CHAPTER VI

MARKETING PROBLEMS OF THE PHARMACEUTICAL COMPANIES

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MARKETING PROBLEMS OF THE PHARMACEUTICAL COMPANIES

6.1 INTRODUCTION:

The decade between 1994-2004 witnessed an industrial boom in pharmaceuticals in Goa. The pharmaceutical industry blossomed in Goa during this period when the state was offered tax benefits as an 'industrially backward state'. Many small local enterprises along with big Indian and multinational companies set up their units in the state. The withdrawal of the tax concessions in 2004 led to adverse impact especially on the prospects of small scale pharmaceutical companies. Even bigger companies registered in Goa like Wallace Pharmaceuticals, which had planned to expand, decided to set up units in other states instead. Some like Dr. Reddy's Laboratories moved out of the state. Industry sources state that total pharmaceutical production in Goa has declined as a result.

The state's excise collection from drugs and medicine manufacturing has been on the decline, with total collection declining by over 22 per cent from Rs. 220 crore in 2005 to Rs. 170 crore in 2006. This fall is attributed to industries migrating to new tax havens.

According to Caesar Menezes, the Managing Director of Wallace Pharmaceuticals, there has been a shift in the type of medicines being produced in Goa. Companies are using existing Goa units to produce export-based products, which can be quickly exported from Mumbai and products for domestic consumption have been shifted to places with tax concessions.

Due to the withdrawal of tax concessions, a lot of companies have either moved base or halted their expansion plans in Goa. Industrialists point that the ratio of domestic
consumption to export has also changed drastically, from 50:50 in 2005 to 20:80 in 2006. This shift has led to closure of smaller units working on contract manufacturing basis. Only 15 of the 60 units, which had contract manufacturing deals, are still operational.

Ironically, even though the state airport and harbour are only an hours drive from most industrial estates, these places are not notified as export zones, thereby barring import/export of pharmaceutical products. Companies continue to export products from Mumbai. Industrialists feel that the state must pursue this matter with the centre to notify Mormugao Port Trust as an export zone, which will enable them to import and export from Goa, thereby saving on time and cost.

The objective of this chapter is to highlight the major problems faced by the existing pharmaceutical companies registered in Goa due to the changes in the external legal, regulatory and economic environment and due to their own limitations which inhibits their marketing efficiency.

The chapter discusses the existing national market environment in which the small and medium pharmaceutical companies in Goa operate. It conducts a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis of the registered pharmaceutical companies in Goa. Against this background, it examines the various problems faced by the companies in marketing of their products. The chapter also lists the critical success factors for the healthy growth of the industry in Goa.
6.2 The Market Environment for the Pharmaceutical Companies Registered in Goa.

The pharmaceutical units in the state depend on the national market for its operating success and growth. Small manufacturing units market their products within the State or nearby states only. Their growth prospects remain restricted to the smallness of the market in which they operate. As selling costs constitute a sizeable chunk of the operating expenses, it is necessary that sales volume increases in proportion to the amount spent on promotion. This is feasible only when large geographical area is covered with which a unit can expect to get a larger share of the market and build up its turnover on a wider base.

Market dynamics have changed in the last few years in India, making the market environment more unstable and complex. Increasing generic penetration, intense competition, fragmentation of the industry has negatively impacted overall value growth of the domestic market. In this scenario, to grow in the domestic market, companies are looking at introducing value added new products, innovation, product life cycle management and increasing their market reach. As the growth opportunities in the domestic market are on a decline, the bigger of the companies are focusing on exports for higher growth and improved margins. However, they face fierce competition from foreign manufacturers with long records of technological growth.

Marketing the pharmaceutical products in countries like UK and USA is not easy even for large Indian companies. It requires a lot of investments and expertise to market the products in these countries. Indian companies are found to be entering into strategic tie- ups with companies in these countries to market their products. Indian companies are required to have WHO certification for their R&D facilities inorder to enter developed countries’ markets. It appears that products manufactured in state of the art manufacturing facilities in India and the
marketing expertise of the domestic companies will be the key factors in the success of these companies. It has been observed from the previous chapters that the market share of even the large-scaled pharmaceutical companies in the study is small and that they face considerable pressures and uncertainties in sales volume and profitability margins. It can be inferred that only firms with huge financial and infrastructural resources will be able to take advantage of the opportunities thrown open by the new patents regime. At the same time, localized and niche market opportunities will continue to exist which can be exploited by market-focused companies. Exporting into developing country markets is another opportunity for the companies. Entering into marketing and technological collaborations and joint ventures can also give large national companies the competitive edge.

