Review of Pakistan Pharmaceutical Industry: SWOT Analysis

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Abstract: Pakistan Pharmaceutical industry is growing at a very fast rate and contributing to the national economy. This particular study is intended to review the past performance of the Pharmaceutical industry and also to provide some recommendations for future strategies. The overall conclusion emerges that the right marketing strategy for any Pharmaceutical company would be to build on proven strategic marketing principles, along with a focus on changing customer behavior.

Keywords: Pharmaceutical Industry, Marketing Strategy, Descriptive analysis, SWOT analysis, Digital Media, Pakistan.

1. Introduction

Last few years of the Pakistan economy; have suffered a lot due to bad economic conditions and also due to the war against terrorism. Further more the economy also saw the domestic inflation, slow economic growth and substantial devaluation of the rupee against the major currencies. No doubt that the government is taking the necessary steps to come out of this worst situation, but it lacks the urgency and also across the board adjustments for the uplift of the economy.

Before the overview of the Pakistan Pharmaceutical market, let us see the situation on the global basis. The whole global Pharmaceutical market is valued at 650 billion US$ (2008-09), with an annual growth rate of 8% and continuing with the rate it will cross the value of 1.1 trillion US$ by 2014. On the basis of value the global market is governed by USA, EU and Japan with a share of 48%, 28% and 12%, respectively. The rest of the world has only 20% of the total world Pharmaceutical market.

Looking at the Pakistan Pharmaceutical market, it is very competitive and challenging. About 600 Pharmaceutical companies are operating in Pakistan. Out of these companies 386 are operating units. As reviewed earlier inflation and devaluation have a very drastic impact on the operating margins. This may also be a major reason that Pharmaceutical industry is facing tough challenges in recent times.

When we look back to the Pakistan Pharmaceutical industry, it is obvious that the picture has completely changed. In the early nineties there was a scenario that the Pakistan Pharmaceutical industry was occupied by the MNCs, but during the last 18-years or so, the picture has completely changed. Of the 386 operating units, 30 are MNCs, producing the drugs. Now-a-days, the ratio of MNCs and national companies is 45% and 55%, respectively. It is an encouraging sign for the local investors that the share of the national companies is increasing. Today the total volume of the Pakistan Pharmaceutical market is 1.64 billion US$, with an annual growth of 11%, which is more than the global growth of the Pharmaceutical industry.

In the current scenario, as the national companies are taking over, about 80% need is fulfilled domestically while 20% are covered by imports. Almost all the raw materials are imported from China, India, Europe, North America and other countries. Of the total imports made, about 20% are from Switzerland.

According to the data of 2008-09, GlaxoSmithKline (GSK) tops the list among the MNCs, with a market share of 11.59% and a growth rate of 8.9%. Among the national companies Getz Pharmaceutical Pak. (Pvt) Ltd. tops the list with a growth of over 70% for the last three years, with a market share of 3.76%. Along Getz Pharmaceutical another national company Sami Pharmaceutical also tops the list with a market share of 2.79%, ahead of some of the MNCs.

Table 1: Some Key Statistics of Pakistan Pharmaceutical Market

| Enterprises/ Companies active in the field | 600 |
| Number of employees | Over 100,000 |
2. Pakistan Pharmaceutical Market: Present and Future

Pakistan's US$1.64bn pharmaceutical market is the 10th largest in Asia Pacific, behind the Philippines (US$2.58bn) and ahead of Vietnam (US$1.53bn). Annual per-capita spending on medicine is US$10, which is far below the regional average of US$142 (Pakistan Pharmaceutical Sector 2008).

A major factor for the Pakistan pharmaceutical market is that drugs are available at low price to the consumers and the Ministry of Health is not considering the price increase due to the political influence. Apart from this issue the per capita expenditure on drugs usage is also the lowest in the region and also the world. Due to these factors Pakistan pharmaceutical industry is facing a great challenge to increase in terms of revenue and also in terms of some significant profits. Here is a proof that the ministry has not increased the prices for the last ten years.

