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Africa: A Pharmaceutical Growth Market

(Source: A McKinsey & Company article prepared by Tania Holt, an associate principal in McKinsey's Johannesburg office, Mehdi Lahrichi, associate principal in the Casablanca office, and Jorge Santos da Silva, an principal in the Zurich office)

The authors suggest that Africa may be the only pharmaceutical market where genuinely high growth is still achievable. With respect to what is driving that strength and how companies should react, here is what they said:

"The value of Africa's pharmaceutical industry jumped to US$20.8 billion in 2013 from just US$4.7 billion a decade earlier. That growth is continuing at a rapid pace: we predict the market will be worth US$40 billion to US$65 billion by 2020. That's good news for multinationals and pharmaceutical companies seeking new sources of growth as developed markets stagnate. It's also good news for patients, who have gained access to medicines previously unavailable on the continent. Yet it isn't enough to know where the industry's next growth engine can be found. Leaders must also understand what is driving growth, what challenges they are likely to face, and how to collaboratively work with health systems to win in this complex environment."

"Africa's pharmaceutical markets are growing in every sector. Between 2013 and 2020, prescription drugs are forecast to grow at a compound annual growth rate of 6 percent, generics at 9 percent, over-the-counter medicines at 6 percent, and medical devices at 11 percent. Three factors are driving this growth:

- *Urbanization*. Africa's population is undergoing a massive shift. By 2025, two-fifths of economic growth will come from 30 cities of two million people or more; 22 of these cities will have GDP in excess of US$20 billion. Cities enjoy better logistics infrastructures and healthcare capabilities, and urban households have more purchasing power and are quicker to adopt modern medicines.
- *Healthcare capacity*. Between 2005 and 2012, Africa added 70,000 new hospital beds, 16,000 doctors, and 60,000 nurses. Healthcare provision is becoming more efficient through initiatives such as Mozambique's switch to specialist nurse anesthetists and South Africa's use of nurses to initiate antiretroviral drug therapy. The introduction of innovative delivery models is increasing capacity still further.
- *The business environment*. To create a more supportive environment for business, governments have introduced price controls and import restrictions to encourage domestic drug manufacture; required country-specific labeling to reduce counterfeiting and parallel imports; and tightened laws on import, wholesale, and retail margins. In the pharma industry, meanwhile, pharmacy chains are consolidating, horizontal and vertical integration is on the rise, and manufacturing is expanding. A flurry of mergers and acquisitions, joint ventures, strategic alliances, partnerships, and private-equity deals are further extending Africa's markets."

In a world of slowing and stagnating markets, the authors also

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In Brief . . .

- **Celesio**, now part of **McKesson Corp.**, reported a 5.6% increase in group revenue to €5.3 billion / US$5.9 billion for its short fiscal year 2015, ended March 31st. Adjusted earnings before interest and taxes (EBIT) fell by 19.9% in the year to €78.6 million / US$88.1 million, driven by the impact of state-imposed price reductions in the United Kingdom, weak market conditions in France and the loss of a hospital contract in Norway.
- **Cardinal Health** is opening a US$28 million, 275,000-sq-ft medical supply distribution center in Detroit in a collaboration involving Detroit-based **Henry Ford Health System** and the **Detroit Medical Center.**
- **PHOENIX group's** total operating performance, which includes revenue and handled volume for service charges, rose 9.1% to €7.1 billion / US$8 billion for its fiscal 1st quarter ended April 30th. Earnings before interest, taxes, depreciation, and amortization (EBITDA) grew by €16.5 million to €106.2 million / US$119 million in the quarter, representing growth of 15.3% when adjusted for exchange rate effects. The profit for the period improved significantly, reaching €44.3 million / US$49.6 million.
- **GlaxoSmithKline** has agreed to sell two older meningitis vaccines to **Pfizer** for €115 million / US$131 million, to satisfy antitrust concerns after its recent acquisition of Novartis' vaccines business. Its *Nimenrix* and *Mencevax* products will be transferred to Pfizer's Irish unit.
- **CVS Health** is acquiring **Target's** pharmacy and clinic businesses for approximately US$1.9 billion. The deal includes Target's more than 1,660 pharmacies across 47 states, which will be operated through a store-within-a-store format and branded as CVS/pharmacy. In addition, a CVS/pharmacy will be included in all new Target stores offering pharmacy services. Target's nearly 80 clinic locations will be rebranded as **MinuteClinic,** and CVS Health will open up to 20 new clinics in Target stores within three years of the close of the transaction. The companies also plan to develop 5 to 10 small, flexible format stores which will be branded as **TargetExpress** and include a CVS/pharmacy.
- **Actavis plc** announced that the company has adopted **Allergan plc** as its new global name and has begun trading under a new symbol AGN. Separately, Allergan is acquiring **Kythera Biopharmaceuticals Inc.** for US$2.1 billion in cash and stock. Kythera is about to launch an injection aimed at reducing so called double chins.
- In the US, the number of 90-day prescriptions dispensed at retail pharmacies has nearly doubled since 2010, now accounting for more than 1 in 9 prescriptions dispensed at chain stores and supermarkets. The growth reflects fundamental changes in both retail pharmacies' competitive position and payers' benefit strategies.