As regards small and medium firms, they dominate the Indian pharmaceutical industry with significant contribution to the national drug production and employment. They play an important role in enhancing domestic technological capabilities in drugs production and have been instrumental in keeping drugs prices affordable for the Indian populace in remote rural areas. This rise of small firms in this sector has been facilitated by a set of strategic government polices implemented in the past decades like adoption of a process patent regime, relaxation granted from price control and industrial licensing requirement, reservation of items for exclusive production and preference in government procurement, etc.

Since the 1990s, however, the regulatory regime for small firms underwent dramatic changes with withdrawal of most of the favorable policies and implementation of regulations like a long-term product patent regime, withdrawal of exemption from price controls, implementation of good manufacturing practices, etc. These new policies have a number of implications for the survival and growth of small pharmaceutical companies.
The liberalization of policy regime with respect to the pharmaceutical sector in the 1990s poses many challenges for the small enterprises. With the progressive reduction of list of drugs under the Drug Price Control Order (DPCO), the relaxation granted to the small scale sector's products has been effectively reduced overtime. Finally the small scale units are no more granted exemption even from the diluted DPCO under the new policy regime, reversing the provision granted to the sector since DPCO 1987. The permission of 100 per cent foreign direct investment (FDI) and removal of the restriction on large-size firms required that small firms have to enlarge their market focus and competitive strategies. The adoption of product patent regime and emphasis on quality and good manufacturing practices are likely to demand higher technological efforts from small firms (Das and Nair 2004). As small firms are often constrained by their size, limitation in sales, investment, or employment, and small financial resources, meeting these new challenges may not be as smooth as in the case of large enterprises.

The estimated figures on the size of small pharmaceutical units for 2000–01 confirmed that they comprise the bulk of the pharmaceutical sector in India. Out of a total of 2872 organized units operating in the pharmaceutical industry, 2623 units were small units as compared to just 249 large units (Table 6.1).

The small scale units are playing an important role in the domestic sector, contributing to 65 per cent of employment and 42 per cent of total pharmaceutical production. This suggest that small firms have grown significantly over the past decades since 1970s and as emphasized earlier, the main factor responsible for their growth is a host of strategic policies employed.
by the government. Small firms have not only made the industrial structure more competitive, but also contributed substantially to the drugs production and job creation.

Table 6.1 Size of Small Scale Pharma Sector, 2000-01

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Small Units</th>
<th>Large Units</th>
<th>All Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of units (numbers)</td>
<td>2623</td>
<td>249</td>
<td>2872</td>
</tr>
<tr>
<td></td>
<td>(91)</td>
<td>(9)</td>
<td>(100)</td>
</tr>
<tr>
<td>Employment (numbers)</td>
<td>162487</td>
<td>86559</td>
<td>249046</td>
</tr>
<tr>
<td></td>
<td>(65)</td>
<td>(35)</td>
<td>(100)</td>
</tr>
<tr>
<td>Net Fixed Investment (Rs. Lakhs)</td>
<td>28573</td>
<td>68469</td>
<td>97042</td>
</tr>
<tr>
<td></td>
<td>(29)</td>
<td>(71)</td>
<td>(100)</td>
</tr>
<tr>
<td>Total Output (Rs. Lakhs)</td>
<td>1511366</td>
<td>2128004</td>
<td>3639370</td>
</tr>
<tr>
<td></td>
<td>(42)</td>
<td>(58)</td>
<td>(100)</td>
</tr>
<tr>
<td>NVA (Rs. Lakhs)</td>
<td>199337</td>
<td>254911</td>
<td>454248</td>
</tr>
<tr>
<td></td>
<td>(44)</td>
<td>(56)</td>
<td>(100)</td>
</tr>
</tbody>
</table>

*Source*: Computed from unit-level data of ASI, 2000-01.
Indian pharmaceutical enterprises, in general, tend to be regionally concentrated in a few states as can be seen in table 6.2.

Out of every 100 pharmaceutical units, 40 units are located in just two states i.e. Maharashtra and Gujarat, Andhra Pradesh and Uttar Pradesh respectively had about 12 and 7 units. These top four states together accounted for about 60 per cent of total pharmaceutical units in India.
They are also major hosts for small units, hosting about 60 per cent of total number of small pharmaceutical units.

In terms of total pharmaceutical production, similar feature of geographical concentration in Indian pharmaceutical sector can be noticed. Maharashtra and Gujarat, together account for about 43 per cent of total production. Top four states like Maharashtra, Gujarat, Andhra Pradesh and Uttar Pradesh contribute about 55 per cent of total production.

In the context of new policy regime, technology and productivity are most important determinants of survival and competitiveness of pharmaceutical companies. Large as well small firms are required to urgently upgrade their internal sources of technology like expanding inhouse R&D activities, employing more skilled labour, investing in modern machinery and information and communication technologies, providing training to their technical manpower, etc.

