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STRATEGIC DEVELOPMENT TRENDS IN THE INDIAN PHARMACEUTICAL INDUSTRY

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Strategic Development Trends in the Indian Pharmaceutical Industry

Shashank Sharma^{1*} Prof. Dr. G. D. Singh²

¹Assistant Manager Analytics & Business Development & Sales in Intertek, India Private Limited, Young Scientists University

²Founder & President of IMA -Ahmedabad

Abstract – The main purpose of the paper is to research and evaluate the strategic development trends in the Indian pharmaceutical industry. We aim to find that mergers and acquisitions prevail as a vital strategic development option in the Indian pharmaceutical industry. The research examines the exploratory theory that the intensive globalization process, increased competitiveness and changed structure of competitors, strongly influence the consolidation development trends in the Indian pharmaceutical industry which result in an increased number of mergers and acquisitions. The intensive consolidation of the Indian pharmaceutical industry is a market driven process and conditioned by several strategic issues, such as lack of brand new products, increased competitiveness, fast globalization process, intensive global marketing and sales activities, changed structure of competitors, fight for global market shares and customers' loyalty. There is clear evidence that the Indian pharmaceutical industry and market are both becoming more oligopolistic and monopolistic.

Keywords: Strategic, Development, Indian, Pharmaceutical Industry, Globalization Process, Brand, Products, Marketing, Sales Activities, etc.

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INTRODUCTION

Sales, marketing and business development skills are considered increasingly important by senior management in the Pharmaceutical/Bio-pharmaceutical industry. As the multinational sector moves to managing its sites as a business rather than a manufacturing site, the roles of business development, sales and marketing are key to its success. For indigenous companies, sales, marketing and business development are critical, as companies, mainly SMEs, position their companies and products in an increasingly global market.

Companies need to develop new business streams by entering new markets, expanding into less familiar areas of existing markets, or launching new offerings. This requires strategic marketing skills to identify where to position a company in the marketplace in terms of customer needs, competitors, available technologies and alternative solutions. Research and analysis, using various planning tools is required, for example. Expertise in pharma economics will also be required, including economic evaluation of Pharmaceutical/Bio-pharmaceutical products and the development of cost-effective medicines. Sales is the process of winning business, and can be a lengthy process, involving many supplier and customer

interactions. It can cover everything from product technical specifications to the detail of where and when product should be delivered over the life of the contract. Experienced sales and marketing executives are difficult to source in India, according to the companies interviewed for this study. Ideally, candidates should have a strong technical or industry background, together with sales and marketing skills and experience at an international level. The industry believes that the most effective way of addressing this gap is through CPD provision for science & technology professionals in the industry. For indigenous companies, Enterprise Indian programmes are in existence in this area and focus on identified industry needs. For example, the International Selling Programme focuses on building and sustaining export sales growth and mastering international market entry strategy for companies. Enterprise Indian has also developed a series of workshops, Excel at Export Selling - aimed at rapidly embedding the proven tools of good international selling practice into the sales teams of Irish companies across all industry sectors, including the Pharmaceutical/Bio-pharmaceutical sector.

REVIEW OF LITERATURE:

Every business organization reaches to the customers through their goods or services. To sell the products to the customers a number of activities are being performed. This is called marketing and it is an important function (Berri, 2008. Churchilli, Lacobucci, 2009. Easwaran Singh, 2006. Zikmund, Babin 2007). Marketing is the performance of business activities that directs the flow of goods and services from producer to the customer. It is the activity that directs to satisfy the human needs through exchange process. Marketing starts with the identification of a specific need of customers and ends with satisfaction of that need (Arens Willam, 2008. Batra, Myers & Aaker, 2007).

The customer is found in the beginning and end of marketing process. In marketing a large number of activities are performed Business Development Strategies. Pharma companies are distinctly positioning themselves on the basis of their capabilities, banking on their R&D strength, marketing network, and capitalization to decide their portfolio. Smaller Pharma companies are consolidating forming a "Super net" of Pharma companies complementing their capabilities to each other. The Big Pharma companies are consolidating to lead the league as "Super Pharma's". Companies have to choose between pharma, biotech and their respective generic models. Niche players are tending towards M&A to safeguard their focus, and achieve business goals. Pharma companies are positioning themselves as biotech or pharma on the stock market. Incorrect positioning of these companies can impact their capitalization, which remains the key to growth.

