

CHAPTER V

PROMOTION AND DISTRIBUTION PRACTICES OF THE PHARMACEUTICAL COMPANIES

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PROMOTION AND DISTRIBUTION PRACTICES OF THE PHARMACEUTICAL COMPANIES

5.1 Introduction to Pharmaceutical Promotion.

The current scenario of pharmaceutical marketing environment in Goa presents a picture of intense competition, where local companies are not only turning out a number of me too products, but also engage in tactical promotional strategies to stand in the market. According to Smarta, (1999: 53), "If a pharmaceutical firm wants its product to stand out in the market place, it must first ensure that it is heard above the current noise level." That is the promotional challenge for every pharmaceutical company. According to him, firms which are imaginative and innovative in formulating and implementing promotional strategies will have the competitive edge to cut through the clutter and chaos in the market.

WHO defines Pharmaceutical promotion as 'all information and persuasive activities by manufacturers, the effect of which is to induce the prescription, supply, purchase and/or use of medicinal drugs.'

Kotler (2000) defines promotion as, "marketing communication that attempts to inform and remind individuals and persuade them to accept, recommend, resell or use a product, service or an idea."

The American Marketing Association defines promotion as 'the personal or impersonal process of assisting and/or persuading a prospective customer to buy a commodity or a

service or to act favorably upon an idea that has commercial significance to the seller.’

Promotion is basically meant for communication. Rao (1992) points out that it is the process of managing a communication system to improve the image of the company among various groups of the society. It communicates the knowledge about the company, its product, activities, prices and policies.

There are two major elements in the promotional mix of a pharmaceutical company. They are personal communication and non personal communication. In pharmaceutical marketing, personal communication is the most important element of the promotional mix. It is defined as oral presentation and conversation with one or more prospective purchasers.

Under non personal communication the following are included;

- i) Advertising: Preparation of visual aids, leave behind literature, product monographs etc to assist medical representatives in their detailing effort; advertising in specialized media like medical journals and souvenirs; preparing advertising material for seminars and medical symposia, preparing mailers to doctors and dealers, preparing advertising material for print media, and commercials for radio and television in case of over the counter formulations.
- ii) Sales Promotion: This includes measures to provide short term incentives to encourage sale of pharmaceutical products. The measures include special bonus offers, physician’s samples and gift.
- iii) Publicity: This involves organization of medical symposia and seminars, conducting of

clinical trials, conducting exhibitions, designing and executing product publicity campaigns.

The research aims to determine the relative importance of these various promotional tools in the marketing practices of the companies under study.

5.1.1 Pharmaceutical Promotion Issues

The success of pharmaceutical communication and promotional activities, to a large extent, depends upon how much they influence the habits and beliefs of prescribing and dispensing physicians. It is however difficult to state whether it is the technical authenticity of the message or the psycho-behavioral manipulation attempted in the promotional material that is the most crucial influencing factor in the communication strategy.

In pharmaceutical marketing, the predominant receiver of the communicated message is the doctor. Retailers and pharmacists mainly depend upon and cater to the prescriptions sent by doctors.

Ethics within pharmaceutical sales has become a matter of public interest over the recent years and the ethical conduct of the major pharmaceutical companies and the industry as a whole has been scrutinized for unethical behavior within its sales and marketing practice. Following are but a few examples of certain negative events pertaining to pharmaceutical sales that gained the attention of the international media, and became a matter of public concern.

- i) In 2004, the drug Vioxx produced by Merck had to be withdrawn, due to major concerns about cardio-vascular side effects. The marketing practice of Vioxx gained

attention with the off-label promotion; there were a series of allegations made about withholding of drug information (Sales Force Effectiveness, 2006)

- ii) In 2004, a New York Attorney General, launched a lawsuit against Glaxo Smithkline (GSK), for withholding negative information on their drug, Paxil, an antidepressant used for children and adolescents. GSK agreed to a settlement, which involved the release of post summaries of all clinical trial results to be published on its corporate website for all approved products (Sales Force Effectiveness, 2006)
- iii) Allegations were made against Astrazeneca, for its use of inappropriate gifts and promotions. It was alleged that a promotional event for the drug of the company, was held at the French Riviera and invited physicians to attend and paid for their flights and accommodation, coupled with tickets to musical performances. (The Guardian, 2006).
- iv) A study published in 2004 by the Institute for Evidence - Based Medicine, found that 94% of the promotional advertisement and brochures being sent to German physicians did not have the support of clinical evidence. (Sales Force Effectiveness, 2006)

Along with the proliferation of pharma products, there has been a proliferation of promotional media as well. Since there are many choices before pharmaceutical companies, there is a need for greater accountability and a means to measure comparative cost effectiveness.

As the quantum of medical knowledge increases and grows in complexity, the media that carry this knowledge also multiply. The problem of the physician today is not access to

knowledge, but the interpretation of it for his own use. According to Smarta (1999), the promotional tools must interpret and inform and not excite and manipulate. Scientific medical communication processes hardcore technical facts and authentic evidence, and presents them in an acceptable and meaningful form to the target market. Smarta also cautions that if a company's promotional strategy tries to entice physicians with exaggerated claims and incentives in the form of expensive gifts, it could give rise to suspicion on the part of doctors, directed not only against the particular drug but against all the products of the firm concerned. Riddled with accusations of exaggerated drug claims and "abandoned science for salesmanship", the industry also is subject to demand for tighter regulation of marketing tactics.

Besides Central & State laws and regulations, another important area of the regulatory environment is the consumer movement. (Rao 1991). Consumer groups like Drug Action Committee and Drug Action Forum, do not regulate pharmaceutical business directly, but they do generate Government activity in the affairs of the business.

A significant implication of this is that there is a need for a systematic plan of action to build public relations to present a favorable image of the company, which is another promotional challenge before pharmaceutical marketers.

5.1.2 Pharmaceutical Promotional Media and their Effectiveness

Evaluating the effectiveness of various promotional elements is necessary for pharmaceutical companies to decide on an optimal - promotional mix. Literature on the subject highlights that the objectives of pharmaceutical promotion are to create or increase awareness, interest, evaluation, trial, usage and repeat usage.

The relative effectiveness of the various promotional tools is explained as follows;

Advertising

Advertising can inform, create awareness, and interest and can even lead to the stage of evaluation. But in pharmaceutical marketing, the effect of advertising stops at the point where the target audience is receptive. It requires the persuasive pressure of the personal selling effort to induce a trial. An advertising campaign can create a better climate, a favorable disposition for the sales force to move in and clinch the sale. Advertising cannot create or increase the sales directly, but can play a very useful supportive role, when used creatively and effectively.

Publicity

Publicity can create and increase awareness and interest. It can also create a favorable disposition by improving the credibility of the pharmaceutical company's communication. It can probably facilitate repeat usage by satisfied customers. But it can neither induce trial, nor increase usage.

Sales Promotion

Sales Promotion cannot increase awareness, interest, evaluation, trial or usage in general. What it can do is increase the repeat usage by dispensing doctors, if the same offers are given to them. It is useful, however, in achieving certain short term sales objectives like reducing inventories of products. At the same time, sales promotion policy will not be successful if there are not enough prescriptions and therefore should be backed by advertising and personal selling efforts.

Personal Selling

Personal selling is the most effective of all the elements of promotional mix in pharmaceutical marketing. It can increase awareness, create interest, lead the doctors to

evaluate, induce them to try and after successful trial, persuade them to use and reassure doctors to use repeatedly.

Research in the field also indicates the importance of the various media over the stages of product life cycle; however the success or failure of a pharmaceutical product is determined in the early stages of its life cycle. In fact, even before the product is actually launched, the target market has to be prepared for the product's introduction and sales force has to be trained.

The importance of the different means of communication at every stage in the product life cycle is illustrated in Table 5.1.

Table 5.1 Communication & product life cycle.

| Media | STAGES OF PRODUCT LIFE CYCLE | | | | |
|--------------|------------------------------|--------------|--------|----------|---------|
| | Prelaunch | Introduction | Growth | Maturity | Decline |
| Salesforce | 3 | 1 | 2 | 4 | 5 |
| Journal advt | 3 | 1 | 2 | 4 | 5 |
| Mailings | 3 | 1 | 2 | 4 | 5 |
| Conference | 1 | 3 | 3 | 4 | 5 |

Source-Marketing strategy in pharmaceutical industry (Subba Rao)

The numbers from 1-5 indicate the relative importance of the different communication channels, ranked from highest to lowest, at each stage of the product life cycle.

As can be seen, after the pre-launch stage, the sales force dominates the other media in the introductory and growth stages of the product. Later in the product's life, the more impersonal mass media become important, more so, because they are less expensive. Pharmaceutical companies need to consider this while developing a promotion mix on the basis of the needs of the product.

