

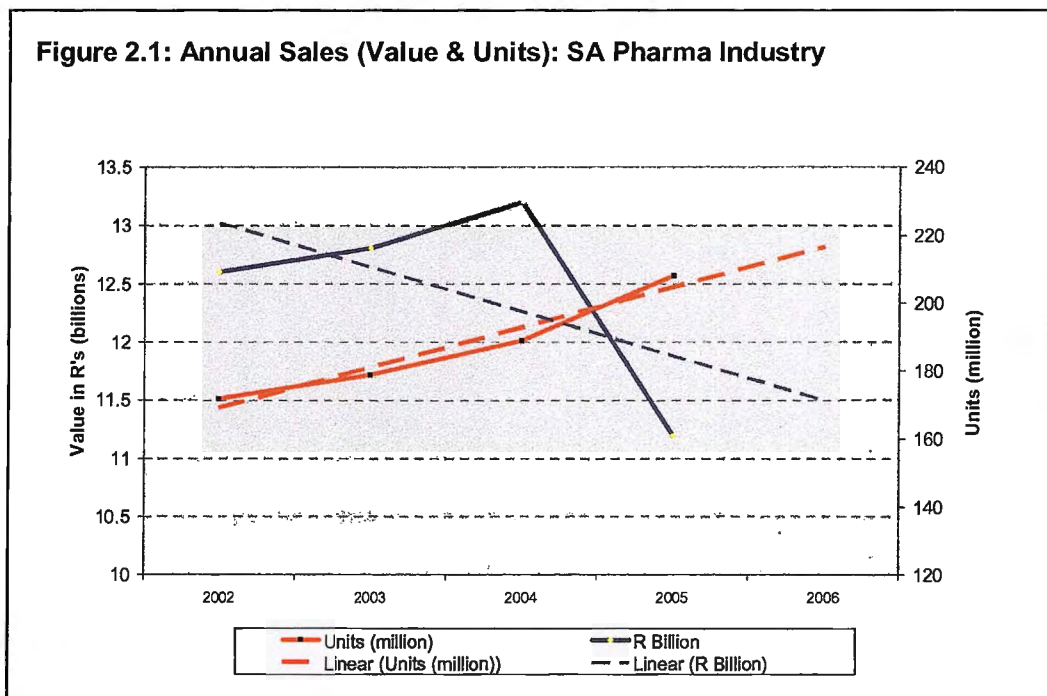
CHAPTER TWO: THE SA PHARMACEUTICAL MARKET

This chapter focuses on an analysis of the industry's dominant economic features, competitive forces, driving forces and key success factors, that impact on a company's ability to leverage a competitive advantage and improve their competitive position. This chapter also focuses on the corresponding need for more innovative marketing strategies that harness the power of internet-enabled emerging technologies to strengthen marketing and achieve cost efficiencies.

2.1 DOMINANT ECONOMIC FEATURES & DRIVING FORCES

2.1.1 Market size and growth rate

According to IMS (TPM, June 2005) reports, the SA pharmaceutical market realised R11, 2 billion in sales in 2004, which represented a 16% decline in value over 2003. In comparison, the market realised unit sales of 208 million, which represented a growth of 13%. See figure 2.1 below.

