PHARMACEUTICAL MARKETING IN INDIA: A MACROSCOPIC VIEW

Abhijit Dey, Banaras Hindu University
Usha Kiran Rai, Banaras Hindu University
Ashish Chandra, Xavier University of Louisiana

ABSTRACT

In order to survive in this highly competitive global marketplace, it is extremely essential for organizations to have an effective integrated marketing communication plan in place. Having a knowledge about the various types of markets that exist in the world, and in particular in Asia which is perhaps the most rapidly growing market, will help achieve this objective. This paper provides us an overview of the role of technology in integrated marketing communications and also how marketing communications should be carried out in the Asian market.

INTRODUCTION

Drug & pharmaceutical industry plays a vital role in the health care of the any country. Rapid growth of this industry requires further attention because even after 50 years of independence, India, with around 15 percent of the World population, accounts for less than 2 percent of the drug production in the world. Annual per capita consumption of medicine in India is less than 2% of that in Japan. Health care expense in India is a dismal 0.8 percent of GDP compared with 12.4 percent in U.S.A. 6.5% in Japan and 6.2 percent in the U.K, despite higher incidence of disease and malnutrition. The poverty and disease in India on one hand calls for higher standard of healthcare and pharmaceuticals production and on the other, stultifies the growth of industry due to poor affordability of an average Indian. Drug & Pharmaceutical industry has therefore, encountered a tough situation which most industry have always found difficult, to provide abundant quantity of quality products at low prices.

The Indian Pharmaceutical industry, valued at $46.2 billion has been witnessing attractive growth rate of 15% to 20% consistently over the past decade. (Strategist Quarterly 1998). This growth was build by India's large population, increasing allocation of income to healthcare spending and exports. Exports which currently accounts for 20% of the production value has grown by a compound annual growth rate of 34% in the past few years due to competitive price advantages from India's low labor and other input cost (Smarta 1998).

The Indian market for pharmaceutical products stands at an enormous $58.8 billion. The big 10 companies account for over 30% of that, take away 45 marketer and average sales don't even come any where near the $2.5 million marks, that's how fragmented its is some 50,000 brands from over 20,00 companies growing fast enough to embarrass rainy day

mushrooms and enough diseases to savage Indian population all several times over and turn Dr. Dolittle into Dr. Don't care.

HISTORICAL PROSPECTIVE

The production of bulk drug was virtually non existent in India at the time of independence in 1947. It increased from a meager $715 million in 1962 to $2.4 billion in 1980 and further about $8.4 billion in 1990. Production of formulation is increased from $90 million in 1947 to $14.4 billion in 1980 to $36.3 billion in 1990. The demand for pharmaceuticals increased due to increase in population, increase in affordability of a section of population and government emphasis on health program. The industry grew despite claims of price & production control. By the year 2000 the demand for pharmaceuticals is expected to reach up to $6.72 billion per annum. There has been 1000% growth in the number of drug manufacturers in India since 1970. That was the year when the Indian Patent Acts and Drug Price Control Order (DPCO) came into force (The Eastern pharmacist 1988). While the first accorded intellectual property protection to manufacturing processes (not product formulas), the second began regulating prices to ensure that drug manufacturer who were being allowed to copy foreign drugs would make them cheaply available to the common man.

Indian Drug and Pharmaceutical (D & P) industry presents a picture of fast development. Today, India manufactures most of its requirement of bulk drugs and formulation. In fact, more than 30,000 different pharmaceutical formulation worth $210 million are manufactured and sold in India. There are 45 major pharmaceutical firms, each with a sizable investment and sales turnover. Investment ranges between $1.47 million to $4.2 million the sales ranges between $2.10 million to $54.6 million per annum. Growth in this industry was to the tune of 23.4 per cent in 1997-98. This was phenomenal in comparison with the other industries most of which have run into losses or very nominal profits leading to a slowing down of the growth.

GOVERNMENT POLICIES

In a country lacking the assurance of free health care for all (not to talk of an effective health insurance system), it is the poor patient's family who must pay the bill. This was the justification for the policy. But it killed any incentive to invest in R& D (Research and Development), which makes global drug manufacturers what they are: leader of mankind's war on disease. India's per capital consumption of drugs is said to be just $3. In the US its over $100 and in Japan, over $400. India has about 20% of the world's disease burden (with just 16% of its population). Western spending is high because in a system where the government pays the bills, the patient get themselves prescribed all sorts of pills for ailments that aren't terribly serious. But why is Indian spending so low? Only 35% of the population has access to modern (read allopathic) medicines. India has alternative system of medicines, Ayurveds, e.g. are not quacks, neither are homeopaths who make their own medicines.