5.2 Objectives of Companies' Promotional Policies

The small and medium pharmaceutical companies in Goa, some of which are struggling to survive are looking for ways to earn profit in the short term and create value for the long run. Adequate level of profit is crucial for these businesses to maintain a decent promotional budget.

The study finds that large part of the promotional budget of the companies goes towards giving product samples and paying medical representatives (MRs) - both of which are fixed costs. Unlike in other commodities, the promotional efforts of a pharmaceutical unit are directed to a doctor who prescribes the drugs a patient has to use. This calls for an elaborate system of medical detailing which requires qualified and well trained persons. Hence the promotional costs in the pharmaceutical industry have to be more than in other industries..

The companies under review, work on monthly, bimonthly or quarterly promotional cycles and promotional expenditure are allocated with the objective of maximizing sales. Companies like Kare pharmaceuticals, Geno, Wallace and CFL bring out 'strategy guides' containing information on competition, approaches to detailing and sometimes, a chart on incentives.

The objectives of promotional policies, as stated by the companies, can be summed up as follows:-

i) Related to physicians.

- Generating new prescriptions from physicians.
- Retaining prescriptions of existing physicians.
- Widening usage of the products in terms of indication and patients.
- Deflecting attention on prices of competitors.

ii) Related to chemist

- Increasing repeat purchase and retailing.
- Gaining display at the shelves.

iii) Related to Medical Representatives (MRs) and marketing managers

- Increasing volume of sales to achieve and surpass the targets.
- Increasing involvement and pride in a product to promote, through personalized incentives.

The pharmaceutical companies determine their specific promotional objectives based on a number of factors such as current growth rate, competitor's promotion expenditure, and new product activity. Promotion policy of the companies also depends on the therapeutic classes to which their products belong. The researcher's analysis on product profile, presented in the earlier chapter, indicated that the firms compete in almost similar therapeutic areas, with little product differentiation. Therefore, optimizing the promotional expenditure through carefully planned strategy and creating brand identity and awareness in the minds of the target

customers, is crucial for the marketing success of these companies.

The team of managers of the companies under study consider the changes in the marketing field in Goa, as in other parts of the country. Since in the last few years, there has been an increase in the number of nursing homes, diagnostic centers and hospital chains, promotional focus of companies now, along with the traditional one-to-one relationship with physicians, also needs to be on communicating product information to a team of doctors grouped around a specified locality or specialty.

5.3 Description and Analysis of the Promotional Policies of the Pharmaceutical Companies

The study analyses the promotional mix and promotional budget of each company under study.

1. GENO PHARMACEUTICALS LIMITED.

The company's marketing resources comprise of a Vice President in charge of overall marketing, 4 Divisional Sales Managers and 491 members of the field force staff comprising of 80 junior and senior managers and 411 medical representatives.

The company's strategic plan is formulated for a period of 2 years and entails the involvement of the key departments of the company, such as finance and production departments. The focus of market segmentation is on the basis of the therapeutic classes to which the products belong. These are the classes in which there is the presence of many brands of competitors and therefore the company has to use aggressive promotional strategy.

The specific objectives of the promotional strategy of the company are defending of existing market share, expanding market share and catering to niche market. According to the

management, the focus of the company has been on innovation in promotion and improvement of product quality, in order to face the competition.

Holding a positive attitude to market prospects in future, the management of the company feels that although bigger pharmaceutical companies have advantage in marketing, and that its relatively small size acts as an entry barrier to high value therapeutic segments, the size constraints can be overcome with a strategic marketing plan.

Geno ranks marketing factors, such as sales force efficiency, innovative packaging and efficient service delivery as the most important factors for its success. The management emphasizes that, care is taken starting from procurement of materials to the distribution of its products, to ensure good quality health service.

Geno's marketing focus is mainly directed to over 50,000 consultants in India and Nepal comprising of cardiologists, consultant physicians, nephrologists, surgeons, E.N.T. surgeons, orthopaedic surgeons, gynaecologists, neurophysicians, diabetologists and nutritionists. Besides this, Geno targets around 20,000 general practitioners in the country.

PROMOTIONAL MIX AND PROMOTIONAL BUDGET

Geno's main target customers are the physicians who generate prescriptions and retailers who give orders and maintain shelf-stock. Geno considers personal communication as very important in acquiring a share of mind of the doctor for its brands. Motivation of and effectiveness of MRs is considered a key factor in marketing success. The company has increased the number of medical representatives over the last few years and promoted qualified and efficient staff to managerial positions.

Geno has a policy of periodic training of its sales force, in the form of deputing the representatives for refresher and orientation courses, to provide them product knowledge and other related knowledge in medicine and pharmacology. It also conducts behavioral training programmes in order to develop expertise of the sales force in influencing and retaining the customers.

Table 5.2 reveals the expenditure incurred by the company in providing training to its sales force.

Table.5.2- Geno's expenditure on training of field staff.

| Year | Training Expenditure (Rs) | Percentage Change* | Training Expenditure as Percentage of sales turnover* |
|-------------|----------------------------------|---------------------------|--|
| 2002 - 2003 | 1247447 | - | 0.3 |
| 2003 - 2004 | 1680052 | 34.67 | 0.3 |
| 2004 - 2005 | 1455738 | -13.35 | 0.3 |
| 2005 - 2006 | 2095653 | 43.95 | 0.3 |
| 2006 - 2007 | 1607440 | -23.29 | 0.2 |

Source: Company Reports. *Calculated estimates

From the table, it is seen that, on an average Geno spent 0.26 percent of its sales turnover on training its field staff force over the given period. According to company sources, attrition of trained medical representatives has been high over the last few years, as they join better positions in bigger companies. This is the reason why company adopts a cautionary approach on this component of the promotional budget and prefers to recruit already trained and experienced staff. It is pertinent to note here that a near constant training expenditure as

percentage of sales over the period shows the promotional challenge faced by Geno. It cannot afford to allocate a higher promotional budget on training when the attrition rate is high; at the same time it needs to ensure the efficiency and productivity of its medical representatives.

The expenditure incurred by the company on paying salaries and incentives to the field staff is shown in Table 5.3. Exact break-up of this expenditure, however, was available from company sources for a period of only 3 years i.e 2004-07.

Table 5.3 : Expenditure incurred by Geno on salaries, allowances and incentives to field staff.

| Year | Salaries (in lakh Rs.) (Senior Execs-field staff) | Salaries (in lakh Rs. MRs) | Total (Rs) | Allowances (Senior Executives-field staff) (in lakh rupees) | Allowance MRs (in lakh rupees) | Total | Bonus | Incentives to field staff | % change in salaries | % change in allowances | % change In Incentives |
|-------|---|----------------------------|------------|---|--------------------------------|-------|-------|---------------------------|----------------------|------------------------|------------------------|
| 04-05 | 14.91 | 239.16 | 254.07 | 1.45 | 18.99 | 20.45 | 2.05 | 32.31 | - | - | - |
| 05-06 | 19.12 | 324.05 | 343.17 | 1.84 | 28.47 | 30.31 | 0.69 | 54.74 | 35 | 48 | 69 |
| 06-07 | 18.95 | 390.86 | 409.81 | 2.53 | 34.63 | 37.15 | 0 | 190.19 | 19 | 22 | 147 |

Source : Company Annual Reports

Total expenditure on field staff salaries increased by 35 percent from 2004-05 to 2005-06 and by 19% from 2005-06 to 2006-07, allowances increased by 48 percent and 22 percent respectively over the same period. While company did not pay any bonus in 2006-07, incentives to field staff were increased substantially. Amount paid as incentives increased by 69 percent from 2004-05 to 2005-06, to a whopping 247 percent from 2005-06 to 2006-07. This indicates that the company has a policy of rewarding efficient and performing sales staff who attain sales targets. Medical reimbursement and ex-gratia payments are other monetary benefits offered by Geno to its field staff.

Geno is found to be emphasizing on providing support to the efforts of the medical representatives by a mix of sales promotional strategy and advertisement. It provides free samples, brand recall items like pen-stands, calendars and other gifts to doctors, distributes pamphlets and other detailing matter and also advertises its products in medical journals. It also organizes trade fairs & exhibitions, with a view to build public relations.

Table 5.4 gives estimates of Geno's expenditure on sales promotion and advertisement.

Table 5.4: Geno's expenditure on sales promotion and advertisements

| Year | Cost of advertising & sales promotion (Rs.) | Percentage of sales turnover * |
|-----------|---|--------------------------------|
| 2002-2003 | 1,78,41,813 | 4.2 |
| 2003-2004 | 19,374,448 | 3.7 |
| 2004-2005 | 20,540,823 | 4.0 |
| 2005-2006 | 36,539,738 | 5.5 |
| 2006-2007 | 31,806,485 | 3.9 |

Source: Company Annual Reports, *calculated estimates.