A study on R&D intensity of 223 Indian pharmaceutical firms for 1999–2000, has found that 139 firms had zero value of R&D intensity and another 47 firms had R&D intensity of less than 1 per cent of sales (Pradhan 2007). Together these firms account for 83 per cent of total firms under study, thus suggesting that a large number of Indian pharmaceutical firms do not engage in any R&D activity and the majority of those engaged spent a very small proportion of their turnover.

Small and medium pharmaceutical companies in Goa definitely require strong technology support because unlike large firms, they do not have huge resources to expand their internal sources of knowledge. Government can play a major role in providing external sources of
technology to small firms and linking their innovative activities with resources of R&D institutions and universities.

Hence, the implication is that strengthening of internal R&D efforts with provision of external sources of technology is the most crucial strategy for pharmaceutical firms to remain competitive. In the product patent era, R&D initiatives, cost control, and marketing efficiencies assume more importance along with partnerships and alliances in the area of research, marketing, licensing and production.

6.3 A SWOT Analysis of the Pharmaceutical Companies Registered in Goa.

Table 6.3 presents a picture of the size of the pharmaceutical industry in the state of Goa.

Table 6.3 Composition of the Pharmaceutical Industry in Goa (2005)

<table>
<thead>
<tr>
<th>No. of Units</th>
<th>50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large&amp; medium scale industries (Classified by sales turnover - medium, between Rs. 5.0 – 50.0 Cr. &amp; large &gt; Rs. 50.0 Cr.)</td>
<td>74 %</td>
</tr>
<tr>
<td>Small scale industries (%) (turnover &lt; 5.0 Cr. Rs.)</td>
<td>26%</td>
</tr>
<tr>
<td>Investment in Plant &amp; M/c Rs. (Cr.)</td>
<td>350</td>
</tr>
<tr>
<td>Turnover Rs. (Cr.)</td>
<td>2000</td>
</tr>
<tr>
<td>Annual growth</td>
<td>18-20 %</td>
</tr>
<tr>
<td>Ave. Turnover/unit Rs. (Cr.)</td>
<td>40</td>
</tr>
<tr>
<td>Exports Rs. (Cr.)</td>
<td>200</td>
</tr>
<tr>
<td>Exports on turnover</td>
<td>10 %</td>
</tr>
<tr>
<td>Employment (Tech.)</td>
<td>3500</td>
</tr>
<tr>
<td>Employment (Non – Tech)</td>
<td>4500</td>
</tr>
</tbody>
</table>

Source: Cluster development programme, Ministry of SSI, Govt. of India.
As per the cluster development programme of the Government, 74 per cent of the units in Goa are large and medium having sales turnover of more than 5 crore. The remaining 26 per cent are small in terms of sales turnover. The annual growth in the pharmaceutical business in the state is between 18-20 per cent.

According to industry sources, the major issues before the pharmaceutical industry in Goa are:

i) Strict compliance to Schedule ‘M’ of the Drugs & Cosmetics Act (A statutory requirement for pharma units)

ii) Adherence to international standards of quality.

iii) Huge investments for establishing in-house R&D and testing facilities.

iv) Spurious drugs flooding the market.

v) Lack of waste disposal facilities.

The following is a SWOT (Strength, Weaknesses, Opportunities and Threats) perspective of the Indian pharmaceutical companies in general.

**STRENGTHS OF THE INDIAN PHARMACEUTICAL COMPANIES**

1. Considering more than one billion population, it is largely an untapped market. Penetration of modern medicine is less than 30 per cent, implying that there is a huge scope for demand in India.

2. Fast changing lifestyles opens a huge market for lifestyle drugs, which has a very low contribution in the Indian markets.

3. One of lowest cost producers of drugs in the world. Cost of production is around 40 to 50 per cent of world average.
4. Excellent chemistry and process reengineering skills helping in developing cost effective processes.

**WEAKNESSES**

1. Marred by the price regulation. The NPPA (National Pharma Pricing Authority) sets prices of different drugs leading to lower profitability.

2. Very low entry barriers make it highly fragmented market. There are about 300 large manufacturing units and about 18,000 small units.

3. Price competition reduces the growth in value term.

**OPPORTUNITIES**

1. New patent product regime will bring with it new innovative drugs forcing domestic pharma companies to focus more on R&D.

2. Large numbers of drugs going off-patent in Europe and US during 2005 to 2009 offer a big opportunity.

3. Expansion of healthcare industry due to opening up of health insurance sector and the expected growth in per capita income.

4. Being the lowest cost producer combined with FDA approved plants, Indian companies can become a global outsourcing hub for pharmaceutical products.

