

The global pharmaceutical industry and astrazeneca



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Introduction and Significance of Research

This study covers the global pharmaceutical industry in general and more specifically AstraZeneca, which is in a phase of restructuring and implementing operational issues. Although pharmaceutical industry continued to grow through 2009, but the depressed stock markets reduced the market capitalization of companies in the industry. The pharmaceutical industry faces a number of challenges including regulations and price control. At the same time, a number of governments, including that of the US, are contemplating far reaching reforms that could present an opportunity to the industry. Thus, in a sense the industry is at the cross roads having consolidated its position in several respects, but also facing a number of new challenges, as new opportunities open up for the industry. (booz&co, 2009)

AstraZeneca, being one of the largest pharmaceutical companies in the world with a global presence is also affected by the various environmental changes. Additionally, AstraZeneca has been burdened with overcapacity in manufacturing and product development and has been under pressure to downsize and make structural changes (Rosen, 2008). The company has been on a spree of downsizing its jobs that has affected 3, 000, job losses at its home country itself. The challenges faced by AstraZeneca also include its slow flow of new products on which it could have further enhanced its growth and also its various attractive patents reaching expiry within the next five years. Additionally, AstraZeneca has been looking for partners and buying out both R & D capabilities as well as expanding its marketing efforts. It

collaborates with labs like Palatin Technologies and Arrow Therapeutics in a bid to boost its R & D and get more products in the market.

One particular move that AstraZeneca has made is to expand its manufacturing and marketing operations to emerging markets especially in the Middle East. It has set up manufacturing units in the region as well as initiated its programs of active partnership with local governmental and non-governmental healthcare units.

The current research therefore aims to assess the effectiveness of AstraZeneca's marketing strategy for the Middle East. For doing this, the first step that the research undertakes is to collect data regarding the adopted strategy of AstraZeneca, its current and future plans for the region. Next, the research includes a critical analysis of the marketing strategy of AstraZeneca with a specific reference to the political, social, economic and legal environment of the region. For this, a PESTEL analysis will be conducted for AstraZeneca in the context of the Middle Eastern region. Below I present the potential to make contribution from the research analysis.

The Middle Eastern region is a profitable area for pharmaceutical organizations due to the growth in the population of the region as well as increasing acceptance of the Western medicines. The economic development of the region too has made it a lucrative place for business to sell their products, including pharmaceuticals. Additionally, the region is poised to become a hub for health tourism where both the doctors and the patients come together for consultations and other health services (Saliba, 2000).

These are some of the factors that make the Middle East an attractive

market, where foreign pharmaceutical companies can benefit. However, there are also certain push factors that lead these companies to expand to newer markets. These include exhaustion of home market, severe competition, high costs of manufacturing and distribution etc (Elizabeth, 2009).

It can be seen from the above that the Middle East market is not only attractive for the pharmaceutical companies, but it is also a necessary for them to expand if they want to continue to remain viable and profitable. While, pharmaceutical organizations are looking for strategic partnerships in manufacturing as well as marketing in diverse regions of the world like the Middle East, they base most of their decisions on the availability of a potential market and consumers. A recent study by Marc-Andre Gagnon and Joel Lexchin suggests that the growth in the pharmaceutical industry is market driven rather than research-driven, a finding that challenges existing perceptions (Science Daily, 2008). While this is a good approach, it is also essential that factors other than market potential be also assessed before making investments in newer markets. There is a need to understand the cultural and political aspects of those regions as well as these aspects play a crucial role in to what extent the foreign organizations, and especially the pharmaceutical organizations, are able to establish themselves. The current research expects to fulfill this need. It will lead to an understanding of major drivers of growth and change in the pharmaceutical industry specific to the Middle Eastern region plus their strategies and challenges they face there.

The current research also aims to provide an objective perspective on the marketing strategies of AstraZeneca in the Middle East. By evaluating the <https://assignbuster.com/the-global-pharmaceutical-industry-and-astrazeneca/>

strengths and weaknesses of the strategic marketing plan of AstraZeneca, the research expects to shed light on what works best for the pharmaceutical companies in the context of the Middle East region.