Geno is found to be spending between 3.5 to 5.5 percent of its sales turnover on advertising and sales promotional measures like samples and gifts, and other brand recall items.

It can be inferred that Geno adopts a promotional mix of sales promotional activity and advertisements along with selling through medical representatives. This combination mix, without exclusively relying on medical representatives, has enabled the company to improve its market performance over the years.

The trends in the performance of the company over the years is revealed in table 5.5.

Table 5.5: Trends in performance of the company.

| Year | Sales (In Lakh Rs.) | *Percentage change | PBT (In lakh Rs.) | *Percentage Change | PAT (In lakhs Rs) | *Percentage change |
|-------------|----------------------------|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| 2002-2003 | 4193.31 | - | 35.3 | - | 16.4 | - |
| 2003-2004 | 5132.15 | 22.3 | 174.5 | 394 | 76.5 | 366 |
| 2004-2005 | 5088.35 | -0.8 | 241.6 | 38 | 181.5 | 137 |
| 2005-2006 | 6551.00 | 28.7 | 315.4 | 42 | 213.6 | 17.6 |
| 2006-2007 | 8012.17 | 22.3 | 411.8 | 30 | 269.9 | 26.3 |
| 2007-2008 | 9017.57 | 12.5 | 455.1 | 10 | 335.8 | 24.4 |

Source: Company Annual Reports. *Calculated estimates.

It can be observed from the table that the highest increase in sales was recorded for the year 2005-06. It can be noted that sales promotion and advertisement expenditure incurred by the company was also the highest for that year i.e. 5.5 per cent. It can be inferred that higher sales were due to increased promotional activity of the company.

The other causes of increase in sales are attributed to introduction of new products, expansion in market network and exports. The company's export turnover increased considerably from 58 lakhs in 2005-06 to 262 lakhs in 2006-07.

The current export performance of the company over the last two fiscal years i.e. 2006-07 and 2007-08 is indicated in table 5.6.

Table 5.6: Contribution of Domestic Sales and Exports to Total Profits.(2006-07 & 2007-08)

| Domestic turnover | 2006-2007 (in Lakh Rs) | 2007-08 (in Lakh Rs) | Rate of increase |
|---|-----------------------------------|---------------------------------|-------------------------|
| (i) Sale of goods manufactured | 6826.45 | 7454.96 | |
| (ii) sale of goods traded | 922.90 | 1087.41 | |
| (iii) sale or supply of services | 0.00 | 0.00 | |
| TOTAL | 7749.35 | 8542.37 | 10.2% |
| Export turnover | | | |
| (i) Sale of goods manufactured | 262.16 | 475.19 | |
| Other income | 67.88 | 77.75 | |
| TOTAL INCOME | 8079.59 | 9095.33 | |
| TOTAL EXPENDITURE | 7677.11 | 8634.31 | |
| Net Profit before tax and appropriation | 402.47 | 461.02 | 14.5 |

Source: Company Annual Reports.

Geno recorded an increase of 10.2 percent in its domestic sales turnover in 2007-08, over the previous financial year. It registered an impressive 81.2 percent growth in its export turnover in the same period.

The future plan of action of the company is stated to be development of new formulations, continued efforts for cost reduction and process simplification and improvement in quality for better productivity. It is important to note, however, that although the company has been consistently earning profits, the trend in growth of profits is erratic, and a declining rate of growth in profits is evident, signifying the effect of external forces like competition and government policies such as tax & price policy on profitability.

Since future success of the firm depends on greater investments in R&D, it is necessary to maintain higher level of profitability, through a focused promotional strategy.

2. WALLACE PHARMACEUTICALS PRIVATE LIMITED

Heading the Marketing Department at Wallace pharmaceuticals is the Vice President who is the overall incharge of sales and marketing. Wallace also has a National Sales Manager, district managers, regional managers and 440 medical representatives. The sales and marketing office of Wallace is based at Mumbai.

The target market of Wallace comprises of a about 80,000 doctors in India and about 35,000 retail chemist outlets. The promotional strategy is currently concentrating on high growth therapeutic areas like chronic and lifestyle diseases.

PROMOTIONAL MIX AND PROMOTIONAL EXPENDITURE

Besides one-to-one personal selling, Wallace also uses the group detailing approach targeted at specialists in specified segments. Wallace also has been experimenting with an innovative strategy of approaching patients directly. This is done by sponsoring and/or organizing patient education camps. For instance it has sponsored public awareness programs and free medical camps organized by Bone and Joint Decade-India, public awareness programme for Orthopaedic and rheumatic patients organized by Mission Arthritis- India and Centre for Rheumatic Disease, Pune. Wallace also organizes free diabetics camps and provides free treatment samples to patients.

The company advertises in medical journals like the Indian Journals of Paediatrics. As part of its public relations policy and in order to build the image of the company, Wallace engages in

philanthropic activities. It supports the Prateek Menezes Memorial Foundation, a non-profit organization, which provides comprehensive care to children afflicted with cancer.

The company conducts induction training programmes for new recruits in the sales field. The objectives -of its training programmes are specified as to encourage proficiency, communication skills, potential leadership and teamwork. However attrition rate of trained and experienced workforce has been high over the years, as many have left the company for better prospects with large Indian & foreign pharmaceutical companies.

Wallace supplements the medical detailing efforts of its field sales force by a promotional mix of sales promotion (samples, gifts, medical camps, conventions etc.) and advertisements.

Table 5.7: Sales promotion and Advertisements expenditure of Wallace

| Year | Sales promotion expenditure Rs. | Advertisement expenditure | Total expenditure | Percentage Change* | Total Expenditure as % of sales * |
|-----------|---------------------------------|---------------------------|-------------------|--------------------|-----------------------------------|
| 2002-2003 | 273,44,871 | 355105 | 27699976 | - | 2.6 |
| 2003-2004 | 273,30246 | 314511 | 27644757 | - 019 | 2.2 |
| 2004-2005 | 235,97,289 | 627892 | 24225181 | -12 | 2.5 |
| 2005-2006 | 36,871,783 | 1247893 | 38119676 | + 57 | 2.9 |
| 2006-2007 | 59,929,018 | 711253 | 60640271 | + 59 | 4.3 |
| 2007-2008 | 76726413 | 352370 | 77078783 | +27 | 4.9 |

Source: Company Annual Reports. * calculated from given figures

It is seen that upto 2004-05 the company sharply reduced its expenditure on sales promotion and advertisement. The reasons for the same according to company sources are due to increased allocations of promotional budget on payment of salaries and incentives to field force staff in order to retain them. Also when the products are successfully accepted in the

target markets, sales promotion and advertisement expenditure is subsequently reduced. There has been, however, a sharp increase in 2005-06 and 2006-2007, especially in sales promotional activities of the company. This was necessary to counter competitive pressures and negative trends in profitability. As percentage of sales, Wallace is found to be steadily increasing its promotional expenditure.

The profitability of Wallace is indicated in Table 5.8.

Table 5.8 - Trends in performance of Wallace.

| Year | Sales (In lakh Rs.) | Percentage change | PBT (In lakhs Rs.) | Percentage change* | PAT (In lakhs Rs.) | Percentage change)* |
|---------|---------------------|-------------------|--------------------|--------------------|--------------------|---------------------|
| 2002-03 | 10579.24 | - | 1268.12 | - | 805.50 | - |
| 2003-04 | 12163.78 | 14.9 | 1537.37 | 21.2 | 974.32 | 20.9 |
| 2004-05 | 9672.23 | -20.4 | 969.36 | -36.9 | 585.32 | -39.9 |
| 2005-06 | 13018.51 | 34.5 | 1439.08 | 48.4 | 867.54 | 48.2 |
| 2006-07 | 13820.74 | 6.2 | 406.37 | -71.7 | 184.51 | -78 |
| 2007-08 | 15653.69 | 13.26 | 593.72 | 46.10 | 363.32 | 96.9 |

Source: Company Annual Reports. * calculated.

A sharp drop in sales over 2004-05 is explained as due to the uncertainties over implementation of VAT(Value-added Tax), and a drop in promotional expenditure. A careful observation of tables 5.7 and 5.8 indicate that the significant increase in sales during 2005-06 is due to a sharp rise in sales promotion and advertisement expenditure by over 50 per cent. For 2007-08 as well, a positive relation between promotional expenditure and sales is evident.

