CHAPTER 1

INTRODUCTION

1.1. Introduction to the Study

India is one of the fastest-growing pharmaceutical markets in the world, and by now its market size has nearly doubled since 2005 and is further expected to reach $20 billion by 2015, growing at a compound annual growth rate (CAGR) of 11.7 percent during 2005-2015 and establish its presence among the world leading 10 markets. According Barclays Capital Equity Research report on India Healthcare & Pharmaceuticals in 2010, India is also the third-largest market in the world in terms of volume and fourteenth in terms of value. India accounts for 8 percent of global pharmaceutical production in 2011. Indian firms produce about 60,000 generic brands across 60 therapeutic categories. In addition, Indian firms manufacture approximately 500 different active pharmaceutical ingredients (APIs) (Modern Pharmaceutical, 2012)

In 2003, China and Brazil were the only two countries that featured among the top ten pharma markets worldwide. However, by 2015, four of these emerging markets were expected to rank among the top ten global pharma markets, with China and India emerging as the largest gainers. The other emerging markets are forecasted to be Brazil, Russia, Venezuela, Turkey and Korea. (Ernst and Young, Progression Building pharma 3.0, 2012)

1.2 Current Scenario

The drugs and pharmaceuticals sector garnered foreign direct investments (FDI) worth $5.03 billion between April 2000 and November 2011, according to the latest data published by Department of Industrial Policy and Promotion (DIPP). The Indian pharmaceutical market is poised to grow to $55 billion by 2020 from the 2009 levels of $12.6 billion. The industry
further holds potential to reach $70 billion, at a compound annual growth rate (CAGR) of 17 percent. (IMS health prognosis, 2011)

Domestic pharmaceutical retail market clocked a robust 15 percent growth during 2011, mainly driven by therapies like anti-diabetic, vitamin, anti-infective and dermatology. The domestic pharmaceutical retail reached a new milestone by recording overall sales of Rs 60,000 crore ($12.20 billion) for the year 2011. (Modern Pharmaceutical, 2012)

The Indian Generic market, which has attained a prominent position in the global scenario, is also growing domestically. Only a little over 35 per cent of the Indian population has access to modern healthcare, which provides a huge population with unmet healthcare needs. These people are not looking for high end niche products but require the basic products, thus giving the generic market a growth opportunity. Growth will be further fuelled by increase in the government expenditure on healthcare from the present 1.2 per cent of Gross Domestic product, which will result in higher spending on medicines and building hospital infrastructure.

The current global market for novel drug delivery system (NDDS) is estimated to be to the tune of more than $100 billion. According to forecasts, the global drug delivery market is projected to reach $196.4 billion by 2014 (Modern Pharmaceutical, 2012). Researchers armed with never before array of sophisticated technologies and the wealth of knowledge accumulated over the years are developing potential drug delivery system at breakneck speed. NDDS include attempts to reformulate and adding new indications to the existing blockbuster drugs to maintain positive scientific outcomes and therapeutic breakthroughs.

The international drug-makers have introduced generic or low-priced version of popular medicines and have also decreased prices of their existing products - in order to increase their
share in the globally important market - India. The Indian-makers business model is built around selling large volume of cheap generic medicines at lower margins in the country, to add to twin purpose of affordability and popularity. The industry posting healthy growth consecutively for the second year reflects the inherent strengths of the industry and improving healthcare standards in the country.

India’s pharmaceutical industry has been growing at strong pace in recent years. It is one of the largest and most developed in the emerging world and is now ranked third in the world in terms of production volume and 13th in domestic consumption value. Over last three decades, the industry has transformed from nearly non-existent to the world leader producing high quality generic drugs.

The industry that traces its vast growth to process patent regime that was offered to pharma companies in 1970s has now developed significant research capabilities as well in the post TRIPs (Trade Related Intellectual Property Rights) agreement era. In fact, over the last few years, there has been conscious effort on part of the industry to give more focus to research and development of new drugs.

