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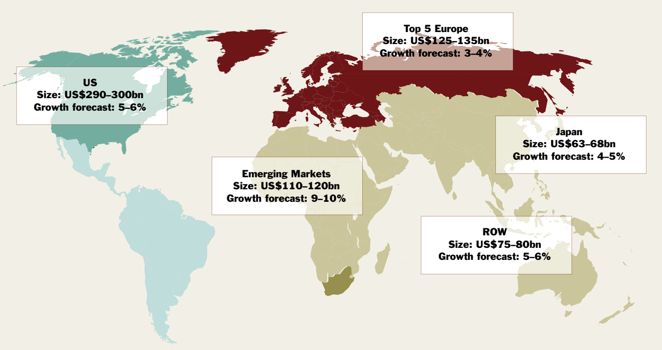
SWITCHING THE FOCUS: NEW INDUSTRY DRIVERS

- Emerging economies
- Specialist products
- Generics

Murray Aitken of IMS Health looks back on a year of shifting dynamics within the global pharmaceutical market and reveals the key trends that will shape the industry in the year ahead.

GLOBAL REBALANCE

Figure 1. The global market is predicted to grow by 5-6% in 2007.



Source: IMS Market Prognosis International, March 2007

Figure 2. Global sales and growth 2003–2007.

Source: IMS Market Prognosis International, March 2007

For the pharmaceutical industry, 2006 was a year of changes and challenges, marked by the exposure of $18 billion (in 2005 sales) in revenue to new generic competition, the introduction of the Medicare drug benefit in the US, and continued efforts by payers in many geographies to reduce drug spending and manage patient access to branded pharmaceuticals. At the same time, new growth sectors came into play as the balance of the worldwide pharmaceutical market continued to shift away from the US towards emerging economies, just as attention refocused from primary care to specialist driven products and from big brands and innovative molecules to generics.

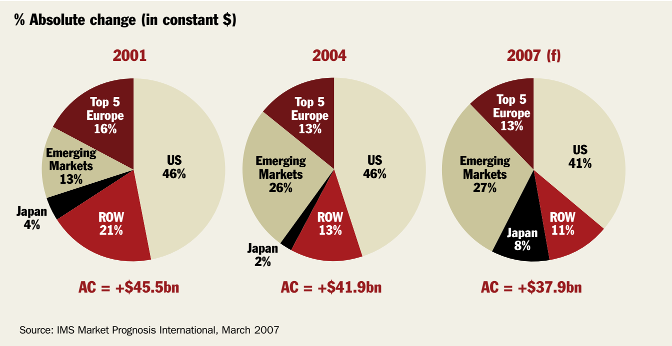
These dynamics will continue to influence the pharma market and will intensify slightly, so IMS anticipates global growth of 5–6% for 2007 (see Figure 1), compared with 6–7% in 2006. Global pharmaceutical sales will reach $670–690 billion in value in 2007 (see Figure 2).

In 2007, the market will still be absorbing changes that have defined a new economic reality, one in which growth is moving from mature to emerging markets; new product adoption is not keeping pace with the loss of patent protection for established products; speciality and niche products are playing a larger role; and regulators, payers and consumers are more carefully weighing the risk/benefit factors of pharmaceuticals.

Emerging economies, in particular those with a gross national income of less than $20,000 per capita on a purchasing power parity basis, represent 17% of the global market, but will contribute 27% of growth in 2007, compared with 13% five years ago. The US will account for about 41%

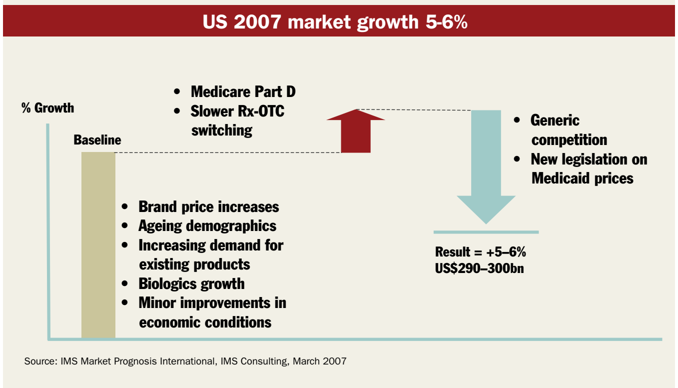
RESTRAINS GROWTH

Figure 3. Emerging markets will hold over a quarter of 2007's contribution to growth.



Source: IMS Market Prognosis International, March 2007

Figure 4. In the US, the positive effects of Medicare Part D will not counter patent expiries.