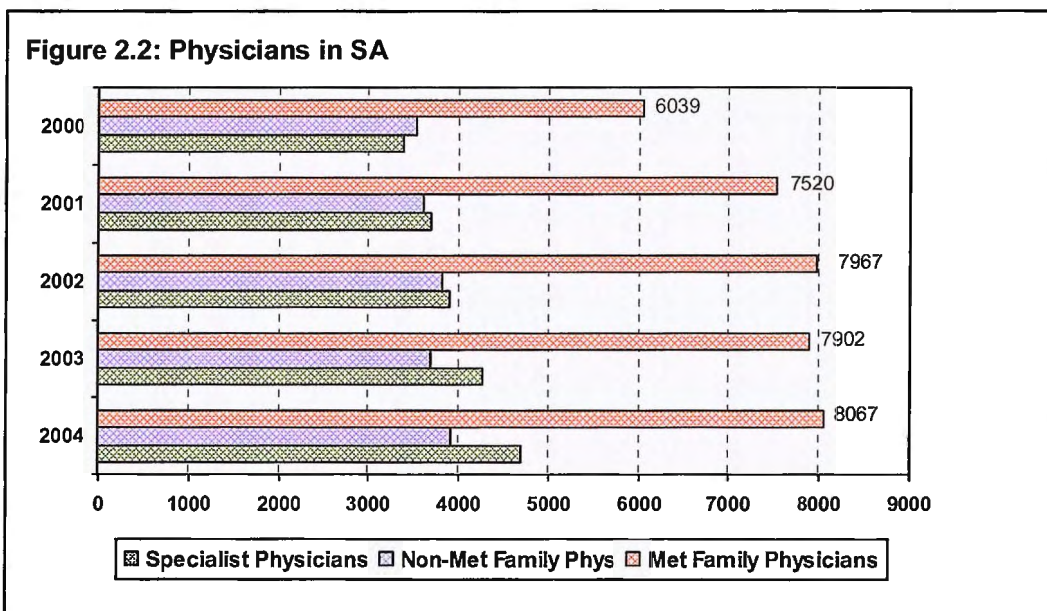


Source: (IMS, June TPM: 2005)

This contradiction is largely due to the increased use of generics in new patients, over and above the substitution of expensive ethical medicines for less expensive generic alternatives in existing patients. The negative value growth of the industry has become an unattractive feature of the SA pharmaceutical industry, especially for ethical companies who can expect to continue having their revenues, margins and their market share eroded by generic companies. The negative growth trend also signals that the pharmaceutical industry has entered the saturation/decline phase of its industry lifecycle.

2.1.2 Number of Rivals

It is estimated that there are > 2000 reps and regional sales managers operating in the SA pharmaceutical market, which represents about a 40% increase over 2000 (IMS, NDTI Audit, Dec 2004). These reps essentially compete for the attention of 16676 practicing family physicians and specialist physicians, only 12770 of whom are situated in metropolitan areas (IMS, NDTI Audit, Dec 2004); and 4500 of whom are considered top-tier prescribers (Medikredit, June 2005). This situation has given rise to “cutthroat product rivalry” amongst leading companies all competing for time in front of the same target doctors.



(Source: IMS, NDTI Audit: 2005)

The ACCEL Report (2003, www.accelhealth.com) revealed that in the US only 43% of pharmaceutical sales representatives actually get to detail the physician they are targeting, only 7% of their calls last more than 2 minutes, only 8% of these calls are remembered by the physician and these reps average only two quality detail calls per day. In comparison, the GP Promotion Monitor (June; 2004) revealed that in SA only 55% of pharmaceutical reps get to see the physician they are targeting (vs. 75% in 2001), the average duration of each call is 7 minutes (vs. 9 minutes in 2001) and only 29% of these calls are considered by the physician to be “very useful” (vs. 35% in 2001). The IMS Medical Promotion Index (Q2,2005) also revealed that in SA, pharmaceutical sales reps average 6 quality detail calls per day (vs. 8 quality calls in 2000) and discuss, on average, 2.5 products per call (vs. 3 products in 2000). While these statistics look somewhat better than those from US research, the consensus is the same – time in front of the physician is becoming more and more difficult for the pharmaceutical sales rep to achieve. While the number of sales reps in the pharmaceutical industry has increased rapidly, the number of quality product details and the average duration per detail has declined. Many sales reps now find it increasingly difficult to profile their physicians, develop relationships with them, deliver complete promotional messages and differentiate their products from the competition.