1.3 Advantages to the Pharmaceutical industry from India

India has a pool of highly skilled scientists and technical workforce, which is capable of competing with the best in the world. The number of patents filed by the Indian companies has been increasing over the years and the industry is well poised to transform itself from generic drugs-based industry to research and development-based truly innovative industry.

Low cost nature of the industry and an excellent track record in cost effectiveness gives it an opportunity to compete globally and challenge most developed markets in the world. A
number of big international majors have established India as a research base to benefit from low testing and developmental costs.

There is a strong institutional framework with an independent regulator Drug Controller General of India (DGCI) responsible for ensuring efficacy of drugs in India. Drug prices are only regulated for essential drugs while for other drugs the companies are free to determine prices according to market forces.

1.4 Global Pharmaceutical Market

The global Pharma industry continues to remain fragmented and fiercely competitive; and faces increased genericization. The Generics industry on the other hand has the opportunity to capitalize on the products going off patent in the coming years. As a part response to cope with the challenges effectively, the industry has witnessed consolidation at high valuations; this may be replicated across the Global Pharma especially in the Generics. Mature markets contribute to ~56% of the world Generics market currently, which is expected to go down to 50% by 2020. Here too, the Pharma emerging markets are expected to grow at a significantly higher rate than the rest of the world; specifically by 2020, it is estimated that China, India and the USA will account for half of the global Generics market.

1.5 Generics Segments of the Global Pharmaceutical market

The Generics segment of the Global Pharmaceutical market contributed 28% in 2010 and is expected to reach 40% of the total global pharma spending by 2015 growing with a CAGR of 13%, compared with a 1% CAGR in the patented branded market(Ernst and Young, Progression Building pharma 3.0, 2012). This trend is visible not only in the Developing markets but also in the Developed markets; volume contribution from the USA and the top five European markets crossed the half line mark. The market has expanded due to the increase in genericization ($140 Bn drugs, now patented, going off patent by 2015),
healthcare cost containment by governments/ payers and relatively low penetration in some major geographies etc.

Contribution from the Pharma emerging markets has gone up with China, India, Brazil, Turkey and Russia leading the way from contributing 19% in 2004, to contributing over 1/3rd of the sales in the Generics industry.

1.5.1 The United States of America
As with the Global Pharma market, the USA is the largest constituent of Generics, with 30% market share in 2010 by value and over two thirds by volume. Growth in the Generics in the country was ahead of Pharma growth for the country at ~9% CAGR since 2005. For the next few years, the USA will continue to be one of the most important markets for Generic companies. The prescription sales of branded products continued to decline during the year, while a recovery was seen in value terms.

1.5.2 Europe
The major EU markets contribute to 25% by value to the worldwide Generics industry and have grown at ~9% CAGR (2005-09) as compared to low single digit growth for the total Pharma industry. The Generics market growth was expected to slow down to 4% CAGR between 2009-14 (Modern Pharmaceutical, 2012)

1.5.3 India
The Indian Pharmaceutical Market (IPM) grew at ~18% to ~$13 Bn in 2010 and is expected to touch $15 Bn in 2012 (Modern Pharmaceutical, 2012). The IPM is forecasted to continue to grow at a CAGR of ~15% till 2015 to cross $25 Bn in 2015. The key factors driving growth in the IPM are economic growth, increase in healthcare access and increased penetration in underpenetrated/ smaller towns. Apart from the macro-factors, growth in the IPM was
primarily driven by volume ~60% and new introductions ~40% with minimal price increases. Large products continued to grow in volume with the cut-off for top 300 products now at $5.5 Mn. (Ernst and Young, Progression Building pharma 3.0, 2012)

1.5.4 Opportunities in contract research, outsourcing, and other services

India drug majors are gradually moving away from a reliance on the generic market to the development of new drugs, exports to regulated markets, and cooperative agreements with MNCs. Facing lagging sales of patented drugs in their home markets, and rising costs, many MNCs have turned to contract manufacturing and research services, co-marketing alliances, outsourcing of research and clinical trials to reduce costs, increase development capacity, and reduce the time to market for new drugs. These strategies permit MNCs to focus on their core profit making activities such as drug discoveries and marketing, rather than on manufacturing.

