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# Pharmaceutical Executive

a new world of revenue  
growth is just breaking  
the horizon. here's  
a first view of

THE tomorrow's pharma

# PHARMERGING FUTURE

**A** DRAMATIC SHIFT IS UNDERWAY in terms of where the global pharmaceutical industry is turning for growth and profitability. The cause is all too familiar: While the so-called major markets—the US and Canada, Britain and Western Europe, and Japan—are expected to fuel 70 percent of global sales this year, their contribution to global growth is forecast to drop to a measly 16 percent by the end of 2009. Eclipsing these once-dominant sales drivers are a group of seven emerging markets—Brazil, India, Turkey, Mexico, Russia, South Korea, and, of course, China. These new engines are forecast to generate a phenomenal 51 percent of 2009's global growth, albeit while adding only 11 percent to global sales (see "The Growth Gap").

Call these the tier-1 emerging markets—or “pharmerging,” for short. Meanwhile, tier-2, which includes 21 far-flung nations ranging from Venezuela to Vietnam, Chile to the Czech Republic, is on tap to deliver an impressive 22 percent of 2009's global growth and 6 percent of its global sales (see “Pharmerging Fast Followers”).

BY RAYMOND HILL  
AND MANDY CHUI

Though for a long time it's been only a minor industry concern, the rest of the world is now emerging as pharma's great bright hope; these 28 nations, in particular, are expected to carry industry growth and contribute mightily to profitability for the next decade.

### So Far, So Pharmerging

However wildly they differ from one another in culture or politics, the seven pharmerging markets have in common more than just their above-average growth in the pharma sector. They also share disease profiles that are markedly different from that of the major pharma markets. Their public health programs are expanding, along with access to medicines for their populations. And the main focus of each market is on primary care and generics. Together with the tier-2 "early emerging" markets, the pharmerging sector accounts for more than 3 billion people, or 45 percent of the planet. While much is made of their exploding middle-class population—and its potential buying power—in fact less than one tenth of these 3 billion can afford Western medicine. Still, that adds up to 300 million—a population close to that of the United States.

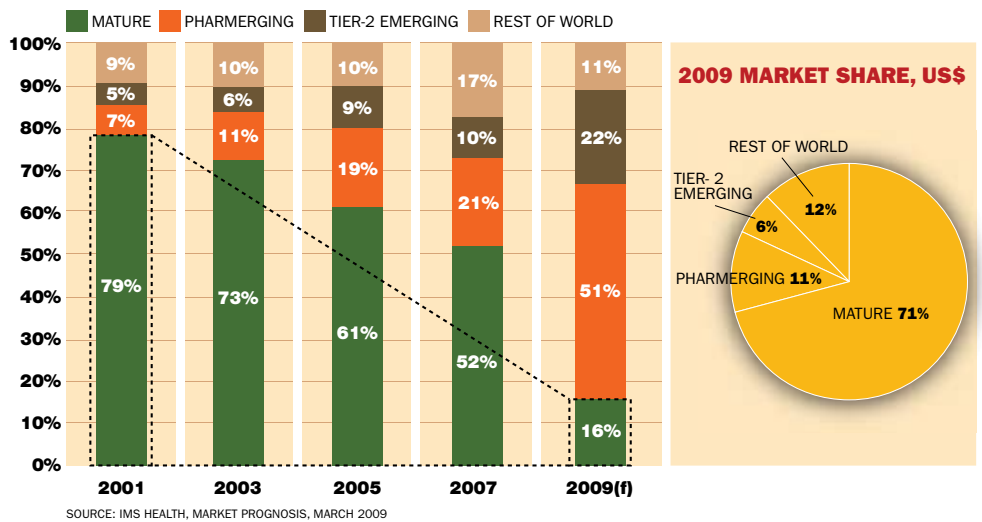
The global pharmaceutical market, valued at \$773 billion in 2008, is expected to reach \$910 to \$940 billion by 2013. By then the pharmerging markets will be worth a projected \$155 to \$185 billion. Global growth will stand at about 3 to 6 percent, and the huge shift in the proportions of growth from the mature to the pharmerging markets is almost certain to continue (see "Five-Year Forecast").

