MARKETING PHARMACEUTICALS TO A UNITED EUROPE: 
THE IMPLICATIONS OF 1992

by

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(1986)

Submitted to the Sloan School of Management 
in Partial Fulfillment of
the Requirements of the Degree of 
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ABSTRACT

This thesis examines the effects that the 1992 harmonization of the European Community (EC) will have on marketing in Europe for pharmaceutical products. Marketing should become more globalized with the onset of 1992 as similarities throughout the EC increase. However, the pharmaceutical markets in Western Europe vary greatly on a country by country basis, and marketing has traditionally been handled on an individual country basis due to varying cultural and language differences in each country. These inherent cultural peculiarities will make globalizing the marketing process difficult. Therefore, marketing to Europe after 1992 will not be as homogeneous as marketing in the United States, and even over the long term marketing to the EC will have to take into account the many differences between the member states.

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II. Introduction

1992 is the target date for achieving a truly unified market within the European Community (EC). The original Common Market, formed by six nations (Belgium, The Netherlands, Luxembourg, France, West Germany and Italy) in 1957, has grown to include twelve member states, (Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom). The 1992 program of trade reforms is designed to improve the efficiency of EC industries, stimulate growth, standardize products and thus make the EC economy more competitive.

Once united, the European Community will have more than 320 million inhabitants. The EC market potential will be greater than either the United States or Japan. Many economic benefits are projected to occur from the 1992 integration due to larger size of the new market. These benefits include increasing the Gross Domestic Product, adding new jobs, keeping consumer prices lower, and achieving greater economies of scale.

Although a great deal of progress has been made towards economic integration, a number of difficult barriers still remain. While some of these barriers have begun to disappear, those remaining barriers will vanish only over time. These remaining barriers have lead many to believe that the move towards a unified market for the European countries will be a difficult integration process.
The 1992 reforms will create significant opportunities and threats for companies both within and outside the EC. The completion of the program will change the rules of the competitive game within the EC marketplace. While all of the aspects that will be affected by the changes of the 1992 reforms are important, this thesis explores the effects that the changes will have upon marketing issues to the EC for a specific industry, pharmaceutical products.

The pharmaceutical industry is characterized by many peculiarities that will make 1992 an interesting observation ground for many marketing issues. For instance, one of the greatest problems pharmaceutical companies have in marketing their products in Europe has traditionally been the need to go through many health officials in order to receive approval for their drugs throughout Europe. This will change come 1992.

In an industry, such as the pharmaceutical industry, which differs tremendously from country to country, the strategies used for marketing in each country will also differ. The strategies employed will have to be sensitive to the individual cultures of each country. What is also interesting in this industry is that your end user, the consumer, is not the individual who you market to. Rather, pharmaceutical companies market to physicians. Therefore, because of these peculiarities it will be difficult to implement global strategies.
Markets are opening not just in Western Europe but throughout the world. The changing of the international environment will go well beyond Europe, almost like a domino effect. Much of this is already being seen in many of the Eastern European countries. This has important implications for firms as they plan future strategies. This thesis will focus on intra-EC issues. Although there are many external factors that come into play, they will only be discussed as they pertain to the intra-EC changes. I believe that it is important to first understand the issues within the EC and their implications before examining external impacts.

III. European Community History

A. History

The aim of the 1992 program is to eliminate the remaining obstacles that prevent free movement of people, goods, services, and capital within the Community. Early efforts to integrate Europe began with Winston Churchill in 1946. The establishment of the International Monetary Fund (IMF), the General Accord on Trade and Tariffs, and the Marshall Plan all spurred the development of a common political market within Europe. These efforts failed, however, as individual countries were unwilling to give up their sovereign rights. The concept of a large single market, unhampered by national divisions, is not new. It was
envisioned by the original six European countries that launched the process of European unification in 1951. That process was clearly a political endeavor, but the means chosen were economic.

The European Coal and Steel Community (ECSC) was established in 1951 and was the beginning of real progress toward economic integration. The six member countries of this customs union in coal and steel were the Benelux countries (Belgium, the Netherlands, and Luxembourg), France, West Germany, and Italy. These same six countries established the European Economic Community (EEC) in 1957 by signing the Treaty of Rome, which essentially outlined the broad goals which the Community is currently in the process of implementing. The European Community (EC) was formed in 1967 as a merger of the 1957 established EEC, the ECSC and the European Atomic Energy Committee. The EC was later expanded to twelve members with the addition of Denmark, Britain, and Ireland in 1973, Greece in 1981, and Portugal and Spain in 1986.

Economic realization of the original Treaty was slow, and the commitment toward unification was reemphasized in 1985 with the publishing of the White paper. Broadly defined, the White Paper's aim was to eliminate all physical, technical, and fiscal barriers within EC borders by 1992. The White Paper contained three hundred measures, which were directed towards achieving a single integrated market embracing the 320 million people of the integrated Community. In some ways
the Internal Market envisioned an Americanization of Europe, in that a company could produce a good in one member state and sell and market it throughout the EC.

B. Objective of the European Community

The creation of the EEC in 1957 brought together countries that 15 years earlier had been fighting a world war. The EEC was designed as a means for ensuring their permanent reconciliation. Much as Jean Monnet, the Community's founding father, had anticipated, the unification of Europe was coming in a thousand little steps. European-inspired legislation was common and extended into numerous areas.

