

PHARMACY IN SOUTHERN EUROPE

- New products will continue to be launched throughout the European region, though not at their previous rate.
- The European pharmaceutical market will become more closely knit with increasing restrictions and regulations for both the north and South.
- Southern Europe will benefit from increased numbers of generic alternatives to current leading products such as statins. These will generate huge revenues in all the major markets as the formulas are losing patent or will lose patent in the near future.
- More international companies will move into Southern Europe to supply the increasing demand for high-quality generics.



GROWTH AHEAD FOR SOUTHERN EUROPE

As the Southern European pharmaceutical market continues its upward stride, Dr Gordon Low, senior pharmaceutical analyst at Visiongain, takes an in-depth look at the state of the region's pharmaceutical industry, tracing its history and looking to the future to see what developments are on the way.

Historically, Southern Europe has relied on small pharmacies for the development of generic medications. The making of drugs was almost a cottage industry, which gradually became more and more corporate, particularly since the 1950s and 60s. As a result, the pharmaceutical market landscape became increasingly uniform throughout Europe.

Today, many international pharmaceutical companies maintain a presence in Southern Europe. Sales offices in Cyprus, Malta, Portugal, Spain, Italy, Greece and Turkey are common, and significant operations have been established by Pfizer, Novartis and GSK.

The region has also captured the interest of newer, up-and-coming, mid-ranking companies, such as TEVA, an Indian generic company, in their bid for an international presence. TEVA's interest in Southern Europe as an opportunity for growth may seem surprising, considering the region has historically been dominated by low-cost branded pharmaceuticals. But, with drug prices below two-thirds of those in northern Europe, their predictions for growth could be accurate.

Slow rise in generic use

'It's only in recent years, and with a lot of coaxing, that generic drug use has increased,' says Visiongain's Dr Gordon Low.

Author

Dr Gordon Low joined Visiongain in 2005 after spending a number of years in academic and commercial environments. He has been involved with improving the quality of Visiongain's pharmaceutical reports and is the company's senior pharmaceutical analyst. Visiongain produces independent news, management reports and conferences across the telecoms, pharma, defence and financial markets. Visiongain set up its pharma division in 2000 with *PharmaBusiness Daily*, a news bulletin service delivered via email, and subsequently launched its pharma reports division. www.visiongain.com

'Generics have around 10% market share by price and 15–20% by volume.' Compared to the larger pharmaceutical markets of the US and Northern Europe, which exceed 50% by volume and 40% by price, the figures for Southern Europe may seem modest. 'But that is changing,' stresses Low.

Growth in the Southern European pharmaceutical market compares favourably with the European average. Greece, in particular, is very strong, with 12% market growth recorded in 2006. Italy and Spain have seen 5% and 8% growth respectively. 'It's not fantastic but it is above the international average,' says Low. 'As a base for comparison, the US achieved 8% growth and the highest growth rates internationally have centred around the developing nations of China at 15%, Brazil at 24% and Russia at 27%.'

Highly regulated sector

The European pharmaceutical market is becoming more homogenous as countries join the EU. Regulations strongly influence the sector, as national governments resist uniformity at the expense of national pride and attempt to retain control.

Low explains: ‘This trend is due to deeply ingrained governmental systems and regional peculiarities which apply in Southern Europe, where there is a high emphasis on pricing and price controls. The governments there are exerting heavy influence on the leading branded products of large therapeutic classes, such as statins, and have been quite ruthless about pricing to obtain the cheapest level of quality generic. But this is a trend which extends across Europe and the world.’

‘Historically, prices have been significantly lower in Southern Europe across the board. The Southern European countries have traditionally been poorer, so the main macroeconomic and microeconomic reasons for prices being lower in those countries were directly related to their ability to pay. Pharmaceutical prices are typically so low, there is little incentive for generic manufacturers, which cannot compete economically with branded companies, who strategically offer their products at lower prices to undermine generic competition in Southern Europe. It is interesting because these tactics are not typical in Northern Europe.’