Table 2.1: Top 15 multi-nationals in the Total Private Market (SA)

Rank	Multinational Company	Value	MS	No of Reps
1	Sanofi-Aventis	R 859.6 M	7.7%	140
2	Pfizer	R 751.5 M	6.7%	120
3	Glaxo-SmithKline	R 489.5 M	4.4%	40 (50% retrenched)
4	Astra-Zeneca	R 377.1 M	3.4%	110
5	Novartis	R 374.1 M	3.3%	100
6	MSD	R 340.7 M	3.1%	100
7	Janssen	R 285 M	2.6%	90
8	Schering Plough	R 282.1 M	2.5%	70
9	Roche	R 266.7 M	2.3%	60
10	Boehringer Ingelheim	R 262.3 M	2.3%	60

(IMS: June 2005 TPM – 12 months-to-date; June 2005 MPI; MSD Field Intelligence)

Table 2.2: Top 8 generic companies in the Total Private Market (SA)

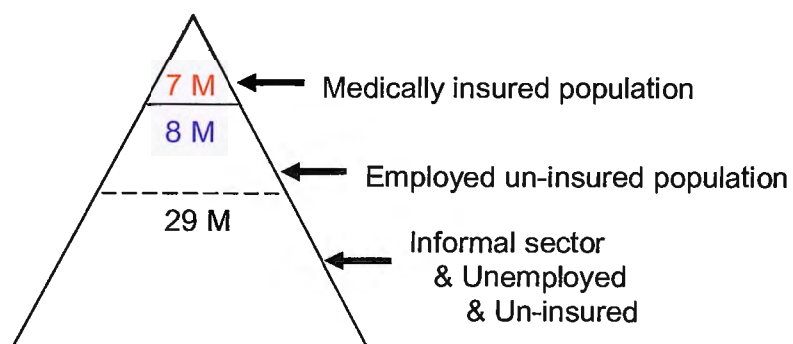
Rank	Generic Company	Value	MS	No of Reps
1	Aspen P/Care Gen	R 585.2 M	5.2%	90
2	Adco-Generics	R 297.3 M	2.7%	70
3	Cipla-Medpro	R 213.2 M	1.9%	50
4	Hexal Pharma	R 135.8 M	1.2%	35
5	Sandoz	R 104.1 M	0.9%	35
6	Ranbaxy	R 82.5 M	0.7%	30
7	Triomed	R 63.1 M	0.5%	25
8	Merck Gen	R 43.9 M	0.4%	25

(IMS: June 2005 TPM – 12 months-to-date; June 2005 MPI; MSD Field Intelligence)

2.1.3 Managed Health Care

According to the Council for Medical Schemes 2002/3 Report, only 16% of the SA population are medically insured. Figure 2.3 shows the breakdown of the number of patients on medical aid (MA) and those that are not covered. Since the mid – 1990's there has been little to no growth in numbers of covered lives. This trend has continued during 2002 (CMS, 2002/3 report).

Figure 2.3: MHC in SA



(Source: CMS, 2003)

Of the medically insured segment, more than 50% are registered on limited benefit options that offer only basic hospital cover and very limited out-patient treatment and medicine cover (CMS, 2003). In terms of acute medicines cover, these limited benefit options will cover only the costs of on-formulary essential medicines and generics. In terms of chronic illness medicines cover, all patients that are on these limited benefit options are covered only by Prescribed Minimum Benefits (PMB). Prescribed Minimum Benefits were first introduced in 2000 when the regulations to the Medical Schemes Act of 1998 came into effect. These regulations stipulated that medical schemes must provide all members cover for hospitalisation and treatment of the 25 specified chronic conditions and that they must cover non-hospital expenses for these conditions in full, with no limits, no co-payments or deductibles. Medical schemes were, however, given permission to use formularies (lists of approved generics and essential ethical medicines), clinical protocols and designated service providers to provide this cover.

Table 2.3: The List of 25 PMB Conditions

A		G
Addison's Disease		Glaucoma
Asthma		H
B		Haemophilia
Bronchiectasis		Hyperlipidaemia
C		Hypertension
Cardiac failure		Hypothyroidism
Cardiomyopathy		M
Chronic renal disease		Multiple sclerosis
Chronic Obstructive Pulmonary Disease (COPD)		P
Coronary artery disease		Parkinson's disease
Crohn's disease		R
D		Rheumatoid arthritis
Diabetes insipidus		S
Diabetes mellitus type 1		Schizophrenia
Diabetes mellitus type 2		Systemic lupus erythematosus
Dysrhythmias		U
E		Ulcerative Colitis
Epilepsy		