### Big Pharma, Big Wake-Up Call

While the pharmerging markets represent virtual virgin forests for healthcare sales, most global drug companies remain underexposed in these opportunity-rich markets, indicating that the contribution of revenues from these markets is much less than the potential of the markets. In part due to their colonial ties, European pharmas such as Britain's GlaxoSmithKline and France's Sanofi Aventis have an advantage over their US-based competitors, with

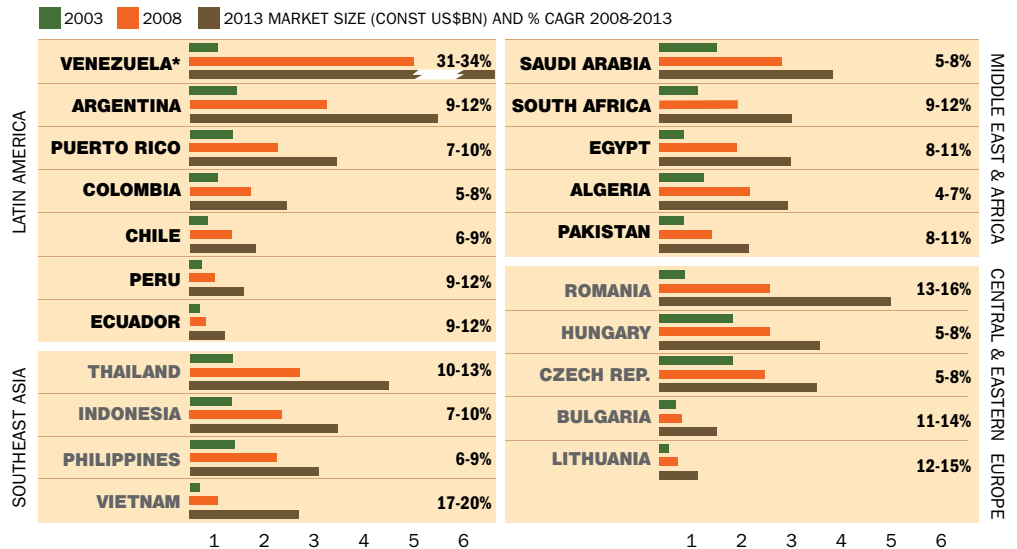
### THE GROWTH GAP

Pharmerging and tier-2 emerging markets will contribute three quarters of global growth in 2009



### PHARMERGING FAST FOLLOWERS

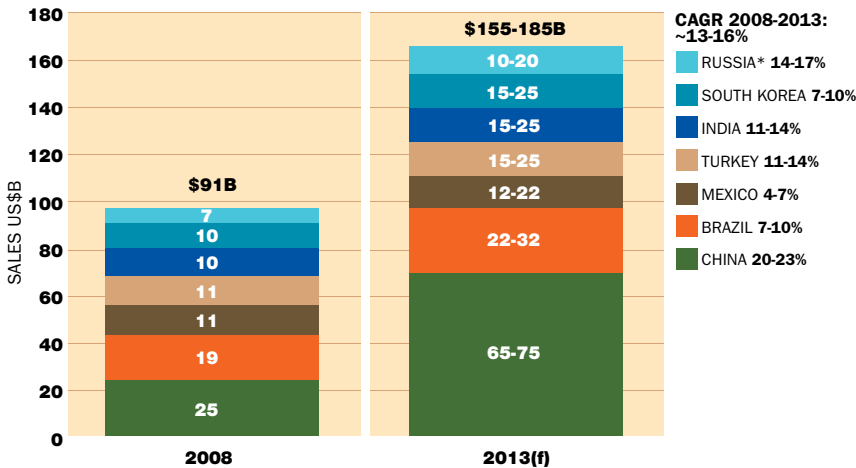
The 21 tier-2 "early emerging" markets



an average exposure rate of about 8 percent vs. 5 percent, respectively (see "Positive Exposure"). In 2008, GSK pur-

## FIVE-YEAR FORECAST

All of the pharmerging markets will show significant growth in the next five years



SOURCE: IMS HEALTH, MARKET PROGNOSIS, MARCH 2009; RUSSIA'S 2013 ESTIMATE BASED ON SEPT 08 FORECAST

chased the entire Egyptian product portfolio from Bristol-Myers Squibb and the company has already realized gains. Additionally, GSK acquired a 16 percent stake in the largest African generics company, Aspen, which will also assume marketing and distribution control of GSK products in South Africa. Meanwhile, Sanofi's recent purchase of Brazilian generics maker Medley and Mexican generics maker Kendrick has positioned the French firm as Latin America's leader in that sector.