This research is expected to lead to a development of understanding of the Middle East business scene as well as the prospects for the pharmaceutical industry in the region.

Literature Review

The current research has included a review of available literature on the global pharmaceutical industry and the Middle Eastern pharmaceutical industry in particular. The review of the industry is necessary to understand why international pharmaceutical companies may want to expand to the Middle East. Next, the possible reasons for the rapid growth of the industry worldwide due to the occurrence of newer diseases, newer cures with existing medicines and enhanced reliance of the people of prescription drugs is discussed. This provides a backdrop for understanding the essential needs and reasons why people purchase pharmaceuticals, and hence is expected to help in recommending suitable strategies. The literature review also includes an exhaustive survey of the political, economic, legal and socio-cultural environment of the Middle East. This enables the researcher in conducting a PEST analysis on the strategies employed by AstraZeneca and in making suitable recommendations for it to become a market leader in the Middle East.

Research Questions and Objectives

Based on the above presentation, the main research questions are:

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What are the drivers that make the Middle East Region attractive to the pharmaceutical companies?

What are the barriers to doing business that pharmaceutical companies face in the Middle East?

Are the marketing strategies adopted by AstraZeneca in serving the Middle Eastern Market adequate to provide the organization with a stronghold in the regional market?

In order to address these research objectives, my research objectives are:

To assess the Political, Economic, Socio-Cultural, Technological and Legal Environment of the Middle East.

To assess the appropriateness of the current strategies of AstraZeneca for the region

To make recommendations for improving the strategies.

Research Methods

The research uses both secondary as well as primary sources of data. The secondary sources will include a review of literature on the marketing strategies, especially for the pharmaceutical industry and will also elaborate upon the socio-cultural implications of the regional marketing strategies. It will expand upon the general business environment in the Middle East, and about the culture and consumer behavior in the region.

The primary data is based on survey and interviews of various officials of AstraZeneca, as well as doctors and consumers (Drug Stores, Stockiest, etc.) of pharma products from the Middle East. These survey responses are aimed to provide data on the marketing strategies used by the company in the Middle East and also to point out the problems that the company faces in the region.

Limitations of the Research

The current research is limited in scope as it covers the area of the Middle East and evaluate the marketing strategies of one pharmaceutical organization; AstraZeneca. The effectiveness of the Marketing Strategy of AstraZeneca is to be evaluated using the PEST analysis for the Middle Eastern context, and insights drawn from here are used to make recommendations to AstraZeneca and other pharmaceutical organizations that intend to do business in the region. This limited use of one organization, in one context may not be suitable for making recommendations in general as diverse organizations have their own sets of resources and approaches.

Next limitation is that the research is conducted using a limited number of respondents. The research includes interviews of employees of AstraZeneca, consumers (Drug Stores, Stockiest, etc.) and doctors. Overall the interviews are limited to 15 in number with 3 employees from AstraZeneca, 9 consumers and 3 doctors. Still, this should provide basis for further, much exhaustive research with a larger number of respondents included in future. However, in the absence of reliable information on this topic, within these limitations the research makes useful contribution.

Dissertation Structure

The dissertation is divided into 6 chapters. The second chapter contains a brief overview and background of AstraZeneca. This will help in developing an understanding of the marketing strategy of the organization and will be used in conjunction with the interview responses of the employees of AstraZeneca.

Chapter 2 contains the literature review. This will include a survey and critical review of literature regarding the drivers of growth in the pharmaceutical industry. It will also provide an overview of the Middle Eastern region and its political, economic...

Chapter 3 presents the research methodology adopted for this analysis. This chapter covers the research methods, research instrument, data collection and data analysis methods and also elaborates upon the tools like PEST analysis that are employed in the research.