Pressures of competition faced by Wallace can be seen to be putting pressures on profitability as profitability trend is not very consistent. The implication of this is that the company needs to cut costs and implement an optimal promotional strategy to attain higher levels of profitability in the future. It could consider restructuring its product portfolio and withdrawing from unprofitable markets. The company has shown a relatively better performance in sales, and profitability for the year 2007-08.

The study reveals that Wallace Pharmaceuticals is a progressive company with ambitious strategies and plans. However, a recent 2008 list of sub-standard products, finds mention of Dioval Forte suspension, a product manufactured by Wallace at Dharwad, Karnataka, as well as of Clinicin Gel, a product manufactured by Indi-pharma, a sister concern of Wallace. In the highly regulated environment, building a good image consistently, through investments in quality control, and upgradation of production and storage facilities is vital for any company's success over the long run. The company reiterates that it has made substantial capital investments over the recent years and that it makes conscious attempts to live up to its reputation as a quality health care provider

3. Kare Labs Private Limited

The marketing structure of the company consists of a General Manager who heads the marketing and sales division, a zonal manager in charge of sales promotion and 75 medical representatives. Kare's market plan is formulated taking a longer term market perspective of 10 years, and within the long term plan the company adopts short term strategic approaches.

Expanding market share and obtaining doctor loyalty for its products are the main objectives of its current promotional strategy. The company plans to diversify into new product

categories and therapeutic segments to stabilize its market share. It reveals plans to acquire medium sized regional formulation company with specialization in dermatology or other specialty segments.

Promotional mix and Promotional Expenditure

The company states that personal selling is the most important element of its promotional mix. Motivation and skills of MRs in combination with an effective product are considered key factors in marketing success. The company provides customer database and audio visual aids to its MRs. The compensation plan to MRs. includes incentives on sales targets and allowances besides regular salary. Effective communication of product efficacy to doctors and constant brand reminders are considered by Kare as the specific strategies that are most helpful in marketing pharma products. The company also revealed its plans to collaborate with companies in specialty areas like oncology, ophthalmology, dermatology, vaccines and anti-HIV. It is looking out for opportunities of tie-up with multinational and Indian companies to manufacture on contract as well as loan license basis and has invested in manufacturing facility upgradation.

The promotional expenditure of Kare labs on advertisement, publicity and sales promotion is shown in Table 5.9.

Table5.9-Promotional expenditure of Kare Labs

| Year | Advertisement, expenses(Rs.) | publicity | Expenditure as % of turnover |
|---------|-------------------------------|-----------|------------------------------|
| 2002-03 | 998325 | | 0.6 |
| 2003-04 | 223151 | | 0.1 |
| 2004-05 | 177227 | | 0.1 |
| 2005-06 | 263108 | | 0.1 |
| 2006-07 | 232684 | | 0.1 |

Source: Company annual reports, *calculated figures.

It is evident from the table that Kare Labs is not having focused promotional strategy and its expenditure on advertisement and sales promotion has been about 0.1 percent of sales turnover.

The sales and profitability of the company has registered significant drop over the years.

Table 5.10 indicates the same.

Table 5.10-Performance of Kare Labs

| Year | Sales turnover (in lakhs Rs.) | Percentage change | PBT | PAT |
|---------|-------------------------------|-------------------|---------|---------|
| 2002-03 | 1695.60 | 9.1 | 46.26 | 42.55 |
| 2003-04 | 1708.75 | 0.7 | 33.48 | 30.91 |
| 2004-05 | 1516.20 | -11.2 | -184.17 | -184.17 |
| 2005-06 | 2483.04 | 63.7 | -119.75 | -120.58 |
| 2006-07 | 1553.59 | -37.4 | -197.14 | -127.79 |
| 2007-08 | ND | - | -123.10 | -189.49 |

Source: Company annual reports, *calculated figures. ND- not disclosed

It is evident from the table that the increase in sales achieved for some years could not be sustained by the company. Increase in excise duty is stated as one of the reason for losses, by the company. Due to decline in promotional expenditure and increase in other forms of expenditure like manufacturing and administrative expenses, Kare Labs has been incurring losses over the last 4 years.

Scaling up promotional expenditure and cutting down other costs seems to be the only way out for Kare to achieve a turnaround in pharmaceutical business performance, in the highly competitive environment. The company has already invested substantially in up gradation of manufacturing facilities.

4. Cosme Farma Laboratories Limited

The overall head of sales and marketing is the Vice President. A General Manager heads the Marketing department. Senior Marketing Managers coordinate the marketing functions in the different target markets. Product management team engages in brand development activities. The company has employed 850 medical representatives at present.

Expanding market share and entering into new markets abroad are the main objectives of its current market plan. Focus of the company's market segmentation is geographical, by therapeutic benefits of the products manufactured and by the specialty of doctors in the targeted areas.

Promotional mix and Promotional Budget

The company has a strong field force allocated to achieve set targets in the different regions of the country. The company increased the size of its field force from 275 in 1998-99 to 635 in 2000-01 to 850 in 2006-07. The main items of expenditure on the company's promotional budget are incentives to field staff and sales promotional aids and gifts.

Table 5.11. Promotional expenditure incurred by Cosme Farma Laboratories.

| Year | Incentives to field staff (in lakhs Rs.) | Gifts (in lakhs Rs.) | Sales promotion aids & medical conference expenses (in lakhs Rs.) | Total expenditure | Total Expenditure as percentage of sales * |
|---------|--|----------------------|---|-------------------|--|
| 2002-03 | 14.16 | 486.52 | - | 500.68 | 6.8 |
| 2003-04 | 20.25 | 165.25 | 88.44 | 273.94 | 3.2 |
| 2004-05 | 53.09 | 00.41 | 182.97 | 236.47 | 2..8 |
| 2005-06 | 88.45 | 17.82 | 95.32 | 201.59 | 1.8 |
| 2006-07 | 137.62 | 36.65 | 61.10 | 271.37 | 2.1 |
| 2007-08 | 144.99 | - | 139.75 | 284.74 | 2.2 |

Source: Company Annual Reports, * calculated

In recent years, Cosme Farma has been using publicity measures to build its image and to obtain recognition from doctors. It is also aiming at direct communication to patients and obtaining feedback from them. In 2007, it launched the Patients Education Cell in Mumbai to help patients connect and discuss their questions and problems with doctors. The Diaceron Response Cell was also launched in the same year in Mumbai aimed to benefit osteoarthritis patients. The cell provides information and insights to deal with the ailment.

Cosme Farma organizes conferences like Osteocon and Dermicon, which are forums for physicians for sharing knowledge and developments in the field of medicine. The company aims to build goodwill and a strong presence in the market, through such strategic measures.

Table 5.12. Performance of Cosme Farma Laboratories

| Year | Sales turnover (in lakhs Rs.) | *Percentage change | PBT (in lakhs Rs.) | *Percentage change | PAT (in lakh Rs.) | *Percentage change |
|---------|-------------------------------|--------------------|--------------------|--------------------|-------------------|--------------------|
| 2002-03 | 7283.49 | - | 163.62 | - | 127.26 | - |
| 2003-04 | 8558.85 | 17.5 | 588.64 | +259 | 434.14 | 70.6 |
| 2004-05 | 8388.73 | -2.0 | 151.11 | -74 | 90.77 | -79 |
| 2005-06 | 10668.67 | 27.2 | 280.40 | +85 | 85.55 | -5.7 |
| 2006-07 | 12524.72 | 17.3 | 270.18 | -3.6 | 126.96 | 48.4 |
| 2007-08 | 12541.32 | 0.1 | 45.27 | -83 | 54.95 | -56.7 |

Source: Company Annual reports. *calculated estimates.

The company initiated exports in the year 2003-04, resulting in a 17.5 percent growth in sales over the previous year. Profitability figures showed a commendable increase for that year.

Due to increased costs of investments, there was a fall in profits for the subsequent year. The company recorded a revival in 2005-06 with new products and increase in sales. The decline in profit, for 2007-08 is explained by the company as due to substantial investments in manpower. The company states that it has appointed 300 plus new employees in sales and marketing departments for starting operations in never territories, which takes time to establish. Further due to lucrative opportunities available elsewhere, there was a high level of attrition among the field force which also contributed to revenue loss.

Cosme Farma has initiated trade in bio-fertilizers product in 2007-08. The profitability in the pharma segment and bio-fertilizers segments for 2007-08 is indicated in table 5.13.

Table 5.13. Segments wise performance. (2007-08)

| | Pharma | Bio-fertilizers | Total |
|---------------------------|---------------|------------------------|--------------|
| 1. Total segments revenue | 12522.37 | 18.93 | 12541.31 |
| 2. Operating profit/Loss | 5187 | -6.67 | 45.20 |
| 3. Taxation | 9.74 | Nil | 9.74 |
| 4. Net profit/Loss | 61.62 | -6.67 | 54.95 |

Source: Company Reports.

