

Transformation in Pharmaceutical Industry: Developing Customer Orientation

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Abstract: *Marketing strategy has a great role to play in pharmaceutical products promotion in the current scenario hence it is a research area where a lot has been contributed and much more to be explored. Due to technological changes and increasing competition, marketing strategies have evolved in various forms pertaining to the need of customers and consumers. In this paper we provide a detail study & analysis of current marketing practices in Pharmaceutical companies. The paper is divided in two parts, the first part discusses about the introduction of India's pharmaceutical industry scenario and the current issues and challenges it is facing. The second part is the study of some of the company's annual general report in which we have tried to understand what challenges the companies are facing, what are the strategy they are using to counter the problem and what are the effects the companies are observing. This paper provides better understanding of consequences and causes of major players in Indian Pharmaceutical Industry.*

Keywords: Customer, Customer Orientation, Indian Pharmaceutical Industry, Marketing strategy

1. Introduction

The Indian Pharmaceutical Industry today is in the front rank of India's science-based industries with wide ranging capabilities in the complex field of drug manufacture and use of technology, to control the increase in the diseases. It ranks very high in the third world, in terms of technology, quality and range of medicines manufactured. From simple headache pills to sophisticated antibiotics and complex cardiac compounds, almost every type of medicine is now made in India.

India's drugs and pharmaceuticals industry is expected to grow at a compound annual growth rate (CAGR) of 14 per cent to reach a turnover of Rs 2.91 trillion (US\$ 47.06 billion) by 2018. The domestic drugs industry, which is valued at Rs 1.6 trillion (US\$ 25.87 billion) at present, according to Care Ratings, is also expected to grow in the local market with aggressive rural penetration by drug makers, increased government spending on health, and growing health awareness among people. India exports pharmaceutical products to more than 200 countries. Pharmaceutical exports are expected to cross the Rs 1 trillion (US\$ 16.17 billion) mark this year. Besides, the domestic pharmaceutical market is estimated to touch US\$ 20 billion by 2015, making India a Lucrative destination for clinical trials for global giants.²

Pharmaceutical marketing is unique as the decision making of buying the medicine lies in the hand of intermediate customer (physicians/doctor) rather than final consumer (patient). Thus pharmaceutical companies try to influence the customer (doctor) rather than final consumer (Patient). Thus doctors are the most important players in pharmaceutical marketing system. Doctors write the prescriptions that determine which drugs (brands) will be used by the consumer (patient). Thus influencing the doctor is a key to the pharmaceutical sales. Pharmaceutical

companies try to influence prescription pattern of doctors in favor of their brands by offering various kinds of promotional inputs like samples, gifts and academic activities). The doctor and Company Executive meet about more than 2 times a month.

2. Success strategies for Indian pharmaceutical industry in an uncertain world 3

Indian pharmaceutical market is highly fragmented and at the same time facing uncertainty and volatility as more and more number of drugs are coming under National List of Essential Medicine (NLEM).

Following are the challenges posed in front of pharmaceutical industry:

1. Even though ranked 3rd in terms of volume and 14th in terms of value, Indian pharmaceutical industry is highly fragmented. The top 10 companies contributing to 41% of the sales, the next 10 companies contribute 22% and remaining 37% to the total sale. It is also divided in urban and rural markets, where urban market is growing at 60% and rural market is growing at 40%. Tier 1 cities are growing slower at 10% as compared to rural areas which are growing at 14.5%.

2. The year 2013-14 has seen a deceleration of industrial growth from 16.6% of 2012-13 to 9.5% this year. The challenges faced by MNCs in India are compulsory licensing and uncertainty about patent validity.

3. On the other hand domestic companies are equally impacted by the "Drug Price Control Order" (DPCO). With the notification order coming into effect 348 drugs under NLEM, which account for 60% of total domestic pharmaceutical market amounting to nearly Rs. 29000 crore, would come under DPCO.