Chapter 4 reports the research findings followed by Chapter 5 of analysis and discussion of the research findings. The dissertation concludes with the last chapter, that provides conclusions and recommendations for AstraZeneca and the pharmaceutical companies in general about marketing in the Middle East

Summary

This chapter elaborated upon the rationale for the research and set the ground for the research questions and formulated the research objectives. The chapter also discussed briefly about the research methodology that will

be further expanded in Chapter 3. Finally the chapter presented the structure of the dissertation for easy understanding, and thus this chapter acts as a preview to the entire dissertation. The next chapter discusses the available literature and presents a review of various topics related to the current research.

Chapter 2 Literature Review

Introduction

The current chapter includes a literature review and starts with an overview of AstraZeneca and proceeds to delve on topics like the global and the Middle Eastern pharmaceutical industry. This provides the reader with a background about the current situation and competition in the industry. It also discusses the various drivers of growth of pharmaceutical industry which provides the researcher with the understanding of the importance of pharmaceutical companies expansion in newer regions like the Middle East. It then proceeds to highlight the specific economic, political, and social, management and legal issues specific to the Middle East. Finally, the literature review concludes with a discussion on Marketing strategies and their utility in different situations and regions. The insights gained through the literature review helped the researcher in developing the questionnaire with suitable questions that could be used for answering the research questions.

AstraZeneca – Company Background

AstraZeneca was formed in the year 1999 by the merger of two pharmaceutical giants- Astra AB of Sweden and Zeneca Group PLC of the UK

(AstraZeneca, 2010). AstraZeneca is one of the leading pharmaceutical companies in the world with the reported sales of 32 billion in the year 2008. With the corporate office in London, AstraZeneca has a global presence in over hundred countries. It does most of its research and development activities in Sweden, the UK, the USA and 5 other countries across the world. AstraZeneca does its manufacturing in 18 countries across the globe through its 26 manufacturing units. Its numerous products fall basically into six categories - cardiovascular medicines, gastrointestinal, infection, neuroscience, oncology and respiratory (AstraZeneca, 2010). The company also manufactures well known brands of medicines like the Arimidex, Crestor, Nexium, Seroquel and Symbicort (AstraZeneca, 2010). AstraZeneca employs over 65, 000 people in its various R & D and manufacturing units worldwide. AstraZeneca is also among the highest investors in research and development and it is credited with an investment of over 5 billion dollars in 2008 and employs over 12, 000 people in its R & D units (AstraZeneca, 2010).

AstraZeneca has a Global Marketing and Business Development group that looks after the marketing aspect of the organization as well as directs the clinical trials (AstraZeneca, 2010). The Global Marketing and Business Development Group provides strategic market inputs that enable AstraZeneca in making appropriate investments in research projects and in clinical research that the customers may ultimately benefit from. The company also partners and makes strategic alliances with other marketing companies across the globe to channel its marketing and sales operations (AstraZeneca, 2010).

In view of its long term plans for the Middle East, AstraZeneca moved its Middle Eastern regional office from the UK to Dubai as the first step. AstraZeneca has relocated its regional office in the heart of Dubai's health care hub, at Dubai Healthcare City (Andersen, 2010). This move enabled AstraZeneca to position itself in a place where world class health care facilities are promoted, specialists and doctors of international repute frequent and patients from across the region come for special treatments. AstraZeneca in partnership with Dubai Healthcare city hopes to provide both patient education programs and specialists and paramedic educational program (Andersen, 2005). These programs are reflective of AstraZeneca's vision of aiding both the patients and the doctors in better diagnosis, better remedy and better follow-up of illness.

AstraZeneca set up its first manufacturing plant in the region in Cairo to serve the Egyptian market as well as the Middle Eastern countries (Gotensparre, 2006). The manufacturing unit in Cairo has also resulted in the increase of AstraZeneca jobs in the region and the move is in line with the future expansion plans of the company in the Middle East (Gotensparre, 2006).

