Patents carve up drug market

MNCs plan to tap high-end segment, Indian firms eye rural volumes

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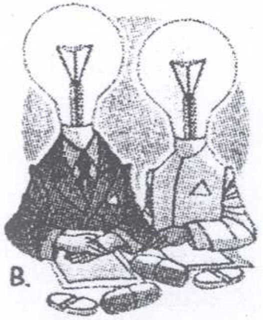
The return of the product patents regime is leading to a major re-orientation in the Rs 20,000-crore Indian drugs market. Multinational companies are planning to tap the low-volume but high-end market segment by adopting concept selling, while the domestic band is going rural and expanding the market.

Multinational firms like Pfizer, GSK, Novartis, Sanofi Aventis, Roche, Bristol Mayer and



an drugs market to launch their high-value patented products. Their business model is based on pharmaco-economics incremental value they can provide. The targeted segment will be the high-end patient class, which is just 12 per cent of the total market size. But, in value terms, it will be more than Rs 10,000 crore, which is 40 per cent higher than the companies' current business of Rs 6,000 crore.

At the same time, domestic companies are largely looking at using their existing product portfolio for market expansion, aiming at semi-urban and rural areas with an Indian price tag.

Glaxo SmithKline Pharmaceuticals Ltd (GSK India) is

in tune with its international strategy by reaching out to high-end customers. Ahmedabad-based Cadila Healthcare (Zydus), in contrast, has engaged a leading consultant to draw a road map for expanding into semi-urban and rural markets. Another local player, Mumbai-based Sun Pharma, says that the domestic market, which contributes 53 per cent to its total revenue, is very important to sustain growth.

"These examples signify the new trend. Finally, the battle lines have been drawn in the product patents regime: the local players will attack the rural market for a volume-driven business while the MNCs will aim for the value in the niche market," says a pharmaceutical sector analyst. Most Indian drug companies have already initiated steps to re-assess their current business models and examine the feasibility of new ones to sustain domestic growth.

RB Smartha, managing director of Interlink Marketing Consultancy (P) Ltd, a leading pharmaceutical sector consulting firm, says the onset of the product patents regime has forced Indian pharma companies to take a re-look at their business models at home.

"Though the thrust of leading pharma companies like Ranbaxy, Dr Reddy's Lab, Wockhardt, Cipla, Sun Pharma and Cadila Healthcare will continue to be the overseas generic and branded generic markets, they and several other local players will now be forced to look at the semi-urban and rural markets to sustain growth," he points out.