

Speech of Mr. Tapan Ray, Director General of OPPI in the seminar, "Building Mega Brands" held in Mumbai on March 19, 2010

Dear friends, distinguished speakers and ladies & gentlemen,

I welcome you all in the Mega Marketing Seminar titled "Building Mega Brands", this morning.

In my opening remarks, I shall zero in to my provocative submission on "Building Mega Brands" after quickly taking you through the "Challenges of Change" in the new and rapidly changing pharmaceutical world order.

To get insight into the future challenges of the pharmaceutical industry in general 'Complete Medical Group' of U.K recently conducted a study with a sizeable number of senior participants from the pharmaceutical companies of various sizes and involving many countries. The survey covered participants from various functional areas like, marketing, product development, commercial, pricing and other important areas.

The study indicates that a paradigm shift has taken place in the global pharmaceutical industry, where continuation with the business strategies of the old paradigm will no longer be a pragmatic approach. Moreover, besides this finding, our experience also vindicates that today is not a mega yesterday, just as tomorrow will not be a mega today.

Learning from the results of the above study, which brought out several big challenges facing the pharmaceutical industry in the new paradigm, my submissions are as follows:

Gaining greater market access and increasing pressure of price containment:

The increasing power of payors in the developed world and the interventions of the Government in the developing countries are creating an all pervasive pricing pressure. This critical issue along with the issues related to gaining greater market access was the 'top of mind' concerns of the participants in this study. Better understanding of the new and differential value offerings that the doctors and patients will increasingly look for beyond the physical pharmaceutical products; will indeed be the cutting edge for the winners, in this new ball game.

Relevance of the current business model

Top managements of the pharmaceutical companies have already started evaluating the relevance of the current global pharmaceutical business model. They will now need to include in their strategy wider areas of healthcare value delivery system with a holistic disease management focus. Only treatment of diseases will not be considered just enough with an offering of various type medications. Added value with disease prevention initiatives and appropriately managing quality of life of the patients, especially in case of chronic ailments, will assume increasing importance in the pharmaceutical business process.

Greater innovation across the pharmaceutical value chain

Greater and more frequent incremental innovation across the pharmaceutical Value Chain will be critical success factors. The ability to really harness new technologies, rather than just recognize their potential, and the flexibility to adapt to the fast changing and demanding regulatory environment together with patients' newer value requirements, should be an important part of the business strategy of any pharmaceutical company in the new world order.

Integrated decision making processes

More complex, highly fragmented and cut throat competition, especially in the branded generic market, have created a need for better, more aligned and integrated decision making process across various functional areas of the pharmaceutical business. Avoiding silos and empire building have long been a significant issue, especially for big pharmaceutical companies. Part of better decision making will include more pragmatic and efficient investment decisions and jettisoning all those activities, which will no longer deliver intrinsic or extrinsic differential value to the stakeholders.

Customer engagement

Growing complexity of the prevailing business environment, including most recent change in the MCI regulations for the doctors are making meaningful interaction with the customers and decision makers increasingly challenging. There is a greater need for better management of the pharmaceutical communications channels to strike a right balance between 'pushing' information to the doctors and patients and helping them 'pull' the relevant information whenever required.

Need for thinking outside the box

Let me hasten to add, even in the new paradigm, the fundamental way the pharmaceutical industry has been attempting to address these critical issues over decades, has not changed much. To unleash the future growth potential the pharmaceutical companies are still moving around the issues like, innovative new product development, scientific sales and marketing, customer focus, application of information technology (IT) in all areas of strategy making process including supply chain, building mega product brands, continuing medical education, greater market penetration skills, to name just a few.

Such responses do ring an alarm bell to me. It is known to many that most of the pharmaceutical companies have been investing in all these areas since long and yet these are the very points being highlighted even in the new paradigm to meet the "Challenge of Change". The moot question will therefore be, what have all investments in these areas achieved, so far? And why have we not been able to address the needs of the new world order focusing with these tools? More importantly, if we do not address these issues going 'outside the box' and with 'lateral thinking' even now, what could the implications be in the times to come?

Need to find new ways to get engaged in expensive and risky Drug Discovery research and Development

I believe, the underlying business model of large global organizations focused primarily on developing New Chemical/Molecular Entities (NCEs/NMEs) from initial product discovery through development and commercialization, is unlikely to continue to yield results in the new era. The issue of 'Patent Cliff' is assuming larger dimensions day by day.

Global pharmaceutical businesses have already started evolving beyond patented drugs and moving towards generics to become a more diversified healthcare businesses. It is quite evident in the strategies of many larger global pharmaceutical companies that this process has already begun.

Currently R&D costs to launch a new patented drug in the market are around US\$ 1.8 – 2.00 billion with huge risk factors. Thus there is a need to reevaluate the R&D model of the pharmaceutical companies to make it cost effective with lesser built-in risk factors.

Could there be a collaborative model for R&D, where multiple stakeholders will join hands to discover new patented molecules. In this model all involved parties will be in agreement on what will be considered as important innovations and share the risk and reward of R&D as the collaborative initiative progresses. The Translational Medicine Research Collaboration (TMRC) partnering with Pfizer and others, 'Patent Pool' initiative for tropical diseases of GSK and OSDD for Tuberculosis by CSIR in India are examples of steps towards this direction.

Surely such collaborative initiatives are not easy but they are not uncommon either, as we see, especially in areas like IT. So why cost effective collaborative and cost effective R&D projects be not initiated to create a win-win situation for all stakeholders in the healthcare space?

Before I conclude, I would like to place before you a provoking concept of "Building Mega Brands".

Building brands, as we know, involve creating equity around an entity that delivers value to the customer, over and above the key functional properties of product. Traditionally, the global pharmaceutical industry has been largely focusing on building mega product brands having specific product life cycle say about ten years, especially for patented products. Could the core idea of building a mega pharmaceutical brand be substantially different, in future?

I reckon, yes. Instead of investing huge sums in building a pharmaceutical product brand with very limited product life cycle (for patented products), a more dynamic, powerful and cost efficient brand building process could well be to focus on the 'Corporate franchise' brands with a mix of both patented and generic products in different price bands for different customer segments within a specific therapy category or disease area. So instead of consistently creating, building and watching the mega pharmaceutical brands grow, mature and die, pharmaceutical companies could well encash the real opportunity to build long term emotional equity into their brands, hopefully without the suffocating NPPA restrictions associated with the current product brands.

Who knows, tomorrow's list of the world's top mega brands may not be dominated by the likes of Lipitor, Nexium, Plavix or Advair but perhaps by quite a different types of mega brands like for example, GSK Vaccines, Sanofi Aventis Endocrinology, Novo-Nordisk Diabetic Care, Abbott Nutrition or Pfizer Cardiac Care.

Serum Institute Vaccines perhaps could be considered as one such brand for vaccines as a category, created within the pharmaceutical arena in India, over a long period of time.

It is indeed quite clear now that the pharmaceutical business models are undergoing a serious re-evaluation in the new paradigm. There is a sense that the change is inevitable due to a variety of trends that are squeezing both sales and margins, posing severe challenges towards R&D, product development, marketing and communications. As we have deliberated, some possible solutions are gradually emerging. However, the key questions of how profound will this change be and how well the pharmaceutical industry is prepared to counter these changes, still remain unanswered.

Thank you.