India has emerged as the principal destination for global pharmaceutical companies across the pharmaceutical value chain. Relying on its strong research and production base and talented workforce, Indian companies are increasingly being awarded contract services, providing a strong platform for rapid growth in future. Government to bring policy for promoting domestic ownership

The Indian government has become apprehensive of long term implications of a number of mergers and acquisitions (M&A) in the pharmaceutical sector involving Indian and multinational pharmaceutical companies. As the Indian companies are looking to increasing take on in selling their business to their larger global counterparts, government feels this could have negative impact on healthcare space in the long term.
Government is looking to put in place some policy based incentives for the industry. The Government has already asked the Pharmexcil (Pharmaceutical Export Promotion Council) to conduct an in depth study focusing on the recent 5-6 major M&A in pharma space to evaluate their implications on the Indian market. After the findings of the study are out, which is expected by end of the current year, the government will come out with a comprehensive policy to address the issues faced by domestic pharmaceutical companies and ensure that high growth seen in the industry sustains in the medium run.

The industry is currently been driven by high export growth. The generic market continues to be the main growth driver. The share of the Indian pharmaceutical industry is increasing at the fastest pace in largest generic drug market in world US. We believe that in near term, the growth of the industry will be driven by the generic market. However, in medium to long run, the industry has strong potential to tap research and innovation segments of industry.

The government is also looking to pay more attention on the research aspects of the industry. In the new regime of WTO, only research-based drug industries will survive in long run. On their part, pharma companies are paying a lot of attention to new drug discovery. Pharma majors like Dr Reddy, Ranbaxy, etc have world-class research institutes. We believe that riding on buoyant growth in local as well as export markets, pharma companies will be able to increase investment in research, helping the industry to raise its share in new drugs markets too.

The global scene also looks conducive to growth of the Indian industry. International pharmaceutical majors have already outsourced nearly 30% of bulk drug manufacturing in order to benefit from lower costs in developing countries. In wake of the ongoing slowdown, we expect that the market for outsourced research and innovation will provide a big opportunity to Indian drug makers. The passage of the US Healthcare Bill is likely to propel
the demand for generic drugs as the bill proposes to cut cost of healthcare. With their firm footing, Indian generic drug makers are likely to grab a lion’s share of the total demand for generic drugs in the coming years.

Overall, given the ample opportunities and resources to cash them, it is believed that in foreseeable future, the pharma industry will continue to grow at double digit growth rate, riding on generic drugs capabilities in the short run and research and innovation, along with outsourcing opportunities, in medium to long run.

A pharmaceutical industry is composed of generic and branded drugs. With the introduction of patent law from 2005 companies have become careful in introducing new drugs. A large extent of studies is done on whether branding plays important role in customer decisions. Consumer goods companies have followed a particular structure in how they brand their products. It is still arguable whether the same model is adopted for pharmaceutical companies. Recently, however due to competitive nature of the industry the importance and significance of branding has become paramount.

1.6 Brand management in the Pharmaceutical industry

The pharmaceutical industry has often modeled itself on the fast moving consumer goods industry (FMCG) where brands are viewed as the key assets of a company and all assets are utilized to create and develop brands. According to Schuiling and Moss (2004), pharma companies have not worked proactively in identifying a brand identity for their products and then communicating this identity to consumers. The big difference in strategies may come because of Defining the branding involves identifying what key differences might exist between the pharmaceutical industry and the fast moving consumer goods (FMCG) industry. Brand is defined as a name or a symbol given to products that will differentiate it from other
products and that will register it in the mind of the consumer as a set of tangible (rational) and intangible (irrational) benefits.

Brand represents a way to differentiate product against competitors. Brand will also generate consumer loyalty as brands signal a certain level of quality that the consumers will find on a regular basis on marketing and selling.