A number of other drug companies have already scored notable successes in these markets. One of the earliest entrants was Swiss-based Nycomed, which entered the Russian market in 1993, and is now ranked number 11 among Russian pharmas. Additionally, much of the recent growth at Bayer came from China and Turkey. Yet reaping only single-digit percentages of annual sales from a sector that represents nearly half the global population is nothing to boast about. There's no doubt that the industry needs to pay much greater attention to the pharmerging markets than it currently does. The question is how.

### Keys to Unlock a Market in the Making

When entering a pharmerging market, it's essential to develop a business strategy that's flexible enough to adapt to local needs. At the most general level, you need to know as much as possible about healthcare usage by the population, about national and local economic situations, about the degree of infrastructure development, and about specific regulatory or governmental controls.

### Tailor Your Approach

New investments must be managed judiciously by answering three key questions:

1. Where? Develop a clear position for future business. What are the potential benefits (and risks) of entering the market in a particular geographic area?
2. How? Develop a clear strategy. What will be the focus of the portfolio?
3. When? Develop a logical flow for transition. What are the local manufacturing or distribution capabilities? What kind of resource investment may be needed? What is the cost of capital? When is the optimal time to enter the market, continue there, or exit?

Since every market is unique, success requires a customized approach. The consumer is often the payer in these markets, and payment tends to be out-of-pocket. Identifying third party payers, a major market component, is very

important. Additionally, disease states vary widely not only between the mature and the pharmerging markets, but also among pharmerging markets. What applies in Britain is very different from what is of importance in China or India. Pharmas must target their efforts accordingly.

### Know Your Facts

Analysis of specific marketing initiatives shows that success in pharmerging markets depends on five critical factors:

1. Differentiating what is necessary in the market from what would be desirable but not essential
2. Gathering the most relevant, accurate, and timely information to understand and measure emerging markets
3. Devising portfolio strategies that supply local market needs, while remaining aligned with headquarter's objectives
4. Defining and implementing commercial models that will increase productivity and return on investment
5. Understanding pricing and market access strategies that maximize product value

Many drugmakers increase their exposure to pharmerging markets through the expansion of their existing operations, as opposed to entering those markets where they don't currently have a presence. Nonetheless, identifying the ideal pharmerging markets for a particular organization, whether through expansion or new entry, requires significant due diligence. The degree and structure of participation in these markets varies greatly, with opportunities and threats specific to each region.

In Brazil, for example, the capabilities of state-owned pharmaceutical manufacturing could enable relevant importing of pharmaceuticals with incentives to private partners, and competition among generic drugs is increasing. Opportunities in Brazil include the ability to influence legislation and increase government spending, the growth of private health

## POSITIVE EXPOSURE

Top pharmas' performance in pharmerging markets varies widely

COMPANY	% 2008 REVENUE	% CAGR 2003-20008	2008 SALES US\$(000)
ABBOTT	4.6%	11%	\$893,302
AMGEN	0.1%	126.4%	\$14,627
ASTELLAS	4.1%	23%	\$255,448
ASTRAZENECA	5.3%	23.4%	\$1,735,701
BAYER	14.4%	16%	\$2,252,510
BOEHRINGER	7.7%	12.9%	\$1,735,701
BMS	5.2%	1.9%	\$746,666
EISAI	2%	21.6%	\$140,482
GSK	5.6%	8.3%	\$2,053,256
J&J	4.6%	10.9%	\$1,353,483
LILLY	4.3%	12.4%	\$827,213
MERCK	4.2%	7.6%	\$1,095,347
NOVARTIS	8.3%	14.4%	\$3,003,200
NOVO NORDISK	5.5%	26.2%	\$430,278
PFIZER	5.5%	8.7%	\$2,368,065
ROCHE	4.8%	8.3%	\$1,452,385
SANOFI AVENTIS	8.8%	12.5%	\$3,126,276
SCHERING-PLOUGH	8.7%	8%	\$1,166,524
TAKEDA	0.1%	7.5%	\$15,644
WYETH	5%	7.2%	\$780,093

SOURCE: IMS MIDAS MAT DEC 2008

insurance, and increased public awareness of disease. Threats include competition among other entrants into this market, government cost-containment initiatives, and government investment in public laboratories.