(Sources: Celesio, Columbus Dispatch, Drug Channels, Journal of Commerce, PHOENIX and Reuters)

Africa (cont.) . . .

suggest that Africa represents perhaps the last geographic frontier where genuinely high growth is still achievable. They advocate that early movers can take four steps to pursue competitive advantage: focus on pockets of growth; build strong local teams; forge partnerships; and, address supply and distribution challenges.

With respect to the latter, the authors state that "in parts of Africa, supply and distribution mechanisms still pose challenges: regulations are evolving, transport and logistics infrastructures are patchy, and lead times can be long. The ability to innovate the distribution channel and set up effective operations against this challenging backdrop is critical to capturing growth opportunities. Helpful strategies include locating fixed assets in countries with well-established political and business structures, outsourcing supply chains to third party operators, and partnering with local logistics providers to identify efficient transport routes. In the key area of customs and border control, companies should work with the most reliable agents to minimize shipping delays, use only bonded distribution centers, and ensure all customs paperwork is airtight."

GIRP's Conference Stresses Strategic Collaboration

The 56th Annual Meeting and Conference of the European Association of Pharmaceutical Full-line Wholesalers (GIRP) was held this month in Belgrade, Serbia. The principal theme of the meeting was the collaborative partnerships in the pharmaceutical "value" chain management. In particular, the focus was on those important existing and evolving relationships between the pharma industry and integrated pharmaceutical full-line wholesalers.

Speaking at the event, René Jenny, GIRP President, stressed that "pharmaceutical full-line wholesalers are no longer considered as 'box movers'; the role and function of pharmaceutical full-line wholesalers has become much more sophisticated. The discussions at the Annual Meeting and Conference are a testament to the importance of services as a growing development, and we are excited about the road ahead in terms of what this will mean for our members, the industry, patients and also healthcare funders – all of which will clearly benefit from the collaboration in the supply chain."

The GIRP's Director-General, Monika Derecque-Pois explained, "we are not only concerned about delivering pharmaceutical products, we are also focused on creating and offering tailored services that support the delivery of products so that patients can achieve better healthcare outcomes". She further explained that partnerships are a dominant and re-occurring theme in today's pharmaceutical supply chain. "The relationship between the industry and integrated pharmaceutical full-line wholesalers is clearly evolving, as integrated pharmaceutical full-line wholesalers no longer regard the pharma industry as suppliers of products, but as clients for services. The development of tailored support services at key moments in the product life-cycle is something that is here to stay and that will be a dominant trend in our sector in the foreseeable future."

The perspective of GIRP is that the industry is moving away from a transactional relationship to a strategic partnership between integrated pharmaceutical full-line wholesalers and the industry. During his keynote address, Oliver Windholz, Chief Executive Officer, PHOENIX Group, highlighted how the collaboration with the industry is delivering a win-win situation. Collaboration with pharmaceutical manufacturers is resulting in higher sales volumes, better insights into mutually beneficial models, cost saving synergies, fewer stock-outs and productivity gains along the entire distribution chain. As the head of one of Europe's largest pharmaceutical wholesalers, he explained that he regards these developments "as a collaborative relationship which is part of a 'value chain management' proposition and needs to be seen beyond 'supply chain management."

Other industry speakers at the conference echoed these perspectives, taking the overall view that there is a real value proposition in collaborating with integrated pharmaceutical full-line wholesalers. Industry executives outlined their views on collaborative areas ranging from support throughout a product's life-cycle development to vendor managed inventory, to logistics and patients' needs, to retail pharmacy initiatives, such as 'optimized pharmacy replenishment' systems.

Strong Growth in Home Healthcare to Continue

(Source: Medgadget.com)

According to Grand View Research, the global market for home healthcare is expected to reach US$355.3 billion by 2020, growing at an estimated CAGR of 7.8% from 2014 to 2020. The term home healthcare products is generally applied to a broad range of equipment and services designed for exclusive use in the home or other nonmedical establishments by nonprofessional caregivers, family members, or the patients themselves. Increasing adoption of telehealth and other emerging healthcare technologies are expected to drive market growth over the forecast period. In addition, home healthcare is rapidly getting adopted as a cost effective alternative to healthcare establishment based therapy and therefore a growing geriatric population base and prevalence of chronic conditions requiring long term care are also expected to both have a positive impact on growth. Lastly, the untapped potential in emerging markets such as India, Brazil and China and increasing health awareness are expected to serve as market drivers in the future.

Services dominated the overall home healthcare market in 2013, accounting for over 85% of its global revenue and driven by increasing demand for infusion therapy services and telemetry. Infusion therapy is expected to be the fastest growing services market, at an estimated CAGR of 11.7% from 2014 to 2020. Increasing initiatives undertaken by healthcare service providers to curb costs associated with specialty drugs and by retail pharmacies to render efficient chronic disease management solutions are some of the drivers of this market.

From a product perspective, home-based diagnostics dominated the product market in terms of share at 41.4% in 2013. A growing prevalence in diabetes and cardiovascular diseases and the consequent rise in demand for constant patient monitoring is one of the major factors attributing to its large share.

North America was the largest regional home healthcare market in 2013, accounting for over 40% of global revenue, but the Asia Pacific market is expected to grow at the fastest CAGR (9.7%) from 2014 to 2020, given high unmet medical needs coupled with rapidly improving healthcare infrastructure in emerging markets such as India and China. The presence of a large geriatric population base in Japan is also expected to drive regional market growth during the forecast period.