(Source: Discovery Health (www.discoveryhealth.co.za))

In May 2003, the implementation of the Medicines Control Amendment Act came into force. This legislation essentially fuelled the growth of generics. The Medicines and Related Substances Control Amendment Act now enforces that pharmacists offer patients alternative generic medicines whenever applicable and that when substitution does take place the doctor needs to be informed. However, the final decision ultimately rests with the patient. As a result there has also been mounting pressure on patients from their respective medical schemes – to better manage their medication benefits and to ask their doctors about generic alternatives. Healthcare providers also play an important role in offering patients the option to substitute ethical medicines with generic equivalents and as a result have also been targeted by the generic companies.

Generics are cheaper, and for many consumers this is a deciding factor. Also, the focus of government is currently on the short term need for medicines that cost less and using generics is said to be the safest way to decrease costs of medicines immediately. As a result generics are growing in popularity and use. As more products become available for genericisation, generics will face even better growth prospects. In the UK, up to 78% of all prescriptions are written for generics (UK Parliament, 2004). According to Muhammad Bodhania, chairman of the National Association of Pharmaceutical Manufacturers, who represents generic manufacturers, in SA support of generics stands only at 20% (Sunday Times, 2003). Given the fact that over 80% of the population has limited or no access to proper health care, generics are now recognised as having an important part to play in meeting the healthcare needs of SA. And as the generic market grows, we would expect to see more and more competition, further price reductions and the pharmaceutical industry's negative growth trend (in value) to continue.

2.2 COMPETITION IN THE SA PHARMACEUTICAL MARKET

2.2.1 Rivalry among competing Pharmaceutical Companies

The South African pharmaceutical market is a highly competitive and crowded market characterized by intense rivalry among many companies jockeying for buyer patronage. This rivalry has intensified with the insurgence of new generic entrants. However, the most cutthroat rivalry exists among the leading multinational companies themselves. Each multinational controls a significant share of the market and is able to exert significant influence over smaller companies. Five of the multinational companies that currently command the higher market shares, in the SA pharmaceutical industry, include:

- Pfizer
- Sanofi-Aventis
- Glaxo-Smithkline
- Astra-Zeneca
- MSD

Over the last decade rivalry amongst these key players has also intensified as a result of the following factors:

- They are essentially equal in size and capability. These equally matched companies inevitably compete for similar / the same customer segments, with competing brands.
- Competing multinational companies are very active, constantly making offensive-defensive moves and countermoves, strategy adjustments and readjustments, to improve their position in the market. Many of these companies also have substantial financial resources and are able to recruit and fund very large sales forces, in an effort to increase their "share of voice" and achieve "top of mind awareness".
- Mergers and Acquisitions have drastically changed the competitive structure of the marketplace. In some cases, smaller, less competitive companies have come together to form new larger companies e.g. Hoechst merged with Roussell to form Aventis (who were eventually bought out by Synofi).

Collectively, these new companies have expanded pipelines and more market muscle. In other cases, larger companies have acquired smaller companies to expand their pipelines even further and to become even more formidable e.g. Pfizer's acquisition of Pharmacia.

- Buyer costs to switch brands have also been lowered by Managed Health Care (MHC) Intervention, generic substitution and Prescribed Minimum Benefits (PMB - legislation)
- Due to increasing Managed Health Care restrictions, South Africa's pricing policies and generic influence, market growth is sluggish which has influenced many expansion-minded companies to initiate unusual sales increasing tactics e.g. Stay-on-Therapy trials and value-add Patient Care Services etc. The use of such tactics has stimulated a battle for market share and is expected to shake out a number of weaker, inefficient competitors.
- Increasing competition has also shortened the life cycles of even the most innovative products, thereby driving rival companies, to become even faster to market with innovative products.