By contrast, the Russian market is highly fragmented and high-priced—unlike Germany or the US. Patients pay out-of-pocket for about 60 percent of their drugs, while physicians lack data about disease incidence and standard treatment guidelines. Opportunities include increases in private insurance and reimbursement, along with improved physician education. Threats include the pressure to reduce prices, the influence of powerful lobbies for local firms, an overall lack of knowledge about diagnosis and treatment, and government influence on prescribing.

### Two Success Stories

The experience of GSK in India provides a model for success in a pharmerging market. The company implemented a “going local” strategy that targeted and licensed customized drugs. GSK entered the market very early, positioned from the beginning to focus on small drugs that had minimal market value in mature markets but met local market needs. The company built an Indian product portfolio that was dramatically different from its global portfolio (see "Britain vs. India"). Now the number three player in India, GSK has a significant share of the nation's market and continues to show favorable revenue growth.

## A CLASS ANALYSIS

The top five therapy classes in each pharmerging market

CHINA	INDIA	S. KOREA	BRAZIL	MEXICO	RUSSIA	TURKEY
OTHER BETA-LACTAM ANTIBACTERIALS	ANGIOTEN-II ANTAG.	ANTIVIRALS EXCL. HIV	ANGIOTEN-II ANTAG	ANGIOTEN-II ANTAG.	ANTIVIRALS EXCL. HIV	HUMAN INSULIN & ANALOGS
ALL OTHER CNS DRUGS	HUMAN INSULIN & ANALOGS	ANGIOTEN-II ANTAG.	ANTI-ULCERANTS	ERECTILE DYSFUNCTION PRODUCTS	ANTIRHEUMATIC NON-STERIOD	ONCOLOGICS
KANPO & CHINESE MEDICINES	CEPHALOSPORINS	LIPID REGULATORS	ORAL ANTIDIABETICS	INFANT FORMULAS	HORMONAL CONTRACEPTIVES	B2-STIMULANTS & CORTICOIDS
STANDARD SOLUTIONS	ANTI-ULCERANTS	ANTIPLATELETS	LIPID REGULATORS	ANTI-OBESITY PREPARATIONS	COLD PREPARATIONS	ANTI-EPILEPTICS
ONCOLOGICS	ORAL ANTIDIABETICS	BENIGN PROSTATIC HYPERTROPHY PRODUCTS	MUSCLE RELAXANTS	HORMONAL CONTRACEPTIVES	INTERFERONS	ANTIPSYCHOTICS

SOURCE: IMS HEALTH, MIDAS, MAT DEC 2008. - LEADING THERAPY CLASSES RANKED BY CAGR 2004-2008 GROWTH AND SIZE

## BRITAIN VS. INDIA

Glaxo's two drug portfolios for the two nations weren't exactly separated at birth

BRITAIN	INDIA
<b>R3F</b> B2-STIMULANTS & CORTICOIDS	<b>J1D</b> CEPHALOSPORINS & COMBINATIONS
<b>R3A</b> B2-STIMULANTS	<b>J1C</b> BROAD SPECTRUM PENICILLINS
<b>J5C</b> HIV ANTIVIRALS	<b>D7B</b> TOPICAL CORTICOSTEROIDS COMBINATIONS
<b>A10B</b> ORAL ANTIDIABETICS	<b>N2B</b> NON-NARCOTIC ANALGESICS
<b>N3A</b> ANTI-EPILEPTICS	<b>H2A</b> PLAIN CORTICOSTEROIDS
<b>J7A</b> PURE VACCINES	<b>A2B</b> ANTIULERANTS
<b>N2C</b> ANTI-MIGRAINE PREPARATIONS	<b>D6A</b> TOPICAL ANTIBIOTICS/SULPH.
<b>N4A</b> ANTI-PARKINSON PREPARATIONS	<b>P1B</b> ANTHELMINTICS
<b>R3D</b> CORTICOIDS	<b>A11E</b> VITAMIN B COMPLEX
<b>N7B</b> ANTISMOKING PRODUCTS	<b>J7A</b> PURE VACCINES
<b>R1A</b> TOPICAL NASAL PREPARATIONS	<b>A12A</b> CALCIUM
<b>D7A</b> TOPICAL CORTICOSTEROID PLAIN	<b>H3A</b> THYROID PREPARATIONS
<b>N6A</b> ANTIDEPRESSANTS & MOOD STABILIZERS	<b>R6A</b> ANTIHISTAMINES SYSTEMIC
<b>J1C</b> BROAD SPECTRUM PENICILLINS	<b>B3A</b> HAEMATINICS, IRON & COMBINATIONS
<b>N2B</b> NON-NARCOTIC ANALGESICS	<b>R5C</b> EXPECTORANTS
SOURCE: IMS HEALTH, MIDAS, MAT DEC 2008	