While the rational for the EEC's creation in 1957 was political, the impetus for the European Commission's proposals aimed at creating an Internal Market contained in the 1985 White Paper, lay in Europe's poor economic performance. EC-based companies, for many years, have been less dynamic than their global competitors, especially the Americans and the Japanese, which in turn has lead to lost market share, notably in the fast growing sectors in which economies of scale could not be exploited at national levels.

The United States and Japan emerged far more creditably than did European countries from the recession initiated by the second oil shock of 1979. The EC underperformed relative to both the United States and Japan based on a range of economic criteria. During the early 1980s compared with their American
and Japanese counterparts, European economies grew less, created far fewer jobs, suffered higher inflation and saw both investment and productivity grow by lesser amounts. European companies retained their share of intra-EC trade but were losing over 1% market share each year in external markets. The evidence for Europe's relative economic decline was overwhelming.

Thus the impetus for the creation of the EC had its foundings both in political nature as well as economic. As Jacques Delors, president of the Commission said, "We would like to see the people of Europe enjoying the daily experience of a tangible Europe, a real Community where travel, communication and trade are possible without any hindrance."\(^1\)

The economy of scale advantages available to the EC as a whole is far greater than any one single country could ever expect to accomplish on their own, and could give the EC countries the competitive edge needed to compete on at international levels. The sectors that will benefit most are those where exploiting economies of scale could only come by making available to companies a unified market as big in terms of size population, as those of the United States and Japan.

The table below shows that an unified EC would be far greater in population that either the United States or Japan. This opens up completely different markets for firms doing business in the EC and poses some difficult and new marketing issues and challenges as companies face a much larger and more heterogeneous market than previously encountered.

Table 1
Comparative demographic and Economic Data for EC member states

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>10</td>
<td>$117</td>
<td>$11,802</td>
<td>68.3</td>
</tr>
<tr>
<td>Denmark</td>
<td>5</td>
<td>69</td>
<td>13,329</td>
<td>13.4</td>
</tr>
<tr>
<td>France</td>
<td>56</td>
<td>712</td>
<td>12,803</td>
<td>99.7</td>
</tr>
<tr>
<td>Germany</td>
<td>61</td>
<td>815</td>
<td>13,323</td>
<td>176.0</td>
</tr>
<tr>
<td>Greece</td>
<td>10</td>
<td>64</td>
<td>6,363</td>
<td>4.4</td>
</tr>
<tr>
<td>Italy</td>
<td>57</td>
<td>703</td>
<td>12,254</td>
<td>73.9</td>
</tr>
<tr>
<td>Ireland</td>
<td>4</td>
<td>27</td>
<td>7,541</td>
<td>13.9</td>
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<tr>
<td>Luxembourg</td>
<td>0.5</td>
<td>6</td>
<td>14,705</td>
<td>b</td>
</tr>
<tr>
<td>Netherlands</td>
<td>15</td>
<td>180</td>
<td>12,252</td>
<td>77.0</td>
</tr>
<tr>
<td>Portugal</td>
<td>10</td>
<td>61</td>
<td>6,297</td>
<td>7.7</td>
</tr>
<tr>
<td>Spain</td>
<td>39</td>
<td>337</td>
<td>8,681</td>
<td>26.4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>57</td>
<td>703</td>
<td>12,340</td>
<td>73.0</td>
</tr>
<tr>
<td><strong>Total EC</strong></td>
<td><strong>325</strong></td>
<td><strong>3,794</strong></td>
<td><strong>11,729</strong></td>
<td><strong>633.7</strong></td>
</tr>
<tr>
<td>United States</td>
<td>244</td>
<td>4,473</td>
<td>18,338</td>
<td>75.9</td>
</tr>
<tr>
<td>Japan</td>
<td>122</td>
<td>1,610</td>
<td>13,182</td>
<td>47.2</td>
</tr>
</tbody>
</table>

b: Luxembourg figures are included with Belgium.
Source: Organization for Economic Cooperation and Development

The removal of barriers will allow for many additional benefits besides economies of scale. Open trade will lead to convergence of prices towards an average EC level, resulting in many countries seeing lower prices for many goods. As more
products are available at lower cost to the consumer, demand will increase, which can lead to increased market share and an improvement in the EC's overall trade balance. As a result one of the original goals in establishing the EC, economic improvement, would be achieved.

Cost reductions could also result in simplified administrative procedures, improved efficiency due to increased competition, and improved economies of scale. The reallocation of resources and new patterns of competition could result in a truer exploitation of comparative advantage. Countries would be able to produce what they are best at producing and import other goods that make more economic sense to import than to produce. Due to the reduction of trade barriers this would accomplished with greater ease than before.

As companies realize the benefits that a more competitive global position will allow them from combining resources, consolidation will occur. Within companies, manufacturing and distribution activities can be combined into larger and fewer facilities. Mergers and acquisitions will likely increase in numbers. Mergers and acquisitions are currently occurring because companies want to gain insider status in each of the home countries that they plan to operate in. Therefore, they establish relationships with EC-based companies by merging or acquiring. In many cases EC-based companies are attempting to guard against multinationals dominating their home markets post 1992 as a way of protecting their own market share.
Many companies will turn to strategic alliances or joint ventures as their means of survival. Again, combining resources will allow companies to achieve more efficiency by licensing technology jointly, or sharing products and/or technology between companies.

It has been hoped by many of the EC supporters that the unification of the EC will make Europe more similar to the United States. In lieu of the great differences between the different European countries, which are so deeply ground, this will be a difficult goal to achieve. The customers of the EC market have no uniform preference pattern similar to the one that United States customers have. The hope of an EC prototype customer is not a realistic one since each country has its own very distinct cultural differences, and its own best interests in mind.