As seen in most developing countries, counterfeit medicines are major problem in Pakistan. The government requires effective legislation to punish the offenders and control the threat that counterfeiting and sub-standard manufacturing poses. Aside from the precarious political situation, the rupee is projected to weaken further over the next five years. Our country risk team expects the US$ over PKR exchange rate to deteriorate from 1:88 in 2010 to 1:110 in 2014. This means prospects for local players are much more promising than those for companies that repatriate revenues. Business Monitor International’s (BMI) pharmaceutical expenditure forecast model reveals that medicine sales will increase from PKR132bn (US$1.62bn) in 2009 to PKR196bn (US$1.78bn) in 2014. This equates to compound annual growth rates (CAGRs) of 8.25% in local currency terms and 1.96% in US dollar terms. By 2019, we expect the pharmaceutical market to reach a value of PKR290bn (US$2.12bn) (Pakistan Pharmaceutical Sector 2008).

At present the Pakistan pharmaceutical industry is developing steadily, mainly contributed by the MNCs. Pharmaceutical Industry has developed and trained personnel at various levels of management, production, quality assurance and support services. Regarding the research work, it is mainly contributed by the MNCs. National firms are predominantly producing and marketing generic products. Many companies throughout the world are concentrating on the production of generic drugs. For example if we look at the Indian pharmaceutical industry, it is dominated by the national companies, but these companies are spending on the R&D. According to another data, US pharmaceutical market is also dominated by the generic products, and about 55% of the net value is contributed by the generics. It is further stated generic medicine account for almost 69% of all prescription dispensed in the USA (2007).

Emergence of generic sector is great opportunity for the pharmaceutical companies to capitalize on the market and explore new ways and means to further expand this market.

3. Opportunities

Among all the therapeutic groups, two groups’ namely alimentary tract and metabolism, and systemic anti-infective lead the market with shares of 20.28% and 24.7%, respectively. Excluding these two groups, all the other segments are not contributing in double digits. No doubt that these segments have got extreme importance in the pharmaceutical sector, but either these segments are neglected or these segments are not beneficial for the companies financially. But by looking at the current situation, the number of hypertensive patients is increasing at an alarming ratio, along with the emergence of new diseases.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Therapeutic Class</th>
<th>Share%</th>
<th>Growth%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Alimentary Tract &amp; Metabolism</td>
<td>20.8</td>
<td>11</td>
</tr>
<tr>
<td>2</td>
<td>Blood &amp; Blood Forming Organs</td>
<td>3.3</td>
<td>19</td>
</tr>
<tr>
<td>3</td>
<td>Cardiovascular System</td>
<td>7.2</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>Dermatological</td>
<td>3.5</td>
<td>13</td>
</tr>
<tr>
<td>5</td>
<td>GU System &amp; Sex Hormones</td>
<td>2.6</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>Systemic Hormones (excluding sex hormones)</td>
<td>1.0</td>
<td>12</td>
</tr>
<tr>
<td>7</td>
<td>Systemic Anti-Infective</td>
<td>24.7</td>
<td>13</td>
</tr>
<tr>
<td>8</td>
<td>Hospital Solutions</td>
<td>1.0</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: www.osec.ch

By looking at the above table it is obvious that only two segments are contributing, and no other segment is performing up to the mark. All the pharmaceutical
companies should look into these figures and try to explore the segments for not performing up to the mark. Furthermore, it is also an opportunity for the companies to capitalize on this situation and try to generate sales from these segments. The data also highlights that other segments like blood and blood forming organs, dermatology and systemic hormones, has got significant growth, and if focused can contribute significantly to the total pharmaceutical market.

Table-3: Diseases Burden of Pakistan according to their Occurrence

<table>
<thead>
<tr>
<th>DISEASES</th>
<th>BURDEN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communicable</td>
<td>38%</td>
</tr>
<tr>
<td>Other Non-communicable</td>
<td>19%</td>
</tr>
<tr>
<td>Reproductive Health</td>
<td>12%</td>
</tr>
<tr>
<td>Cardiovascular, Diabetes</td>
<td>11%</td>
</tr>
<tr>
<td>Injuries</td>
<td>11%</td>
</tr>
<tr>
<td>Nutritional/ Endocrine</td>
<td>6%</td>
</tr>
<tr>
<td>Neuro-Psychiatric</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: Pakistan Economic Survey 2007-08

4. Current Situation

Currently due to the drug act of Government of Pakistan, 4-types of Drug Manufacturing Licenses are issued:
1. Formulation
2. Basic manufacturing.
3. Semi-basic manufacturing
4. Repacking

According to the Population Census Organization of Pakistan (2010), Pakistan has a population of 16.98 million, with a growth rate of 2.69. Besides this health awareness is also increasing day-by-day, which may be helpful in increasing the per capita expenditure in the future.