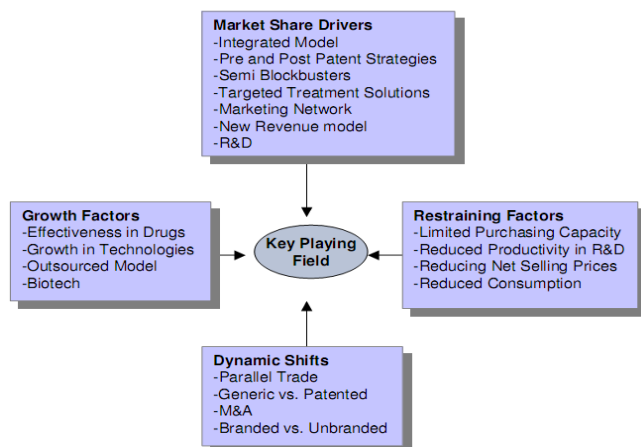


Figure-1- Pharma Industry- Key Playing Fields

1. Strategic Alliances in Indian Pharmaceutical Industry: In global competitive environment companies have got either tough competition or get saturated in monopolistic market, they try to expand their horizons in various economies, through mergers, acquisitions, collaborations or amalgamations. Companies are having their own expertise as per the changing need of business accordingly they joint hands with various pharmaceutical companies. As per the Indian Foreign Direct Investment policy it allows up

to 49% investment in Indian Pharmaceutical Industry. In lieu of that, if foreign based pharmaceutical companies would like to enter in India necessarily it should joint hands with Indian Pharmaceutical Companies. Apart from this as per the WTO Act (previously GATT) only those companies will survive in India or global market, who have got their own patented product, which also enforce pharma companies for various strategic alliances.

Table-1- List of Alliances Entered Into By Indian Pharmaceutical Companies

| Year | Indian Pharma outfit | Alliance Partner | Type Alliance |
|-----------|-------------------------------|---|---------------------|
| August 12 | Strides Arcolab Ltd. | Gilead Sciences Inc. | Emerging Market |
| June 12 | Dr. Reddy's Laboratories Ltd. | Merck | Drug Development |
| Aug 12 | Ranbaxy Laboratories Ltd. | Gilead Sciences Inc. | Emerging Market |
| Feb 12 | Jubilant | Mnemosyne Pharmaceutical Inc | Drug Development |
| Feb 12 | Jubilant Life sciences Ltd. | Endo Health solution Inc. | Drug Development |
| Oct 12 | Piramal Healthcare Ltd. | Fujifilm Diosynth Biotechnologies | Drug Development |
| Jul 12 | Cipla Ltd. | Drugs for Neglected Diseases Initiative | Drug Development |
| Nov 12 | Biocon Ltd | Bristol Myres Squibb | Exclusive Marketing |
| August 12 | Orchid Chemicals | Hospira Inc | Business Transfer |
| Jun 12 | Biocon Ltd. | Abbott Laboratories | Contract Research |

The above table emphasizes on the marketing strategy adopted by various Indian and Overseas Pharmaceutical Companies to expand its horizon in Indian market through Strategic Alliances. Companies like Dr. Reddy's Laboratories Ltd. with Merck, Jubilant Life sciences Ltd. with Endo Health solution Inc. have got strategic alliance for new product development, Biocon Ltd. has got Strategic Alliance with Bristol Myres Squibb for exclusive marketing, Orchid Chemicals have joint hands with Hospira Incorporation for business transfer, Biocon has time based collaboration with Abbott Lab. for contract research. Through these strategic alliances companies are participating in Indian Market and they are giving their remarkable contributions in the treatment of Chronic Diseases such as Bypass surgery, liver & kidney transplant, MDRTP, Cancer and AIDS.

Table-2- Medicinal and Pharmaceuticals Products

| Year | Value of Import of 'Medicinal and Pharmaceutical Products' (Rs in Crore) | Growth (%) |
|---------|--|------------|
| 2002-03 | 2,865 | - |
| 2003-04 | 2,956 | 3.18 |
| 2004-05 | 3,139 | 6.19 |
| 2005-06 | 4,515 | 43.84 |
| 2006-07 | 5,868 | 29.92 |
| 2007-08 | 6,734 | 14.79 |
| 2008-09 | 8,649 | 28.43 |
| 2009-10 | 9,959 | 15.15 |
| 2010-11 | 10,937 | 9.82 |

| Year | Value of Export of 'Medicinal and Pharmaceutical Products' (Rs in Crore) | Growth (%) |
|---------|--|------------|
| 2002-03 | 12,826 | - |
| 2003-04 | 15,213 | 18.61 |
| 2004-05 | 17,228 | 13.25 |
| 2005-06 | 21,230 | 23.23 |
| 2006-07 | 25,666 | 20.89 |
| 2007-08 | 29,354 | 14.37 |
| 2008-09 | 39,821 | 35.66 |
| 2009-10 | 42,456 | 6.62 |
| 2010-11 | 47,551 | 12.00 |

As per the profitability trend in Indian Pharmaceutical Industry, we can easily visualize an incremental progress every year in export and import in medicinal and pharmaceuticals segments. The trend can also be interpreted with the help of given table which shows remarkable incremental in export due to Indian FDI policy, Patent Rules and Strategic Alliances made by various Indian and foreign based multinational companies.