2.2.2 The threat of New Entrants

In the SA pharmaceutical market, the competitive pressures normally associated with the threat of new entrants and of substitution have been intensified by the recent insurgence of generic companies into the SA market and the large pool of generic candidates waiting on our borders for license and opportunity. There are basically four reasons why generic companies have become so interested in SA and why the threat of new entrants has intensified:

- In SA, the demand for low cost generic medicine is growing rapidly.
- SA government agencies have intentionally lowered barriers to the entry of cheaper generic medicines. Primary health care in South Africa is a human right and the government has pledged to provide this level of health-care to all its low income earners and unemployed. Primary health care is, therefore, entirely dependant on the availability of low cost medicines, in South Africa. With this in mind government has introduced amendments to the regulations made in terms of the Medicines and Related Substances Act, which has

essentially lowered registration barriers for generic medicines and allowed also for their expeditious registration.

- The SA market is an attractive market for generic companies because it is “price sensitive”. Generic companies, who reproduce innovations of the past, are able to bring their copy-products to market at a fraction of the price, and reap the benefits of high sales volumes even over the short term. These new entrants are able to leverage lowest-price strategies because their companies have been able to leverage economies of scale and avoid many of the R&D and marketing costs normally associated with bringing a new product to market.
- Government has also introduced the Medical Schemes Act (ACT 131); which has essentially empowered scheme administrators to enforce the use of PMB formularies and PMB treatment algorithms in order to bring down the cost of medicine through the promotion of generic substitution. Empowered in this way medical scheme administrators are able to override the physician’s preferences, loyalties and attachments to established brands – factors that would normally counter the efforts of new entrant companies and raise barriers to the entry of other generics.

2.2.3 Competitive pressures that stem from Buyer Bargaining Power

For a pharmaceutical company, the ultimate customer / buyer is the patient. However, because of marketing restrictions (legal), most efforts are directed at other customers, namely the health care providers:

- physicians (general and specialist)
- pharmacists
- insurance companies / medical aids
- managed care organisations

Customers that hold the most significant bargaining power, today, are the managed health care organizations and the medical schemes that control medicine reimbursement. These agencies leverage the Medical Schemes Act (ACT 131) which permits them to enforce the use of the PMB Algorithm and

medicine formularies, to control costs downward. Essentially, ACT 131 and the use of formularies, has lowered search and switch costs and increased buyer bargaining power.

Other customers that hold the most significant bargaining power, today, are those that purchase or prescribe very large volumes of the product, namely the high potential physicians, physician groups, pharmacists and pharmacist groups. Pharmaceutical sales consultants will therefore target these customers and invest substantial time and resources in order to acquire their support. This situation has also given rise to “cutthroat rivalry”. Some pharmaceutical companies, anxious to get closer to their customers and grow sales, have entered into distribution and data sharing agreements / alliances with physician and pharmacy groups. In some instances, these agreements buy more than service and data. A distribution or data sharing agreement can in actual fact, buy a company time in front of the physicians as well as prescriptions for their product. The competitive pressures that stem from these corrupt relationships have had a huge impact on the more ethical companies who have steered away from what could be called perverse incentive.

2.2.4 Competitive pressures that stem from Seller Bargaining Power

In the SA pharmaceutical market, however, many of the leading multinational pharmaceutical companies have strong product pipelines and are able to frequently bring new innovative unmatched medicines to market. These innovation-based companies are usually able to differentiate their patent protected innovations from competitors, based on the following:

- the product's proven performance
- the product's safety & tolerability profile
- the product's power to save lives and/or improve quality-of-life

In these situations, the price of switching is high, supplier bargaining power is considerably high and the pharmaceutical companies are consequently able to control price, in spite of PMB restrictions. Innovation-based companies, therefore,

invest substantially in multi-channel marketing strategies designed to ensure that their flagship products are well known to the market and that their clinical value is recognized.

When innovative medicines are proven in clinical trials to have saved lives and/or significantly improve quality-of-life, switching is no longer an option and the pharmaceutical company is able to achieve substantial profit margins on these products. In these situations, however, government and other influential agencies like the Treatment Action Campaign (TAC) would usually intervene and exercise their political and social "clout" to return some power back to buyers, and exert some downward pressure on the company's pricing position.

On the flip-side of the coin, however, pharmaceutical companies without innovative products have very little or no bargaining power and little hope of success in this highly regulated and price sensitive market. This is one of the many reasons why so many smaller pharmaceutical companies, with smaller pipelines, have resorted to merger, acquisition and co-marketing strategies. Only in the collective, are they able to compete with other innovative companies.