1.7 Positioning with special reference to pharmaceuticals

Establishing the pharmaceutical brand position the advantageous location that a product owns in the mind of physician is the challenging component of marketing campaign development. At present the traditional approach to pharmaceutical brand, positioning involves customers essentially reacting to statements developed by the marketing organizations. Vanderveer and Pines (2007) have explained the concept of customer driven positioning. The methodology followed includes problem statement i.e. articulating a specific unmet need in the marketplace that is being met by the brand in question, functional benefits i.e. the essential clinical property of the medication that intrinsically differentiate from other medications. The next step is providing to believe i.e. reference to some scientific or mechanistic aspect of the brand that substantiates its main clinical benefits. Further, emotional benefits may strengthen the positioning statement robustly. Once the positioning statement has been established author recommends a similar process called as information architecture.

The pharmaceutical industry has been very successful since the late 1980s, achieving impressive annual sales growth rates in excess of 10 per cent per annum and enjoying the resultant growth in profits. The success has relied mainly on strong research and development (R&D).
There is a great number of different definitions of positioning in scientific literature of marketing. The concept of positioning seeks to place a certain position in the minds of perspective buyers. Marketers use a positioning strategy to distinguish their firm’s offerings from those of competitors and to create promotions that communicate the desired positions (Boone and Kurz, 2001).

Scientists Etzel, Walker and Stanton (1997) refer to marketing as management’s ability to bring attention to a product and to differentiate (position) in its favorable way from similar products.

Ries and Trout (1986) distinguish from all other marketing theoretic, stating that positioning is not what is done to a product. Positioning is what you do to the mind of the prospect, a piece of merchandise, service, a company, an institution and even a person. However, Kotler in 2006 defines positioning as the act of designing the company’s offers so that it occupies a distinct and valued position in the consumers relative to competition products. The purpose of positioning is to create a unique and favorable image in the minds of target customers (Bhat, 1998). Positioning therefore is a natural conclusion to the sequence of activities that constitute a core part of the marketing strategy (Fill, 2006).

Product positioning refers to the decision and activities intended to create and maintain a certain concept of the firm’s products in the customer’s mind (Ferrel, 1997). Positioning is developing a specific marketing makes to influence potential customers overall perception of a brand, product line, or organization in general (Lamb, Hair, Mc Daniel, 2004). To sum up the position of a product is customer’s perception of the product’s attribute relative to the attributes the competitive products. Scientists Hooley, Sounders, Piercy (2006) state that competition can take place at various levels. Competition with products analogous qualities, competition in the same product group, competition with other product that satisfies the same
or very similar consumer demand. In addition, competition in the same demand level is possible.

According to Pranulis (1998) survey techniques like scales of graphic evaluation, Likert’s scale, and semantic differential scale can be proposed to identify the current position of product and other competing products. A positioning map provides a valuable means to position product by graphically illustrating consumer’s perception of competing products and their positioning. Positioning map develops understanding of how the relative strength and weaknesses of different product are perceived by buyers. It builds knowledge about the similarities and dissimilarities between competing products. It assists the process of re-positioning of existing products and the positioning of new products.

Positioning map is an important tool in development and tracking of promotional strategy. It enables manager to identify gaps and opportunities in the market and allows monitoring of effects of past marketing communications (Arora, 2006). A good number of studies have been conducted on selection of positioning strategies. Positioning strategies is the choice of target market segments which determines Scholars Doyle, Stern (2006). Product positioning strategies are product features, price/quality, product class dissociation, user, competition, benefit, heritage or cultural symbols (Fill 2006, Kotler 2007, Armstrong 2004, and Doyle 2006). On the other hand qualities, competitors, product users, product class, applications forms positioning strategies (Boone, Kurz 2001). Inadequate positioning is studied in detail by Grancutt, Leadley, Forsyth (2004). They have defined risky positioning as under positioning, over positioning, confused positioning, and doubtful positioning. Similarly, many studies have been undertaken on positioning statements. Positioning statements is highly interactive process often involving many cut and try attempts before satisfactory results are achieved. According to Kalafatis , Tsogs, Blankson (2000) positioning statements
play a vital role in helping to guide and co-ordinate the firms efforts in the market place. They are crucial internally and externally.