4. The legal expenditure of the top 10 drug makers in India for generic drug amendment fee in USA, compulsory licensing and NPPP have increased. The expenditure has risen by 50% in the last three years. NPPP is expected to lead to value erosion to the tune of Rs.1600 crore post implementation for 2013-14. With high profile merger and acquisition deals and aggressive investment by MNCs in India, the industry is clearly going through a volatile and uncertain phase.

3. Discussion on various strategies adopted by companies

Case 1 – Company Name: GSK4

Situation/Challenge:

- To stop providing financial support directly to individual healthcare professionals to attend medical conferences.
- To strengthen its own dedicated medical and scientific capability to appropriately lead engagement with health care professionals
- To evolve the way it sells and markets its products to healthcare professionals so as to further align the company's activities with the interests of patients.
- To improve GSK's multi-channel capability, including use of digital technologies, to ensure appropriate product and disease area information which can be provided to healthcare professionals conveniently.
- To support fair, balanced and objective medical education for health care professionals through provision of independent educational grants.

Action Plan:

- GSK provided appropriate fees for services to health care professionals for GSK sponsored clinical research, advisory activity and market research. These activities are essential in providing GSK with insights on specific diseases; identification of symptoms and diagnosis; Application of clinical trial data or medication dosage and administration; and how to effectively and appropriately communicate the benefits and risks of its medicines to help meet patient needs.
- GSK has stopped providing financial support directly to individual health care professional to attend medical conferences and instead has started funded education for health care professional through unsolicited, independent educational grant routes. In the countries where strategy is not implemented, the company intends to work through practical details of these changes with health care professionals, medical organizations and patient interest groups to define how they can be implemented effectively and in line with local laws and regulations.
- The company has committed to disclose the payments it makes to health care professionals and already does so in several countries including the USA, Australia, UK, Japan and France in line with locally agreed government or industry association standards. GSK will continue to disclose the payments it makes for clinical research advisory activities and market research in these countries and will also continue to work towards transparency in other countries as industry associations or governments establish specific guidelines for disclosure.

Effect

- Experiences in the last two years suggest that this more patient-focused approach has significantly improved both customer interactions and satisfaction rates with GSK's US pharmaceutical business.
- It was also observed that the sales went up from 23255 million \$ to 28392 million \$ a growth of 22% from 2006 to 2010. Due to this the company was able to invest in assets and the assets rose from 25553 million \$ to 42052 million \$ a growth of whopping 64%.
- GSK says they want to grow with less risk and improve financial performance. They have done this by broadening their portfolio, diversifying into new product areas and capturing opportunities for its products across all geographic boundaries.
- GSK has grown in its core pharmaceutical business at the same time strengthening its presence in growth areas such as vaccines and bio pharmaceuticals and consumer health care. The company is looking forward to unlocking geographic potential of its business specifically in developing markets.
- GSK has simplified the operating model by removing unnecessary processes and structures which were slowing the company down and distracting them from their objective.

Case 2 –Company Name: Cipla Limited7

Situation/Challenge:

- To build right organizational and governance model
- To develop a robust product portfolio and pipeline
- To leverage strong growth in key markets; and optimizing its operations

Action Plan

- To strengthen the organization Cipla recruited new talent and having good mix of people with several years of experience in the organization. The new structure of the company consists of 'Five regional zones {India, North America, Europe, South Africa and International {rest of the world}}.
- Three Strategic Business Units: Global Access (our business focused on HIV, Malaria and other infectious diseases), Active Pharmaceutical Ingredients (API), and Respiratory
- Integrated Product Development organization which includes formulations and API R&D, clinical, analytical and regulatory functions
- Alongside new Integrated Product Development structure Cipla established a project management and portfolio organization structure to support its future growth
- Cipla aggressively started its global operations & in key pharmerging markets and restructured its management for operational excellence and consolidation in domestic and international market

Effect:

- The company continued to consolidate its robust growth in domestic market which is higher than market growth and gained market share
- Cipla's revenue from operations on a consolidated basis during the financial year 2013-14 amounted to 10,218

crore against `8,388 crore in the previous year, recording a growth of 21.8%.