India also exports sizable quantities of drugs & pharmaceuticals. More companies are now venturing into traditional health care systems beside modern medicine. With the launching of new drugs policy, all bulk drug formulation and intermediaries except five bulk drugs have been de-licensed. Many drugs that were hither to under price control have been taken out of such control. Actually the list of controlled drugs has been halved and is limited to 73 items.

Higher rate of return has been allowed for those drugs that are still under price control. Companies with 51 percent foreign equity have been brought on par with wholly Indian companies, automatic clearance would be given for 51 percent foreign equity automatic approval would be given for foreign technology agreement as well. Earlier such companies had restriction on the product they could manufacture or import. A National Drug Authority is to be set up to monitor quality control and rational use of medicine. A national pharmaceutical pricing authority is also to be set up to fix prices in respect of drug, which would continue to be under price control (Ramaswamy & Meerakumari 1988).

Recent budget proposal has announced a 10 percent drop in the peak customs duty, which will benefit formulators and transnational pharmaceutical companies with high raw material import contents, but falling traffic barriers also threaten the future of the bulk drug players. However, the 8 percent increase will not have a negative impact on formulators as the increase will enable a full set off under MODVAT (Modified Value Added Tax). Similarly, the 10 percent reduction in the tax on income from royalty and technical fees paid to foreign companies may not affect domestic companies at all. But high spenders on R & D like Ranbaxy™, Cipla™ and Wockhardt™ will gain. This along with the rising of investment limits in overseas joint ventures and offices under the Export Earners Foreign Currency Account, will provide a strong dose of incentive for India's pharmaceutical companies to go global.(Sakaria 1988)

RESEARCH & DEVELOPMENT EXPENDITURE

Like software, pharmaceutical products take enormous thinking and research & development spending to create, but comparatively little to produce in bulk. This partly explains the 2000 drug manufactures, some of which are tin-shed operators, that that could be mistaken for a cold drink shop. The other part: small scale units (with annual turnovers of up to $3 million) are for given their excise duties. They escape pricing stricture too, giving even large produces and incentive to source drugs from a network of small scale unit (and other the opportunities to make quality such a big issue in marketing drugs). Multinationals having lost the incentive to introduce new drugs in 1970, went headlong for the over the counter (OTC) products. So they scored in vitamins, pain killers, and cough preparations. So Indian marketers now have 60% of the antibiotic market 70% of that for cardiovascular drugs and 90% of anti-tuberculosis drugs.

The one interesting result of product free for all is that several marketers compete to sell the same molecule (what is the generic game in the US for off patent drugs). Forcing drug makers to keep their selling skills and market sensitivity in fairly good shape. The

reason that there are so many drug maker is also the reason that marketers in Indian have amazingly diverse product portfolios. While offering a wide basket of pills helps, it becomes something of a one-stop supplier to doctors, it also leads to retail level chaos. One major problem stems from similar sounding names R.B. Smarta, Managing Director of Interlink Consultancy Private Limited, mentioned some classic cases: Larocin™ (antibiotic) and Lanoxin™ (for heart ailments), Eposolin™ antibiotic and Epsolin™ (cardiac arrhythmia product). A misread prescription slip could spell big trouble.

Budget for the back and aspect of product development are woefully low (R & D is treated more like a tax saving device). In 1997-98 companies in the over $4.2 million turnover bracket (there are less than 50 of them), cumulatively spend little over $8.4 million on R & D less than 2% of their combing turnover. While there are only five organizations whose R & D expenditure was beyond $.42 million some 14 crosses that figure it came to sales oriented marketing. Two respectable R & D spenders are Ranbaxy™ and Torrent™.

The Indian pharmaceutical sector is likely to witness major changes as a result of liberalization and pressure from GATT (General Agreement on Trade and Tariff) and WTO (World Trade Organization). Price control are gradually being dismantled with less than 50% of the drugs coming under purview of DPCO. This number is likely to decrease further. In addition, as a signatory to WTO by 2005, India will be require to follow the same product patent laws governing the west. MNCs (Multinational Companies) in the past, have been constrained in launching new products because of strict patents enforcement law governing their home countries. They now eagerly awaiting the protection of product patent in 2005, which will provide greater freedom to introduce new an advance international portfolio products. Indian pharmaceutical companies on the other hands are likely to suffer as a result of patent protection. It will become increasingly difficult for them to introduce new product without investing in basic research. Intensive research requires large investment that can be only recover by spreading costs over a greater volume, there by reducing average costs. However, because of high industry fragmentation and a lack of research, few domestic company are able to reap the benefit of scale.