**THREATS**

1. Apprehensions over the current structure of new patent regime.

2. Threats from other low cost countries like China and Israel exist.

3. Threat to survival of smaller units.

The SWOT analysis of the pharmaceutical companies in Goa, in particular, reveals the following:
Strengths

- Conducive business environment; Goa’s successive Industrial Policy documents gives top priority to pharmaceuticals, drugs and bio- tech industries.
- Developed infrastructure - Transport, power, water availability.
- Existence of auxiliary industries, such as the packaging units.

Weaknesses

- High costs of raw materials.
- With large firms/Group of Companies/MNCs being in majority, do not require much of assistance, small industries (which are less in number) are left to fend for themselves. No collective approach/ bargaining to redress problems.
- Absence of common testing facility labs, R&D labs within the state
- Weak capital base forbidding small units to invest further fearing poor viability
- Lack of exposure to enter export market.

Opportunities

- Expanding demand, both domestic and overseas
- Scope for expansion and additional units for generic drugs
- Proximity with Mumbai for raw materials, export and testing facilities
- Opportunities of Globalization such as contract research, contract manufacturing for large MNC’s.
- Peaceful Social Climate with communal harmony.
Threats

- Schedule ‘M’ involves additional cost, threatens viability & commercial feasibility
- Cut-throat competition, both domestic and external.
- Ceiling on product prices:
- Documentation & procedural hurdles in export marketing.
- Flow of unchecked spurious drugs

6.3.1 Main Observations:

The pharmaceutical industry in Goa comprises of units characterized by two extreme/contrast interests. Large companies have adequate resources, whereas tiny units are struggling for survival especially in view of mandatory requirements of GMP.

Exemption/ deferment of compliance from certain statutory requirements, especially in adopting Schedule ‘M’ is the assistance demanded by the small pharmaceutical companies.

The big pharmaceutical companies in Goa are found to be pursuing global strategies to exploit the tremendous opportunities in the generics market abroad and to mitigate the domestic market risk due to demand elasticity, pricing regulation and competition policies. Smaller companies pursue survival strategies by undertaking contract manufacturing or contract research for the bigger firms.

6.4 Marketing Problems of the Pharmaceutical Companies Registered in Goa.

The pharmaceutical industry requires huge capital investments and expensive product promotions. Indigenous industries find it difficult to create market share for themselves. Besides having to cope with slower revenue growth, pharma companies are facing host of internal and external challenges.
In view of the above, it will be useful to analyze Governmental policies and regulations and their impact on the pharmaceutical companies in Goa, as well as the resource constraints faced by the units.

6.4.1 Impact of Government's Policy.

With the objective of providing impetus to the industrialization process in the backward regions, the government has been adopting area-based tax holiday scheme. As a part of this strategy, specified areas in selected states like Goa, Himachal Pradesh, Uttaranchal, Sikkim, Jammu & Kashmir and Gujarat declared a number of tax incentives like ten-year excise holiday and full income-tax waiver for the specific years. In August 2006, the excise free zone status for new units coming into production or taking up substantial expansion in specified areas of Himachal Pradesh, Uttaranchal, and Sikkim has been extended up to March 30, 2010. Withdrawal of such concessions in Goa has had a negative impact on the progress of the pharmaceutical industry in the state.

According to some industry experts, this policy has discriminated against small pharmaceutical units situated in other non-tax free areas in the country and are either forced to migrate or close down. Since regional location of small scale sector is important for meeting requirement of health security at local level, forced concentration of these units in a few tax-free zones is considered undesirable.

Since January 2005, the government has introduced the MRP-based excise duty for the pharmaceutical units in the country. As per this policy, government had levied a 40 per cent excise duty on maximum retail price (MRP) of drugs and not on the manufacturing expenses (i.e. on ex-factory price) which was the practice earlier. Under the new excise scheme, most
small scale units are likely to cross the excise exemption limit of Rs 1 crore, thus effectively
defeating the basic purpose of small scale exemption limit (Express Pharma Pulse 2005).
Under the earlier ex-factory price based excise duty structure majority of small units had a
turnover of about Rs. 50 lakhs. Now based on MRP that includes marketing and distribution
expenses their turnover is likely to reach Rs. 1 crore. As small units are operating at low
profit margins and are incurring additional expenses to upgrade their manufacturing facilities
to be GMP compliant, this MRP-based excise regime is going to affect them negatively. In
this context, the industry demands that the government should increase the SSI exemption
limit for excise from existing Rs. 1 crore of turnover to Rs. 2 crore.

Some of the top echelons of the industry in Goa are also of the view that many of the
companies are heading for sickness; the reason being that they are not in a position to make
sufficient returns to keep themselves healthy. Profitability has been dropping because of the
rigid price controls. Further the complaint is that there is hardly any industry left under price
control barring the pharmaceutical industry.