Source: IMS Market Prognosis International, IMS Consulting, March 2007

of the total growth in 2007, significantly less than the 46% it contributed five years earlier (see Figure 3).

Regional growth variations

In line with its declining contribution to overall pharmaceutical growth, the US is expected to experience growth of 5-6% in 2007. Although the Medicare Part D prescription drug benefit expanded the US market by nearly 1% in 2006, with a further uplift of 0.4% expected through 2007, this will not be sufficient to offset the loss of patent protection for several key brands valued at $15 billion (based on 2006 sales) in 2007 (see Figure 4).

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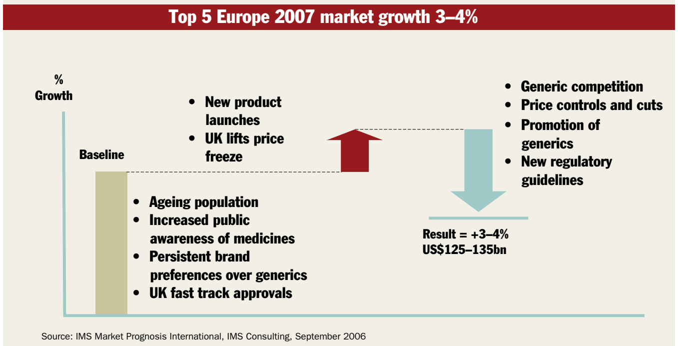
In Europe, the top five markets combined (France, Germany, UK, Italy and Spain) are forecast to grow 3–4% in 2007. While an ageing population is increasing demand in these markets, value growth continues to be adversely affected by cost-containment measures, incentives for using generics and increased scrutiny of drug cost/benefit (see Figure 5 overleaf).

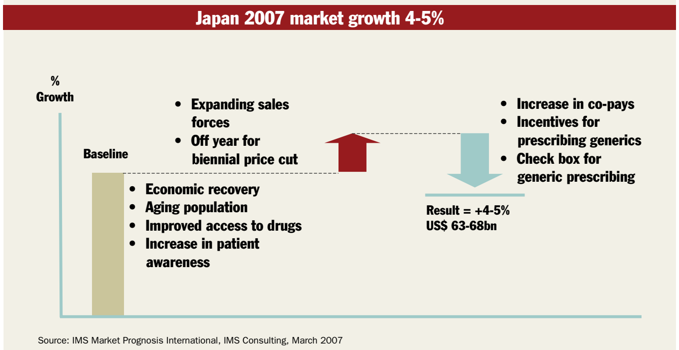
'Governments will continue to emphasise cost-effectiveness in 2007,' observes Graham Lewis, VP of global strategy at IMS, 'and with cost-benefit assessors now established

Figure 5. In Europe, generic competition and price controls are bringing down value growth.



Source: IMS Market Prognosis International, IMS Consulting, September 2006

Figure 6. In Japan, there are signs of an economic recovery and an off-year for biennial price cuts.



Source: IMS Market Prognosis International, IMS Consulting, March 2007

> China, in particular, offers huge potential, with anticipated growth of 13–14% in 2007, yielding a market value of $15–16 billion.

in all key European markets, success for pharma will increasingly depend on providing clear and targeted evidence to support the value propositions of their innovations.'

Conversely, in Japan, signs of an economic recovery and an off-year for biennial price cuts will see an upswing of growth to 4–5% in 2007 (see Figure 6). The last price cut, averaging 6.7% and imposed on 1 April 2006, saw negative growth in 2006.

However, the strongest growth in 2007 will be seen in emerging markets where many multinationals are already shaping long-term strategic plans. China, India, Brazil and Turkey grew over 10% in 2006 and strong growth is anticipated again in 2007, largely due to their expanding economies and broader access to medications. China, in particular, offers huge potential with anticipated growth of 13–14% in 2007, yielding a market value of $15–16 billion.

Balancing investment between mature and emerging markets will be a critical priority for the industry going forward. The attractiveness of entry or expansion into countries such as China, which are clearly rich sources of future growth, is apparent. However, these are volatile markets, liable to rapid change and all at very different stages of evolution. Their successful penetration will depend on a company's ability to transfer best practices from core markets while adapting to the nuances of each local system.

As emerging economies take more of the global market share each year, no multinational pharmaceutical company can afford to ignore them. Those that do not move rapidly to design appropriate approaches to these countries will find themselves competing in an ever-shrinking part of the market.