IV. European Community Marketing Issues

The fragmentation of the European marketplace, with its multiplicity of regulations, varying economic conditions, and different cultural preferences make doing business in Europe a difficult process. Successful marketers will realize these deep breed cultural differences and incorporate them into their marketing strategy if they want to be successful in the post-1992 new market.
The harmonization of the EC will lead to many global marketing issues. These issues will be concerned with what levels of standardizations should be globalized and what levels of standardizations should be national. The process would consist of standardizing the marketing process, content and program. Again many economies of scale can be accomplished here. For example, certain types of advertising can be done on an EC-wide basis, thus saving money. These can be supplemented by national advertising, tailored to each country's needs. For the beginning stages this will be best accomplished at a national level by the people who know the needs of the particular country's population best. The progression to a full global marketing plan will evolve over time.

Successful marketing to the entire EC is not simply a matter of duplicating a successful domestic strategy from one of the member states. The huge differences between the twelve member states will prevent this from being successful in the short run. Rather, what is needed for long term success is a marketing strategy that starts at the national level and over time incorporates global strategies. Successful marketing will result from long term planning and an understanding of the vast differences in the cultures. The successful marketer will realize what characteristics will converge and become Pan-European and which characteristics, no matter how much time is allowed, will remain as national characteristics.
Because of these new and continuing market developments, consumers will benefit by an even wider choice of brands at lower prices. Companies will save on distribution costs and gain economies of scales. Business will get keener as protected sectors and insulated local protectorates feel the competition. Marketing to a post-1992 Europe will pose many challenges due to the intra-EC differences. Many of these will be addressed below.

A. Costs

The post-1992 single market will eliminate unnecessary costs and exploit economies of scale. Currently costs vary tremendously from country to country. Thus, a manufacturer in a low cost country or low wage country has a distinct advantage of producing at lower costs. But in the short term, over the next ten years, the advantages will be with the low cost producers, who are better prepared to survive in a more competitive world market.

In anticipation of the savings that can be achieved in a post-1992 market, many industries have been experiencing a wave of consolidation. This is taking place by industries becoming more concentrated through mergers and acquisitions. Other companies are combing their manufacturing and distribution activities into fewer and larger facilities which should lead to decreased distribution costs as many unnecessary costs are eliminated. The efficiency of distribution
in the EC should increase as a result of 1992 initiatives to remove customs barriers at borders, quotas on the number of permits issued to road haulers for trips between member countries, and prohibitions on collection and delivery of loads within the boundaries of member countries by nonresident haulers. Faster and more predictable transport of goods across country borders, consolidation of warehouses, and reduction in distribution-related investments should all lead to increased customer service and reduced costs.

B. Product Policy

"Variations among EC countries in technical standards, health and safety regulations, testing and certification requirements, and trademark registration procedures have developed over the years to protect special interests and strategic industries and to respond to varying consumer concerns in different countries."² The removal of technical barriers will not eliminate the existing variations in consumer preferences. Flexible manufacturing systems and the incorporation of local adaptations such as package labels in different languages at the end of otherwise standardized production processes will hold down the costs of customization and will allow for more standardization of product policies. Eurobrands employing a common positioning strategy and

package design in all EC countries will become more common. In addition to fostering Eurobrands, new product development will be stimulated. The variety of products available in each EC market will increase as a result of the 1992 program.

Products that were not available previously will now be available in all different countries. New products will be easier to launch and the removal of national import quotas as well as the forecasted increases in industry competitiveness and consumer demand associated with 1992 will further stimulate their development.

C. Pricing Policy

1992 reforms will create a downward pressure on prices throughout the EC. In the short term, price cutting is likely to be widely used as a means of building market share. During this phase, price cuts are more likely to be in the form of temporary trade and consumer promotions than reductions in normal or list prices. Since more brands will be available in each country, more innovative ways of attracting customers will be necessary. Currently, prices for the same product differ widely from one EC country to the next.

These price differences sometimes reflect deliberate manufacturer strategies to vary product positioning based on the stage of market development in each country. A concern is that in a Europe without trade barriers, goods sold in a country at a lower price could more easily find their way into another
country where the pricing structure for the same product is higher. Parallel importing, importing goods from low cost countries into high cost countries, is of special concern to manufacturers of low bulk value products, for which transportation costs are modest relative to their cost.

For example, Badedas shower gel is moderately priced in Germany by its marketer, but in the United Kingdom, it is positioned as a higher priced product. Occasionally such parallel imports of this product arrive in the United Kingdom from Germany. Incidents like this will increase under the 1992 program, which is why most marketers are scrutinizing their pricing policies. Though not illegal, parallel importing has been held at bay in Europe because of complicated customs and shipping procedures. When the trade barriers fall, exporting of parallel imports will increase. If the 1992 program improves the efficiency of border crossings by removing time consuming procedures, parallel importing which is perfectly legal in the EC will increase.

Manufacturers need to understand the price elasticity of consumer demand for each product in each EC country and to identify product substitution effects at different price points. Manufacturers should also try to mix up their sales in lower priced markets by launching higher margin new products in advance of 1992. Manufacturers can introduce low cost visible differences in brand names and package labels to discourage parallel importing. Manufacturers can try to increase their control of key distribution channels in markets where prices
are higher. Those firms that enjoy high prices and margins in their domestic markets will be particularly advantaged.

D. Communications Policy

Higher levels of industry concentration can be expected to lead to higher levels of spending on marketing communications in both the short term and the long term. A higher margin implies a greater incentive to spend on advertising or personal selling. Companies marketing their products throughout the EC will need to rely less on historical personal contacts and more on impersonal means of communication such as advertising.

