Preparing for THE NEXT BIG MARKETS

Tailoring strategies for emerging markets and preparing for the long term are recognized as critical to success.

According to PwC, the global pharmaceutical market will be worth almost $1.6 trillion by 2020. But with growth in mature markets slowing, a lot of the growth will come from emerging economies. In fact, according to McKinsey, emerging markets are expected to account for $190 billion in sales growth between 2015 and 2020. Already emerging markets have overtaken the top five European markets in terms of pharmaceutical spending ($281 billion versus $196 billion in 2014.)

Increasingly, pharma companies are shifting their focus to emerging markets. But while the rise of the middle class and increased focus on healthcare creates opportunities, companies have to consider whether the operating models that are geared for developed markets are suitable in emerging economies.

According to a paper from Strategy& and PwC, Pharma emerging markets 2.0: How emerging markets are driving the transformation of the pharmaceutical industry, these markets are hugely varied and a one-size-fits-all approach is likely to fail.

Rather what's needed is a diversified approach to define market strategies that balances best practices at a global level with tailored approaches for local markets.

A survey conducted by Strategy& of executives from top pharma companies, generics, and other experts found that 27% of companies that have worked in emerging markets consider failing to sufficiently tailor strategies is a big problem, while 25% say patience and a long-term approach are required.

McKinsey's report, Pharma's Next Challenge, points to challenges companies face with simplistic approaches to cost containment as well as political difficulties that can affect decisions over market access. In China, for instance, different government layers and even hospital-level reimbursement result in limitations that put pressure on physicians to prescribe local generics despite concerns over quality.

Building good relations with local governments and local players is seen as key for success, the Strategy& survey found, and increasingly experienced companies are moving control from headquarters toward regional management to empower the regions. Another priority the survey found, was to recruit and retain local talent.

Now and into the Future

With all the complexities emerging markets present, many companies are adopting a more gradual approach to emerging markets, selecting countries that are most relevant for now, and scaling toward other markets.

The Strategy& survey found that the BRICMT markets (Brazil, Russia, India, China, Mexico, and Turkey) currently remain at the forefront, and these markets are expected to remain the preferred destinations until at least 2018. However, markets in Latin America and Southeast Asia are expected to grow significantly. The slowest growth is expected in sub-Saharan Africa, though growth prospects are seen as positive.

In terms of current and future therapeutic strategy, while infectious disease remains the dominant issue in many emerging markets, disease patterns show a growth in diabetes, cardiovascular disease, and cancer. While the PwC/Strategy& report agrees these growth areas present great opportunity for pharma companies, it's important that companies adjust their go-to-market strategies and operating models.

The biggest challenge, the report states, is market access and companies must tackle huge hurdles to getting their products onto these markets. An early objective must be to work with government officials on healthcare policy, even before bringing products to those markets, some pharma leaders say.

McKinsey also identifies access as a primary consideration because of the many barriers emerging markets face: shortage of funding; policy gaps such as weak intellectual property; dependence on local partners; a lack of local data about patients; poor infrastructure or inability to maintain existing infrastructure; and a shortage of healthcare professionals.

Analysts at McKinsey note that companies need an integrated approach to managing this challenge. This should include ensuring a local voice early on to help secure authorizations, for example by including medical experts in local clinical trials. To tackle pricing and reimbursement, companies must demonstrate compelling local evidence and prepare to negotiate. And with infrastructure often a problem, companies would do well to provide additional support such as physician education in specialty areas.

EXECUTIVE VIEWPOINTS

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AFFORDING CARE

Advances will come from innovations in clinical development and changes to the way society evaluates and pays for novel approaches. Development will become more effective through the use of novel technologies (AI and big data analysis driving better patient understanding), different funding models and increased company collaboration. With increasing development success and each new "budget busting" therapy, the pressure to have a different conversation about affordability will increase. Can society afford a cure for cancer?

PHILIP VORHIES
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CREATING A SUCCESSFUL GLOBAL LAUNCH

Ultimately, a successful global product launch is about launch teams; how prepared they are, how responsive leadership is, and how well they will operate together across markets. Success comes when everyone is clear on when and how they best contribute. It is critical for all functions to have a stake and accountability in a detailed launch excellence process. This enables them to make timely decisions, choose impactful communications, and invest in doing the right activities well.

Tailoring the Market Approach

The issues companies face with getting, keeping, and securing their products in emerging markets will vary and so careful evaluation and consideration is needed.

