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moksha8

Quagmire to goldmine?

The rapid growth in developing countries prompts a rethink by drugs companies

BRAZIL has long been a thorn in the side of the global drugs companies. The country's vibrant generics industry has often trampled over their patents. As recently as last year, its government threatened to invoke compulsory licensing (a legal mechanism that, in effect, legitimises such trampling) to browbeat a foreign drugs firm into offering huge discounts. And Brazil's state-funded researchers have devised some impressive drugs, including a new therapy for malaria (see article). Small wonder, then, that big drugs firms have remained leery of this market.

Indeed, they have been cautious about developing countries in general, which they have regarded as the source of many headaches and few profits. A decade ago Britain's GlaxoSmithKline (GSK) got a bloody nose in South Africa when it tried too vigorously to defend patents on an HIV drug. More recently Novartis, a Swiss firm, lost a bitter battle in India over patent protection for Gleevec, a profitable cancer drug. In Thailand the government has invoked compulsory licensing for some drugs. And next week the industry can expect another drubbing over patents harming “innovation for the poor” at the World Health Organisation's annual assembly.

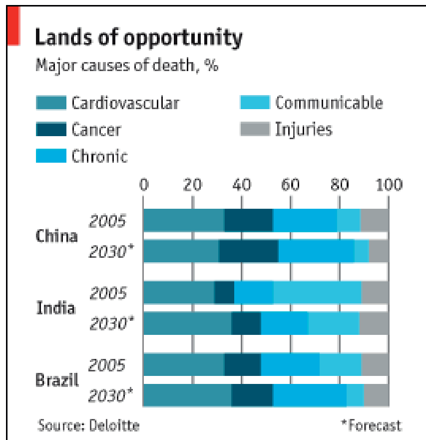
But consider the story of Moksha8, a new drugs firm launched last month with money from Texas Pacific Group, a private-equity outfit. It aims to capitalise on Big Pharma's neglect of many emerging economies by striking licensing deals for branded drugs which it, in turn, intends to market to affluent customers in those countries. It already has some two dozen drugs under licence for Brazil from Roche and Pfizer. Fernando Reinach of Votorantim, a Brazilian firm that also invested in Moksha8, expects its annual sales to top $1 billion within a year or two.

All of which suggests that the situation is ripe for change. For much of its history, the industry has focused chiefly on the diseases that afflict people in rich countries, while largely neglecting research into diseases of the poor. But as growth slows in developed markets, and the twin threats of generic drugs and price controls advance even in pharma-friendly America, drugs companies are thinking again.

That is not simply because governments in developing countries are wielding the big stick of busting patents: their expanding middle classes also provide a tantalising carrot. McKinsey, a consultancy, estimates that the value of the Indian drugs market will grow from $6.3 billion in 2005 to $20 billion in 2015. China's market is expected to soar even more spectacularly. Given such prospects for growth, says Mark Feinburg of Merck, an American drugs giant, “you've got to be in these markets–it's a great opportunity.”

G.V. Prasad, vice-chairman of Dr Reddy's, a successful Indian drugs firm that is evolving from copycat to innovator, is convinced that the thinking at Western firms is changing, and cites a recent reorganisation at GSK as evidence. Andrew Witty, who takes over as the firm's chief executive on May 22nd, wants to combine all its little divisions that deal with developing countries into one emerging-markets group, to be run by Abbas Hussain, whom he has just poached from Eli Lilly, a rival American firm.

Serving these markets will mean building up local expertise and research efforts. Where drugs firms have set up shop in developing markets, it has generally been to cut costs, rather than to cater to the needs of locals. But that is changing. Novartis has opened a research centre in Shanghai and has another outpost in Singapore focused on tropical diseases. Merck has struck several deals with firms in emerging markets to do early-stage research. The drugs giants argue that this new approach allows them to tap a global network of innovation, and also provides insights into local markets.



Paul Herrling of Novartis points out that virally induced cancers are rare in Europe but common in China. Terry Hisey of Deloitte, a consultancy, notes that Asians and Europeans can respond differently to anaesthesia. “We see China and India as research-and-development partners, and partnerships can help us learn how to do business there,” says Robert Court of GSK.

New thinking is also needed when deciding how to sell drugs in developing countries. In the past Western firms either ignored such countries or saw them as charity cases. But now, says Tachi Yamada of the Gates Foundation, who was at GSK when the firm faced the South African backlash over HIV drugs, “pharma companies can't possibly survive without recognising their responsibilities to the poor.”

Some firms have adopted “differential pricing” schemes that use formulas, based on average income per head, to set lower prices in poor countries. Merck, for example, recently launched Januvia, a blockbuster diabetes drug, in India for a fraction of the price it charges in America. But in future, says Prashant Yadav of the Massachusetts Institute of Technology, firms must “price differentially not between OECD and developing-country markets, but within each developing-country market.” In other words, middle-class Indian patients will pay more than the rural poor.

Both Novartis and GSK say they are thinking along these lines. But is there not a danger that cheap drugs intended for the poorest will be pilfered and sold at a profit to the urban middle classes, or shipped overseas to rich countries? This has been the standard argument against differential pricing from the drugs companies.

Once again attitudes are shifting. Some diversion will happen, but firms that have tried tiered pricing have found ways to reduce it. Just changing the colour of a pill can help. So too can after-market checks on distributors and pharmacists by drugs companies: those selling looted products may be cut off from future distribution. Nan Wang of Sinovac Biotech, a Chinese vaccine firm, says her company has long sold the same vaccine at lower prices in poor parts of China than in rich cities; the two versions have different packaging.

But not everyone is convinced. “In the absence of competition, differential pricing is a hoax,” scoffs Yusuf Hamied, chairman of Cipla, an Indian generics firm. In his view, only generics-makers like his firm provide genuine competition to Big Pharma, which he insists should have no patent rights in poor countries. Even if the drugs giants really have changed their approach to the developing world, the arguments over their rights and responsibilities will continue to rage. ■