

Salix pharmaceuticals
is a major speciality
pharmaceutical
company marketing
essa...



**ASSIGN
BUSTER**

Salix Pharmaceuticals is a major speciality pharmaceutical company which specialises in gastroenterology treatments. They are committed to developing, licensing and marketing products which are innovative in nature and treat gastroenterology problems. The mission of the company is to provide patients all over the world with effective solutions in the concerned field of gastroenterology (“ Salix Pharmaceuticals Company, n. d”). Some of the well known products of the company are ASPIRO, OSMOPREP, MOVIPREP, XIFAXAN & METOZOLV. They market these products to all major US healthcare providers.

Salix Pharmaceuticals have historically focused on a strategy of niche market adaptation and all their drug acquisitions have been in a late stage of development so that they can minimise their risk. The question the company faces right now is to decide the future strategy of diversification and come up with scenario building so that they can decide their focus for the future. An Alternative for the same is either to stay focused on niche market of gastroenterology and attain a leadership position or to diversify like other pharmaceuticals. If they decide to diversify, they risk losing the niche market and sales force focus. If they don't they risk working in a saturated market and may achieve no or stagnant growth.

The situation is very grim for Salix Pharmaceuticals because they are at a critical juncture where they need to decide whether to remain as a very strong niche player or start focusing on different zones. This will decide the market for the company in the future and whether they need to adapt to adapt to the situation of other key players.

Key Issues

Slowly but steadily Salix Incorporation has become a major player in gastroenterology, should they try to venture in other key areas of medicine or should they still focus on niche they cater to. The question is very critical because this will decide the future strategy of Salix Pharmaceuticals and will pave the way for the company.

It face challenges of the growing company. It has four FDA approved product and number of them are in pipelines also.

Should they change their motto of search and development to Traditional R&D? In case of traditional R&D their capital expenditure will increase substantially, but if they don't start traditional R&D will they able to acquire as they have been doing.

They are a set of focused players in US market and have not ventured much into foreign market. What should be there strategy to enter a new market or should they ever enter an International market place.

Situational Analysis

The situation is very grim for Salix Pharmaceuticals because they are at a critical juncture where they need to decide whether to remain as a very strong niche player or start focusing on different zones. This will decide the market for the company in the future and whether they need to adapt to the situation of other key players. Salix Pharmaceuticals have historically focused on a strategy of niche market adaptation and all their drug acquisitions have been in late stage of development so that they can

minimise their risk. The question the company faces right now is to decide the future strategy of diversification and come up with scenario building so that they can decide their focus for the future. Alternative for the same is either to stay focused on niche market of gastroenterology and attain leadership position or to diversify like other pharmaceuticals. If they decide to diversify they risk losing the niche market and sales force focus. If they don't they risk working in a saturated market and may achieve no or stagnant growth.

The key strategy adopted by Salix pharmaceuticals is to adapt the drug which will be commercially viable at a very late stage in the whole process so that risk of failure is minimized. Their core competency is in marketing the product and hence they focus on acquiring drugs at a very late stage of commercialisation and then market them with their very efficient sales force.

Acquisition of drug at this critical stage helps the company reduce their risk to a very low level. For this the requirement is good scouting team along with great marketing capability in the segment so that appropriate is created between the company and the product itself.

Some of the critical things Salix need to look into before deciding upon their future moves are

They have just moved into positive net revenues in 2004.

Will shift in strategy lead to shift in core competency and will that be beneficial

Gastroenterology market and its future.

<https://assignbuster.com/salix-pharmaceuticals-is-a-major-speciality-pharmaceutical-company-marketing-essay/>

Sustainability of the competitive advantage

Replication by competition

Directional strategies

The directional strategies are undertaken by the company to improve its position and enhance its reach and ability to serve maximum number of patients starts with the defining of its mission statement vision and goals.

Mission

Salix is committed to being the leading U. S. specialty pharmaceutical company licensing, developing and marketing innovative products to healthcare professionals to prevent or treat gastrointestinal disorders in patients while providing rewarding opportunities for our employees and creating exceptional value for our stockholders. (“ Mission& Company Strategy, 2010”).

Value Statements

Some of the key value statements for the company are commitment to health and well being of those being served expectation, to achieve the highest level of excellence, understanding the vital importance of advocacy for those being served, imbining creativity and innovation, recognizing the importance of working with the patients and the community and dedication towards providing high level education to health professionals.