As more products are available to a larger and more diverse customer base, global marketing becomes a critical move on a company's part. Advertising in Europe is currently growing much faster than it is in the United States. An increasing portion of advertising expenditures will be placed in Pan-European media. Growing media spillover raises the chances of consumers being confused if they see different nationally tailored advertisements for the same brand in different media.

It is assumed that Pan-European advertising copy will emphasize visual images over words, will permit voiceovers to be added easily in different languages, will focus on the product or service benefits, and will avoid culture specific slice of life ads.
Leading marketers will make sure that, when using these techniques, they are properly integrated since a single voice will be critical for Europe-wide marketing. 1992 will likely change how advertising vehicles are chosen less than what will go into them. In the cases where the advertiser clearly wishes to be seen as local or particularly relevant to a national culture, the casting, locations, situations, and mores portrayed, must communicate the unique cultural idiom more clearly. Part of the 1992 plan envisions uniform standards for television commercials. Though the spots would carry different voice-overs the savings in production costs would be huge. In any case, a global pan-European campaign is appropriate only where the same product specification is sold in each country to the same target consumers for the same end use, against competition that offers the same mix of advantages, and with a similar market maturity. The consumer will respond to any advertising, promotion or marketing as an individual. That makes the challenge of 1992 one of taking advantage of a common European market on an one-one basis.

E. Consumers

The 1992 reforms focus on supply rather than demand, which will make individual country markets more accessible, not more identical. The publicity surrounding 1992 is itself promoting a more Pan-European outlook. This is occurring primarily among businesspeople and public officials but is also
occurring among consumers. Once trade barriers are removed receptivity to ideas, products, and services for other EC member countries is likely to increase at the same time that they are more readily available. Relaxed immigration controls will make it easier for people to live and work outside their home countries. This can lead towards smoothing the labor costs between countries. Long-term, this increased population mobility, along with increased travel and Pan-European communications, will have a melting pot effect on European consumer behavior as fashions and trends will be able to cross borders more rapidly.

F. Future Focus

As marketers focus on the similarities rather than the differences among European consumers, they will market to Europeans as if they were more alike, with the hopeful result that eventually European consumers will, over time, become more alike. Similarities in consumer behavior will increase, but respect for national and local cultures will remain strong. Thus with so many distinct cultures and many different languages, it is likely that marketing in Europe will never be as homogeneous as it is in the US.
V. Background-Pharmaceutical Environment

The EC has more than 2,000 pharmaceutical companies and $3.8 billion invested in R&D. Europe has one of the most extensive, effective health care systems in the world. It has virtually guaranteed access to office-based and hospital care to the entire population.

Pharmaceutical companies throughout the EC work in environments that vary considerably. This has consequences for world and national markets. The following section will describe the characteristics of the EC pharmaceutical market as it currently exists.

A. World Market

The three largest markets in the world for pharmaceuticals are the US, Japan and Germany. Upon unification, the EC market will approximate the size of the US. Currently the US market is the most interesting one because of its size, uniformity and free pricing policy, while the market in Japan is attractive because of high prices and a very high consumption level. Moreover, the latter is foreseen as the world's fastest growing market.

What was novel about the world pharmaceutical industry during the 1980s was the identification of non-tariff barriers to trade and the fragmentation of European markets as a cause of poor economic performance. For years companies operating in
Europe had faced a series of individual country rules, which had left the market fragmented. This discouraged many from looking to markets outside their own national boundaries. Pharmaceutical companies found themselves having to establish plants throughout Europe, most of them working below capacity, to ensure that their drugs were designated as reimbursable by national health services.

In the past, the fragmented European market had room for every player with essentially national competition. This resulted in each country having strong national players. The sharp national differences in medical treatment, pricing and reimbursement lead to market fragmentation. The pharmaceutical market in each country has its own special characteristics. Since it takes years to build up positions in the different markets, this has led to highly decentralized structures within large pharmaceutical companies.

The individual markets within the EC differ greatly from one another. Most striking is the diverse sizes of the separate markets. Size is not the only thing that differs between the two, many other things vary between the different EC countries including: price levels, registration, reimbursement, patent status, patterns of consumption and medical traditions. The variations among the member states also occurs for political-economic reasons, which seems to indicate that no single EC market as many pro-EC supporters had hoped, like the US, for pharmaceuticals will emerge.
B. European Pharmaceutical Market

The pharmaceutical markets throughout Europe differ very much on a whole realm of characteristics. Historically the European pharmaceutical market has been fragmented and very diverse, with dramatic differences between many of the different countries. This is due to the regulation process of individual countries as well as the stage of development of the pharmaceutical industry of a particular country. For example, France is a very low cost country in regards to what consumers pay for drugs. Germany on the other hand is a much higher cost country and in recent years has implemented many cost containment measures aimed at reducing the high health care costs. Some of the relevant variables will be discussed below.

1. Costs

Decentralization of production is vital to the European pharmaceutical industry since many European governments give preference to companies that invest locally. These governments are interested in having a powerful local pharmaceutical industry. The variations in production costs among countries affect the price differences. It is interesting for a pharmaceutical company to bring a product onto the market in a low price country because of the inverse relationship between prices and consumption. Countries characterized by high prices usually have low consumption of
pharmaceuticals. On the other hand many of the countries with lower prices are characterized by much higher consumption.