It can be seen that the company suffered a loss in bio-fertilizers trading segment in 2007-08. The company's market performance indicates that it needs to pursue opportunities in the global market, with focus on exports, in order to sustain its profitability trend. It may also need to reorient its promotional mix aimed at further improvement in domestic sales.

5. Toyo Laboratories Private Limited

The Managing Director is in charge of overall marketing at Toyo labs. Sales administration is handled by a senior Sales Manager. Regional Sales Managers are appointed to supervise field activity. Toyo has a total number of 18 medical representatives. The market strategy of this small sized company is aimed at penetrating into and establishing niches in certain rural markets of the country. . Although personal selling is the most important element of the company's promotional mix, it could not increase the number of MRs over the last 5 years.

PROMOTIONAL MIX AND PROMOTIONAL BUDGET.

The sales force is regarded by Toyo labs as a very important medium for communication. Toyo largely banks on its sales personnel to reach and influence the target doctors. The management feels that a committed team of motivated individuals can effectively translate the company's strategies into results. Monetary incentives and promotion are the inducements provided to worthy sales employees. Although the time given by doctors to a representative is often as less as 3 minutes, Toyo feels with effective presentation style MRs can build rapport with doctors. Presentation by MRs is considered very important to build image of a company in the minds of doctors. MRs are provided product knowledge and sales training. Toyo also advertises its products in medical journals.

Table 5.14. Trends in expenditure incurred by Toyo on field force staff training and incentives.

| Year | Field force staff training expenses(Amt. in Rs.) | *Percentage of sales turnover | Commission of incentives to field force staff | *Percentage of sales turnover |
|---------|--|-------------------------------|---|-------------------------------|
| 2002-03 | 27087 | 0.3 | - | 0.3 |
| 2003-04 | 22856 | 0.3 | - | 0.3 |
| 2004-05 | 21970 | 0.3 | 63578 | 0.8 |
| 2005-06 | 19663 | 0.2 | 27637 | 0.3 |
| 2006-07 | 8879 | 0.1 | 16583 | 0.2 |
| 2007-08 | 1056 | 0.009 | 357520 | 3.11 |

Source: Company annual reports, *calculated fig.

It is evident from the table that Toyo spent a certain fixed percentage of marketing budget on field force staff training upto 2004-05, after which training expenses have been reduced sharply. The main focus of the company over the recent years has been improving sales effectiveness of its field force employees, by providing them incentives on sales. Toyo holds the view that gaining the trust and loyalty of MRs is critical for the marketing success of the firm. However, as trained and well qualified field force employees leave for better prospects and it is difficult to hire and retain effective MRs, the Director revealed that graduates from any field and not necessarily science graduates are recruited for the job.

According to its Director, the company has allocated a greater amount of its promotional budget on sales promotional measures like brand recall gifts and samples, seminars, donations etc, as well as on advertisements in medical journals.

Table 5.15: Sales promotion and advertisement expenditure of Toyo Labs.

| Year | Sales promotion (Amt. in Rs.) | *Percentage sales turnover | Advertisement (Amt. in Rs.) | *Percentage of sales turnover |
|---------|-------------------------------|----------------------------|-----------------------------|-------------------------------|
| 2002-03 | 76501 | 1.0 | 6180 | 0.08 |
| 2003-04 | 99442 | 1.3 | 34775 | 0.4 |
| 2004-05 | 54006 | 0.7 | 34162 | 0.4 |
| 2005-06 | 60421 | 0.5 | 28365 | 0.5 |
| 2006-07 | 159260 | 1.5 | 31475 | 0.3 |
| 2007-08 | 198735 | 1.7 | 25112 | 0.2 |

Source: Company annual reports *calculated estimates.

Faced with competition, Toyo feels that the amount required to spend on promotional tools and to empower the MRs will go on increasing.

It is to be noted that the company is constrained by unremunerative product prices and high production costs. High levels of competition and unethical promotion standards adopted by competitors in markets outside Goa are stated as the reasons hampering its progress.

The earnings of the company over the year is shown in table 5.16

Table 5.16 Trends in Performance of Toyo Laboratories

| Year | Sales turnover (Amt.in lakhs) | Percentage change | PBT (Amt. lakhs) | in | PAT (Amt. lakhs) | in |
|---------|----------------------------------|-------------------|---------------------|----|---------------------|----|
| 2002-03 | 75.70 | - | 2.25 | | 2.07 | |
| 2003-04 | 75.71 | 0.01 | 2.45 | | 2.25 | |
| 2004-05 | 74.51 | -1.5 | -0.98 | | -0.98 | |
| 2005-06 | 101.21 | 35 | 4.47 | | 4.79 | |
| 2006-07 | 106.03 | 4.7 | 3.07 | | 2.21 | |
| 2007-08 | 114.87 | 8.3 | -3.12 | | -1.33 | |

Source: Company annual reports.

The drop in sales turnover during 2004-05 is attributed to uncertainties prevailing over the implementation of VAT. The company performed very well in the subsequent year with a greater penetration over rural target markets. The perspective of the company is that a reoriented strategy of focusing on markets, increase in marketing expenses and production capabilities will lead to better performance in the coming years.

The company aims to better its prospects further through upgradation of manufacturing facilities, market research and establishing in niche market segments in rural India.

According to the company auditors, the total accumulated loss of Rs. 13.65 lakhs as on March-31, 2008, is more than 50 percent of the company's net worth.

6. MERIT PHARMACEUTICALS PRIVATE LIMITED.

The Managing Director is the coordinator of the company's promotional strategy and sets targets to be achieved in different periods, over different regions. A senior Sales Manager is entrusted with the task of implementation of policy and specifying the short term goals. Sales operations in Kerala, Hubli and Kolhapur are supervised by 3 Areas Sales Managers. Merit Pharmaceuticals has currently employed 30 MRs engaged in the job of medical detailing of doctors in Goa, Kerala, Maharashtra and Karnataka. Merit mainly targets General Practitioners and Paediatricians in these markets.

Rural areas are the main markets where certain niche marketing opportunities are established by the company. However, even big companies look out for opportunities in rural areas and access distributors for the same. Hence, safeguarding the niches and depending existing market share are the main objectives of its current market strategy.

Innovation in paediatric products and packaging has been the main highlight of Merit Pharmaceuticals. However it has limitations of resources and hence is constrained by this factor in implementation of ideas for product research and development.

PROMOTIONAL MIX AND PROMOTIONAL BUDGET

Personal selling is the most important element of the company's promotional mix. Over the last five years it increased the number of medical representatives from 12 to 30; however getting well qualified science graduates with selling skills becomes difficult for the company.

Even if they do join, after a period of training they join bigger companies. Merit feels effectiveness of MRs is crucial for smaller companies than MNCs who can even succeed with direct mailing to doctors because of their image.

The compensation package provided to MRs is basic salary and incentives on sales targets. It provides detailing aids to MRs in the form of folders with appealing messages and information about its products. Since in a highly competitive scenario, only reliance on MRs does not result in sales, Merit uses sales promotional policy by giving gifts, reminders and samples to doctors as well as organizes joint conferences and meetings.

Table 5.17: Promotional expenditure incurred by Merit Pharmaceuticals.

| Year | Commission & incentives sales staff | Sales meetings & conference expenses | Advt. sales & promotion | Total expenditure | Percentage of sales * |
|---------|-------------------------------------|--------------------------------------|-------------------------|-------------------|-----------------------|
| 2002-03 | 3593 | 107501 | 62165 | 173259 | 2.8 |
| 2003-04 | 4631 | 26663 | 68208 | 99502 | 1.4 |
| 2004-05 | 4500 | 42166 | 90574 | 137240 | 1.9 |
| 2005-06 | 17000 | 73930 | 92181 | 183111 | 2.0 |
| 2006-07 | 11670 | 83264 | 84026 | 178960 | 2.0 |
| 2007-08 | 10000 | 55625 | 68317 | 133942 | 1.9 |

Source: Company Annual Reports.* calculated values.

It can be concluded that Merit spent around 2 per cent on an average on promotional activities over the six year period under study. A small company like Merit is trying to withstand the competitive pressures by a package of promotional measures comprising of incentives to field staff, organizing conferences to build relations with doctors and promoting sales through gifts and reminders.