Industry analysts also observe that when product prices are unremunerative, and when
companies are not able to cover expenses, it results in the proliferation of sub-standard
products. It was also pointed out that in some states, regulatory body i.e. Food and Drug
Authority (FDA) ensures strict compliance to quality based on drug laws, while in others
there is virtually no control over the manufacturing activities of the companies. This results
in very low costs for those companies, and they in turn get maximum Government tender
business which is based on price.
Many respondents were also of the view that there are increasingly more regulations on the pharmaceutical industry to drive out the small scale pharmaceutical industry, at the behest of multinational companies.

6.4.2 **Infrastructural Constraints.**

Most pharmaceutical companies are concentrated in the industrial estate at Verna. There has been increasing pressure in terms of demand for additional land, both by the existing and new units. Unavailability of land affects the expansion prospects of existing companies.

Erratic power supply and inadequate water at times results in losses in production. Absence of a common testing and R&D laboratory are stated to be the other infrastructural limitations of the state.

Industrialists are also concerned about the supply of adequate and quality manpower. The pharmaceutical industry which is a knowledge based industry requires pharmacists and scientists. With Goa College of Pharmacy having limited seats, it is pointed out that there is an acute shortage of chemists that can be employed in the sector.

6.4.3 **Individual Company Level Analysis of Marketing Problems.**

A. Geno Pharmaceuticals Limited.

Geno feels that price controls over the industry are too rigid. Excessive government regulations have strong effect on profitability of the company, especially since the price of basic raw materials and the cost of packing have shot up over the past five years. The small size in comparison to the large Indian and Multinational companies acts as an entry barrier to high value therapeutic segments. The company feels that it has a price disadvantage over
larger competitors due to lower economies of scale. It does not have required exposure to intellectual property rights issues.

The problems faced by the company in exporting are as follows;

1. Lack of information of export market.
2. Price competition.
3. World Trade Organization regulations
4. Customs duties and formalities

The company ranks the main competitive pressures facing it in the following order;

1. Competitor rivalry.
2. Bargaining by retailers.
3. Threat of substitutes
4. High distribution costs
5. Threat of new entrants.

Geno faces the following marketing problems due to the changed economic environment, characterized by globalization and intensive competition;

1. Competition from Multinational Companies and other large Indian companies.
2. Government policies and procedures.
3. Inadequate technology and resources for R&D

The company seeks export incentives specifically from the State Government as there are only central schemes for exports in general and not those which provides specific impetus to the pharma sector. It also seeks reduction in price controls, and procedural formalities, inorder to improve its market performance and future growth prospects.
B. Wallace Pharmaceuticals Private Limited.

According to Wallace, Pharmaceutical manufacturers have suffered from high transaction costs, including obstacles and difficulties associated with administrative processes, dishonesty of public agents, delays in obtaining finance, and transportation bottlenecks. It also faces marketing problems due to excessive staff turnover.

Company sources state that Government control over pricing is adversely affecting its performance in terms of profitability and R & D. The company feels that Government should reduce its span of control and let the market forces take care of price mechanism.

Wallace listed the following as the main problems faced while exporting its products;

1. Lack of information of export markets
2. Price competition.

The existence of a spurious drug market, and duplication of products is another area of concern of Wallace Pharmaceuticals. Copying of the company’s products by unethical marketers affects the market prospects of Wallace. To overcome this threat the company is in the process of using holograms in its packaging so that copying or duplicating the product will become difficult.

The company seeks the following measures of assistance from the Government for its marketing success:

1. Stable policies on prices.
2. New drug policy to be implemented at the earliest.
3. Enhancement of limit to be categorized as Small Scale Industry.
4. Incentives for implementing Schedule ‘M’.

C. Kare Pharmaceuticals Private Limited.

The company states that its main problems in marketing are inadequate technology and resources to compete with large pharmaceutical companies. It was also expressed that bigger companies have an advantage in marketing of their products.

It was pointed out that there are too many taxes on the sale of medicines. These include customs duty (39.20 percent), excise duty (4 per cent), sales tax (state 6-12 per cent, central- 4 per cent), turnover tax (1-3 per cent), octroi/entry tax (upto 2.5 per cent.). This erodes the competitive advantage of firms with fewer resources.

Price competition is considered at Kare as the main problem adversely affecting its exports. The company’s chosen market segments are clogged with intense competition and the main competitive pressures facing the company, listed in order of severity are:

1. Threat of substitutes.
2. Bargaining of buyers.
4. Competitor rivalry.
5. Threat of new entrants.

The company seeks total decontrol on prices to improve its performance and to achieve a turnaround in business. It has been continuously incurring losses over the recent years. The main demand is to do away with the maximum retail price-based excise collection, which resulted in 6,000 formulation units losing more than half of their business to larger companies, which set up manufacturing units in excise-free zones. The company also seeks
total eradication of the spurious drugs industry which affects the prospects of genuine players. Another main demand of the company is that the Government should provide long term loans with low rate of interest to enable pharma companies to set up R&D labs, and low rates of import duties on equipment imported for R&D.