Many cost containment measures have been implemented in the traditionally high cost countries. For example, in the United Kingdom they are restructuring the health services and plan on tightly controlling pharmaceutical expenditures. In Germany a reference price listing was enacted to keep drug prices under control. The reference price list sets a price level over which the government will not pay. If a consumer receives a prescription for a drug over the reference price listing they must pay the difference. This measure hopes to encourage physicians to prescribe more cost effective medications.

2. Prices

Prices throughout Europe vary greatly. In the countries with the highest prices for pharmaceuticals such as Germany and the Netherlands, the government does not exert any direct influences on the prices of drugs. In Denmark, another country with high prices, the government, fixes prices but at a higher level. In the United Kingdom the government exercises a modest influence on prices, while strong direct control is exerted. Drug prices are lower in Belgium, France, Greece, Italy, Portugal and Spain. The diversification of prices throughout Europe has traditionally made it very difficult for companies to
achieve any economies of scale in selling and distributing their pharmaceuticals.

3. Registration and Reimbursement

National interests often play a role in secondary considerations, so that companies with local activities frequently have a clear advantage over companies with exclusively foreign activities. The registration process and reimbursement list are the two major tools that the government uses to control the cost of medicine. The different European countries use these processes to different degrees, leading to large discrepancies in drug prices as well as in the strength and competitive power of the separate national pharmaceutical industries within Europe. Getting a drug approved in two different European countries can vary greatly in time, due to different registration processes. The patent laws in the different countries also come into play here. Countries such as Spain and Italy have no true patent protection period. Therefore, drugs can easily get to the market. In these markets there is also no true generic market. In some countries such as Germany and the United Kingdom the market for generics is quite high.

With recent reforms and more awareness of cost cutting measures, generics are being more heavily promoted by these governments as a means of cutting the health care budget
while still providing quality care. Reimbursement differs on a country by country basis. Cost reforms are taking place throughout Europe in hopes of making participants more cost-conscious. In France and Italy whole groups of drugs have been scrapped from the national health reimbursement lists. If consumers want to take these drugs they must pay for them themselves. This puts the onus on the doctors to inform their patients of these constraints as well as to start prescribing less expensive medications and treatments. In countries where physicians are paid a percentage of what prescriptions cost, more drastic measures need to be taken to make them more aware of this, such as changing the reimbursement schedule. As costs continue to escalate, governments are coming down harder on controlling costs through different reimbursement measures.

4. Advertising and Promotion

Currently the communications package for each drug is done on a country by country wide basis. A unique characteristic of the pharmaceutical industry, as previously mentioned, is that the individual sold to is not the end user of the product. Therefore, the advertising and promotions need to be tailored to both physician and consumer. An important aspect of the communications process is the role of the salesforce. They are country specific. This allows them to sell in a language and culture that they are familiar with. Most of
the advertising and promotions are done in medical journals, samples for physicians, and literature and brochures tailored for the physicians own knowledge.

In the United Kingdom only two advertising pages per product are allowed in any given issue of a journal. This precludes the multipage inserts that are commonplace in publications in the United States. The United Kingdom also sets a limit on advertising expenditures at approximately six percent of the overall turnover for the company. In Germany, comparative advertising is forbidden, and the definition of comparative is quite restrictive. An advertisement appearing in Germany cannot say that the drug contains no aspirin, because that is construed as an unfavorable comparison to aspirin. Also, no promotions are allowed in Germany. The marketing atmosphere in France has been more difficult to keep track of. In years past, the French regulatory agency reviewed an ad before publication, but it is now performing this function after the ad has already appeared.

5. Concentration of the Industry

In recent years the number of mergers and joint ventures within the pharmaceutical industry have been increasing. Companies are realizing that they will need national presence in Europe come 1992 if they are going to be successful and are going to gain additional market share. Therefore, many American pharmaceutical companies are quickly trying to get
their foot in the door through either joint ventures or the acquisition of smaller national players. Still another objective for merger and acquisitions is to gain control of distribution. The increase in concentration has begun to lead to more intense competition as increasing numbers of companies cross national boundaries to compete against each other. The cartelization that long existed in many European industries is breaking down and open competition is impacting companies both inside and outside the EC.

6. Parallel Imports

As a result of the price differentials parallel imports are a popular way in higher priced countries to obtain drugs at a lower cost. This creates a basis for trade with products from a low price country that go outside the official importers to be offered directly to the retailers in a country with high prices, the parallel imports. There are currently four major sources of parallel imports: Belgium, France, Italy and Greece. This market has been growing in volume and is predicted to continue to grow.
VI. Changes come 1992

A. Marketing Issues

What is referred to as the harmonization of pharmaceutical regulation in the European Community started with twelve directives, beginning in 1965, that were addressed to the member states' governments with the intention of changing and influencing their legislation affecting drug approvals. As a practical effect these directives meant that when there was a new drug law in an individual country, it would be revised repeatedly in an effort to bring it closer to the national legislation in the other countries. The EC directives were followed by several recommendations to the countries, including Notes for Guidance to ensure that the health authorities in each country examine and evaluate products in accordance with the common standards. Of particular interest to manufacturers is the "yellow book" of EC notes to applicants, a guide to applying for marketing authorization.

The EC Commission does not intend to set the prices of drugs at a given EC level. Instead of such direct measures, the so-called "Transparency Directive" (whereby governments have to clarify the criteria they use in pricing individual drugs) was introduced to oblige the various countries to make their pricing policies public. This will uncover and impede the illegal components of pricing agreements and possibly enable the
pharmaceutical industry to take legal steps against infringements.