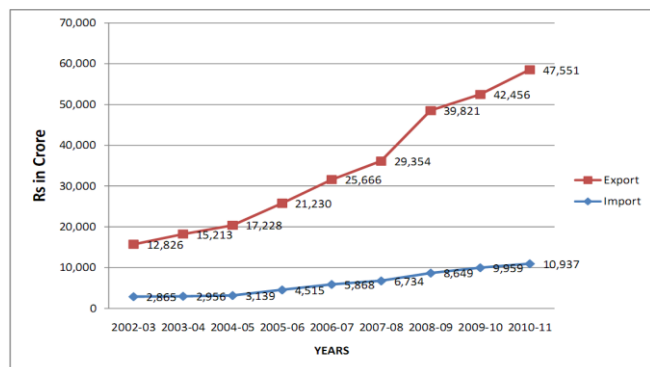


Figure-2 Medicinal and Pharmaceuticals Products

2. Profitability Trend in Indian Pharmaceutical Industry: The major players of Indian pharmaceutical industries are Ranbaxy, DRL, CIPLA, Glen mark and Sun Pharmaceutical who have adopted aggressive marketing strategy to promote medicinal and pharmaceutical brands in different Indian territories. Ranbaxy is major AIDS drug promoter in South Africa which tends to incline its profitability during financial year 2008 to 2013 onwards. The graph also shows an inclining trend for DRL and Glen mark and Sun Pharmaceutical due to increase in market share of therapeutics segment. Cipla has got tough competition in respiratory division especially products like Motel cast, Fluticasone, Salmeterol, are not able to survive, due to which there is rapid decline in its market share during 2010-11. But since it is entering in generic division there is bit increase in market share during the year 2013.

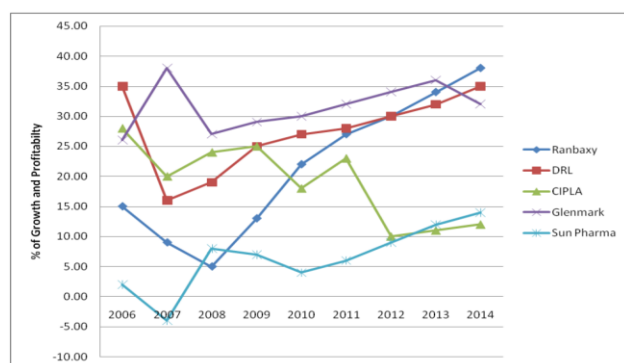


Figure 3- Source: Brand Manual; Cipla & Ranbaxy 2013

3. Marketing strategies in Pharmaceutical industries: Far – reaching changes have been taking place in the Indian economy for pharma industry during the recent past, consequent to the opening up of our economy through globalization and liberalization policies. The floodgates have been thrown open to allow international competition for manufactures goods as well as services, making it a question of survival of the fittest in any industry. In the present highly competitive economy, which can be called a buyer's market, it is the customer who wields full power. He can make or wreck a company. No wonder that the collective battle cry from sales and marketing people, retailers, wholesalers and advertising wizards alike is now 'Serve the Customer' or 'Delight the Customer'. The customer who was considered the 'King' is now treated almost like 'God' and here in pharmaceutical Doctors are supposed to be the 'King'.