External Environment

The external environment for any organisation influences the decision making for the company to a very large extent. External environment

<https://assignbuster.com/salix-pharmaceuticals-is-a-major-speciality-pharmaceutical-company-marketing-essay/>

includes macro factors, presence of competitive products, government support, industry performance, external support available etc. This segment is a very small but very active and critical unit of healthcare system across the world. In 2008 around 15200 speciality gastroenterologists across USA, conducted about 29.6 million visits to the patients and the prescription were valued at \$7.0 billion. Salix Inc is a key player in this market leveraging its strong distribution network and marketing capability.

Salix is a marketing focused organisation which employs direct sales force so that it can promote its product to the highest prescribing gastroenterologist who are among the fastest adopting force in the US healthcare industry. There is huge price variation in USA among the branded drug and the generic version of the same.

The Global Pharmaceutical market was around USD 773 billion in 2008. The biggest player in the market USA contributes almost half the value (45%) with Europe following the next (24%) and Japan (11%). China contributes 2% and Indian contribution is 1.8% ("U. S. health care, n. d").

The different external changes can be viewed under the following heads:

Legislative/Political Changes

Economic Changes

Social/ Demographic Changes

Technological Changes

Competitive Changes

In the following pages I will discuss all the issues in details so that we can a detailed perspective to make decision for Salix Pharmaceuticals.

Legislative/ Political Changes

America had a \$2. 2 trillion a year medical budget for the population but majorly of it was wasteful as it is financed in an extremely bad way. The question always remained whether America will be able to sustain such a way of financing rising healthcare costs. In 2007 Healthy America Act was introduced by the George Bush government. The act required individuals to get a private health insurance pools and eliminate employer sponsored insurance premiums. The act did not pass in the assembly but it certainly created a furore in the Healthcare industry. If we consider the perspective of Salix Inc, the act would have certainly impacted the company as a whole (“ U. S. health care,” 2009).

Economic Changes

Today there is huge pressure on big pharmaceutical companies. There are many reasons that can be ascribed to this. The most important of them are:- Drugs worth USD 47 billion are getting off patent in the next three years; there have been increased penetration of generics in markets where historically innovators have been strong, There is drastic reduction in drug approvals from USFDA and above all of these have led to huge escalation in drug development cost.

Cost cut down initiatives planned by big Pharma companies:

Global Pharma innovators, who are already under tremendous pressure to protect their profitability, have further strengthened their focus on cost rationalization activities (like - lay-offs and shut down facilities etc) in order to tackle with the recent tight financial situation . This would further boost the earning potential for low-cost CRAMS destinations like India and China.

Technological Changes

The technology has changed leap frog for the last 10 years in healthcare industry all over the world and pioneer have been USA. The recovery period for the patients has reduced considerably due to better medical infrastructures and better technology to utilise it to the full extent. Surgeries are become very much automated these days with proper diligence on every step. This has been only possible because of the growing Research & development in the field. Salix Inc's product is one of technological leap frog in the industry. It will create such an easier environment in that high profile surgery room. The need is to get the product in the right hand at the initiation before competitor barge with another product of the similar or better kind. These technological innovations need to be utilised. The objective should be to sustain their competitive advantage in the niche market which they cater to.

GENERIC

A Generic Drug is a copy that is the same as a brand name drug in dosage, safety, strength, how it is taken, quality, performance and intended use

The use of generic drugs is now widely accepted and they are commonly prescribed by physicians and dispensed at hospitals
<https://assignbuster.com/salix-pharmaceuticals-is-a-major-speciality-pharmaceutical-company-marketing-essay/>

The generic drugs are less expensive as compared to branded drugs as generic manufacturers do not have the investment costs of the developer of a new drug.

Internal Environment SWOT

Strengths:

Pool of talented and compassionate staff members who choose to work at Salix Inc and believed in its mission and enjoyed serving those in need.

Strength in marketing key products in selected market

Talented partnership model outside USA

A very strong distribution channel

Advantages of Niche market and no major cost.

A very good scouting team which hunts for drug in late development stage and acquire it.

Weakness:

Market saturation for gastroenterology

Majority of capital was funded and net profit has just turned positive in 2004.

With this low operating revenue, operations may become unsustainable in future

Resources are not adequately utilized

Inadequate infrastructure to take care of the growing demand outside US

Opportunities:

Managed care was dominated form of insurance in US and enrollment was expected to increase

Change in the US health care system. Managed care was altering how health care providers interacted with patients, funding for care was being restricted and many health care system were using non physician providers to cut cost. This threw plethora of opportunities in front of CGS.

New segments other than gastroenterology to cater to.

