Repositioning ranbaxy

Finance, Investment

Introduction Ranbaxy’s Laboratories Limited’s (Ranbaxy) profile as a pharmaceutical company underwent a sea change during the period 1985-1995. During this period Ranbaxy diversified into different products, markets and in general over the ‘ value curve’. Its export sales grew from 7. 45% of total sales in 1985 to 42. 4% of total sales 1995. The growth in the foreign markets was primarily led by bulk drugs and intermediates, which constituted 80% of the foreign sales in 1995. Driven by the vision of CEO Parvinder Singh, Ranbaxy had consciously started moving up the value curve into branded generics in the emerging markets and commodity generics and bulk drugs in the developed markets. At the same time Ranbaxy started its thrust into New Drug Formulations by investing in Basic R&D facilities in India. The Indian market was governed by price controls in the 1970s and 1980s — a situation that did not incentivise research. This, coupled with low per capita income resulted in demand for drugs that was not very high in sophistication. The bias for small scale resulted in over-capacity that led to excessive price competition. This kind of rivalry in the domestic market prompted Ranbaxy to adopt a differentiation strategy. Ranbaxy tried to create differentiation through Marketing and Process Technology. This resulted in improved product/brand profitability, and an increase in brand life cycle, similar to the post-patent approach adopted by many research-based companies. At about the same time, Ranbaxy embarked on an export drive. This gave Ranbaxy improved margins, an entry-point into several international markets, and an opportunity to spread its risks away from the controlled Indian market. Without doubt Ranbaxy was blessed with benign factor conditions: significant cost advantages in R&D and in manufacturing.

The role of supporting industries was not very significant as import of bulk drugs, that were not produced domestically, was allowed by the Indian government albeit at high tariff rates. Indian Pharmaceutical Industry Recognitions - Recognition of Process rather than Product patents - Government controlled drug prices especially essential prices by Drug Price Control Order (DPCO) - Indian market: very small - Prices among lowest in the world - Low spending in healthcare hence low sales as compared to the population - Reverse engineering of foreign drugs The combined result of Indian Patent Law and the DPCO resulted in - low R&D investment in the line of 1-2% - Recognition of Process rather than Product patents - Government controlled drug prices especially essential prices by Drug Price Control Order (DPCO) Ranbaxy’s position - Focus on developing low cost processes o 55% of domestic sales were formulations o Cost of production 50-75% lower than in US - Bulk and Intermediates sales as strategic tool for overseas market entry - Chemical synthesis as core competency - Narrow portfolio of drugs - Dominated by anti-infectives - Conscious attempt to Diversify to therapeutic groups - Exports: Formulation sales in developing countries; Bulk sales in developed ones Changing Industry Scenario - Shift toward Product Patents - Current model of Reverse Engineering not sustainable in the long run - Need to shift strategy to New drug development - Need to create presence in developed markets - High growth prospects due to high population and increased spending - Liberalization of Indian markets in 1991 - Relaxation of price control - Recognized as a priority sector - Increase in FDI cap and decrease in import subsidy Firm-specific advantages - Development of low cost process to develop Cefaclor attracted Eli Lilly o Global alliance with Eli

Lilly led to increase in credibility - Hired Anderson Consulting to cut costs o Maintained moderate man power - 5-10% Premium for speed, quality and sales force Repositioning Post GATT - Extension of patent term to 20 years rejected - 2 schools of thought — prices will explode vs. Indian companies will rise to the occasion - Change in focus toward developing new drugs o Looking to enter developed markets o New plants to comply with international regulations (FDA) o Implementation of Total Quality Management in all plants - Global Expansion with acquisition of overseas labs - Drastic increase in R&D investment to about 5% of sales (focused on new drug development) - High capacity utilization for Bulk drugs (92%) compared to Formulation drugs (62%) - Same approach for both developing and developed markets in spite of different costs Response to Liberalization - Same quality for both developed and developing markets Ã jump in fixed assets in 1991 - Increased investment in intangibles- HR, Quality control, IT, TQM - Relationship with vendors Ã fall in rejection rates - International manufacturing plants to manufacture dosage forms Ã manufacturing presence in all 4 regions - 9% of sales on marketing but mostly successful in India alone - Current R&D concentrated on producing generic versions of existing drugs - R&D costs much lower in India (Personnel and Machinery) and reduced cycle time by 2 years Recommendations - Could consider JV only for R&D purposes and not manufacturing - Could focus on selling bulk drugs before major investments in overseas plants - Choosing the right match between products and markets that would give it economies of scale and scope We think that they cannot change their strategy all of a sudden from selling Bulk drugs to making new drugs. They should, in the short term

concentrate on the Bulk drugs markets to sustain profits and at the same time, they can start working on developing new drugs to compete with global companies in the long run as developing new drugs is a time consuming process.