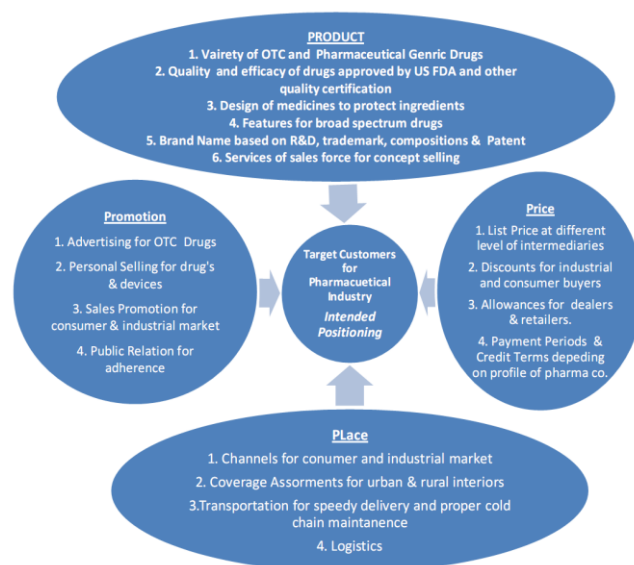


Figure – 4 Marketing Mix strategies for Indian Pharmaceutical Industry

The four Ps of marketing have to be assembled in the best possible combination. This process involves choosing the appropriate marketing activities and the allocation of the appropriate marketing effort and resources to each one of them. The organization has to consider how to generate targeted sales and profitability. Different combinations of marketing mixes are considered with varying levels of expenditure on each marketing activity to identify the most effective combination. It then chooses the best combination of mix of product, price, place and promotion to ensure success.

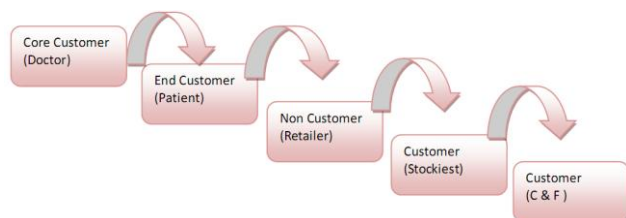


Figure: 5 (Flow of Pharmaceutical Drugs)

4. Pharmaceutical Company Business Strategies:

What's the secret behind these successes? For one, the company operates in niche formulations (chronic) segments such as psychiatry, cardiovascular, gastroenterology and neurology. While most of the top Indian companies have focused on antibiotics and anti-infectives (acute), Sun Pharma focused on therapeutic areas such as depression, hypertension and cancer. The company has introduced the entire range of products and has gained leadership position in each of these areas. Being a specialty company insulates Sun Pharma from the industry growth. The first quarter results for FY02 explain this to some extent. While the industry was affected to a large extent by a slowdown in the domestic formulations market, Sun Pharma logged a growth of 26% in revenues. Over the years Sun has also used the strategy of acquisitions and mergers to grow quickly. It acquired Knoll Pharma's bulk drug facility, Gujarat Lyka Organics, 51.5% in M. J. Pharma, merged Tamilnadu Dadha Pharma & Milmet Labs and acquired Natco's brands. Post-Merger with Tamilnadu Dadha Pharma the company gained presence in gynecology and oncology segments. One of the constants of pharmaceutical company strategy over the past decade has been increasing scale. Only by growing larger are companies able to afford the considerable costs of drug development and distribution.

CONCLUSION:

In our research work we found that the Indian pharmaceutical industry has been changing profoundly over the last couple of years and that an intensive globalization process definitively influences and reinforces a consolidation of the Indian pharmaceutical industry. In order to explain this phenomenon properly, we have analysed in detail the trends in the Indian pharmaceutical industry and key reasons for such movements. We provide empirical evidence that the intensive processes of concentration and consolidation have been continuing in all three sectors of the Indian pharmaceutical industry. Our research work shows that mergers and acquisitions prevail more and more as a viable strategic orientation for numerous Indian pharmaceutical companies. Further on, we may argue that increased competitiveness and the amended structure of competitors, which is conditioned by a merger and acquisition process, impact the strategic orientation of particular Indian pharmaceutical companies. By creating new alliances, they tend to create strategic synergies in the endeavor to be even

more successful, competitive and able to continue with further development circles. Thus we may forecast that intensive consolidation processes in the Indian pharmaceutical industry are to continue to form even bigger pharmaceutical firms and to speed up an oligopolization and even higher degree of monopolization of the global pharmaceutical industry further on. We may further conclude that future strategic development of the Indian pharmaceutical industry will be predominantly dependent on the strategic management issues that the pharmaceutical companies will be capable of understanding, developing and implementing properly in their operational and strategic business performances. We may argue that strong market oriented management practices are urgently needed for successful business performance today, not to mention tomorrow and months and years to come, in this highly globalized, transparent, complex, demanding, uncertain and competitive Indian.

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Corresponding Author

Shashank Sharma*

Assistant Manager Analytics & Business Development & Sales in Intertek, India Private Limited, Young Scientists University.

E-Mail – shashankdadhich@gmail.com