Threats:

Stiff competition in the health care segment

Technological advancements along with insufficient capital

Inability to cope up with competition in the light of technological advancements which made diagnosis of multiple problems possible and insufficient capital.

Dependency on Single niche segment for any kind of revenue stream. No alternate sources of revenue are available.

Growth Drivers

Biggest growth drivers in generic market is the value of patent expiry that is taking place in the global market. In the figures given below we can see the

value of patent expiry that will take place in US and European Market. With such patent expiring in developed countries generic drugs are set to be revenue churners for the companies foraying in it.

Salix is a marketing focused organisation which employs direct sales force so that it can promote its product to the highest prescribing gastroenterologist who are among the fastest adopting force in the US healthcare industry. There is huge price variation in USA among the branded drug and the generic version of the same.

Salix Inc was never into direct consumer marketing and stuff. They always believed in marketing the product to the prescriber because they are the decision makers in all such scenario. Salix Inc has created a direct sales force which helps in promotion of the product to the highest prescribing physicians in the U. S for the treatment of gastrointestinal diseases players (“ Salix Pharmaceuticals Company,”). This sales force helps the organization in capitalizing on the opportunity which creates a franchisee model for the gastrointestinal community as a whole. It helps Salix attain higher profit margin and it helps Salix in having a direct command over the distribution channel.

The situation is very grim for Salix Pharmaceuticals because they are at a critical juncture where they need to decide whether to remain as a very strong niche player or start focusing on different zones. This will decide the market for the company in the future and whether they need to adapt to adapt to the situation of other key players (“ Salix Pharmaceuticals Company,”). Salix Pharmaceuticals have historically focused on a strategy of

niche market adaptation and all their drug acquisitions have been in late stage of development so that they can minimise their risk. The question the company facing right now is to decide the future strategy of diversification and come up with scenario building so that they can decide their focus for the future. Alternative for the same is either to stay focused on niche market of gastroenterology and attain leadership position or to diversify like other pharmaceuticals. If they decide to diversify they risk losing the niche market and sales force focus. If they don't they risk working in a saturated market and may achieve no or stagnant growth.

Strategy Formulation

The Main focus on Salix Pharmaceutical is on search and development. The objective is to identify and acquire a product which is late developmental stage and is focusing on treatment of gastrointestinal diseases. This focus helps in risk reduction and also helps Salix to reduce time and development cost for new Research & development. It is a great opportunity when compared to products which are in early stage of developments (" Salix Pharmaceuticals Company,"). The important work here is to pay the right price for the acquisition and good negotiation skills among the top management.

Operations which are capital intensive and are low margins are outsourced. The focus of Salix is on maximizing the commercial potential of the key products. Some of the operations like manufacturing are mostly outsourced. The key resources of the company are not tied up in " Brick and mortar" but are wisely invested in key activities like increasing product sales.

Salix Inc has created a direct sales force which helps in promotion of the product to the highest prescribing physicians in the U. S for the treatment of gastrointestinal diseases. This sales force helps the organization in capitalizing on the opportunity which creates a franchisee model for the gastrointestinal community as a whole. It helps Salix attain higher profit margin and it helps Salix in having a direct command over the distribution channel.

Salix Intends to grow by adding new product to their already developed portfolio in the niche segment of gastroenterology. New products will be added to the portfolio by these methods:

Acquiring new products with in-licensing

Promote some of the third party products

Expanding the current indications of the available products

The largest pharmaceutical market in the world is U. S. Salix Incorporation markets its product in this focused market. Salix intends to form strategic alliances across the distribution channel so that it can reach the end customer more easily in such a huge market. It also intends to go into joint venture outside USA so that it can reduce costs, infrastructure needs, risks and it allows them to inherent a strong international sales force.

Reasons for Outsourcing

Focus on core competency like R&D and marketing and lack of capacity at its end

This has led to outsourcing of non-core activities like manufacture of intermediates and APIs from low cost destinations

Innovator companies in developed nations are under tremendous pressure from their respective governments to reduce the prices of drugs.

The key strategy adopted by Salix pharmaceuticals is to adapt the drug which will be commercially viable at a very late stage in the whole process so that risk of failure is minimized. Their core competency is in marketing the product and hence they focus on acquiring drugs at a very late stage of commercialisation and then market them with their very efficient sales force.

Acquisition of drug at this critical stage helps the company reduce their risk to a very low level. For this the requirement is good scouting team along with great marketing capability in the segment so that appropriate is created between the company and the product itself.