Its performance can be gauged from table 5.18

Table 5.18: Trends in performance of Merit.

| Year | Sales turnover (in lakhs Rs.) | Percentage change | PBT (in lakhs Rs.) | PAT (in lakhs Rs.) |
|---------|----------------------------------|----------------------|-----------------------|-----------------------|
| 2002-03 | 62.08 | 7.9 | -1.6 | -1.6 |
| 2003-04 | 71.40 | 15.0 | 2.0 | 1.2 |
| 2004-05 | 71.44 | 0.05 | 4.5 | 0.64 |
| 2005-06 | 89.54 | 25.3 | 4.1 | 1.03 |
| 2006-07 | 89.85 | 0.3 | 3.3 | 2.50 |
| 2007-08 | 123.94 | 37.9 | 38.1 | 33.51 |

Source: Company Reports.

Merit has recorded positive sales growth over the period. Uncertain microeconomic conditions and tax policy affected its sales in 2004-2005, but Merit was able to maintain its sales volume for the year and achieved a robust growth in sales of 25 percent in 2005-2006. There was a marginal increase in sales in 2006-07, and a robust increase in 2007-08, which enabled the company to achieve healthy profits for the year. However, it can be noted from table 5.17 that Merit reduced overall expenditure on sales promotion and on field staff which could adversely affect company sales in the subsequent year. The profits achieved according to the company sources, however, are not sufficient to build capabilities and implement strong promotional policies. It is also to be noted that Merit Pharmaceuticals is not a Good Manufacturing Practices certified company and therefore needs consistent increase in profits for capital investment. Therefore, it appears that there is a need for Governmental assistance and support measures for such small, but progressive units as Merit Pharmaceuticals, who struggle to stand in the highly competitive and research-based pharmaceutical market environment.

7. GOA ANTIBIOTICS AND PHARMACEUTICALS LIMITED (GAPL)

EDC Ltd, a financial and investment corporation of Government of Goa owns 100 per cent stake in GAPL. Due to financial losses, GAPL was registered as a sick company under Board of Industrial and Financial Reconstruction (BIFR) in 1977. EDC attempt to divert its holding in GAPL to a strategic investor in a phased manner, did not yield results, due to protection for workforce clauses in the proposal. According to this clause the strategic investor will have to retain the manpower of the company for a period of atleast 3 years from date of divestment of 100 percent EDC's stake in GAPL. The burden of excessive workforce, unutilized capacity and mismanagement are major reasons causing this big public sector undertaking to run into huge losses. The sales and financial performance of GAPL is shown in table 5.19.

Table 5.19 Trends in Performance of GAPL

| Year | Sales (Rs. In lakhs) | Net profit/Loss(Rs. In lakhs) |
|---------|----------------------|-------------------------------|
| 2002-03 | 2430.65 | +11.15 |
| 2003-04 | 1787.05 | -245.18 |
| 2004-05 | 1007.38 | -238.95 |
| 2005-06 | 1067.69 | -190.92 |
| 2006-07 | 1076.33 | -189.17 |

Source: Company Annual Reports

The accumulated losses of the company at the end of the financial year,2006 amount to Rs. 26,85,59,278 which has eroded the entire networth of the company.

Retail outlets of the company at Bambolim, Margao and Mapusa contribute to its earnings. It undertakes contract manufacturing for Karnataka Antibiotics and Pharmaceuticals Ltd. It has been focusing on loan license activities to cover up major fixed costs. The company earlier

participated in the tenders of government of Maharashtra & Karanataka. Till 2004, marketing activities were pursued by the company, largely for non-allopathic products. But in the face of continues losses, the company has been concentrating on loan license activities and caters now to Government of Goa institutions only. The sales realization of the company does not cover the cost of production, indicating the need for effective cost control. For instance in 2002-03, while sales amounted to 2430.65 lakhs, cost of sales was estimated to be 2442.17 lakhs. Similarly in 2003-04, cost of sales was 2020.59 lakhs, while sales was 1787.05 lakhs. This indicates that the sales realization of the company does not cover the cost of production.

Table 5.20-Selling expenses of GAPL

| Year | Sales promotion (Rs) |
|-----------|----------------------|
| 2002-2003 | 242,258 |
| 2003-2004 | 149706 |
| 2004-2005 | 74,382 |
| 2005-2006 | 14,120 |
| 2006-2007 | 65,021 |

Source: Company Annual Reports.

The company continues to manufacture products to be supplied to Government of Goa institutions against confirmed orders only. During the year 2006-07, the total sale to Goa government institutions was to the tune of Rs. 134.00 lakhs. The company also continues to pursue loan license business.

During the year 2006-07 GAPL undertook the Ayurvedic business through M/s Ajay Pal Herbal pharmaceuticals, Ajmar worth Rs. 271.00 Lakhs, pertaining to the orders of the government of Rajasthan, Madhya Pradesh, Chandigarh, Uttaranchal & Gujarat. As a part of measures to revive the sick unit, the Department of Chemicals & Petro Chemicals & Ministry

of Chemicals & Fertilizers, Govt. of India have extended the purchase preference policy to GAPL with a view to enabling the sick company to optimally utilize its installed capacity.

The government continues to pour in financial assistance to this loss making unit. Plans for diverting to a strategic investor will not materialize unless the government has the political will to trim down the labour force and bring about drastic change in organization and management of the company in line with market needs. With strong unionization and political patronage enjoyed by the unions this prospect is highly unlikely.

5.3.1 Main Findings on the Promotional Practices of Individual Companies.

1) The main promotional expenses of the companies under study include salaries, incentives and bonus to field staff, training of medical representatives, sales promotional activities like giving free samples, bonus offers and gifts, advertisements, medical conferences and seminars. These expenses determine to a great extent the sales and profitability and market standing of the companies.

2) It can be interpreted that amidst the intense competition there is a shift in the traditional marketing practices of the companies under study that belong to the private sector. The focus is on improving the size and skills of medical representatives and providing support to their marketing efforts by allotting promotional budgets on gifts, free samples, leave behind literature, mailers and advertisements. Many of the companies under study even organize or sponsor medical symposia, conferences and medical camps and undertake philanthropic activities to build public relations and their image in the minds of their target customers. This indicates that companies under study are not entirely dependent on MRs although MRs are an indispensable tool for all of the companies.

3) The pressure of competition appears to be putting pressures on the profit margins of most of the companies under study. The companies earning profits over the years considered are Geno, Wallace, Cosme Farma Laboratories, Toyo and Merit Pharmaceuticals. The sales growth of Kare is found to be not matching with its overhead costs and the company has been incurring consistent losses. GAPL, the fully owned subsidiary of EDC Ltd has been continually incurring financial losses.

4) The trends in sales and profitability for the companies are found not to be consistent, but erratic, thus establishing the uncertainties, and vulnerabilities of the market.

5) The companies are found to be grappling with the problem of extensive turnover of its field sales force, who leave for better monetary prospects. The efforts of companies to build long lasting rapport with customers thus suffers, besides making them cautious on spending on training programmes.

6) Lower profit margins are causing some manufacturers to reduce their promotional expenditure in order to maintain profitability.

7) The study finds that profitability is positively related to sales, and sales appear to respond positively to promotional activities for majority of the companies under study, thus confirming the role of marketing in the performance of the pharmaceutical companies.

It has been noted that less effectiveness of companies in meeting targets and high rate of employee turnover are the main problems affecting all the companies. It is observed that high

costs, pressure on prices and reduced flow of new products adversely affect their profitability prospects. The marketing departments of these companies are required to demonstrate the value of their products through promotional innovation, and the companies should emphasize on the safety and efficacy of their products. Strategies of motivation and retention of qualified and trained medical representatives should be adopted on a priority basis.

5.4 Pharmaceutical Distribution

The market for a pharmaceutical drug is generally highly fragmented across wide geography irrespective of the sales potential. To capitalize on the many fragmented and extended market opportunities, pharmaceutical companies have to make their drugs available at maximum number of retail outlets spanning across their target markets. If the distribution system is not efficient market coverage is affected and results in missed sale opportunities. Literature on this subject point out that distribution network management should be aligned with company's target marketing efforts. Therefore pharma companies should have a wide distribution network covering pharmacies, health organizations and other prospective selling points within the targeted markets.

5.4.1 Pharmaceutical Distribution Channels.

The five basic members of a pharmaceutical distribution channel are 1) The manufacture 2) The physician 3) The wholesaler 4) The retailer 5) The consumer.

The characteristics of the manufacturer which are important determinants of pharmaceutical distribution are the financial capability, reputation and policies of the manufacturer.

The physician plays a pivotal role in the pharmaceutical marketing channel as without the prescription of a physician, no ethical drug can be dispensed by the retailer to the consumer.