As drug manufacturers begin to study the impact of the EC on their business, they may find most interesting the establishment of the Committee for Proprietary Medicinal Products (CPMP), analogous to the FDA in the U.S., coordinating the activities of the national health authorities.

B. Changes for the Pharmaceutical Market

The conditions that the single European market will create for the pharmaceutical industry in Europe are expected to be predominantly negative, as the industry is confronted with very specific problems which must be solved largely without any help from government agencies, such as the CPMP and the national governments. The more established and active a company is within the EC, the more limited its prospects for entering new territories, but the greater its capability for consolidating into a single European unit and employing its resources in a broad manner.

The effects of the harmonization cannot all be negative. Many positive benefits will occur. Increased patent protection will allow the innovative to exploit profits for a longer period of time. "There is no doubt that a great deal of the impetus for the move into Europe, by Japanese and United States companies, is due to the fear that if they are not established in the EC that they will suffer from an inability to gain access to
the European market. Therefore, protectionism could lead to the following:

• The setting of standards and regulations in such a way as to favor European firms

• An unwillingness to grant public procurement contracts to non-EC firms.

• A series of anti-dumping duties and local content rules that would push non-EC firms into establishing themselves within the Community as firms sourcing locally in order to secure equal treatment

• Rules on reciprocity that would deny non-EC firms access to the market in the absence of equal access being granted to EC firms in the other country.  

Variations in objectives and priorities simply reflect the fact that the EC is composed of twelve sovereign states and thousands of companies with markedly different perceptions of their self-interests.

Many factors will inhibit firms' capabilities to exploit the changes. These include difficulties in persuading consumers to make use of the changes and the difficulties of rationalizations

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and mergers. Restructuring and gaining market access can take place through such other means as joint ventures and other forms of strategic alliances. More specifically many changes, that are discussed below, will accrue that will affect each member state in a different manner, depending upon the current state.

1. Costs

Costs in the EC market should be reduced. Companies will be able to consolidate and centralize their operations. The reduction in costs should allow them extra cash to invest internally for their future operations within the EC.

Most likely the creation of a single market will not increase demand for pharmaceuticals, rather companies will receive lower prices for the goods sold due to the increased competitive nature. This will result in less money being available for R&D. The European pharmaceutical industry must be at least able to maintain its present profit margins in order to make the necessary investments in R&D to continue competing internationally.

R&D, production processes, and especially marketing activities are largely decentralized and based on the special demands of individual national markets. Considerable economies of scale should be possible when national requirements are harmonized. Although excess manufacturing capacity of up to 30% in Europe could represent potential
savings, production sites can only be consolidated to a limited extent.

The demand in a single market is not sufficient to utilize the full capacity of a facility. Economies of scale and savings can be applied by concentrating production and downsizing drug packaging. The idea of downsizing packaging is based on the high existence of consumer non-compliance, that is consumers not taking the prescription according to instructions. Downsizing of drug packages could lead to less waste, better control of patient compliance and thus safer use of drugs, and less costs for the public and private health insurance agencies.

German wholesalers are preparing for distribution across EC boundaries following EC harmonization when they intend to join up with suppliers in other European countries. Distribution will improve, but there will be an increased danger of cheap imports with the introduction of more global brands. Manufacturers expect to combat less expensive products from other EC countries with cheaper products of their own gained by taking advantage of economies of scale across the Community.

Cost containment measures will continue to be a means of controlling costs. This will be an important variable upon which countries will use in order to keep costs down and stay competitive. As prices come down in many higher priced countries, cost containment will be their means to stay competitive.
2. Prices

The big differences in drug prices among the various EC countries will decrease. There will be less disparity in the price of drugs within the EC. The average price will decrease in some higher priced countries such as Denmark, Germany, the Netherlands and increase in some lower priced countries such as Italy, Spain, Portugal, Greece and France.

From the industry's point of view, a unified EC market with harmonized or centralized drug registration procedures will exhibit less differences in drug prices between countries than at present. Prices would converge at least to an extent that it is no longer profitable to trade products from a low price country to a high price one. Currently, only major products with price differences of at least twenty percent are the subject of parallel imports. It is believed that this is a good estimate of the price differences that will remain within the Community, even after the internal market is completed.

3. Registration and Reimbursement

New products will receive approval for marketing throughout the EC by means of a central registration procedure. But in the beginning this will just be a necessary unused step, as companies in the different countries continue along an approval path that they are accustomed to. This will change
over time, as companies realize the many benefits to be accrued.

Originally each country developed its own requirements, specifically adapted to each respective national market. The only way a new drug could be introduced in the EC was for the company to separately submit for registration for each individual country. Often it happened that the research carried out in one specific country was not recognized by the authorities in another. Now these obstacles have been removed. "The marketing authorization procedure is intended to allow a company that already has approval for a product in one EC country to obtain approvals with relative ease in other countries. With the same documentation used in the original approving country, the health authorities in two or more other member states have one hundred and twenty days to authorize the marketing of the same product within the EC. Orders or to raise any objections to doing so. In the event objections are raised, the CPMP enters the process, evaluating the perceived problems and issues its own opinion, usually within 60 days, both to the member states and to the manufacturer. The other member states then have another 60 days in which to decide how to act upon the CPMP's decision and to inform the CPMP of the result." 

Of more immediate benefit, an internal market in Europe could dramatically cut costs and time associated with obtaining

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4 Herrmann, Werner M. MD, Medical Marketing & Media, "The EEC approval process begins to take shape", August 1989, p. 16.
approval in several member states. Previously manufacturers had to begin a new process in each country. Now they can market their products throughout the EC after receiving marketing authority through CPMP, which can greatly reduce R&D expenditures, hasten the time it will take for products to turn a profit and get the medicines to those in need faster and at lower costs.