Likewise, Schering-Plough scored notable success in China, aggressively pursuing an over-the-counter strategy that, along with its prescription business, grew the company's sales more than five-fold, from \$20 million to \$100 million, in a five-year period. The company made significant, well-targeted investments in sales and marketing resources, as well as in consumer spending for its OTC business, to achieve this high rate of growth.

### The Right Organizational Model

As pharmerging markets gain increasing attention, their importance within a pharma's overall corporate structure rises. Business leaders for the pharmerging markets are today in some cases reporting directly to CEOs, as growth and profitability are increasingly linked to tapping these new markets.

Tactical execution is 80 percent of the game in pharmerging markets. Even though a strategy is sound, it could still fail miserably because of challenges in on-the-ground execution. Four points to watch for are:

**1. Regionalization** To overcome differences among regions in purchasing power and business practices, adopt a regional strategy for management, with sales force, marketing, commercial, human resources, and government affairs teams structured by region. This will ensure that they will adopt practices suitable for that region, and react promptly to the changing environment. Companies that regionalize only their sales force run the risk of relying too much on first-line sales managers in the region. If a very competent sales

manager is in place, they'll do well. However, with a mediocre manager, they run the risk of losing touch with the market.

**2. Strengthen HR and Training** Comprehensive programs are required to retain talent and develop bench strength to take on junior and middle-management roles. Keeping the team happy requires not only monetary compensation but also a focus on career development. The commitment to focus on people must come from senior management. Personnel must be reviewed on a regular basis, and comprehensive talent development plans must be put in place. To succeed, a company needs to be perceived as a place where career development is an integral

part of the culture. In addition to providing superior products, successful firms distinguish themselves by providing long term career growth and personal development opportunities, as well as demonstrating a sustained commitment to the region, including the continued investment in expanding manufacturing facilities and setting up R&D centers.

**3. Local Government Affairs Team** Recruiting former government employees is an attractive option for many companies. These candidates offer an invaluable understanding of the regional policymaking processes, and have access to key government stakeholders and authorities.

**4. Stable Senior Leadership** A stable senior leadership team is critical for successful execution. This provides continuity, consistency, and commitment for the company's long term growth.

### The Global Economic Crisis Angle

While the global pharmaceutical industry navigates a challenging economic climate, it's worth noting that economic conditions affect markets to varying degrees. The extent of the economic impact on each pharma market is influenced by the healthcare burden borne by patients, and the short and long term policy responses that governments implement. In this regard, the importance of some pharmerging markets may actually increase with the global recession.

For example, the effect of the global economic crisis on Russia has been much different from that on China. Forty percent of Russia's GDP is comprised of oil and gas revenue, which has made the country much more vulnerable to the steep recession.

# Smashing China!

With a population of 1.3 billion and aggressive government health-care reforms, China's untapped market has pharma execs licking their chops. As pharmaceutical sales in Western Europe and North America tally single-digit growth, the stats for this rising tiger are exploding—with a compounded annual growth rate of 22.6 percent from 2003 to 2008, reaching \$24.5 billion. China's pharmaceutical market, which was the world's eighth largest in 2006, is projected to climb to third place by 2013. By 2020, China is set to be the world's largest economy, with GDP growth steadily rising faster than other pharmerging countries like Brazil, India, and Russia.

