

DESIGNING MARKET APPROPRIATE SUPPLY MODELS FOR AFRICAN EXPANSION IN THE PHARMACEUTICAL INDUSTRY

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ABSTRACT

The emerging markets of Africa present a significant growth potential for pharmaceutical brand owners. Africa's appeal to drug companies lies in its growth potential, at a time when the major markets face an uncertain future. By 2016, pharmaceutical spend in Africa is expected to reach US\$30 billion, and potentially represents a US\$45 billion opportunity by 2020 (IMS 2013). However, hurdles exist at every stage in the medicinal path to market (Kudlinski, 2013):

- Long lead-times for drug registrations
- Substandard and counterfeit medicines
- Limited infrastructure
- Small volumes
- Large and dispersed populations in rural areas

Given this environment, increasing access to medicines and growing volumes and scale may seem impossible.

However, innovative solutions *can* overcome them and ensure a sustainable business. Imperial Health Sciences (IHS) is a division of Imperial Logistics, specialising in pharmaceutical storage and distribution across 22 countries on the continent. With almost a decade of learning, Imperial Health Sciences has developed a matrix model which provides clients with a framework for developing their strategy for the dynamic markets of Africa.

The Imperial service offerings include:

1. **3PL:** Storage and distribution services through regional consolidation hubs at source and/or destination
2. **International Buy and Sell:** Function as registered trading entity in target country
3. **Trading:** Management of customers, product and market clustering
4. **Brand Development:** Channel and Partner development

Understanding that markets move at varying speeds of regulatory and commercial development requires a time-and-milestone based approach with strategies for each phase and trigger points that must be achieved to lay the foundation for long-term sustainable growth and greater access to medicines.

INTRODUCTION AND PROBLEM STATEMENT

Annual global spending on medicines will reach \$1.2 trillion by 2016, by which time it is expected that developed markets will only account for 57% of total spend, down from 73% in 2006. 'Pharmerging' markets on the other hand will reach 30% of spend by 2016, up from 20% in 2011 (IMS, 2013). While generics will account for approximately 83% of the increase, branded product volumes will also grow dramatically. This growth is the consequence of four specific accelerators (McKinsey, 2010):

- GDP growth – Africa's population with yearly household incomes > \$5,000 is growing at > 10,000 households per day! This rising middle class accounts for 34% of the continent's inhabitants (African Development Bank, 2011);
- The increasing share of GDP spend on pharmaceuticals, with expanding public and commercial health services and insurance products (Economist, 2012);
- The high burden of disease in these long-disadvantaged populations; and
- The growing prevalence of non-communicable diseases e.g. diabetes, high blood pressure.

Up to now, the pharmaceutical industry has generally considered sub-Saharan Africa as a priority focus, due to the barriers to entry that exist:

- Regulations for registering drugs vary significantly and are time consuming, opaque and open to corruption.
- Non-transparent tendering and procurement processes, the absence of pricing regulations, limited insured patient volumes and the lack of tiered pricing levels impose access limitations.
- In distribution, inadequate regulatory oversight, risking the entry of substandard and counterfeit medicines, as well as weak infrastructure in cold chain, ordering and transport are key challenges.
- Commercial challenges include fragmented wholesaler and distributor channels, expensive credit and variable quality standards.
- Sales are hindered by limited knowledge among physicians regarding disease states and medicine needs

In order to address these issues, Imperial Health Sciences (IHS) has designed a methodology to assist its pharmaceutical clients to deploy market appropriate supply and trading models that allow them to maximally exploit the opportunities of Africa.

METHODOLOGY

The IHS model is fundamentally different from existing pharmaceutical distribution models which typically has the following characteristics:

- No local infrastructure—product flown in from Europe/North America on an as-needed basis—resulting in higher transport costs and restricting aggressive growth
- Exclusivity—license is held by a single agent, limiting competition and product availability
- Multiple layers (distributor, sub-distributors, retailers) leading to inflated prices

The IHS model looks at three specifics - the geographies to be targeted, the commercial models to be deployed and the timing issues of prioritisation and evolution of the commercial model over time.

