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Sustainable Emerging Market Strategies for Pharmaceutical Companies – A Think Tank Approach

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Sustainable Emerging Market Strategies for Pharmaceutical Companies – A Think Tank Approach

Florian Schick

EXECUTIVE SUMMARY

Relevance

This thesis focuses on the question of how a Think Tank can add value to the process of formulating sustainable emerging market strategies for pharmaceutical companies. In order to grow and be successful, pharmaceutical companies need to have such strategies in place that meet investors' expectations in terms of strong and stable financial returns, contribute to social progress in the country, and provide support for the people in need.

Historically, the pharmaceutical industry has been characterized by:

- **Double-digit growth rates:** average annual growth rate of 11.1% (1970 – 2002)
- **High profitability:** above-average Return on Equity ratios of about 27%
- **Huge R&D investments:** highest R&D-to-sales ratios of any industry

Currently, pharmaceutical companies face the following challenges:

- **Increased risk and complexity:** time-consuming, expensive and heavily regulated R&D process, R&D lead time about 10 years, USD 1.3bn per commercialized drug
- **Innovation productivity paradox:** disproportionate increase of worldwide R&D expenditure vs. number of new drug approvals
- **Fierce competition:** global competition, consolidation, price competition, advertising battles, threat of generic drug manufacturers / biotech companies

Emerging markets certainly offer commercial potential to pharmaceutical companies if they are consistently approached with customized business models, supply chains, and strategies. Examples of emerging markets are Brazil, Russia, India, China, Turkey, and Mexico. These countries are regional economic powerhouses with large populations and resource bases and huge potential future markets that foster social progress and economic development in their region. Emerging markets are an attractive target mainly due to the rise of the global middle class that provides a source of potential customers who can afford to consume their products and services at moderate prices. It is expected that by 2016 about 80% of the members of the global middle class will be citizens of emerging and developing countries (about 93% by 2030). The total commercial opportunity of emerging markets is estimated to rise from USD 152bn in 2007 to USD 267bn in 2012.

Key findings

Despite the opportunities of emerging markets, pharmaceutical companies have been quite slow to establish strong business relations in these markets. Risk-averse investors have been looking desperately for consistent, robust, and sustainable emerging market strategies that position pharmaceutical companies as responsible corporate citizens and hedge against the following drawbacks:

- **High level of complexity:** extreme cultural and ethnic diversity, significant rural-urban split of the population, high country risk caused by unstable political regimes, lack of transparency, corruption, unreliable judicial systems and regulatory authorities, and a volatile operating environment
- **Low purchasing power / affordability:** wealth and poverty disparity, income inequities, social fragmentation, high price-sensitivity, majority of population living on low income measured by purchasing power parity (PPP)
- **Poor public infrastructure:** restricted access to transportation, education, health care, telecommunication, and other basic services; poverty one of most severe consequences, contribution of strong economic players necessary to strengthen infrastructure, highly political and complex endeavor

Recommendations

This thesis proposes to set up a task force consisting of experts from the pharmaceutical industry, the public sector, and academia in order to establish and finance a *Think Tank for sustainable emerging market strategies for pharmaceutical companies*. Similar to the multi-decade fight against cancer, in which progress has come from the combined use of many different techniques, pharmaceutical companies should focus on new and innovative forms of cooperation to enhance learning from each other. The Think Tank's main actors should include a pharmaceutical company setting the research agenda, selected competitors (as strategic partners) supporting the research process, representatives of Ministries of Health, national / regional regulatory authorities, and experts / representatives from the local community. Furthermore, leading universities / academic institutions, supranational organizations such as the World Bank, WHO as well as financing agencies like the Gates and Clinton Foundation should be actively involved in the Think Tank.

This Think Tank for sustainable emerging market strategies for pharmaceutical companies will provide a visible platform by conducting research, communicating the results, and leading the discussion of the most relevant issues for pharmaceutical companies. These topics include pricing strategies, reliable health care systems, production and distribution in emerging markets, improvement of poor public infrastructure, and the threat of counterfeit drugs entering the pharmaceutical supply chain.

Pharmaceutical companies can leverage their expertise in science and business and focus more on the needs and interests of their key external stakeholders (consumers, doctors, government institutions, regulatory authorities, and academics) in emerging markets. In conclusion, the proposed Think Tank enables pharmaceutical companies to gain insights from experts of different fields and backgrounds about how to succeed in emerging markets. It contributes to the formulation of emerging market strategies and the generation of both financial returns to the pharmaceutical companies' investors and social returns to its stakeholders.