A wholesaler is one, who purchases goods from manufacturer for his own account and resells them to other wholesalers, retailers, dispensing doctors, nursing homes, hospitals etc .The wholesalers operating in Indian Pharmaceutical Industry can broadly be classified into

1. Super Distribution or Super stockist or distributors
2. Stockist or Accredited Wholesale Dealers
3. Wholesale dealers or Substockists
4. Consignment and Forwarding Agents. (C&F agents)

The difference between the terms super distributors, super stockist and distributors exists only in the terminology or nomenclature used by different companies and not in the functions they perform. Usually super distributors are appointed by manufacturer to look after the entire function of distribution of their products in relatively large geographical territories like a complete State or part of the State, depending on certain factors like the volume of business, the product mix, the size of the state and the degree of market penetration needed by the company etc. The super distributor sells the product of the company he is dealing with, to the stockist or accredited wholesale dealers or may sell the products directly to hospital and dispensing doctors.

The difference between a super distributor and a stockist is that a super distributor buys the goods directly from the company and caters to a larger sales territory and mainly supplies to stockist appointed and attached to him by the company. He caters to a small sales territory. He is appointed or authorized by the company mainly to supply to the retailers. Stockist also may supply to wholesalers dealers.

A Consignment and Forwarding agent (C&F agent) functions like a super distributor but the ownership of goods does not change in case of C&F agent. A C&F agent does not purchase the goods from the company. He provides the warehousing facilities, and sells the company's products among retailers, dispensing doctors and nursing homes and hospitals. The commission payable to C &F agency usually depends upon sales turnover of the company. This commission covers all the cost components of the C&F agent incurred for the purpose of distributing the company's products and for the services rendered. The major cost components of a C&F agent include rent for godown and office, cost of labour for packing (packing materials is provided by the company), freight cost and administrative cost .

A retailer is the chemist or druggist who provides drugs to the patient on the basis of doctor's prescription.

The option available to a pharmaceutical manufacturer is whether to sell to the stockist through the super distributors or to sell directly to stockist or to appoint a C&F agent.

The margins specified as per DPCO 1995 are 16 percent to retailers on products in, controlled categories, 20 percent to retailers on products outside the controlled categories, 8percent to wholesalers on products in controlled categories and 10 percent to wholesalers on products outside controlled categories.

5.5 DISTRUBUTION POLICIES AND COSTS OF THE COMPANIES UNDER STUDY

Most of the firms under study have appointed C&F agents to manage the distribution function .The reasons for this preference are;

- 1) Appointing a C&F agency is like having a company's own depot. The invoicing is done by the C&F agent on behalf of the companies. The goods are transferred from the company's warehouse to the C&F agent. There is no sale involved; hence the company does not have to pay the central sales tax even in case of inter-state transfers.
- 2) Appointing a C&F agent means reaching the stockiest directly and saving on distribution costs.
- 3) A C&F agency system helps the company implement a uniform distribution policy throughout the country which is essential, without having to start its own depots.

The big and medium sized companies adopt a combination of own depots and C & F agents, which helps in balancing the distribution costs and gives the necessary control to achieve the required market penetration through a stockist network directly under the company. The other main items of cost of distribution incurred by the companies are on warehousing facilities for the storage of pharmaceutical products, inventory management and transportation.

1.Geno Pharmaceuticals Limited.

Distribution costs incurred by Geno include total expenditure incurred on transportation, commissions payable to C&F agents and distributors and administrative overheads. For the purpose of logistics and physical distribution of the products, it has opened its own sales depots in some states. Expenses incurred on sales depots include the rent of premises, salary of staff, administrative expenditure and expenses on logistics and distribution of the pharma products. It has regional offices at Mumbai, Kolkatta, Delhi & Chennai. However in order to

cut distribution costs, Geno has appointed Consignment and Forwarding agents in various states.

It has C&F depots at Belgaum, Bhiwandi, Kolkatta, Cuttack, Ghaziabad, Guwahati, Hyderabad, Lucknow, Madurai, Patna, Varanasi, Ahmedabad, Haldwani, Bhopal, Kochi, Ranchi, Raipur and Chennai. C&F agents are appointed in order to reduce the depot management expenses and to enable the field force to concentrate on promotion of the products, instead of wasting time on logistics in each state.

Company data indicates the following as the major items of distributional expenditure incurred by Geno over the years.

Table 5.21-Major items of Distributional expenditure of Geno pharmaceuticals.

| Year | Freight & Transportation (in lakh Rupees) | Percentage of sales turnover | C & F agents (in lakh Rupees) | Percentage of sales turnover |
|---------|---|------------------------------|-------------------------------|------------------------------|
| 2002-03 | 198.65 | 4.7 | 178.41 | 4.2 |
| 2003-04 | 226.42 | 4.4 | 191.37 | 3.7 |
| 2004-05 | 230.90 | 4.5 | 181.30 | 3.5 |
| 2005-06 | 309.01 | 4.7 | 236.37 | 3.6 |
| 2006-07 | 310.66 | 3.8 | 361.10 | 4.5 |

Source : Company Annual Reports, * calculated figures.

It is seen that on an average Geno spent 4.4 percent of its sales turnover on transportation and the commission paid to C&F agents average around 4 percent during the period. Total expenditure on transportation and commission to sales agent has been around 8 percent of sales turnover on an average during the period.

2. Wallace Pharmaceuticals Private Limited

With regulation on pricing under the Drug Price Control Order and reduction in the profit margins, Wallace pharmaceutical's strategy has been to reduce distribution expenses. It does not have its own sales depots, but has appointed C&F agents to handle distribution. Wallace also feels that the manpower involved in depot management can be utilized to concentrate on business development thus increasing the sales.

Distribution of the products of Wallace is entrusted to 23 C & F agents located at different centres in India, through whom it reaches 50,000 chemists in India. It has appointed a logistics coordinator to co-ordinate distribution of its products from its manufacturing locations at Goa, Dharwad and Himachal Pradesh.

Company data indicates the major heads of distributional expenditure as given in Table 5.22.

Table 5.22- Major items of distributional Expenditure of Wallace

| Year | Transportation (inlakh Rupees) | Percentage of sales * | Agency expenses and Commission to C & F (in lakh rupees) | Percentage of sales* |
|---------|--------------------------------|-----------------------|--|----------------------|
| 2002-03 | 170.19 | 1.6 | 221.78 | 2.03 |
| 2003-04 | 168.90 | 1.3 | 253.87 | 2.08 |
| 2004-05 | 181.29 | 1.8 | 197.90 | 2.04 |
| 2005-06 | 225.20 | 1.7 | 263.62 | 2.02 |
| 2006-07 | 301.63 | 2.1 | 285.20 | 2.06 |
| 2007-08 | 358.94 | 2.3 | 350.63 | 2.2 |

Source: Company Annual Reports, *calculated estimates

Transportation and handling expenses has increased for Wallace over the period, and C&F expenses amount to 2.7 per cent of sales on an average over the period. Average distributional expenditure on both these items is 3.7 percent of sales over the period.

3. Kare Laboratories Private Limited

Kare Laboratories markets its products in India and abroad through its marketing company- Kare Health Specialties Limited, which was established in the year 2000.

It relies extensively on its own marketing company as it believes that distributor's actions have to be highly coordinated with the company's marketing strategies. From its mother godown, products are channelized through its sales depots to wholesalers and retailers.

The balance sheet schedules of the company reveal the allocations to distributional expenditure as shown in table 5.23

Table 5.23- Distributional expenditure of Kare Laboratories

| Year | Freight & Forwarding (in rupees) | Percentage of sales turnover | Other distribution expenses | Percentages of sales turnover |
|---------|----------------------------------|------------------------------|-----------------------------|-------------------------------|
| 2002-03 | 1,70,221 | 0.1 | 2432300 | 1.4 |
| 2003-04 | 1,47,283 | 0.08 | 2394906 | 1.4 |
| 2004-05 | 1,16,178 | 0.07 | 1841808 | 1.1 |
| 2005-06 | 79,897 | 0.03 | 2104503 | 0.8 |
| 2006-07 | 8,78,924 | 0.5 | 3382702 | 2.0 |

Source: Company Reports.

The distribution expenses, over the period, on an average, have been 1.3 percent of sales turnover. It is noted that major distributional expenses on behalf of the company are borne by

Kare Health Specialities Private Ltd., a group company which handles distribution network of Kare Labs, and hence are not recorded on the annual accounts of Kare Labs.

4. Cosme Farma Laboratories Limited.

The distribution strategy of Cosme Farma is to channelise sales through C & F agents located at strategic locations all over India. The company does not have its own sales depots.