D.Cosme Farma Laboratories Limited.

Relating to Government’s pricing policy, the management at CFL is of the view that price control and product regulation should be there only for those molecules and therapy that are used to control epidemics. It was also expressed that there should be effective control on OTC medicines (Over-The-Counter) and their advertising.

It faces threats due to spurious, sub-standard substitutes that find their way in the market. The main problems in marketing that are faced by the company are:

1. Less capital for R&D and hence difficulties in accessing developed countries markets.
2. High freight and raw materials cost.
3. Distributional and logistics problems.
4. Competition from large companies.

CFL would like the Government to implement an uniform excise duty and policy as well as reduction in excise duty. Assistance for infrastructural development such as better roads, power and water supply would increase efficiencies and help in better market performance of the company.

E. Toyo Laboratories Private Limited.

Excessive competition in local markets, unethical practices adopted by competitors, and doctor-chemist-manufacturer nexus in rural markets are stated by Toyo as the main pressures
faced while marketing of its products. The company feels it does not have competitive
strength in accessing foreign markets and in technology. It does not use IT related systems
and processes in promotion and distribution.

Lack of knowledge of export markets and inadequate capital for investment are listed by
Toyo as the main marketing constraints faced. It is felt that bigger companies have strong
marketing and distribution capabilities which provide them with a competitive edge.

The company faces the following obstacles in marketing:

1. Price competition.
2. Threat of substitutes.
3. Inefficient delivery services.
4. Unethical practices adopted by competitors.

Toyo states that prices of products are controlled by brand leader, and that small firms like it
have to keep prices almost 10 to 15 per cent lower than the brand leader. This squeezes
profitability of the firm. National Pharmaceutical Pricing Authority’s price fixation policy,
according to the firm, does not allow small units to compete with brands already established
in the market.

The company had to retrench from unprofitable markets and reduce the number of products
offered in the market, in the face of increasing competition in the recent years.

F.Merit Pharmaceuticals Private Limited.

Merit considers price regulations on the small pharmaceutical industry as too unrealistic, as it
does not take into account marketing costs and margin of the small manufacturers.

The main problems in marketing as expressed by the company are;

1. Financial constraints and inability to access timely finance.
2. Inability to access foreign markets.
3. Difficulty in getting qualified and trained marketing personnel.
4. Unethical marketing practices adopted by big companies even in rural markets, which are the targets of the small firms.
5. High costs of raw materials.

The company seeks protectionist measures from the Government, in the form of tax concessions, reduction of excise duties, price preference policy in Government purchase programme etc. to enable small companies to survive the competition.

G. Goa Anti-biotics and Pharmaceuticals Limited (GAPL).

It was disclosed that the company was not getting enough government attention as required and neither was it receiving any medicine orders in bulk. Company sources also stated that though the medicines manufactured by GAPL were reasonably less than other manufacturers it was necessary that the government makes it compulsory for the GMC, health centres, ESI hospitals to purchase medicines from the GAPL, as this would help it to cover costs.

Sources also revealed that GAPL’s products did not command the required trust of private doctors, and that the company is purely dependent on orders from Government. If particular orders are below a certain minimum required batch size, it is uneconomical to produce, thus
resulting in losses. GAPL has stopped promotion through medical representatives inorder to cut costs.

Among the two main decisions taken by the current directors is that the excess staff that was not required should be removed so that the expenditure could be curtailed, besides this a recommendation has been made to the Economic Development Corporation with regards to voluntary retirement of some of the employees.

The Company was registered with BIFR as a sick company in 1997. Frequent management changes, administrative hurdles, bureaucratic interference and lack of a market oriented vision are stated as major hurdles affecting company performance.

6.4.4 Main Findings and Observations

An analysis of the marketing problems of the individual companies indicates that fragmentation of the industry causes pressures on profitability of the bigger companies in the group and threatens the survival of the small companies. In such a scenario, Government price and product policy also discriminates against the small companies, enabling large multinationals to manipulate markets, distributors, and doctors.

Majority of the companies, big as well as small, expressed resentment over the rigid price controls which adversely affected the profitability of the companies. As big multinationals can compete on the basis of higher volumes and coverage of bigger geographic areas, they follow a strategy of offsetting the advantageous position of local companies by setting lower prices in export markets. This acts as a major constraint in exporting for local firms.