- Cos. domestic branded generics business revenues grew 15.5% versus industry growth of 9%

Case 3 – Lupin Limited⁹

Situation/Challenge:

- To improve Operational excellence & build flawless execution by investing in people
- To consolidate and leveraging from new product launches
- To enhance research and research capabilities
- To consolidate manufacturing operations and global supply chain

Action Plan:

- Lupin's H.R. vision has been built around the fundamental principles of innovation, empowerment and people development. HR programs within the Company have been specifically designed to engage and encourage people to ideate, create and innovate.
- Empowering and enabling our junior and middle management employees through several specially designed leadership development programs such as the 'Leader Plus', 'Managers' Excellence Program', 'Business Leaders Program.
- Partnering with best of 'Academic institutions like IIM-A, S.P. Jain etc. for nurturing talent, grooming leaders and visionaries for the organization.
- FY 2014 saw Lupin expand its business in Domestic & International market with key new product launches.
- In the last few years, the Company launched 23 in-licensed products, of which 9 were first to be introduced into the Indian Pharmaceutical Market. During FY 2014, the Company launched 4 in-licensed products. '19' ANDAs¹⁰ filed in FY 2014 and '30' First -to- file products.
- The Company invested 8.6% of its net sales in R&D and related spends, amounting to Rs.9, 583 million. FY 2014 saw the Company continue to step on the gas across all its research programs, be it filings across markets, drug discovery & delivery programs or biotechnology research.
- The Company continues to maintain focus not only on building new systems, adopting new technologies and smart automation but is also investing in continuous learning and development programs that keep personnel current with cGMP guidelines, instilling and ingraining quality and compliance.
- The Company also completely restructured its supply chain by setting up a centralized Global Supply Chain Organization

Effect:

- 2ndrank in 'Great place to Work' survey amongst Indian pharma companies for 2014.
- The Economic Times 500 rankings 2013 – India's 10 most resilient companies.
- Dun & Bradstreet corporate awards 2014 – Top Indian Company in the pharmaceutical sector.
- American Society for Training and Development (ASTD) Best Award – winner for employee learning and development.

- Lupin's Net Sales grew by 17.2% to Rs.110, 866 million (USD 1.83 billion) up from Rs.94, 616 million the previous year. Net Profits grew by 39.7% to Rs.18, 364 million (USD 304 million) as compared to Rs.13, 142 million in FY 2013.
- New product launches provided growth and strong foothold in domestic and international market.
- Investment in R&D has fueled the Company's emergence as a global generics powerhouse and an emerging specialty pharmaceutical player.
- 1st pharmaceutical company globally to receive the ISRS 8th edition certification.
- No.1 within US generics players with 99.6% fill rates (Percentage of customer or consumption orders satisfied from stock at hand.)

Case 4 – Company Name: Dr. Reddy's Laboratories¹¹

Situation/Challenge:

- To enter chronic therapy segment in diabetic care and create a place for the company.
- To take care of distribution system so as to avoid stock out situation and provide more effective distribution system in place in places like Russia where transportation is a big issue and transferring stocks from Moscow can take up to 30 days to reach which may result in a stock out situation and loss of business.
- To build empowered work force with better talent by employing work force from the community around manufacturing operations, so that community and company benefits.
- To overcome the cost and compliance of acne treatment drug Zinatane (isotretinoinin) to young population.