2.3 OTHER INDUSTRY DRIVING FORCES

2.3.1 Changes in the long-term industry growth rate

In South Africa, the traditional pharmaceutical market has been destabilized by the political, economic and social demands of our customers. The decline in revenues and the contraction of margins has shattered old operational orthodoxy's that guaranteed past success and has intensified rivalry with industry members competing for larger portions of a smaller pie. As a result, the multinationals and others have been forced to rethink their structures and their strategies.

In a rapidly declining market it is likely that some of the multinationals may choose to exit the market, while others will consider reducing plant capacity and

retrenching to smaller workforces and in particular smaller sales forces. On the other-hand, generic companies are expected to expand their operations, soaking up the opportunities that exist for affordable alternatives. As a result, the competitive landscape is expected to change significantly over the next few years.

Those companies that choose to stay on and compete for a larger share of a smaller pie will need to focus on ways to revamp and cut costs along their value chain, in order to become more profitable in the absence of large sales volumes. They will also need to focus on ways to increase their brand loyalty and consequently their market share. From a marketing perspective, pharmaceutical companies will need to focus on the development and implementation of more innovative marketing strategies that capitalise on technologies that relate to:

- Expanding the product offering - product innovations
- cost-efficiencies across the value chain
- improved CRM
- improved quality, reach and frequency of the promotional message
- cost-efficiencies in sales and marketing
- optimising the sales and marketing ROI

2.3.2 Product innovations & degrees of product differentiation

The SA pharmaceutical industry is characterized by rapid product innovation and short product life-cycles.

Increasing competition has essentially shortened the life cycles of even the most innovative products. In the past, these products would enjoy three to four years alone in the market, unchallenged and commanding huge returns. Today, three to four months after launch, competitor agents hit the market. While the product life cycles are shrinking, the costs of discovery are increasing, thereby creating additional market pressure for companies to bring more innovative products to

market faster to establish first mover advantage and to recoup costs as soon as possible.

Many of the leading multinational pharmaceutical companies have, however, strong product pipelines and are able to frequently bring new innovative unmatched medicines to market. These innovation-based companies are usually able to differentiate their patent protected innovations from competitors, based on the product's proven performance, its safety & tolerability profile and most importantly its power to save lives and/or improve quality-of-life.

Many smaller pharmaceutical companies, however, are unable to bring innovative products to market quick enough. These companies find themselves marketing products that have essentially become more standardized. Unable to differentiate their products from the look-alikes, these companies employ lowest / best pricing strategies in order to drive sales. These companies also support fewer reps, spend very little money on marketing and focus their efforts on managed health care institutions and activities designed to ensure formulary inclusion.

2.3.3 Buyer needs and requirements

Buyer needs and requirements have changed substantially over the last decade. Today, physicians endeavour to practice 'evidence-based medicine'. This entails integrating their individual clinical experience with the best available external clinical evidence from systematic research, in order to support a treatment decision. However, physicians are also under pressure from government and medical schemes, to treat patients with the most affordable products and whenever possible with generics. So essentially the physician will try to satisfy both criterion and prescribe a product that they believe is both evidence-based and cost-effective, and will prescribe a generic equivalent where there is one available. Consequently pharmaceutical marketers have to develop marketing strategies that appeal to these two concepts of evidence-based medicine and cost-effectiveness. It is important to note that the cheapest product, however, is

not necessarily always the most cost-effective. Physicians have to weigh potential downstream cost benefits with immediate cost variances and motivate these arguments to the medical scheme when they wish to use a more expensive and innovative medicine over and above an obvious cheaper alternative. Needless to say, this is a very difficult and time-consuming process and many doctors have, as a result, given up the battle and now use cheaper on-formulary products even though they know there are better, more innovative medicines available to the patient. This trend has had a negative impact on the growth rate of the pharmaceutical industry.