Respondent companies also expressed fear about the unethical promotional standards adopted by big competitors, which affects the market of the genuine players. Besides this
high costs and lack of supportive measures and incentives from the Government are viewed as negative factors affecting the marketing of pharmaceutical products by local manufacturers.

The smaller firms in the group are constrained by the size of their markets, resulting in high costs. They are, therefore, constrained by the inadequacy of financial, technological and marketing resources.

Based on individual company level analysis, the main problems affecting companies are grouped as in Table 6.4.
Table 6.4 Marketing Problems affecting the Pharmaceutical Industry in Goa

<table>
<thead>
<tr>
<th>Nature of Problem</th>
<th>Problem due to</th>
<th>No of firms affected</th>
<th>Mean score</th>
<th>% of firms</th>
</tr>
</thead>
</table>
| Group I Size      | • Small size  
                   • Lower economies of scale                                                   | 2                    | 2          | 28.5       |
| Group II Infrastructure & location | • Inadequate infrastructure(land, water, power, road)  
                   • Locational disadvantages                                                  | 2                    | 2          | 28.5       |
| Group III Pricing & terms of selling | • Rigid price control  
                   • Price competition  
                   • Difficulty in managing distribution channels  
                   • High prices of raw materials                                               | 4                    | 3          | 3.5        | 50         |
| Group IV Marketing and sales promotion | • Inability to access foreign markets  
                   • Inadequate market intelligence  
                   • WTO formalities/ IPR issues  
                   • Lack of marketing assistance  
                   • Inability to use IT related systems and processes in marketing  
                   • Lack of sales force management and control                                 | 2                    | 3          | 2          | 32.8       |
| Group V Impact of present disturbances | • Impact of globalisation  
                   • Entry of MNCS  
                   • Spurious drug market/unethical promotion  
                   • Lack of supportive Govt. measures                                           | 3                    | 4          | 6          | 4.25       | 60.7       |
| Group VI Facilitating functions and services | • Inadequate financial resources  
                   • Less capital for R&D  
                   • High import duties  
                   • Administrative delays and hurdles  
                   • Inadequate packaging  
                   • Absence of common R&D/ testing lab.                                         | 2                    | 3          | 2          | 1          | 1.8        | 25.7       |

Source: Field Survey

The mean score in the table refers to the average number of firms afflicted due to problems in each of the categories as shown in the table.

The various problems afflicting the pharmaceutical companies in Goa, in varying degrees can be summed up as follows.

i) Lack of training and finance for technological up-gradation to meet global quality standards especially of the very small companies in the selected group.
ii) Rigid price controls  

iii) Price competition  

iv) Difficulties in managing distribution channels  


vi) Limited adoption of information technology (IT) techniques in marketing  

vii) Low R&D expenditure of the medium companies and negligible R&D expenditure of the smaller companies, which affects the ability of these companies to offer innovative solutions.  

viii) The inability of the smaller companies in the selected group to access finance on easy terms for import of capital goods and to undertake advertising and marketing activities.  

ix) Spurious drug market and unethical promotion.  

x) Lack of supportive measures from the Government  

xi) High prices of raw materials.  

It is clear from the table that 60.7 per cent of the companies feel the heat of competitive market environment and lack of support and incentives from the Government. Fifty per cent of the firms are adversely affected by price policy and the terms of selling. Problems directly related to marketing such as inability to access export markets, lack of clarity on WTO/IPR related issues, and lack of sales force management and control afflict 32.8 per cent of the firms. Firms are also at a disadvantage due to their small size in relation to global majors, and due to infrastructural bottlenecks.  

The main observations related to the above findings are as follows;  

1. The product patent regime will make it obligatory for Indian companies to compete in R&D if they want to survive. Similarly, WTO led global trading system will result in
import tariffs coming down. For Indian companies to compete with cheap imports, they will have to invest in cost effective technology and processes. Therefore, it is imperative that the pharma industry has surplus for investment. In this context, a liberalized price control regime becomes more important.

2. It is observed that the sector is seriously concerned about the problem of spurious drugs, which has to be tackled by state FDA by proper regulation and control of manufacturing processes, materials used, labeling and packaging.

3. The need is expressed for accredited testing laboratories that are well equipped and adequately staffed. The staff should be trained well for drawing samples for test and monitoring the quality of drugs and cosmetics moving in the State.

4. It is observed that majority of the companies do not have enough resources for R&D investment. The companies under study could exploit its know-how in herbal medicines. Since these medicines do not come under the purview of the TRIPS regime and the research in new chemical entities involves millions of dollars of investment, the companies should engage in R&D in herbal medicine. The companies could try to exploit the Indian traditional knowledge in ayurveda and herbal cures.