**1.8 Innovations to differentiate Products**

Following are the innovations that pharmaceutical companies are adapting to differentiate the product. For comfort and convenience of the product, pharmaceutical companies are trying for differentiation in products. Various formats are available which are being studied in New product development in consumer health 2012, Euro monitor. The formats are differentiated based on the delivery system that could be once a day or twice a day it could be nature of the medication, modification in formulation, component combination etc. in the following chart. This differentiation of product helps companies in designing a positioning strategy for the product.

![Figure 1: Product Differentiation for Positioning Pharma Brands](image)

Source: New product development in consumer health 2012, Euromonitor
The position of the product is formed by customer’s perception of a product relative to attributes of competitive products. Product positioning is an inseparable and most important part of STP model. If these two steps viz. segmentation and targeting contain flaws or are inadequately or incompletely performed, successful product positioning is doomed to fail.

1.9 International Vs Indian scenario

Comparative international and Indian scenario has been discussed in a graph format. The focus is on doctors, payers, consumers, distributors, media promotion and patient group. The arrow indicates movement of groups from exiting to new and weak to influential. A valid point noted here is doctors are existing and influential and patients are new and weak in Indian scenario.

**GRAPH 1 : INTERNATIONAL VS INDIAN SCENARIO**

Source: New product development in consumer health 2012, Euromonitor
1.10 Need for the study

Pharmaceutical branding deserves serious attention from Scholars and practitioners. Literature lacks empirical studies based on positioning strategy and success of the firm in Indian scenario. Branding strategies are studied in detail for the pharmaceutical companies. Numerous formulations added makes difficult for physician to remember the brand name and prescribe.

To understand the positioning of major companies the study has been incorporated. The study will help other players in the segment to formulate the strategy for their products. Pharmaceutical companies’ basic prescription generation comes from physicians who prescribe the drug based on various factors, which in detail are studied for the first time. The extent of trust that physicians are having in the companies is also studied for the first time with respect to pharmaceutical companies.

Pharmaceutical market is highly aggressive as Indian pharmaceutical companies are not only fighting with the domestic giants who are currently active in the generic drugs industry, but also with the multinational corporations and many American and European specialty pharmaceutical companies and generics drug companies in this space. In order for the smaller Indian Pharmaceutical companies to survive, it is vital to look for longer-term gain instead of focusing on shorter-term outlook. This study helps in finding the right reason for trust of the company in the customers/consumers mind, as he is the final decision maker.
1.11 Key Concept Explanation

Pharmaceuticals, Medicines, Drugs: Synonym Terms used interchangeably.

Pharmaceutical market/ sales: The sum of revenues generated by generic, patented and over the counter drugs (OTC) through hospitals, retail pharmacies and other channels.

Prescription Drugs: Patented and generic drugs regulated by legislation that requires a physician’s prescription before they can be to a patient.

Patented Drugs: An innovative medicine granted intellectual property protection by the patent and trademark office. The patent may encompass wide range of claims – such as active ingredient, formulation, mode of action etc.

Generic Drugs: A bioequivalent medicine that contains the same active ingredient as an originator drug. The originator drug is an innovative medicine that no longer has intellectual property protection due to patent expiry.

OTC Drug: A medicine that does not require a prescription to be sold to patients, also known as non-prescription medicines.
1.12 Benefit of the study

This research work tries to understand factors influencing prescription, which helps in the measurement of perception. Trust which is crucial when it comes to life saving drugs and the companies producing it is defined and understood in this thesis. The study provides a methodology for measuring perceptual positioning in consumers and physicians mind with respect to pharmaceutical company. The personality could be understood with the help of perceptual map of the company visa a vis competitor. The research can help in finding the congruence between a firm’s presumed positioning strategies and consumer/ customer perception of strategy.

The study could also help bringing attitudinal change i.e. efforts to alter consumer belief or to literally manipulate the market using the positioning constructs/ concepts in advertising strategies and tactics. The research work done can help the management in development of normative guidelines relating to firms’ desired positioning strategy and employment of specific positioning strategy.