The divergent registration procedures will be harmonized in one way or another. The innovative pharmaceutical industries will benefit from the reduced time needed by the authorities to process a drug so that it can be marketed. At present, the time it takes varies greatly from country to country and in some states this can take more than three years. A reduction of the registration procedure would significantly increase the exclusive sales period. Harmonized registration procedures would also have a certain cost saving component since a company would have to finance only one application rather than twelve. From the point of view of free trade, there are a number of areas in pharmaceuticals where the desire to maintain high standards, coupled with the unwillingness of the Community authorities to be seen as promoters of standardization to the lowest denominator may nullify attempts to create a freer movement of goods.

For most countries the government will continue to rationalize the reimbursement system. The number of products on the reimbursement lists are likely to be reduced. This will apply to both certain classes of products and to certain
individual products deemed to be ineffective or of little therapeutic value. Superior cost-benefit ratios and therapeutic advantage will have to be demonstrated to achieve a reimbursement listing for new products. Reimbursement will continue to be the means by which national governments regulate the drug bill.

4. Advertising and Promotion

Pharmaceutical advertisers can expect the EC to develop standards that will eliminate some of the current market's peculiarities. According to the EC, these national advertising oddities will disappear and the rules will be identical for all-devised, implemented, and enforced by a central regulatory body. In view of the different regulations now in force country to country, advertising to a united Europe can only get easier, but adopting a wait and see attitude might be very costly in a market that will undergo a steadily growing number of changes.

5. Concentration of the Industry

Cooperation between firms and mergers and acquisitions will grow in importance as companies fight to be more competitive in an increasingly difficult market. European companies are becoming more used to co-developing and co-marketing products with other pharmaceutical companies, a
strategy that has long been used in Japan. Often, the only way medium size companies can develop products in an increasingly difficult environment is to participate in a joint-ventures, combining knowledge and sharing costs. In doing so many national marketing plans will become more globalized, as the trend of multinational companies increases.

6. Parallel Imports

Parallel exports will be reduced by lower pan-EC price differences. Though price spreads on pharmaceuticals of as much as 60% are evident across EC country borders, parallel imports are only a small percentage of sales. Although the Commission is trying to ensure transparency in pricing, EC governments want to maintain their current approval power over pharmaceutical prices. Equalization of prices across the EC in this industry is unlikely by 1992, but price spreads will diminish somewhat. The elimination of trade barriers will cause a substantial increase in the trade of products currently on the market from low price areas to high price ones. These products may be approved in the different countries under different brand-names, in different formulations, in different packs, or with different patient information. These are all obstacles for bringing pharmaceuticals from one country to another.
VII. European Community Pharmaceutical Future

There is no doubt that consumers differ widely across Europe. Their income, values, and behavior vary enormously. There is nothing in the 1992 program to ensure a convergence in incomes. Nor is it clear, in the absence of a genuinely European culture, that a convergence in values and attitudes will be anything but very slow. The answers will vary by country, sector, and company. Where the formal barriers to trade are the main cause of the fragmentation, we must then assess the nature of those barriers and the nature and the size of the potential economies of scale available through their removal.

As EC and local government regulation takes effect during the 1990s, the environment for pharmaceuticals in Europe will become less favorable. They will experience downward pressure on prices, increasing generic competition and simplified registration, which will all lead to progressively change the face of the European industry in the 1990s. These forces will result in steady industry consolidation, intensified competition among the remaining European players and new entrants.

Overall, industry performance will decline, although highly innovative companies will continue to prosper, at the expense of subscale competitors with mediocre pipelines. The more competitive pharmaceutical environment will result from both local and EC level forces. Local legislation will be focusing
in on health care containment including, price reductions, reimbursement restrictions, restrictions on promotional activities, encouragement of generics, and encouragement of parallel imports. EC directives will be focusing on leveling the pharmaceutical playing field by simplifying harmonized registration, standardized packaging, and removal of fiscal trade barriers. But there will be no brutal overnight upheaval of the rules.

Thus the variations among member states leads one to believe that no single EC market for pharmaceuticals will emerge in this century. But even if no internal EC market for pharmaceuticals is created, the idea has already a measurable effect in economic terms on the pharmaceutical companies.

**VIII. Conclusions**

What 1992 means is that Europe will be an area without borders, that goods and services will be able to move freely as they have not been previously able to do. As 1992 approaches, what becomes more obvious is that the EC countries will never be quite as homogeneous as the United States. Therefore, marketing to the EC must take into account all of the different cultures and languages. Although, there will be some convergence as consumers from the different countries become more similar, more Eurobranded, the different cultures have been around for too long and are too deeply bred to completely merge into a unified European culture.
Success in Europe post-1992 will require long term planning. National interests will make progress slow and uneven. The idea of a unified market encompassing 320 million consumers by 1992 is overly optimistic. Importantly, factors remain that will make it difficult for companies to exploit the changes, even when agreed to by a political majority. Pharmaceuticals in particular, because of the strong personal selling base, need to keep this mind when planning their strategies for the future. Successful marketers, will realize that many differences exist between EC countries and that over time these differences will attempt to converge, but will never become identical.