For example, specific strategies may be needed to manage intellectual property infringements. Several pharma companies have adopted a variety of approaches to manage these challenges. For instance, to counter competition from a company in India for its hepatocellular carcinoma treatment Nexavar, Bayer reduced the price of its product to 10% of the original cost but made it available only to patients diagnosed by oncologists. This both improves the quality of care patients receive and reduces the risk of parallel trade. Boehringer Ingelheim decided to focus on protection of brand reputation, promising not to pursue lawsuits against generics companies copying its HIV drug Viramune as long as good manufacturing practices were adhered to.

To continue to manage their products on the market, companies must adapt to changing market dynamics, which include the increasing importance of payers, the major role played by hospitals, and the growing influence of specialists, regulators, and patients.

Crucially, it's important to understand the different influencers and how they affect various markets. For example, distributors in lower-tier markets will probably collaborate with local partners rather than build full capabilities, whereas in more mature BRICMT markets, pharma companies are more likely to develop local operations.

Establishing Priorities and Strategies

As emerging markets become more important to companies, defining priorities has become key. Among these are to improve penetration in existing markets, expand into new geographies, enjoy greater top-line growth, and gain market share.

Most companies recognize that growth in markets requires having local presence to aid local research and sales and enable collaboration with local authorities. According to the Strategy& survey, more than 60% believe local investment is crucial in BRICMT markets, with 30% starting to invest locally in second-tier and African markets.

In the larger emerging markets, many companies have already established local manufacturing partnerships, and some are beginning to do so in second-tier markets such as Vietnam and Saudi Arabia. Building relationships with regional governments is considered important in all markets. One strategy companies are using or considering for second-tier markets is dual branding, where existing brands are deployed to some segments and follower brands, which are manufactured locally under different packaging, to other segments.

The area where growth has been slowest is Africa, but the PwC and Strategy& report finds that sub-Saharan Africa and North African states are expected to increase in importance. A large population, growing middle class, increase in foreign investment, and improving infrastructure are clear benefits. Nevertheless, huge economic variance and the enormous HIV/AIDS burden create growth uncertainty. Perhaps the biggest issue is poor healthcare infrastructure, followed by lack of affordability.

South Africa and northern African states are currently seen as the most important emerging markets in the region, though sub-Saharan Africa is expected to see growth as disease patterns change and life span expectations increase. For the time being antivirals and anti-infectives will continue to grow strongly in those markets, but increased wealth will also be reflected in a rise in lifestyle diseases. The priority in these markets will be to build relationships with local NGOs, foundations, and associations.

Selecting the Best Model

As companies look to new markets, two factors are of primary consideration: defining the best governance model for emerging markets and finding and retaining talent in these markets.

Empowering local affiliates through either strong regionalization, localization, or regional guidance from headquarters are three considerations. How companies choose to set up local business units varies from global influencing local decision-making, to creating clusters, to regional empowerment, to local influence. Local presence is seen by many to be important for understanding local dynamics.

Perhaps the biggest problem is staff turnover. According to PwC and Strategy&, retaining talent is regarded by companies as the biggest issue with staffing. A report from Deloitte says to counter problems with staffing in developing markets, one Indonesian company, Kalbe Farma, has built its own university in the country.

As the PwC and Strategy& report points out, companies need to focus on recruiting at local universities, providing ongoing training, including tailoring such training to local requirements, and considering carefully about where to locate facilities.

Emerging Markets: An Industry Perspective

According to a Strategy& survey of executives from top pharma companies, generics, and other experts:

- 52% of companies expect more than 30% of their global sales to originate in emerging markets by 2018
- BRICMT (Brazil, Russia, India, China, Mexico, and Turkey) remain dominant but other markets, such as in Southeast Asia, are rising in importance
- As lifestyle diseases increase in emerging markets, almost half expect diabetes to increase by 20% over the next five years, with cardiovascular and oncology expected to follow
- 78% agree the significance of payers will increase, while 58% expect the same for hospitals
- 68% consider lack of reimbursement and public funding the key problem, followed by lack of healthcare infrastructure and affordability
- More than 60% consider investment in local research, local development, and local manufacturing to be the most effective levers for commercial success in these regions
- 78% favor maintaining local subsidiaries in BRICMT countries and 75% advocate having a local salesforce
- 67% expect to deploy marketing and sales approaches typical for mature markets in BRICMT markets and 43% expect to in second-tier markets over the next five to 10 years
- Only 22% expect to use typical marketing and sales approaches in Africa in the near term

The best approach to achieving in emerging markets will vary from company to company, but there are strategies companies can deploy to improve go-to-market outcomes. PV