Overview of the Pharmaceutical Industry

The global pharmaceutical industry is in a phase of restructuring and implementing operational issues. The industry continued to grow through 2009, but the depressed stock markets reduced the market capitalization of companies in the industry. The industry faces a number of challenges including regulations and price control. At the same time, a number of governments, including that of the US, are contemplating far reaching <https://assignbuster.com/the-global-pharmaceutical-industry-and-astrazeneca/>

reforms that could present an opportunity to the industry. Thus, in a sense, the industry is at the cross roads having consolidated its position in several respects, but also facing a number of new challenges as new opportunities open up for the industry (booz&co, 2009)

The pharmaceutical industry is also under a pressure to contain its costs in the US, European and the Japanese markets. This makes it a viable option for the pharmaceutical organizations to test newer emerging markets like the Middle Eastern that is estimated at \$8bn.

The Middle East pharmaceutical market achieved \$8bn growth in the year 2005. Combined Annual Growth Rate (CAGR) of the Middle-Eastern pharmaceutical market between the years 1999 and 2003 was next to that of Southeast Asia and China.

The pharmaceutical market, like most other markets in the Middle-East, is an import dependent market. Most of the countries in the region import over 50% of their pharmaceutical products. For example, Saudi Arabia imports 80% of its pharmaceutical products while Lebanon gets 94% from outside. Israel and Jordan too import in large quantities at 60% and 70% respectively (Abderrahmane, 2009). The reason for this import is basically the non-availability of manufacturing capabilities for the generics, as well as the high acceptance of branded Western medicines. The generic market is almost non-existent has countries in the Middle East rely heavily on the better quality of products that they import from the UK and the US.

Regionally, Egypt provides the largest pharmaceutical market while Saudi Arabia is the largest market in the Gulf region. UAE boasts of being the <https://assignbuster.com/the-global-pharmaceutical-industry-and-astrazeneca/>

highest-priced markets in the region. Israel has one of the largest generic drug companies of the world. These generics products are more competitively priced than the branded drugs and lead to a better market penetration based on their strategic pricing (Thomas and Holden, 2002). Jordan, while importing most of its pharmaceutical products, is also among the largest exporter of medicines and other pharmaceutical products within the region (Business Insights, 2009). Jordan however mostly repackages or acts as a conduit for import for the region.

There are several international pharmaceutical companies already operating in the region, and especially from Egypt. Some of these include AstraZeneca, GlaxoSmithKline, Novartis, Eli Lilly, and Pfizer. These organizations have established their manufacturing units in Egypt and conduct distribution and marketing for the entire Middle East region. Most of these organizations work in close association with local dealers who are aware of the local market dynamics. Some of them maintain their multi-lingual websites to attract customers from the local market (Business Insights, 2009). The marketing and manufacturing strategies adopted by the international brands largely depends on their perception of what the market needs and customers require (Seldon and Colvin, 2003).

Drivers of Growth in Pharmaceutical Industry

Increase in consumption of prescription drugs

It has been seen that there is an increase in the consumption of the prescription drugs in the past few decades. The free availability of insurance is just one factor in increasing the consumption of prescription drugs. Studies

have found that increase in the real cost of the drug to the consumer has little effect on its consumption. The price elasticity of prescription drugs is fairly low and varies in the range of 0.1 to 0.2. This is not surprising as the use of prescription drugs implies that these are required for the treatment of the public, and will thus still be utilized by the public for treatment as long as these are within the ability of the public to be paid for.

The result though is volatility in the spending on prescription drugs with the global economy having an impact on the spending on the prescription drugs by the public. For example, a study by Smith et al. (2006) revealed that private spending on drugs slowed down in 2004, along with slower health insurance growth. Drug spending declined in the case of all health care payers, including private insurers and public health agencies.

