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Pharmaceutical Indistry Overview

RUSSIA'S PHARMACEUTICAL MARKET SETTING RECORDS

The pharmaceutical market includes the production and sales of medicines, biologically active food additives and preparations used for medical purposes. This is the fastest growing market in Russia today: according to the data of the DSM Group research company, the total volume of this market amounted to $9.01 bln (about 2% of the world's market) in 2005, registering a 35% increase from the 2004 indicator. Among other world markets, only the pharmaceutical markets of Brazil and China grow nearly as fast as that (37% and 28%, respectively).

The products circulating on this market and the respective cash flows are dealt with by the following groups of players: producers, distributors, retailers and the final consumers. Foreign companies play a key role on the Russian market of medicines. According to the DSM Group, their products account for 76% of the Russian market in value terms, with the two European companies – Sanofi-Aventis and Berlin-Chemie/Menarini Group being the market leaders. The Pharmstandart holding, which is the best of the Russian producers, is among the five leading companies, and Dr. Reddy's Laboratories Ltd., the Indian pharmaceutical company leading in the volume of sales, is among the 20 leading companies on the Russian market (in value terms).

In 2005, the Russian companies (like other companies on the world market) displayed a tendency towards mergers and takeovers. The Pharmstandart holding, for instance, changed hands recently: five pharmaceutical enterprises earlier owned by the US company ICN, were purchased by a Russian investor. The new owner has added the new purchase to his old property – the UfaVita vitamin factory (based in Ufa). This has made it possible to establish Russia's largest pharmaceutical company uniting seven factories, i.e., Pharmstandart-Tomskkhimpharm, Pharmstandart-Leksredstva, Pharmstandart-Oktyabr, Pharmstandart-Marbiopharm, Pharmstandart-Polipharm, UfaVita and Fitopharm-NN.

The Otechestvennye Lekarstva (National Medicines) holding formed several years ago is second largest among the Russian producers. It incorporates the Shchelkovo vitamin factory, Kraspharma and Novosibkhimpharm. All the above companies belong to Russian capital. Another major Russian pharmaceutical company – Nizhpharm – was purchased by Germany's Sttada Arzneimittel AG in 2004.

The most pressing issue for Russia today is the transition to international quality standards (Good Manufacturing Practice) in the production of medicines. At present, all the intellectual and investment efforts of the leading national producers are concentrated in this sphere. In the near future, GMP certification will be obligatory for Russian pharmaceutical factories. The range of products of Russian pharmaceutical enterprises consists mostly of generic medicines (generics, or non-patented medicines, are those medicines the active substances of which are no longer protected by patents, therefore they can be produced by any pharmaceutical company which has synthesized or bought this active substance on the chemicals market). Polysan, nearly the only Russian pharmaceutical company producing the original antivirus medication Cyclopheron, accounts for 11.5% of Russia's exports of medicines.

Despite the generic character of production, leading national producers, following the example of their foreign colleagues, have started producing their medicines under original brands putting sizeable funds and effort into the promotion of these brands. The forthcoming introduction of the obligatory GMP certification, the Russian producers' marketing strategies, and the tendency towards mergers and takeovers – all this shows that the Russian pharmaceutical companies are keeping abreast of the world trends.

Yet another conspicuous trend of the Russian pharmaceutical market is the localization of production by foreign pharm companies. Thus, Hungary's Gedeon Richter and Slovenia's KRKA have already built their factories in the Moscow Region and the construction of a factory of Yugoslavia's Hemopharm in Obninsk (Kaluga Region) is nearing completion.

Nearly all generics produced in Russia are made from imported raw materials, which is important for understanding the specifics of Russian pharmaceutical production. Pharmaceutical substances worth $97.7 mln were brought into Russia in 2004 mostly from Germany, China, India, Switzerland and the Czech Republic.

Despite the localization tendency, a larger portion of medicines is imported now by both producers and pharmaceutical distributors, with producers accounting for 33% and pharm distributors for 53% of all pharm imports to Russia. Pharm distributors play the key role in ensuring the turnover of medicines all across the country. There are pharm distributors working on a nationwide scale, in all the constituent Federation members, and small local distributors operating on local and regional markets.