Promotional Strategy

The primary effort of the marketing and sales team was to put their concentrated effort on gastroenterologists who are the ones who can prescribe the drug to the patient. They created a universe of 68 sales representatives which they believed can cover the whole universe of gastroenterologist in USA. The best of the gastroenterologist were visited by Salix sales representative weekly and the lower deciles of doctors were visited once or twice a month. Some of the regular features of sales team are detailed below-

Regular visit by the representative to the prescribing gastroenterologist. It keeps the medical facilities across USA updated about the properties of the product.

Lectures and Seminars were conducted to create awareness about the availability of the option

Salix pressed in advertisement the advantages of the product.

Purchasing various advertisement slots in scientific magazines which focused on gastroenterologist

Sponsoring studies which cater to off-label usage of the product

Salix Inc was never into direct consumer marketing and stuff. They always believed in marketing the product to the prescriber because they are the decision makers in all such scenario. Salix Inc has created a direct sales force which helps in promotion of the product to the highest prescribing physicians in the U. S for the treatment of gastrointestinal diseases. This sales force helps the organization in capitalizing on the opportunity which creates a franchisee model for the gastrointestinal community as a whole. It helps Salix attain higher profit margin and it helps Salix in having a direct command over the distribution channel.

Strategic alternatives

Manufacturing Strategy: The Company needs to modify its radical sourcing policy for Certain regions. This is because developing a standard product by

local manufacturers is not feasible in most cases. Lack of proper training will lead to design defaults in elevators.

Customization: Another major strategic alternative for the company is to build customized products. As in the case, twice company got the orders of a non-standard product, which was not the part of their plan.

Regional Strategy: The plan built by Salix was in line with the international strategy & Organization goal of the company.

Strategic recommendations

Salix had been unsuccessful in implementing the business plan he made sitting at the headquarters. This is because he relied much on the industry analysis of USA. The company tried to implement Red Ocean Strategy, by competing in the existing market and focusing on existing customers (“About Blue Ocean,”). He should have rather used a Blue Ocean Strategy while entering in the Regional or new market space. This would have given Salix the advantage of creating an uncontested market space for itself by making the competition irrelevant. The whole system of company’s activities should be aligned to create differentiation at a low cost. The first step towards creating differentiation is customization of products. This will help the company reduce significant costs for future, and also save them with the cost pressures of transfer pricing (“About Blue Ocean,”). They need to create a new demand by offering differentiated products superior to its competitors. These strategies can help the company gain a significant market share in coming years.

The Main focus on Salix Pharmaceutical is on search and development. The objective is to identify and acquire a product which is late developmental stage and is focusing on treatment of gastrointestinal diseases. This focus helps in risk reduction and also helps Salix to reduce time and development cost for new Research & development (Burke, van Stel & Thurik, 2010). It is a great opportunity when compared to products which are in early stage of developments. The important work here is to pay the right price for the acquisition and good negotiation skills among the top management.

Salix Inc was never into direct consumer marketing and stuff. They always believed in marketing the product to the prescriber because they are the decision makers in all such scenario. Salix Inc has created a direct sales force which helps in promotion of the product to the highest prescribing physicians in the U. S for the treatment of gastrointestinal diseases. This sales force helps the organization in capitalizing on the opportunity which creates a franchisee model for the gastrointestinal community as a whole. It helps Salix attain higher profit margin and it helps Salix in having a direct command over the distribution channel.

Salix Inc has created a direct sales force which helps in promotion of the product to the highest prescribing physicians in the U. S for the treatment of gastrointestinal diseases. This sales force helps the organization in capitalizing on the opportunity which creates a franchisee model for the gastrointestinal community as a whole. It helps Salix attain higher profit margin and it helps Salix in having a direct command over the distribution channel.

Financial Analysis: Table 1

2001

2002

2003

2004

Accounts Receivables

2378

5980

3598

10457

Inventory

6274

10210

16094

25656

Product Revenue

22350

33456

55807

101697

Gross Profit

18855

25264

42581

83742

Gross profit Margin

84.36%

75.51%

76.30%

82.34%

Net Income

-17498

-24472

-20101

6985

Implementation

Salix Inc should carefully choose among the available partners which creates best of synergy for both the firms. It is said for both the firms because a single beneficiary in a partnership cannot be sustained for long. The requirement is to create an environment with the partner and leverage the availability of a strong sales force. The promotional mix should be designed keeping in mind the introduction stage. The company should utilise the first movers' advantage and create a maximum reach in minimum time possible. The reason for the above is to create the maximum possible impact on the target audience.

Benchmark for Success

Benchmark for company should be the achievable sales target they initially planned to. If the company can achieve those sales figures without compromising its situation in the market place it would do enough to be called successful.