Against this backdrop, the companies most likely to succeed will be large companies with a wide product portfolio, those that have the ability to undertake research and develop a strong product pipeline and those that gain or sustain export competitive environment, it will be critical for companies to build sustainable competitive advantage. In addition to the strategies discussed earlier, companies have opportunities to gain an edge over their competitors, by actively managing their product portfolio, by executing a sound globalization strategy or by becoming an integrated healthcare company.

MARKETING FUNCTIONS

A marketing program in order to be successful must have a right mixture of marketing mix, not to mention market research, a quality product, an extensive distribution network acceptability, strong dose of promotion coupled with a right price. A unique feature of the

pharmaceutical market is that it is one of the most fragmented markets in the country. The maximum market is held by small companies, the largest pharmaceuticals company holding only 6 percent of the market share. This leads to unique marketing mixes.

Function of Sales

In India front and marketing (doctor convincing and sales) is where the action is. The point of differentiation has been the relationship with doctors (through medical representatives) But doctor aren't always enthused. Says Savita Mikhi, who runs a private clinic in Delhi, "many companies believe wrongly that a nattily clad medical representative or literature printed on glossy paper makes for impressive communication.

Advertising

Pharmaceutical marketers in the USA, having just been allowed to advertise drugs on Television, have taken the big risks. They are advertising like crazy and even have the websites to keep patients fully informed of diseases dosages side effects and so on. In India too, earlier this year MAA. Bozell set up Lewis Grace. Bozell, is a subsidiary responsible for pharmaceutical advertising. Now, Ogilvy & Marther and Redeffusion are reportedly considering similar moves. To begin with, they will try to bring their skills to the ordinary business of making audiovisual, prints or multimedia sales pitches to the doctors. This could improve the communication of OTC products, which have been turning more love and care oriented. Johnson & Johnson's touch therapy commercial is good example of the use of emotion. Advertising agencies will have to educate themselves well, because the main reason that in house publicity departments manage to torpedo the suggestion of agency help is the fact that no body wants their wonder pills to be handled by bubble gum jingle makers. Says the marketing manager of a small, but fast growing Indian company, "Advertising agencies may be good for selling the image of the company as whole but at the level of each brand, what can they do? They don't know anything."

Marketing Research Function

Marketer, in order gain information, conducts market research, which in Indian pharmaceutical industry can be as simple as chatting with doctors, retailers and hospital administration or as complex as surveying a nationally representative sample of specialists or corporate hospitals and identifying the emerging health care needs. The pharmaceutical major are fond of syndicated data. Many companies routinely buy ORG (Operation Research Group) panel study and C-MARK™ studies for different brands and keep them in computer memory for easy retrieval and analysis. For them, it just feels good to know that data can be accessed when needed. But when it comes to developing strategies for their brands, these companies do not operate on the basis of this data.

On the contrary, Cadila™ Health care (Zydus™) group, takes the data very seriously. It has meetings with all of the brand managers every month to study the implications and develop strategic actions along with top management teams. This company is using

information actively, whereas many other companies use the information either as an academic appendage during a presentation of low immediate relevance or as a defense shield during a performance review.

Marketing research data only provides a base for action in the market place, the action which has to be implemented through various mix's of promotion. It is important to understand that the promotional mix for any brand or organization is dependent upon the mix of advertising, personal selling and public relation. Over use of personal selling in pharmaceuticals via medical representatives and limitations on advertising pharmaceutical products due to FDA (Federal Drug Administration) restrictions, presents an opportunity to explore the role of and exploit the Public Relations function in the pharmaceutical industry.

Use of Public Relation

Very few pharmaceutical marketers in India use public relations as a marketing tool. Many of them think Public Relation entails sending out a few press releases, holding a few conferences and conducting some event when company launches a new molecule or product. In reality, Public Relation usually ends up making a point at a very personal level. Its impact in the industry is seen at several levels affecting doctors and brands. Some years ago, CiplaTM was forced to make use of Public Relation tools when its major communication medium--medical representatives turned--un-cooperative. The company conducted meetings for not more than 10 customers at a time and ensured that thousands of such meetings took place at different locations in the country. This helped ciplaTM in building one-to-one relationship with its customers. Prudent use of Public Relation has also helped the organization in creating a positive platform for direct response communication.