2.3.4 Pace of technological change

2.3.4.1 Manufacturing

In order for a pharmaceutical company to compete successfully in the SA pharmaceutical industry, they must keep abreast of rapidly advancing production technologies and processes that relate to improved quality and cost efficiencies, by achieving:

- Reductions in capital requirements
- Minimum efficient plant sizes
- More efficient production and distribution

In order to achieve these efficiencies and remain competitive, most companies have had to invest substantially in state-of-the-art manufacturing facilities and have also had to endure ongoing upgrades to their facilities / equipment. Perhaps the multinational companies are at an advantage in this regard, because they are able to benefit substantially from their international subsidiaries, in the following ways:

- Sharing of technological know-how, learning curve effects, economies of scale and possibly comparative advantages that relate to reduced unit costs
- The importation of finished products when local capacity expansion decisions are linked to higher unit costs

- Greater bargaining power over the suppliers of raw materials, equipment and technology

2.3.4.2 Sales and Marketing

In a declining market, characterised by intense rivalry among many competitors jockeying for the doctor's limited time, optimising customer relationship management strategies, as well as developing more cost effective sales and marketing strategies, are imperative.

As a result, more companies have become focused on finding ways to leverage internet-enabled database technologies to improve on their customer-relationship management (CRM), territory-management (TM) and sales activities, in the following ways:

- Improving the availability of customer data.
- Improving the ability of management and sales reps to monitor and measure activities in "real" time.
- Improving the ability of the sales representatives and their managers to track customer contacts; monitor, measure, direct and support sales activities (targeting).

Many pharmaceutical marketers have also realised the multi-channel opportunities and synergies that exist for marketing via internet enabled technologies. The internet and emerging technologies will enable many more companies – large and small, to extend their geographic reach and compete for sales in many of the previously unworked territories, amongst non traditional marketing targets (Boehm; 2004:1) and amongst many of the previously difficult-to-see physicians. e-Marketing, if executed properly, may also offer pharmaceutical marketers the opportunity to improve on the quality, frequency and impact of their promotional messages, whilst optimising ROI (Chaffey, 2005:5). As a result, most companies operating in SA have begun leveraging the following:

- Integrated portals with access to their product and disease websites. The portals create a meeting point for customers to interact with the companies online.
- Product and disease websites. These sites enable the companies to interact with customers, also allowing the customers to “pull” information as and when they need it. The sites essentially create company-mediated 2-way communication channels among physicians and pharmaceutical marketers. Product sites are typically dedicated to the promotion of a specific product and include rich and attractive content that would normally be difficult to present to customers. Companies usually keep these websites regularly updated and aligned with their current product marketing strategy. Disease sites, on the other hand, act as repositories for rich information on disease / pathology in a readable and attractive format that would normally be difficult to make available to customers.
- Personalised e-Mail, e-Mail newsletters and SMS messaging. These tools enable companies to sustain ‘share of voice’, ‘share of mind’ and to drive repeat traffic on their websites.
- e-Learning and e-CME, which can be used to impart knowledge on specific therapeutic treatment options via the internet, has also been used quite extensively by many of the medical associations, disease societies and by accredited CME companies. Most pharmaceutical companies, however, are still in the pilot phase, but it is expected that e-CME will receive more use by them in the near future.

Another e-Marketing trend that is gaining in popularity in Europe and in the USA, but has not yet taken off in SA, is that of e-Profiling and e-Detailing. These initiatives are essentially a way for physicians to interact as they do with a sales representative, but via the internet. These initiatives provide product and sales managers with new opportunities to engage, educate and incorporate the physician. However, there has been very little research done in SA and too few examples for pharmaceutical marketers to follow and learn from. While e-Profiling and e-Detailing, promises to have the promotional and educational power to

compliment the sales force and establish competitive advantage, local research pilots will need to be done to confirm this.

One thing is certain however: The internet and emerging technologies will revolutionise the way pharmaceuticals are marketed, and the way in which companies will compete in future. As more physicians take to the internet and as more of them are introduced to broadband, so too will the power of this marketing channel grow.