## High-Speed Healthcare Reform

At the center of China's healthcare metamorphosis is its \$125 billion stimulus package, which aims to offer health coverage to more than 90 percent of China's population by 2011. The government plans to invest that \$125 billion in the next three years to provide basic, affordable healthcare services for the public (see "Healthcare Reform China-Style," this page). This capital will be directed at medical insurance (46 percent), healthcare organization (47 percent), and public health (7 percent). Healthcare coverage will expand greatly; essential drugs will be reimbursed by insurance, and the price of essential drugs will be determined by tenders with no distribution margin. More than 2,000 county hospitals and clinical centers in rural areas will come online, along with improved capabilities at existing community hospitals, support for specialized hospitals, and experimentation on the elimination of the hospital drug markup. There will be

an increased focus on disease prevention and better control of the spread of infectious disease.

Enlarging the population covered under basic health insurance is projected to help double the size of China's pharmaceutical market over the next five years. It's estimated that the essential drug list will comprise some 400 drugs, about half of which contain chemical molecules currently sold by global pharmas. As the government works to reduce pressure on overcrowded city hospitals by building new ones, these hospitals will also purchase more equipment—in turn, promoting better prevention and earlier diagnosis of con-

ditions, for their part, prepared dossiers and launches for their own continent before turning their sights on the US, with the rest of the world again a minor consideration. But with China now on the verge of entering top-five status, such myopia no longer serves. True, the market is evolving rapidly. True, historical information is limited; key data are still emerging. But companies that do not broaden their drug development and launch planning process to include in-depth, early-on analyses of China are shortchanging themselves.

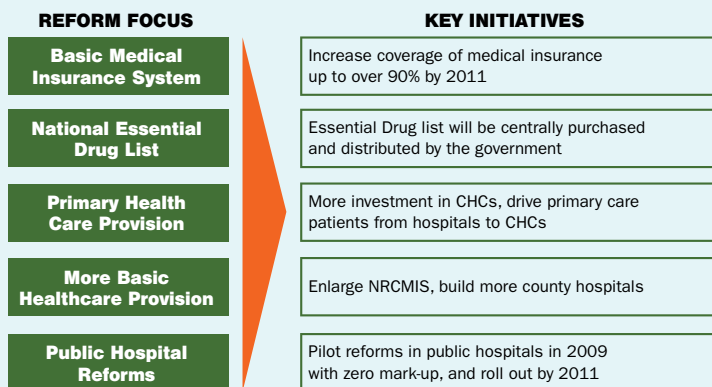
## 1 Engage As Early As Possible

Global brand development teams should begin tracking a new product's potential in China in Phase II or III. There are more than enough questions to answer: What would it take to sell a product in China, and what are the potential rewards? What might be the business opportunity? What steps must be taken now—in the laboratories, with clinical, regulatory as well as commercial departments—to ensure timely registration and commercialization? How well are Chinese physicians positioned to treat the disease targeted by the product? What do patients understand about their own condition? How must the development program be adjusted to account for anticipated clinical requests of local health authorities? Which potential joint-venture partners might be contacted, which suppliers might be tapped, which distribution networks would help facilitate?

Local teams can provide the on-the-ground analyses of specific disease states that US- and Europe-based managers need. They should be brought into the development and launch cycle early, as key members of the team.

## HEALTHCARE REFORM CHINA-STYLE

A five-point plan for 1.3 billion folks



ditions such as cancer, cardiovascular disease, hepatitis, and diabetes. Medical equipment, diagnostic reagents, and vaccine manufacturers will benefit from this massive initiative.

### Launching a Global Brand in China

More often than not, "building the market," rather than "taking share from the competition," is the name of the game for launching pharmaceutical products in China.

There was once a logical sequence for those who led pharmaceutical companies. US-based companies sought to penetrate the US market first, pursue Europe second, and the rest of the world would follow. European compa-

## 2 Become Truly Global

At the same time, organizations must undertake the realignments necessary to fully leverage the China market. This will entail reconfiguring operating committees so that they are truly global in orientation and reach—respectful of the data and insights of regional players, cognizant of cultural differences, and united by a shared desire to make the most of these “far away” and often “unknown” emerging markets.