5. The study of the marketing problems of individual companies leads the researcher to conclude, as in the earlier chapters, that the cut-throat competition, inadequacy of financial and technological resources and lack of support from the Government threatens the sustainability, in particular, of the small firms.
6.5 Critical Factors for the Marketing Success of Pharmaceutical Companies

Literature on the aspect of critical success factors for the pharmaceutical industry lists several factors that are important for the healthy growth of the industry. The Indian Pharmaceutical Industry report, developed by a team at ICRA, (1999), states that the rate of introduction of new products, and the marketing and distribution networks of companies will determine their future success. The new products in the Indian context are the outcome of process research, as opposed to basic research. According to the report, alliances, especially marketing alliances, will be the standard route to success. Significantly, many Indian companies which have entered into alliances to increase their geographic coverage, market reach and distribution network have assumed leading positions in the market.

A study by McMillan et al (2000) revealed that the linkage between pharmaceutical industry and public science is much more critical than in any other industry. The proximity of research institutes is critical for the success of the industry, according to this study.

According to Rantiainen (2001) geographic location can have a significant positive impact on a firm's performance. A firm located in an area with a higher concentration of pharmaceutical firms generally has a high market value than those located in areas with lower concentration. Clustering is considered as an external success factor which leads to knowledge flow and knowledge spillovers and is a major advantage for companies.

Endersby (1999) asserted that infrastructure such as transportation, telecommunications, energy and education are the critical success factors for the industry.

Giesecke (2000) studied the role of government in development of the pharmaceutical industry and concluded that direct government intervention is more likely to fail in achieving its goals. Successful indirect approaches include enhancement of the already existing
economic structure connecting academic innovations with market opportunities, availability of venture capital and professional business advice, possibilities for diffusion of knowledge, and competence of political bodies to distribute research money where innovations are most probable.

A study by Kapil et al (2003) identifies the following factors in decreasing order of importance; marketing, entrepreneur's attributes, products, Governmental policies, technology competence, clusters, infrastructure, R&D, company climate, networking and raw material supplies.

Considering the above, in the Goan context, it is very important for the pharmaceutical companies to reorient themselves internally in a way so as to offset the threats if any from the external environment and take advantage of the opportunities emanating from the external environment. The present study infers that developing core competencies, through upgradation of systems and processes, and achieving higher levels of market orientation are the methods of achieving growth for the bigger companies and sustainability for the smaller companies. Since new product development research involves huge amount of resources, which may not be within the means of the companies considered in this study, they should pursue opportunities of collaborations and alliances in the field of research, marketing and technology. Further, in this era of outsourcing, larger companies can provide business opportunities to small firms, as the pressure of cost cutting is always there on big entities. Therefore, it is necessary that small pharma firms develop process oriented R&D and acquire or develop low cost, yet efficient technology, so that coupled with marketing efficiency, low cost can help them to differentiate and sustain in the market.

The role of the local and national Government as a facilitating and regulating body however cannot be underestimated. Governmental support in various forms i.e. infrastructural,
financial, technological and regulatory appears to be vital for better performance of the pharmaceutical companies in the state.

6.6 Conclusion

The changing industry dynamics and competitive forces have made the task of pharmaceutical marketing very challenging. The study concludes that the pharmaceutical companies in Goa, irrespective of size, feel the adverse impact of globalization, entry of MNCs and lack of supportive measures from the Government. Unfair price competition by pharma majors who compete on higher volumes and lower costs adds to the woes of local companies. Hence, it is imperative that the pharmaceutical companies in Goa lower costs, by aiming at better production and marketing efficiencies. The bigger of the companies should not wait for doles and incentives from the Government, but should focus on increasing their market reach and developing their core competencies.

The smaller firms are constrained in their marketing efforts by the lack of resources and need to be brought under the cluster development programme by the Government to provide them comprehensive support.

The major implications are that the small pharmaceutical companies in Goa, inorder to build their internal strengths, have to upgrade their manufacturing practices, quality standards, cut down costs, and improve organizational efficiency and marketing strategy. Government can help these producers by a variety of incentives including support for innovation and upgradation of quality. Besides that, small firms must focus on export activities to counteract their declining share in the domestic market. They could exploit possibilities of tie-ups with bigger companies to gain entry in other developing country markets.
The study also arrives at the conclusion that there is an urgent need to set up accredited testing laboratories in the state that are well equipped and adequately staffed. The staff should be trained well for drawing samples for test and monitoring the quality of drugs and cosmetics moving in the State.

Finally, it is imperative that the local as well as the central Governments puts systems, procedures and regulations in place that will help monitor the type of drugs produced and sold in the country, as well as to determine the unethical promotion resorted to by some companies, so that the prospects of genuine players are not adversely affected.