In earlier years, spending on prescription drugs was buoyed by good economic conditions with the pharmaceutical firms also driving the spending with their marketing of these products. According to Findlay (2001), spending on prescription drugs has been showing a fast accelerating trend driven mainly by the marketing, promotion and advertisements by pharmaceutical companies, particularly direct-to-consumer advertising (Neff and Sanders, 2004). According to Dietz (2004), spending on prescription drugs tripled during the period 1993-2003. Price rise, particularly in the case of new drugs, accounted for 29% of the increase. Quantity of drugs purchased accounted for 74% increase in drug spending. Moreover, an aging society coupled with longer life spans, and higher spending on drugs to control chronic diseases contribute to increased consumption of prescription

drugs. This trend is expected to accentuate in the future, resulting in much higher spending on prescription drug. (Dietz, 2004).

The above analysis shows that the general trend in drug consumption is driven by factors such as insurance and provision of benefits. The spending on prescription drugs is also directly affected by the amount of promotion done by the industry (Rajadhyaksha, 2002). These trends show that pharmaceutical growth is directly related to consumption of drugs.

Impact of new diseases

Lichtenberg (2003) shows that the availability of improved drugs and a greater number of drugs have led to a decline in mortality rate, showing a positive correlation between state of health and number of drugs available.

Moynihan, Heath and Henry (2002) go a step further in defining the role played by new diseases in the growth of pharmaceutical industry. They allege that companies in this industry, in collusion with doctors and consumer groups, actively engage in what they call 'Disease mongering'. They define disease mongering as expanding the boundaries of treatable diseases to include many more common conditions.

This takes the impact of new diseases on the growth and prospects of the pharmaceutical industry to the new dimension in that the industry not only benefits from actual occurrence of new diseases but actively invents them to promote their own wellbeing. The research will also review this statement and have a view on the opinions and statements of stakeholders relating to this development as a key driver in the growth of the use of prescription drugs.

Growing Focus on Research & Development

Pharmaceutical research, and more importantly the introduction of a new drug in the market, is both costly and risky. However, such research has been at the bottom of much progress and social benefits. Studies have found that the social benefits of pharmaceutical research are more than twice those of the private benefits (Kotler, 2004). Other studies have shown that the public policy of governments and regulating authorities, including regulatory policies, controls and patents, has a direct influence on the extent of research. Pharmaceutical companies have been found to place the highest importance on patents. (Grabowski, 2002) High growth expectations fueled by past double digit growth rates in the industry have forced organizations in the pharmaceutical industry to constantly innovate (Trout, 2000). The leaders in the industry are particularly vulnerable to this trend as they often have to exceed expectations. These companies rely on “ blockbuster drugs” – new drugs that generate annual revenues in excess of US \$1 billion – to meet these expectations (Kotler, 2003). With patent expirations and product maturity, many of the existing portfolios are likely to lose their sheen as blockbusters and will have to be replaced with new ones in order to maintain the growth levels.

Middle East Political Economic Social and Technological Environment

Instability of the Region

Middle East offers a great opportunity for the international pharmaceutical organizations as it is estimated to be currently \$8bn worth and growing at a fast pace. However, there are various distinct issues associated with the

political and business environment of the region that cause concern for those organizations that may aspire to be a part of the growth of the pharmaceutical market in the Middle East. The foremost concern is the perception of the region as being instable in terms of its politics and geopolitical aspects (Saliba, 2000). The long drawn tensions between Israel and Arab states, the Iraq War, and the current embargo with Iran on the nuclear issue enhance the perception of the region as unstable and may deter organizations from investing.

Intricate and Complex Business Laws and Restrictions

Additionally, there are intricate legal and technical restrictions for conducting business and marketing in the region and these are not always easily understood by the global firms expecting to do business here. These protocols, paper-works and procedures are even more complex in the case of pharmaceutical business (Rosenbloom, 1995). Organizations expecting to establish themselves in the Middle East, almost always have to take in local agent's helps to navigate through the lengthy registration processes as well as the marketing conditions that need to be fulfilled.