Drug Distribution

Many a times drugs promoted through professional service representatives do not appear on the shelves of the retailing chemist. This can be attributed to ineffective distribution system. Although distribution is recognized in India as an important function, many pharmaceutical marketers accord it a mere supportive role; so the distribution system has remained traditional with little or no innovations. Superstockists/stockists, distributors and C& FA's (Carrying & Forwarding Agent) have traditionally been very loyal to pharmaceutical marketers. As a result, strategic changes in distribution arrangement were rarely recommended or carried out. Problems, if any, were always sorted out amicably and changes, when at all, were concerned only with adding or deleting stockists in the distribution chain. Over time when AIOCD (All India Organization of Chemist & Druggist) mobilized retailers in every state, pharmaceutical companies found their freedom to appoint stockist restricted by retailer pressure.

There have been other changes too. One may view the distribution set up as a concentric pattern with patients at the center with each ring representing a link in the chain. It must be noted that some rings prefer by passing the next one. Some companies, for instance,

deal directly with stockists, whereas some high end products that require highly sensitive servicing are distributed directly to doctors. Some innovative ideas have been coming from such companies like Hoechst™, Sarabhai™, Sandoz (Novaratis™) and now Nicholas Parimal™.

In 1988 Sandoz decided to make changes in its method of giving discount to C & F (Carrying and Forwarding Agents) through a simple innovation. Instead of paying direct percentage on sales to agents it started paying on basis of case lots. Each case lot weighed approximately 12-15 kg and on each case lot, it paid $ .19 - $ .32 to C&FA. As result, Sandoz™ reduced the cost of operations by 1.2 percent of its total turn over, an enormous figure when calculated in rupee terms. It is often true that effective distribution along with right pricing differentiates a success from a failure in market place. In India, most companies market a vast portfolio of products (that others are also selling) and pricing decisions are delegated. In a market with many brands meeting the same need, even the rare marketer who begins by formulating a program based on inputs from the doctors and patients often ends up glossing over question of profit while setting the price. In the old days production volume were often kept fixed (either by the company or the licensing authority). In this state costs were easy to measure and simple cost plus pricing used to work. Also marketers had to live under the rules of Drug Price Control Order (DPCO), the government price fixing instrument for essential drugs.

Since liberalization began in 1991 the DPCO has been loosing its grip and the prices of many formulations, allowing market forces to play the regulator. Other aspects of liberalization have made companies hungry for growth. In such a dynamic state of existence where growth is both desirable and achievable, pricing is less simple. Lack of strategic thinking leads to chaotic pricing. Every body agrees that intelligent pricing can be used as a critical edge for any product. Yet in the pharmaceutical industry, trends suggest that enough thought is not being given to such serious decisions. A single player marketing thoughtless decision can have repercussions on the entire market. Many marketing managers don't understand the impact of their own decision on the market. As a result, they think of themselves as either price takers or makers. There is rarely a marketer who wants to upset the apple cart--strategically--by becoming a price breaker.

This can be suitably illustrated with the example of Glaxo™: Glaxor™, When it launched Ceterzine™ an anti-allergic, played price maker. It set a price it thought fit, then came a crowd of followers, and they were price takers. So there was a market where Glaxo™, UCB™ and Unichem™ were all selling at $ .06 per tablet. Then came SOL™. It decided to reset the scale and change the markets dynamics So it played price breaker, selling its Ceterzine™ brand at $.023 per tablet. In 18 months it was selling higher volume then Glaxo™ i.e., the price maker brand. Glaxo™ did not react and continued with the same price. Today Lupin and Core are selling below SOL's price. So the price breaker managed to start a price war, but Glaxo™ has won back the brand leadership.

THE FUTURE

The challenge facing pharmaceutical marketers in the next decade will be to demonstrate value of product through promotional innovation, combined with the required emphasis on efficiency and safety of their product. To do so, they should turn to pharmacoeconomics--an evolving field that examines the issues in the context of the market's health care system. Health care system, of what is understood of the term, differs from country to country, place to place and city to city. Lay persons in India tend to examine only single patient cost. But from a social perspective one may want to know what sort of treatment option minimizes overall costs. In the future the degree of fragmentation is likely to decline significantly wide product portfolio and distribution strength could become a key competitive advantage among the larger players. Smaller players focused on research and development will probably be approached for alliance by larger companies. Domestic companies with International research and development or marketing ties are likely to succeed. In long term as companies established major presence in other parts of wider health care pharmaceuticals chain, there is likely to e an emergence of a new set of competitors -- the integrated health care firms -- that will have significantly greater power than pure pharmaceutical companies.

Quality of product will increase as a result of consolidation. However, declining global price realization from the product going off patent will likely put pressure on prices of generics in India. With a wider product availability, and opening of insurance sector, the penetration of drugs and per capita expenditure of health care is likely to increase. As health care market develops the standard of health care in India are also likely to evolve and approach the level set by more advanced western countries.

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