2.3.4.3 Changes in cost and efficiencies in Sales and Marketing

According to the IMS Medical Promotion Index (Q2, 2005), the average cost of a call is estimated to be R209. So consider for a moment a company with 100 reps each working an average of 20 days a month and delivering an average of 6 detail calls per working day. This company would spend approximately R2.5 million on detailing alone. Now consider the fact that only 30% of these calls have the power to increase the physician's intention to prescribe (GP Promotion Monitor, 2004). We can, therefore, deduce that a company with 100 reps operating in the SA pharmaceutical environment would waste R1.7 million on "non-impact" calls.

For most SA pharmaceutical companies, sales force and marketing costs still represent the greatest expenditure, approximately 45-70% of the total marketing costs (Heutschi & Legner, 2003:264) and this diminishing return on investment has become a cause for grave concern. E-Marketing, however, promises to provide marketers with a more cost-effective way to increase the quality, reach, frequency and impact of their promotional messages and perhaps complement the traditional sales force (Heutschi & Legner, 2003:268). Key operating cost drivers in e-Marketing are the software and server-networks required to perform the promotional functions as well as the web page construction and marketing expenses. Once these systems are in place a company simply has to add server capacity and perhaps service personnel as the channel grows in use. Much of these costs are over-shadowed by the many obvious cost benefits afforded by

the online marketing model (Deighton, 1996:161). The reliance on computers and on the internet for interfacing with physicians has the potential to greatly reduce rep costs whilst also reducing the incidence and expenses (opportunity costs) related to inaccurate targeting, unproductive calls and low call rates. Other day-to-day costs like telephones (cell phones), transport (vehicles and fuel), print advertising, postage and paper; are also avoided. The economies of business units sharing the costs of web-infrastructure and software, with other business units within the same company (centralised platform), are also substantial (Bernewitz, 2001:5). As a result, companies that choose to pursue online marketing strategies over traditional strategies are expected to achieve profitability at much lower sales volumes (Kotler, 2002:75).

2.3.5 Vertical Integration

In an effort to become more profitable and more competitive, many competitors in the SA pharmaceutical industry have also become more vertically integrated, handling every aspect involved with the delivery of a medicine to the marketplace. These companies handle R&D, product development, clinical trials, manufacturing, warehousing, distribution and logistics, marketing and sales. Fully integrated pharmaceutical companies are expected to have greater control over value creating activities; quality, performance and cost; thereby offering them a greater opportunity to increase profitability and leverage a more sustainable competitive advantage over their partially integrated competitors. However, comparing fully and partially integrated companies can sometimes be misleading. Such a comparison would require adjusting for differences in scope of activities performed (Strickland et al, 2005:100).

2.3.6 Economies of scale

The SA pharmaceutical industry is also characterised by economies of scale in manufacturing, sales and marketing. In the larger pharmaceutical companies, economies of scale arise whenever they perform value chain activities more cheaply at larger volumes and from their ability to spread out costs like R&D,

manufacturing and marketing over a greater sales volume. These larger companies therefore have large facilities; staff, distribution chains and most notably – large sales forces to ensure demand for product. Very often smaller companies, unable to tap into the advantages of economies of scale and vertical integration, may enter into co-manufacturing and/or co-marketing agreements with larger companies who are able to. Other smaller companies will outsource support from “contract companies” in order to ensure that they can compete effectively.

2.4 KEY SUCCESS FACTORS

In the SA pharmaceutical industry, the most competitive factors that will have the most significant impact on a company's ability to prosper are:

- Technology, Innovation & Patent Protection
- Innovative Marketing & Distribution
- Competent Sales Force
- Improved Customers Service
- Emphasis on Cost Efficiencies across the value chain

2.5 CHAPTER SUMMARY

The SA pharmaceutical market is a highly competitive and regulated market, characterised by many companies competing for time in front of the same target physicians and competing for a much smaller segment of business than they did before. From a marketing perspective, pharmaceutical companies will need to focus on the development and implementation of more innovative marketing strategies that capitalise on technologies that relate to:

- Expanding the product offering - product innovations
- cost-efficiencies across the value chain
- improved CRM
- Improved quality, reach and frequency of the promotional message
- cost-efficiencies in sales and marketing
- optimising the sales and marketing ROI