4.1. Challenges to the Pharmaceutical Industry

No doubt that the Pakistan pharmaceutical market is growing at a steady rate but there are certain challenges which pose a great threat to the industry.

- The first major challenge which the pharmaceutical industry faces is the total government control on the prices of all the enlisted products
- Import of raw material which costs a lot of precious foreign exchange
- Rapid devaluation of the rupee against the major currencies, due to which the profit margins are shrinking
- Increasing cost of manpower and energy
- Low R&D expenditure, which can lead to the suffering of the masses for not conducting sufficient research on the newly emerging diseases in the Pakistani environment
- Political instability is another major factor which is emerging as the major challenge to the pharmaceutical industry, because of discontinuation of the policies
- Last but not the least, the deteriorating law and order situation, due to which most of companies have suffered in terms of sales and also lack of reach to the customers in the affected areas.
- Market access is challenging and operational risks are high.

5. Effective Marketing Strategies and Recommendations

5.1. Pharmaceutical Marketing Plan

For pharmaceutical companies, promoting the products in Pakistan is also an issue because the drugs cannot be promoted to the end users. Drugs are promoted to the doctors and in return these doctors prescribe those drugs to the patients for the end use. As in other industries, marketing plan for advertising or promoting products is crucial to pharmaceutical industry too. However, the pharmaceutical marketing strategies (as well as advertising strategies) are different from other businesses because pharmaceuticals or drugs can negatively affect both the end consumers or the patients and the health care profession. Also, the advertising strategies included in the marketing plan of any pharmaceutical company are not ‘direct to consumer’. However, a few countries (till date two countries- New Zealand and United States) allow direct-to-consumer advertising (DTC advertising) for pharmaceutical products.

5.2. Traditional Pharmaceutical Marketing Strategies adopted in Pakistan

The pharmaceutical companies traditionally adopt four major marketing strategies for promoting their products-
1. Giving drugs as free samples to doctors;
2. Providing details of their products through journal articles or opinion leaders;
3. Gifts that hold the company logo or details of one or multiple drugs; and
4. Sponsoring continuing medical education.

Pharmaceutical representatives, also popularly known as medical representatives, are the major pharmaceutical marketing strategy for marketing drugs directly to the physicians. Typically, the expense of this sales force of any pharmaceutical company comprises anything ranging from 15-20% of annual product revenues. However, with changing
times and new developments, the pharmaceutical industry faces some very serious strategic issues.

5.3. New Pharmaceutical Marketing Strategies- Why Needed?

While most of the pharmaceutical companies successfully employ a host of marketing strategies to target various types of customers, the current business and customer trends are continuously creating new challenges as well as opportunities for increasing profitability. If the pharmaceutical companies want to improve their Return-On-Investment (ROI), they have to adopt new communication technologies (digital media) along with their conventional sales force of medical representatives. They really need to adopt this multi channel marketing strategies for the following reasons.

1. The concept of blockbuster drugs is dying out for big pharmaceutical companies where 2-3 drugs were good enough to pay back the whole investment for a larger number of manufactured drugs. Now the limited prospective for blockbuster drugs (thanks to low investment on R&D and patent expiry) makes it essential to focus on more specialized drugs sold in lower volumes. And when there are low volume products, sales driven marketing strategy (with high cost of sales force) is not feasible.

2. As far as small pharmaceutical companies are concerned, they already have small sales force. However, with the use of digital media, having a lower investment cost (both for the company and its targeted customer) they can easily get return on investment.

3. Customer behavior (doctors’ behavior) is rapidly changing. Doctors, who are getting more and busier with increasing patients, can be hardly seen by the medical representatives. They are more inclined towards Internet for obtaining relevant information. It is the time for pharmaceutical companies to build their marketing strategies around this digital media. Website marketing, online marketing, social media, forums, chat rooms and any other such media is an influential means to present the company’s products and offers through opinion leaders.

5.4. The Right Pharmaceutical Marketing Strategy

The right marketing strategy for any pharmaceutical company would be to build on proven strategic marketing principles, along with a focus on changing customer behavior. Use of digital media through Internet marketing plan is the best marketing strategy that can provide the basis for a changed business model. However, there should be some planning for using digital media for marketing too. It should be a multi channel marketing strategy but should identify the target audience. Every digital media used for all people can not be called the right marketing strategy. The focus should be on the high value customer segment for pharmaceutical products. To formulate a marketing strategy, it is also crucial to know the existing markets as well as emerging markets of pharmaceutical drugs.

References

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