify emerging areas having specific potential for growth and competitiveness as well as to suggest measures for putting the indigenous industry on sound footing and growth path keeping in view the goals to be articulated under item 1 above.

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(v) To study change in structure of domestic pharmaceuticals industry in the light of current trend of merger & acquisitions/takeovers/collaborations and its correlation with related FDI norms and suggest measures to safeguard national interests.

Objectives of Study

1.) To examine the impact of new patent regime on domestic pharmaceutical industry including its implication on drug prices.

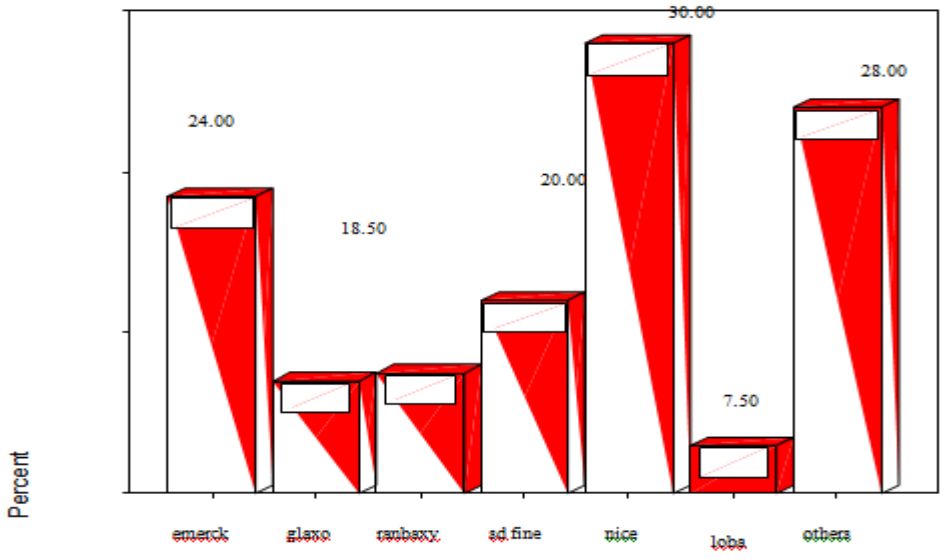
2.) To review the present status of WHO GMP (World Health Organization – Good Manufacturing Practice) certification and schedule M compliance and suggest measures for raising the level of compliance by manufacturers of drugs and pharmaceutical products in the country.

Hypothesis

Null hypothesis H_0: The difference in the reasons for preferring a brand of lab chemical is not significant.

Alternate hypothesis H^a: The difference in the reasons for preferring a brand of lab chemical is significant.

No. 1 brand of laboratory chemical consumers are using



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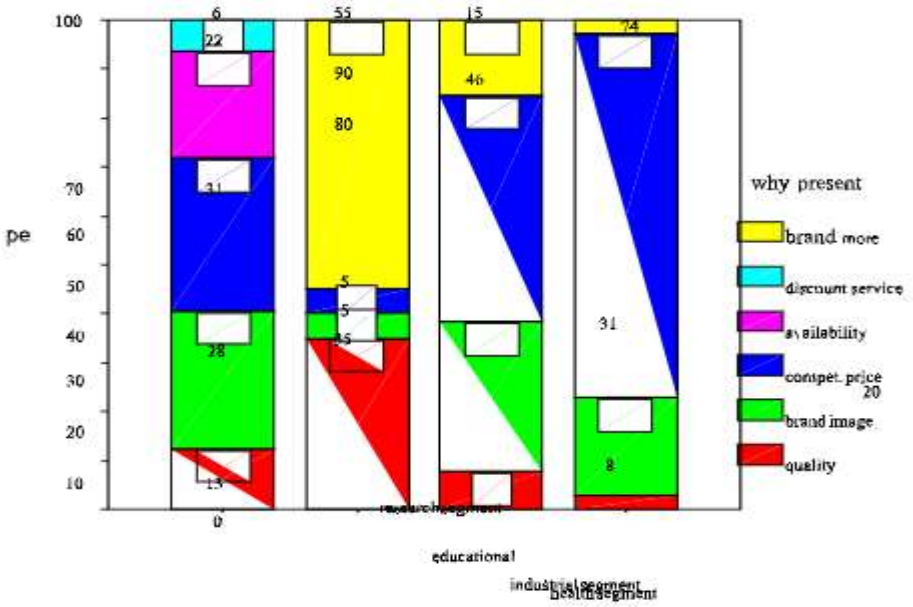
Interpretation

It can be seen from the above graph that NICE is the leading lab chemical among the customers surveyed.It must be remembered that NICE is priced lower than those brands having a very high brand image.

Cross tabulation between segment focused by the dealer and reasons for promoting a brand



segments focussing as per preference

Interpretation

It can be seen from the above graph that for all segments to which the brand of Lab chemical is supplied competitive price and competitive discount are the reasons for preferring the present brand.

Conclusion

The companies are not sitting back and waiting for things to change. Most are actively looking for ways to gain valuable assets as well as look for ways to engage with the FDA and deal with

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competition from generic drug makers. Companies also have to deal with the legal actions that often follow any reports or accusation of product risk or safety issues, again a big drain on their resources as well as revenue.

The Pharma industry and individual companies will have to look deeply within themselves and make a conscious decision to change. Every industry has certain characteristics which tend to be more or less representational of the companies in the industry. In general, big Pharma companies have grown up over the years from the mid 1970s to the early 2000s with the understanding that if they pour money into R&D and start with a large number of candidate molecules, at some point it will pay off with one or two major drugs from the batch.

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