According to the latest rating of the Pharmexpert Marketing Research Center, the leading national distributors are TsB Protech, SIA International, ROSTA, the Shrea Corporation, Biotech, NPK Katren and Apteka-Holding. Most of these companies belong to Russian capital; Tamro, a Finnish pharm distributor, is the only foreign company having a stake in a Russian company - ROSTA. As for the Apteka-Holding company, the Carlyle investment group recently sold it to Alliance UniChem, a British pharm distributor.

Like all markets closely connected with people's health, the pharmaceutical market is toughly regulated by the state. A certain set of state bodies' permits is necessary for work at any stage of the pharmaceutical market. Pharm producers need a license for the production of medicines and the obligatory certification of production (in the near future, the application of the internationally accepted GMP rules will also be obligatory). The trading organizations must have a license for wholesale or retail trade in medicines. Besides, the producer must receive a certificate of conformance for each batch of medicines and, if medicines are imported by a distributor, it is the distributor who must get such a certificate.

The state became more active on the Russian pharmaceutical market in 2005. It launched a program of Additional Provision of Medicines (APM) under which the categories of citizens enjoying state benefits (for instance, invalids, pensioners, etc.) receive medicines prescribed by doctors at state polyclinics free of charge, at the expense of the state. In future, the state is planning to pay even more attention to the provision of the population with free medicines. Mikhail Zurabov, Russia's Minister of Health and Social Development, says that the government may allocate up to Rbs.5 bln (about $178 mln) for the APM program.

Despite the emergence of such a strong player as the state, all sectors of the pharmaceutical market registered growth, albeit not so fast. The segment of hospital medicines purchased by health care establishments grew by 9% (from $710 mln in 2004 to $774 mln in 2005), the retail pharmacy segment (drugstores) registered the same 9% increase (from $4,776 mln to $5, 215 mln), and the parapharmacy sector demonstrated the most impressive 41% growth (from $1,170 mln to $1,652 mln)

The dynamically developing market of biologically active food additives (BFA) is one of the constituents of the pharm market's fast growth. BFA sales in drugstores alone increased from $128 mln in 2004 to $300 mln in 2005. At the same time, the state is taking measures to prevent the population from regarding BFA as medicines, the more so a panacea.

Commercial sales of medicines to retail buyers through drugstores account for a larger share of the Russian pharmaceutical market. Like all other sectors, this sector obviously tends to unite drugstores into a single network. It is easier for network drugstores to work with pharm producers and distributors and attain better terms for themselves. In turn, the distributors and producers have to take various marketing measures to win network drugstores to their side. The attempts made by state and municipal bodies to restore their active role on the retail pharmaceutical market through uniting the drugstores that have not yet been privatized have become an important factor of late. Thus, the Moscow region's government has recently started creating a pharmacy chain uniting 502 municipal drugstores under the Mosoblpharmacia company.

Private pharmacy chains also play a significant role on the retail pharmaceutical market. The largest of them (in turnover terms) are Apteka 36'6, Pharmakor, Implosia, 03, Doctor Stoletov, Vita, Rigla, Natur Produkt, Pervaya Pomoshch (First Aid) and Stary Lekar (Old Doctor). The 03 pharmacy chain, one of the leaders on the market, has been formed by merger of the two chains, i.e., ICN and Chudo Doktor (Wonder Doctor).

Despite the ongoing concentration of retail pharmaceutical turnover in drugstore networks, ten leaders account for merely 13.4% of this turnover. Most probably, the number of drugstores will not change greatly. At present, one drugstore services about 3,200 citizens. The concentration of drugstores in Russia is one of the highest among European countries: in Italy, for instance, one drugstore services 3,300 and in France 2,200 people,

Thus, the Russian pharmaceutical market demonstrates a high degree of integration into the world market responding sensitively to the latter's trends. It is growing at an unprecedented pace. This gives a chance not only to the acting players to succeed on the market, but also to the newcomers who will manage to fit well into the stringent confines of state regulation, streamline the business process and find their bearing in today's highly competitive environment.

The authors used the data of the Pharmexpert Marketing Research Center and the DSM Group company.