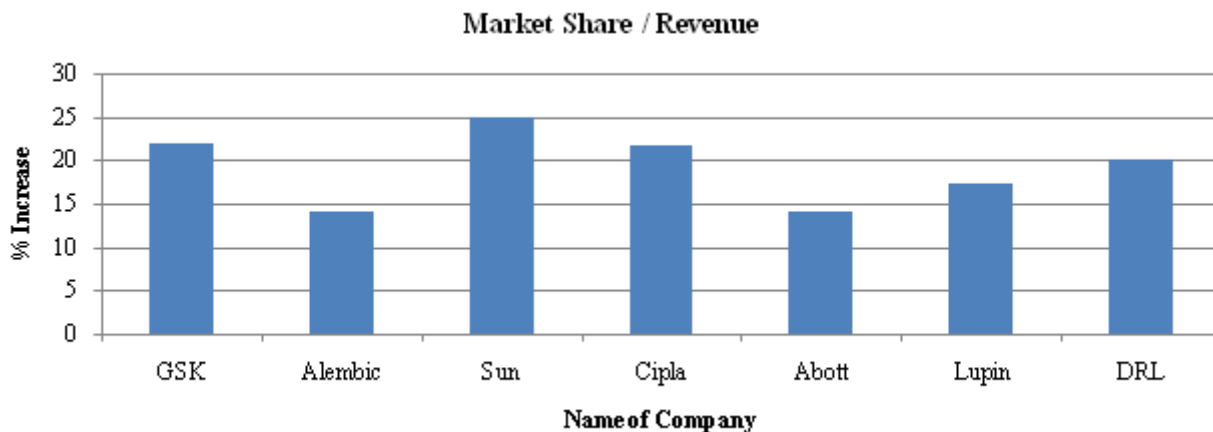
Action Plan:

- The company identified the need for a smaller size tablet in Metformin market and worked with marketing team, IP and R&D team for this purpose. Soon they came up with "Metsmall" tablet named after the solution for the problem.
- To overcome the shortages in market and strengthening the distribution system the company tied up with IT Company to monitored distributor's inventory and sales data on daily basis which allowed the company to react instantly to shortages in the system.
- To build empowered work force the company recruited young people from around the community. DRL provided them with right training enabling them to build multiple skills to handle end to end jobs. DRL has tied up with pharmacy colleges and sponsor their employees for professional training there, after which they are absorbed as full time employees of the company.
- DRL's US subsidiary and North American Generics team came together to deliver Zinatane to patient through a program "Promeus Promise". This is a program run by the company for the patient providing information and providing reminder to them for their doses. The company also provided for a co-pay system where in the eligible iPledge patients, who could not afford the drug, could get the medicine in a lower price. Promiuspharma also tied up with iPledge certified pharmacist to process and deliver Zinatane to customers within 24 hours.

Effect:

- The new Metformin introduced by DRL resulted in 33% reduction in size and 36% reduction in weight. This ensured putting patient need and comfort first.
- The daily monitoring of the stocks at the distributor level resulted in understanding the stockiest need and ensuring patients get medicine on time. The shortages were halved resulting in improved product availability and twice the inventory in distribution system.

- The young population involved in SMT (self-managed team) program became an asset to the company as they could understand the system in a better way resulting in flatter hierarchies but connected to the purpose of the company.
- Since the program began in April 2013, 7000 patients have enrolled in Promius Promise, with 99% receiving consistent treatment. Over 3,000 iPLEDGE eligible doctors are also involved in the program, which already represents 20% of the dermatologists in the US.

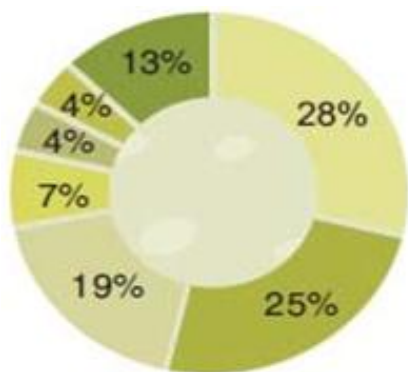


From the above graph, it is observed that Sun pharmaceutical has achieved the highest increase of revenue from the set of companies considered for study.