Lack of Appropriate Intellectual Property Laws

The region also suffers from inadequate legislation safeguarding the Intellectual property rights. As such, doing business and especially of the type of pharmaceutical products that are highly dependent on patent protection and IP laws, is considered to be risky in the region. According to the Pharmaceutical Research and Manufacturers of America (PhRMA), the lack of adequate IP protection led to the US Pharmaceutical organizations losing out over \$555m in 2004 in the Middle East (Saliba, 2000).

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The region has however risen to combat this problem and several countries have initiated reforms in their IP laws. This has also been driven by the inclusion of many countries from the region in the WTO or the World Trade Organization. For example, being a part of the World Trade Organization, Saudi Arabia also adopted the TRIPS (the Trade Related Aspects of Intellectual Property Rights agreement). Jordan has amended its IP laws to reflect the changing needs of the modern times (Saliba, 2000).

Liberalization and Free Trade

The advent of globalization and the desire to diversify in other sectors than the oil, has made many countries of the Middle East to adopt a liberal stance towards foreign investment. This has also been true in the case of the health care sector, which is being promoted rapidly in the Middle East a form of tourism – the health tourism.

Middle East has liberalized inward investments, allowing up to 100% foreign ownership in the healthcare sectors. In some countries, like Israel, liberalization has been enacted in the over the counter sector as well (Saliba, 2000). There have been widespread investments in developing healthcare infrastructure to cater for the expatriate population as well as to attract the health tourists from across the world. Examples of massive investments in the sector can be seen in the King Fahad's Medical City, Riyadh, developed at the cost of \$534m, and DuBiotech – a biotechnology park developed in the UAE to attract specialist doctors. Countries have invested in cooperative health insurance and often made it mandatory for the expatriates, for example in UAE, to have the health insurance cover. (for more details see, Saliba, 2000).

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The past few years have seen an increase in the number of free trade agreements (FTAs). There are FTA's of several Middle Eastern countries with EU and the USA that provide opportunities for organizations from these regions to do profitable business in the Middle East (Macklan and Knox, 2000).

Local Pharmaceutical Players

While the pharmaceutical market in the Middle East is heavily dependent upon the imports, there are a large number of local manufacturers. Most of the companies that have been traditionally importing pharmaceutical products to the Middle East have been from Europe due to proximity, but past decade has seen an increased import from the US as well (Elizabeth, 2009).

There are several local players but all of them are from the generic market and none of them produces any branded or new products. There is little if any investment in R&D in the region. However, the local manufacturers of generic drugs, like Israel do well as they are able to export their products to the US and the EU as well as to the other countries of the Middle East.

Human Resources, Skills and Technology

The region, especially Egypt has an abundant pool of technically qualified people who could be employed at a relatively lower salary rates. This makes having manufacturing plants in the region a good investment. Additionally, the region is increasingly embracing the Current Good Manufacturing Practice (cGMP) certified plants that are well-equipped to produce high standards of products under stringent quality controls.

These make the region an attractive destination for pharmaceutical organizations to make strategic alliances or license agreements and get their own regional manufacturing undertaken nearer to the market. (Elizabeth, 2009)

Conclusion of Literature Analysis

Pharmaceutical industry has been consistently showing double digit growth levels for the past several years. The growth is accompanied by increased spending on drug consumption. Studies show that the increase in drug consumption has been much higher than the increase in prices or in spending on other aspects of medical care.

New diseases represent another set of drivers of pharmaceutical industry growth. Organizations respond with new drugs, and have also been accused of collaborating with doctors and consumer groups to create new diseases through a process of “disease mongering”. Research and Development is the other important driver of pharmaceutical growth. The social benefits of research are more than twice those of the private benefits to the organization. In turn, Research is influenced by controls, regulation, confidentiality and patent laws. In the Middle East, though there is a growth in the pharma market, there are also fears of instability of the region, complex rules and regulations, and threat of cheap generic drugs that foreign branded pharmaceutical organizations have to deal with. Any foreign firm operating in the region (like AstraZeneca) need to carefully assess such a complex context and accordingly develop their marketing strategies. This research helps to study this.