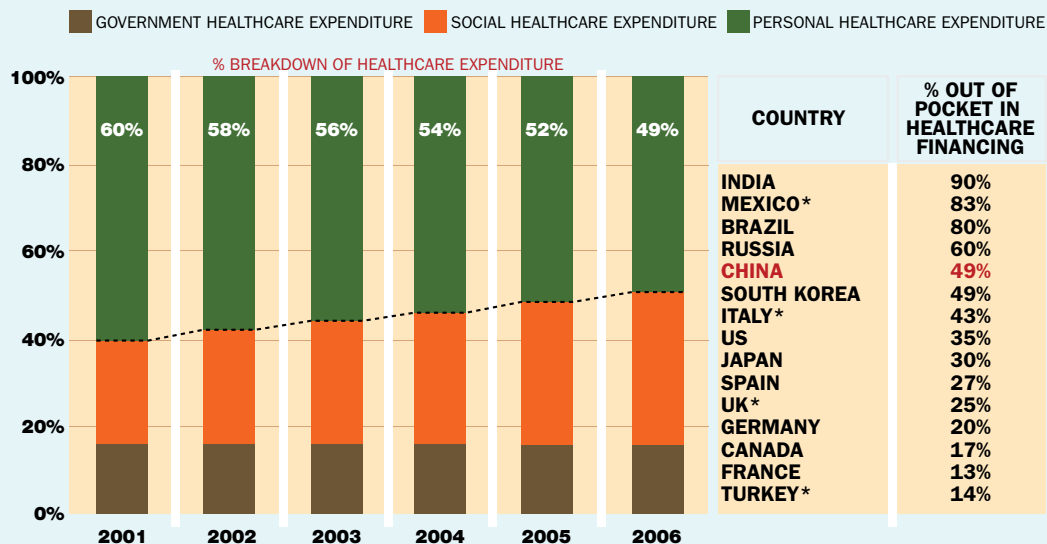
Systems must be put into place so that clinical development objectives are aligned with commercial realities. A common understanding of potential drivers, key success factors, and resource allocation must be used as a guiding framework. Seamless, fully integrated organization is the mandate of this age.

## 3 First Build the Market

The business of tapping a market such as China's isn't as simple as unveiling a first-to-market product—even if research demonstrates a huge potential market of millions of people for the

### OUT OF POCKET INSIDE CHINA

Private healthcare payout are 50 percent—compared to 90 percent in India and 35 percent in the US



SOURCE: OECD 2008; WHO 2008; CANADA, CIHI 2007; CHINA MOH 07, \*ESTIMATED FROM AVAILABLE SOURCES

compound. Such markets must first be built. Physicians and patients must be educated—especially about common conditions such as cardiovascular disease, diabetes, and hepatitis, which can remain essentially asymptomatic for a long time before doing serious damage. Products must be made available not just at key city hospitals but at the fast-growing network of community hospitals, where more patients are likely to seek care in the future.

Affordability also remains a key factor, as US and European prices are likely to prove incompatible with the Chinese

economy. Most patients in China still pay out of pocket for their healthcare. Too often drugmakers address this pricing issue too late—after having already launched a product in the US or Europe, at which point they find themselves in the awkward position of having to sell it at international price levels to a limited audience while hastily putting into place various charity programs designed to address the medically needy.

In conclusion, launching a global brand in China means treating the nation as what it potentially is—the locus of the next generation of blockbuster products. —RH & MC

Additionally, industry experts question the Russian government's ability and resolve to improve health insurance coverage and reimbursement for low-income groups. By contrast, the Chinese government recently laid the groundwork for substantial healthcare reform through enactment of a \$125 billion stimulus package. This landmark package aims to provide near-universal coverage and substantial improvement to the nation's healthcare infrastructure, especially in rural areas (see "Smashing China!").

Expectations for 2009 economic growth in the 15 key developed and emerging countries have declined since the onset

of the global economic crisis. However, growth in publicly funded markets is likely to ameliorate some of the stress, potentially offering a positive uptick in market growth going forward. The era of blockbuster drugs may be coming to an end, but the pharmerging markets can provide great value and new opportunities as they gain an increasing share of the global market.

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