Shifting growth sectors

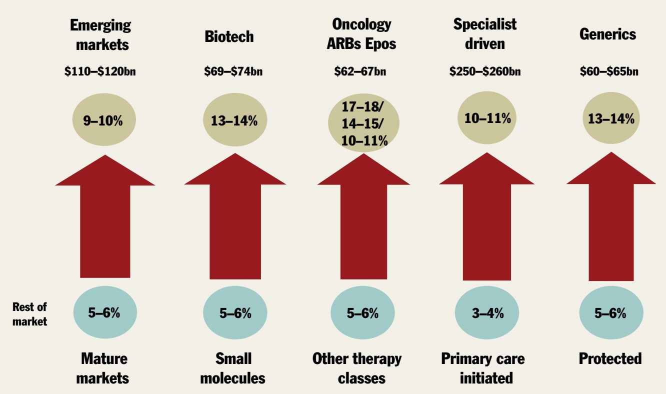
A further major shift in the business dynamics of the industry has been the rising growth contribution of specialist driven products, notably in Europe and particularly in certain therapy areas, and this trend is set to continue (see Figure 7). The oncology market, for example, has experienced tremendous growth in recent years, spurred by the impact of improved diagnostics and an ageing population. Sales of drugs in this area are expected to reach $40–45 billion in value in 2007, contributing nearly 20% of total market growth.

Through 2007, this class will expand rapidly as more patients gain access to treatment from a growing range of therapies. But oncology products will eventually be subject to tighter pricing and usage parameters as payers deal with mounting costs.

Already questions are being raised about affordability and choice. 'Thanks to scientific breakthroughs and a strong flow of innovation, cancer is gradually becoming a chronic disease, but managing this over a patient's lifetime will be an increasing challenge,' says Lewis. 'As payer assessments become more stringent, much will hinge on demonstrating real differential value and societal benefit.'

The shift in product portfolios towards specialist care has important implications for pharma in three key areas: sales

Figure 7. Rebalancing of the global market – growth sectors shift



Source: IMS Market Prognosis International, Market Insights, IMS Consulting, March 2007

and marketing, distribution and proving product value. This is especially true for companies used to operating mainly in a primary care environment.

'Specialist products mean a focus on new and fewer physicians and patients, demanding a complete redesign of the sales and marketing model as well as an increased need to provide health economic evidence to prove the value of the medicines,' explains John MacCarthy, VP, client thought leadership at IMS. 'Overall, sales of specialist driven products, including anti-TNFs and erythropoietins, are expected to climb to over $250 billion in 2007, reflecting growth of 10–11%.'

Generics growth

Innovative new products are increasingly found in smaller niche markets, and off-patent events are increasingly seen in larger primary care markets –a situation that makes it difficult for new products to offset losses from generics. Generic erosion is more aggressive than ever. Following a busy year for patent expirations in 2006, a number of important therapeutic classes will also be affected in 2007, including anti-psychotics, calcium antagonists and beta-blockers. In 2007, marketed products with a value of more than $16 billion are likely to lose patent protection.

The generics sector has been significantly outperforming the overall market for the last five years and is expected to grow at 13–14% in 2007. Generic medicines are fast becoming the first-line option in a number of key therapy areas, and already dominate several classes, including antidepressants, anti-epileptics and macrolides.

As cost control efforts intensify, a continued increase in generics volume is anticipated. IMS expects growth to continue in double digits for at least the next five years as many of the great blockbusters mature and go off-patent, making generics the largest sector of the pharmaceutical market in volume by the end of the decade.

'This outlook turns up the ratchet quite considerably,' explains Lewis. 'It means that pharmaceutical manufacturers must define and understand the generics space much more clearly if they are to formulate strategic and tactical responses to sustain the ROI of their major brands.'

The extent and depth of generics penetration, particularly in primary care, only heightens the imperative for pharmaceutical manufacturers to clearly demonstrate the differential value of their products during development. This means that following launch they are able to compete effectively with what is an increasingly large cohort of very cheap generic products.

Companies face not only the traditional task of sustaining growth, but also a new set of challenges in making sense of the turmoil.

New priorities

The coming year promises to be a dynamic one in the pharmaceutical marketplace as the multiplicity of changes already set in motion continue to rebalance the world market. As the trends driving change become more interconnected, companies face not only the traditional task of sustaining growth, but also a new set of challenges in making sense of the turmoil: adapting practices from core markets to the local nuances of emerging economies; adjusting to a predominantly generic marketplace; and optimising new sales and marketing models for specialist driven products. Companies that understand and grasp the strategic implications of these changes will be able to rise to the challenge of managing within a new reality.

Pharmaceutical companies have been reinventing themselves in response to this new environment, but to succeed they must be more than just responsive. They need to get ahead of the dynamics that are rebalancing the market. This will require a greater reliance on scenario-based planning, a sharper focus on realising productivity gains from sales and marketing expenditures, and proving the value of medications as never before. END