Success more than anything, will depend on the ability and skill of individual companies to devise appropriate strategies in an increasingly complex environment and to push them through. There is a shift away from the assumption that a product's marketing program should necessarily be adapted to each country's special needs. The new emphasis is on the search for similarities rather than differences across national boundaries so that adaptation costs can be minimized and scale economies maximized. This shift in perspective has important implications for marketing organizations. These organizational innovations signal a power from country to region in marketing decision making in Europe as a result of 1992.

It is important not to exaggerate the direct impact of the 1992 program. In many ways it represents one more step down a thirty five year path toward genuine free trade within
the EC. Differences in consumer behavior and attitudes across EC borders will doubtless continue. The likelihood of Pan-European segments of consumers becoming more prominent seemed stronger than ever as marketers searched for similarities rather than differences in consumer behavior and attitudes.

What it does not mean is that there will be a huge single uniform European market of 320 million people. There will still be twelve different national markets and many sub-markets within each, and most small and medium size companies will only be able to trade in a few of them. Languages, cultures, lifestyles, industrial, retailing and commercial operations will still vary considerably from country to country, region to region. There will also continue to be separate national banks, individual currencies, education, and legal systems and other fundamental differences.

Rather the marketing synergies will evolve over time as different companies learn from their mistakes as to what constitutes successful marketing strategies in this industry. Many Marketing implications exist as a result of 1992. "In essence, the changing Europe is simply a major facet of the international scene but in nature it will be complex, competitive and potentially very rewarding. To exploit the opportunities and to counter them will call for the same effective marketing skills that international marketing has
always required but with the added complexities of Europe 1992."5

Prices will fluctuate towards an EC average. High priced countries will have to reduce their prices if they intend to stay competitive in a new world market. Instead they will need to concentrate on reducing costs. Many opportunities will be available for this. The economies of scale that can be realized, easier and shorter legislation processes and reduced transport costs will all contribute to cutting down on costs. Cost containment measures will be taken on by the national governments as an additional means of remaining (or becoming) a strong player. The common aim will be the introduction of more privatization in the health service and drastic reductions in pharmaceutical expenditures. Consumers will take greater responsibility for their own pharmaceutical spending as drug copayments increase. The registration process will be made more simple, more homogeneous and less expensive. Companies will see drugs brought to the market sooner. They will be able to also introduce these drugs simultaneously between the countries. Previously drugs came out at all different times in the different countries. This step in the process will probably take the longest for companies to conform. In doing so companies will feel as though they are losing control, since it will be a new process. As product standards become more standardized, advertising and

promotion will be able to see economies of scale in its efforts. Although items will always have to be tailored to the many different languages and cultures, many aspects can be globalized. As the industry consolidates, which the first steps we are already seeing, the power will wind up in the hands of a few strong players. Thus, the correct marketing strategy will be a key to succeeding in the new world market.

Each company will have to examine individual situations and determine what opportunities exist for its particular product and service, and how these can be exploited. Each company will also have to consider threats it is likely to face from new competitors. Those companies that are broad based, offer a wide range of products that extend geographically, and are low-cost producers that have specialized over time or customer segmented-focused, will be the survivors.

**IX. Recommendations**

"The only way to compete in Europe of 1992 will be through durable corporate alliances, and the only way to compete in the world will be through the unified Europe of 1992." As the EC, come 1992, becomes a large constituent power in the world, marketing to the EC takes on greater importance. Although the changes will not be felt immediately

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due to the fragmentation of the market, over time it will become a very strong driving force.

The successful pharmaceutical companies will realize that they are not facing an EC-customer but rather many individuals with very different tastes. If they are planning to reap the benefits of a new larger European environment they need to incorporate this mentality into their marketing plans. Pharmaceutical marketers will need to understand each individual market's customers, customs, culture and the language, and this understanding will be the key to successful marketing. Without this they lose their focus.

They should not look for a global customer, since no such creature exists. The EC although united in name will still consist of the diverse mix of cultures that it does now. This will never completely change. Rather, over time as it becomes much easier to cross borders and cultures import and export more freely, will they decrease, but never fully disappear.

Many EC-advocates predict that the EC will mirror the United States. Pharmaceutical companies must realize that Europe is different than the US and marketing cannot be done as it is done in the US. If companies try marketing drugs between France and Italy as they do between New York and Massachusetts, they will not be very successful. Certain drugs will not go over well in certain countries due to cultural differences and peculiarities.

To benefit from the EC unification many companies will eliminate overcapacity and reduce costs. They will be able to
reap the benefits of economies of scale by consolidating most of their manufacturing once stringent regulations are made more uniform. They will also be able to build scale by forming strategic alliances to overcome fragmentation.

Mergers and acquisitions will also be another common means for overcoming fragmentation. In order to see the greatest results from these consolidation measures, pharmaceutical companies should combine resources and team up with national players in each country that they are interested in becoming a major force in. Although globalization of the industry will occur, it will only occur over time, and probably over a long period of time. Thus nationalization will still be the major means for being successful in lieu of the competition.

Pharmaceutical companies must recognize international competition, thereby realizing that they must be a global competitor. This will allow them to work to homogenize local tastes. The persistence of local tastes and preferences will prevent most companies from operating as genuine pan European entities even after the elimination of formal trade barriers.

The challenges posed by 1992 are complex and profound. But in many ways they are not unlike the challenges of globalization, increasing competition, and accelerating technological change facing managers in the United States and Japan. Today European managers are wrestling with problems
that managers around the world have been wrestling with for years. For the pharmaceutical marketer, success will rely on long-term planning and long-term strategies and will entail constant analysis of the marketing process both on an individual country-wide basis as well as on an EC basis to monitor the success and progression of their marketing plans.
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