Following may be the probable reason for its growth:

- 1) Sun pharmaceuticals consolidated its “first position” in chronic therapy segment like psychiatry, neurology and cardiology.
- 2) The company improved its position in nephrology segment from 2nd to 1st in market.
- 3) Ranbaxy acquisition gave the company strong position in acute segment as well and thus expanding its presence across many more therapeutic segments.

Following is the therapy wise break up of Sun pharmaceuticals 12



Therapy-wise breakup

- 28% Central Nervous System
- 25% Gastroenterology and Diabetology
- 19% Cardiovascular System
- 13% Others
- 7% Gynecology and Urology
- 4% Musculo-Skeletal System
- 4% Respiratory System

It can be observed that chronic therapy segment, in the basket of products, is contributing to more than 70% of the business to the company. Chronic segments are expected to grow faster than the acute segments, given the changing life style of the Indian population. This may be the probable reason for the maximum growth the company is able to achieve in the given situation in Indian market.

4. Suggested success strategies in uncertain environment 13

Following may be the strategies to cope up with uncertain and volatile conditions prevailing in Indian market.

1. Develop customer list - Most important document in pharmaceutical industry may be a perfect customer list. The first step towards successful launch of any brand is the knowledge of customers to the strategy makers. The entire strategy may fail in case the promotional and launching campaign is not promoted to the right customer. Most of the time it happens that the customers are chosen by the field staff and the strategy is prepared from the corporate office without knowing the actual need of the customer. The strategy is to have the customer list at corporate office. The list has to contain the list of customers who contribute approximately 80% of sales to that territory. This will help companies to have direct control over sales and help them decide on the promotional strategy for that territory.

2. Develop product portfolio – Most of the companies have a large product range. They have different division based on the type of specialty to which the range of products has to be promoted to a specific fraternity of customers. This has led to lot of products being promoted by field executives to many customers. Mostly the strategy is that “more the number of products more are the chances of doctor picking up one of the brand for prescription”. This has led to the situation where some of the molecules don’t sell at all and

some of them sell very well in a territory. In different territory there may be some other molecules selling more and some other will not be selling. Here a basket of products can be identified on regional or zonal level to help keep meet the demand of the market and keep loyal customers. This is very important as far as acute therapy. The product basket should be such as to balance chronic therapy segment products and acute therapy segment products so as to give strength to the portfolio. This should help company achieve its objectives and put company on fast tract growth.

3) Put customer first – The customer are the key to successful business. The customer’s needs and wants have to be taken care from corporate office as they are too precious to be left in the care of field executives. Special cell can be created at head office that can monitor doctor list of all the territories and monitor prescription pattern of important customers.

4) Strengthen distribution capability – Distribution system plays a very important part in availability of products in right time at right place. It is very important to improve upon distribution system from time to time. The up-gradation can be in inventory management wherein a direct link can be provided to each of authorized stockiest of the company so that he can generate the bill directly on-line and know the status of goods available at nearby depots who can cater to his needs at the earliest.

5) Create value of corporate brand – It is very evident from the number of companies entering the market that the brand recollecting capability is generally affected of the prescriber. It is very difficult to build faith in a brand without having faith in the company. To start with, the product can be sold by its own unique selling propositions which will help establish the product brand of the company in the market. The emphasis should be to ultimately build the corporate brand value in course of time. They may include joint ventures or acquisition of good brands which will augment the brand value of the company.

Top 10 companies of India are 14

Name of Company Sales Revenue

- 1) Dr. Reddy's Labs 8434.00 Cr
- 2) Cipla Ltd 8202.42 Cr
- 3) Lupin Ltd 7122.51 Cr
- 4) AurobindoPharma 5425.10 Cr
- 5) Cadila Healthcare 3675.70 Cr
- 6) Jubilant Life Sciences 3146.30 Cr
- 7) IPCA Labs 2778.42 Cr
- 8) Torrent Pharma 2766.23 Cr
- 9) Glaxo SmithKline 2546.15 Cr
- 10) Wochardt 2471.18 Cr

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