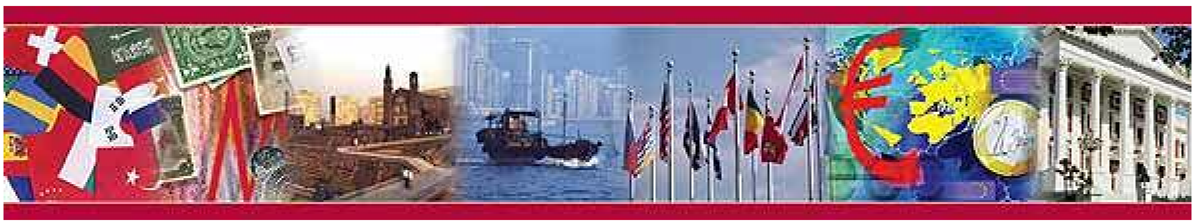

Global Insight Article

Report printed on 28 January 2008

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World: Increasing Competition in Generics Market Will Continue to see Asia in the Lead

India and China are continuing to establish their role as leaders in generics production, according to data presented at the third annual Marketing and Sales in Generics conference, held by the Jacob Fleming Group in Barcelona on 17-18 January.

Global Insight Perspective	
Significance	Strong competition and international demand for low-cost manufacturing facilities continue to benefit pharmaceutical growth in India and China.
Implications	A number of factors linked to economic and demographic parameters will influence the real potential of this market in the long term.
Outlook	Small and medium sized manufacturers are likely to focus on a mix of branded and non-branded generics to survive price competition in an increasingly commoditised sector.

The Asian Advantage …

Within a sector highly exposed to competition and aggressive marketing strategies, India and China continue to lead as the most attractive production sites for the generics sector, due to their low-cost production advantages. A number of factors will affect growth in these markets besides those that strictly apply to drug manufacturing.

From the Indian perspective, its education standards and the natural drivers within the population for success and productivity will continue to present a significant advantage over Western markets, according to a presentation by Brian Tempest, the recently retired former CEO of Ranbaxy (India). A young population will continue to provide a labour force in the coming years, to the detriment of China, whose one-child policy will bring further constraints to its labour market as its industry becomes even more competitive. Low labour costs in India and China will continue to incentivise the sector, according to the speaker. Although increases in labour costs have long been forecast, in India particularly, expenses of this kind only account for a small proportion of global production costs (15%), allowing manufacturers to continue offering competitive production costs.

With a closer perspective on what is already taking place in India around the pharmaceutical sector, we will continue to see an increasing number of alliances between Indian and Western companies, providing Indian companies with greater know-how of European markets and a platform to conquer Europe at a fast speed.

But, as it was highlighted by the speakers, while these markets have the right tools to grow, a number of challenges could increasingly impede continuous development at the current pace. Corruption, the rising cost of imported oil (estimated to account for 85% of all crude oil used in India by 2012), poor infrastructure and a forecast appreciation for the rupee in coming years could increasingly reduce the Asian low-cost manufacturing advantage at world level.

Branded Generics or APIs as Secured Investments?

In recent years, Global Insight has tracked the activities of many European generics companies as they seek to reduce their reliance on active pharmaceutical ingredients (API) production and focus more on branded generics. This strategy is less appealing for Asian-based generics and for small and medium-size European manufacturers, according to a panel discussion at the conference.

From Russia to Bangladesh, product managers and managing directors highlighted the commercial risk of focusing exclusively on branded generics. Pricing competition is fierce in the sector and it is highly uncertain whether a firm will be able to sustain the price of a branded generic long enough to compensate for the marketing investment linked to its commercialisation. This is forcing companies to base their strategies on a mixed branded and non-branded commoditised generic business.

The increasing power of the distribution sector in some markets is also putting greater pressure on business profitability. In markets such as Russia, where drug distributors are increasingly entering the pharmacy business, competition to get products on the shelf will increase, and personal contacts and corruption will still be a factor.

Outlook and Implications

The generics sector is being increasingly exposed to aggressive competition practices. As the number of players expands, encouraged by the opportunities for capturing a profitable market once a key patent expires, the sector is becoming more commoditised and margins are increasingly stretched.

Aggressive sales and marketing approaches that would be frowned upon in more regulated markets will continue to be utilised in the least regulated markets of Asia and Europe, in order to encourage and persuade prescribers to choose one generic brand over another in a high-demand branded culture.

Riding on the positives such as population, manufacturing prowess and research cost effectiveness, it is no wonder that Asian pharma firms are seen as increasingly aggressive on the international front. Their domestic strengths are set to satisfy a key element of today's generics market—that of size. The acquisitions carried out in 2006/07 are expected to continue as companies from the region seek to broaden their product portfolio in an increasingly price intensive global generics market.

Asia's competitive low-cost manufacturing advantage is expected to continue in coming years. This is consistent with Global Insight's forecast of a moderate appreciation in the rupee, which will allow this market to keep its leading manufacturing position.

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