1 – Where

This dimension details the countries and cities of opportunity with the outcome of defining the countries to be targeted in the strategy. Issues which are considered in finalising the scope of cities and countries to be addressed include:

- The scale of sales potential
- Professional service capacity vs product
- Speed and cost of registration
- Language
- Demand generation capacity
- Distribution infrastructure and controls
- Source and origin of supply
- Appetite for risk and scale
- Internal resource capacity

2 – How

The four options of commercial model which can be deployed have been developed off the back of ten years of engagement with clients. Understanding that no one size can fit all is the departure point—markets differ in scale, sophistication and simplicity to engage; clients vary in their resources, appetites and supply chain fundamentals.

Based on real client experiences, Imperial has formulated four models of commercial engagement which logistics partners can deploy as the market / client mix requires.

1. 3PL
 - a. Requires manufacturer to have registered trading entity in target country
 - b. LSP assumes no responsibility for or risk in inventory or debtors
 - c. LSP follows manufacturers credit and sales mandates
2. International Buy and Sell
 - a. LSP functions as registered trading entity in target country
 - b. Manufacturer defines customer universe and product catalogue
 - c. Service rate covers risk in exchange rate
 - d. Risk in inventory and debtors remains with manufacturer
3. Trading
 - a. LSP defines the customer universe and product catalogue
 - b. LSP takes risk in exchange rate, inventory and debtors
 - c. LSP drives listings, demand generation and ordering
4. Brand Activation
 - a. LSP assumes responsibility for marketing and brand activation

3 –Time

The third dimension allows for clients to phase their market strategies, adding more countries / cities over time and evolving their commercial models in each country as markets scale and mature. In evaluating time, this is broadly segmented into short-term (1 to 12 months), medium term (12 to 36 months) and long term (beyond 36 months). Notably, the “time” line may prefer to use milestones and trigger points for each phase of development rather than dates.

RESULTS

Specific methods that have been used by Imperial in overcoming the range of challenges and dynamics that exist in the markets of Africa include:

- Regional consolidation hubs at source - Small volume markets often incur high inbound costs. Consolidation across clients allows economies of scale, resulting in reduced landed costs and enhancing market growth;
- Regional consolidation hubs at destination - Poor market forecast data cause risks of lost sales and stock obsolescence. Also, long order-delivery lead times tie up working capital. Regional hubs allow “*rapid, regular, reliable resupply of real requirements*” – maximising sales, avoiding stock write-offs and reducing working capital. These cost reductions enhance market growth.
- Product clustering - In developing markets, specific conditions derive focus among patients and professionals. These evolve as markets mature over time. Selection of product to provide maximum coverage of specific conditions is more successful than a broad catalogue approach.
- Market clustering - Supply chain costs are a major component of product pricing. All efforts to achieve economies of scale can lower price points, supporting sales growth.
- Channel development - Supporting emerging channels of retail and distribution provides a foundation for scale and diminishing costs.
- Partner development – Concentrating efforts on upskilling for efficiencies, accuracy and quality of supply as well as incentivising / rewarding investment and improvement create sustainable capacity in the supply chain.

CONCLUSION

The burgeoning middle class of Africa represents one of the world’s fastest growing pharma markets, with visible potential for decades hence (McKinsey, 2010). However, fractured and complex geographies and trends provide as many opportunities for failure as success.

In responding to the potential of Africa, there is an *immediate* need for a structured approach which recognises the challenges and dangers, provides a flexibility and responsiveness of supply and yet achieves a cost-conscious efficiency that maximises sales in price sensitive markets; there is an *intermediate* need to define a supply model that is future-proofed for the developing economic and customs unions; and there is a *long term* need for channel and partner development that meets global best practice standards for quality, security and sustainability.

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