Governments change tack

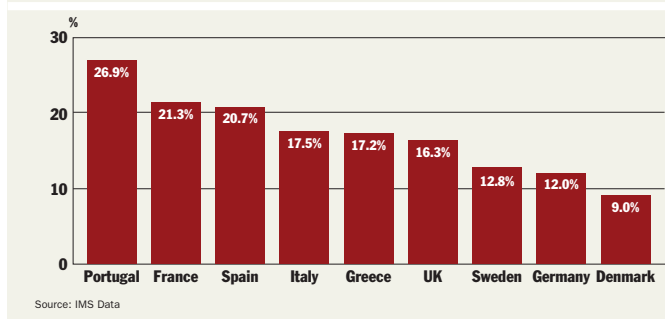
Governments are increasingly encouraging post-market assessments of drugs for safety and cost-effectiveness, with European countries looking to each other and their healthcare providers to benchmark processes. And as political changes increase regional autonomy, allowing more scope to governments in managing healthcare budgets, OTC products are being encouraged in countries such as France, Spain and Italy as a means of reducing the overall public healthcare budget.

‘It’s likely there will be relaxations to restrictions on pharmaceutical advertising as a trade-off to try to encourage OTC use,’ predicts Low. ‘There is definitely a conscious effort on the part of public healthcare bodies to promote generics for the first time. This is set to be a major change – rich with opportunities for generic manufacturers. Local Southern European manufacturers will enjoy greater prominence on a par with their counterparts elsewhere in the world, such as in China, India or Eastern and Central Europe, where the local manufacturers of generics hold at least half the market.’

But with these opportunities comes competition, so, it’s not clear how attractive the profit margins will be. Certainly, says Low, there will be great opportunities for up-and-coming international companies, such as TEVA, to move into Southern Europe. But the recognised brand companies are ahead in producing and winning approval for leading drug therapies.

Low sees Turkey joining the EU within five years, driving the pharmaceutical market there. It is one of the leading developing nations and has a surprisingly large pharmaceutical market. Low believes it has strong growth potential.

Figure 1. Growth in European Pharmaceutical Expenditure 2006



Healthier lifestyles

Unlike other developing nations, Southern Europeans have not seen spikes in many diseases of affluence. Obesity, diabetes and smoking-related diseases are not on the rise as traditional lifestyles and diets are still firmly established. The region has traditionally enjoyed good health with a long life expectancy. The increase in life expectancy of other European countries is placing a significant burden on their healthcare systems but this is not a problem for the southern region.

‘The smaller countries, Cyprus and the Balkan regions, will also see strong growth as they catch up economically,’ predicts Low. ‘We’re going to recognise the enormous health needs in these poorer countries. And these needs will be met increasingly in a modern way, more like in the established EU countries.’

Population growth in Southern Europe is stable as well. ‘People are having fewer children,’ says Low. ‘And though there will be some immigration, Southern Europe will see more population redistribution between its countries; for example, people in the Balkan regions relocating to Greece. This will increase demands on public health services, but the change in demographics will stimulate the need for healthcare and have a positive effect on drug companies. I see this as being a healthy progression.’

Dynamic growth expected

‘The only way is up in terms of the pharmaceutical market in Southern Europe,’ states Low. ‘The standard of living is increasing and there is an inevitable relentless stride and pressure to increase healthcare provision. Governments throughout Europe, notably in Southern Europe, are feeling confident that they can bargain, and leading pharmaceutical companies should have a healthy respect for the increasing power of the payer. They shouldn’t underestimate the governments.’

Low is very positive about the prospects for Southern Europe and anticipates an interesting dynamic developing between competing pharmaceutical companies and the governments of those countries who are asserting their power more confidently. Combine this with major industries and leading products that are coming off patent in the next few years, and the market is set to transform dramatically for the region. **END**