Total commission paid by the company to C&F agents and its freight costs are shown in Table 5.24

Table5.24- Major Distributional Costs incurred by Cosme Farma Laboratories

| Year | Handling transportation expenses (in lakhs Rs.) | Percentage of sales turnover* | Commission to C&F agents (in lakhs Rs.) | Percentage of sales turnover* |
|---------|---|-------------------------------|---|-------------------------------|
| 2002-03 | 31.91 | 0.4 | 52.73 | 0.7 |
| 2003-04 | 28.61 | 0.3 | 72.64 | 0.8 |
| 2004-05 | 115.28 | 1.3 | 83.53 | 1.0 |
| 2005-06 | 147.48 | 1.3 | 82.82 | 0.7 |
| 2006-07 | 154.61 | 1.2 | 97.73 | 0.7 |
| 2007-08 | 185.61 | 1.4 | 107.40 | 0.8 |

Source: company annual reports, * calculated estimates.

It is clear that the policy of managing sales through appointed C&F agency system is yielding dividends to the company in terms of economy in distributional costs. Total distributional costs on an average, on C&F agents and transportation, has been around 2 percent of sales turnover.

5. Toyo Laboratories Private Limited.

The intermediaries involved in taking Toyo's products to the final consumer are company appointed C&F agents who reach out through their distribution network, to the various stockist and chemists in its target markets.

The amount spent by the company in paying commission to the C&F agents and in freight and forwarding are listed in Table 5.25.

Table 5.25. Major distributional costs incurred by Toyo Labs.

| Year | Freight forwarding expenses(in Rs.) | % of sales* | Commission C&F agents | % of sales* |
|---------|-------------------------------------|-------------|-----------------------|-------------|
| 2002-03 | 88,772 | 1.1 | 2,18,288 | 2.9 |
| 2003-04 | 63,697 | 0.8 | 2,35,725 | 3.1 |
| 2004-05 | 99,230 | 1.3 | 2,52,259 | 3.3 |
| 2005-06 | 135,295 | 1.3 | 3,68,800 | 3.6 |
| 2006-07 | 161,496 | 1.5 | 4,16,564 | 3.9 |
| 2007-08 | 198,453 | 1.7 | 4,49,559 | 3.9 |

Source: company annual reports, *calculated estimates.

The costs of distribution are high, putting pressures on profitability of the company. On an average, total costs incurred over the period amount to 4.9% of sales turnover. Commission paid to C&F agents has increased with increase in the sales turnover.

6. Merit Pharmaceutical Pvt. Ltd.

Products manufactured by Merit moves from the factory to C&F agents who are appointed as distributors by the company. The company does not have its own sales depot.

Expenses incurred are shown in Table 5.26.

Table 5.26. Major distributional expenses of Merit Pharmaceuticals

| Year | Freight & forwarding (Rs) | % of sales turnover | Commission to C&F agents (Rs) | % of sales Turnover |
|---------|---------------------------|---------------------|-------------------------------|---------------------|
| 2002-03 | 66001 | 1.0 | 46374 | 0.7 |
| 2003-04 | 16660 | 0.2 | 132750 | 1.8 |
| 2004-05 | 21762 | 0.3 | 222437 | 3.1 |
| 2005-06 | 25990 | 0.3 | 117618 | 1.3 |
| 2006-07 | 19636 | 0.2 | 160456 | 1.7 |
| 2007-08 | 27403 | 0.4 | 108194 | 1.6 |

Source: company annual reports, *calculated figures.

It is seen that commission paid to C&F agents vary in direct proportion to its sales turnover. Average expenditure on distribution over the period has been about 2.3 per cent of sales turnover.

7. Goa Antibiotics and Pharmaceuticals Ltd.

The distributional expenses of GAPL are presented in Table 5.27.

Table 5.27- Distributional expenses of GAPL

| Year | Distributional expenditure (in lakhs Rs.) | % of sales |
|---------|---|------------|
| 2002-03 | 174.07 | 7.1 |
| 2003-04 | 95.05 | 5.3 |
| 2004-05 | 23.65 | 2.3 |
| 2005-06 | 8.67 | 0.8 |
| 2006-07 | 10.05 | 0.9 |

Source : company annual reports *calculated estimates.

GAPL supplies to institutional buyers like Goa Medical College and Hospital, Directorate of Health Services, Asilo and the Employees State Insurance Corporation.

---GAPL has stopped selling to institutions outside Goa due to under quoting of prices by other dealers. It has activated its retail trading business in Goa. Distributional expenditure therefore has been reduced from 7.1 percent in 2002-03 to 0.9 % of sales turnover in 2006-07.

5.5.1 Main observations on the Distributional Practices of individual companies.

1. The main distributional expenses incurred by the companies include depot expenses/C & F expenses, logistics expenses, freight and transportation and administrative overheads. These expenses determine relative position and efficiency of the companies in the market place.
2. All Pharmaceuticals companies that belong to the private sector, with the exception of Kare Laboratories have appointed Consignee & Forwarding agents (C & F's) to handle distribution of their products. Kare Laboratories undertakes distribution through Kare Health Specialists Limited- a group company . Only Geno pharmaceuticals has its own sales depots. GAPL relies on institutional sales and trading through medi centers.
3. Commission paid by companies to C & F agents varies between 0.7 to 4.5 percent of sales turnover.
4. Maintaining own sales depots is considered to be more uneconomical and costly.

In the uncertain pharmaceutical market environment, it is not easy for the marketers to predict sales of prescription drugs. This poses a tough challenge of matching distribution

with the market demand. In addition to managing sales and complex distribution network, ensuring drugs security and patient safety are other major challenges before the companies.

The research on these companies revealed that in the past, pharmaceutical distribution was mainly performed in a limited geographical area. However, in the current scenario, in order to maintain market share, wide distribution network has become indispensable to cover geographically expanded market opportunities and to avoid missed sales opportunities.

The companies should consider Information Technology related solutions to network and manage information on distribution networks which could be a strategy to achieve the objectives of distribution policies.

5.6 Comparative Analysis of the Promotional and Distributional Practices of the companies under study.

The comparison between the seven companies under study is undertaken on the basis of the total promotional and distributional expenditure incurred by them and expressed as a percentage of total sales. Companies are also ranked on the basis of average sales turnover for the period from 2002-03 to 2006-07 and on the basis of average profitability. Profit after tax is taken into account to compare profitability.

An analysis of the comparative business performance of the companies is done using ratio analysis. The following ratios for each company are computed and then compared for all of the seven companies.

- i) Gross profit ratio.
- ii) Net Profit Ratio

- iii) Ratio of selling expenses.

5.6.1 Comparative objectives and policies

It has become evident from the study that the major items of expenditure on promotion of pharmaceutical products, for all the companies included in the study are on salaries and allowances for field force staff, training of medical representatives, advertisements and sales promotion and travelling expenses. Some companies also spend on medical conferences, free medical camps and seminars. All the units under study, irrespective of size, undertake a mix of promotional measures, although the intensity differs, without exclusively relying on efforts of medical representatives. Sales promotional activities of the companies include free samples to doctors, gifts to doctors and retail chemists, souvenirs, literature, compliments, posters, paperweights, pen stands, calendars etc.

The common objectives of the sales promotion strategy of the companies were noted to be;

- i) Emphasis on brand recall.
- ii) Competitive positioning
- iii) To obtain share of mind of physicians.

The companies base their sale promotional activities on inputs from various types of market research programmes such as prescription audits, stockist audits, customer size, competitor's activities etc. Providing training on product knowledge and selling skills for its sales personnel, are the most important orientation programmes, all the companies undertake. Field staff comprising of medical representatives, Area Managers and Regional Managers are also made to participate in workshops and seminars to gain knowledge on new products, new uses of the products and other developments.

The major motivational policies in force among the companies are indicated in table 5.28.

The tick mark against each factor shows the corresponding company adopting the given motivational factor.

Table 5.28 Motivational factors used by the selected companies:-

| Motivational factors | GENO | WALLACE | KARE | CFL | TOYO | MERIT | GAPL |
|--|------|---------|------|-----|------|-------|------|
| Incentives on sales | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Monetary matters (loans, bonus, exgratia, tour allowances) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Opportunity of advancement | ✓ | ✓ | | ✓ | | | |
| Holiday trips | | ✓ | | ✓ | ✓ | | |
| Gifts | | | | ✓ | ✓ | ✓ | |
| Involvement in company review meetings | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |

Source: Primary data.

Incentives on sales are on achievement of set targets. However, it was stated that MRs feel the increasing pressure of meeting the given targets. Geno provides bonus, tour allowances and ex-gratia to field force staff. Wallace, CFL, Kare and Toyo provide credit facilities and traveling allowances. CFL, Toyo and Merit provide gifts/ durable products to their field force staff. GAPL incurs expenses on travelling & conveyance and other allowances.

One of the major problems faced by the companies is the high turnover rate of quality field force staff. The companies which spend a significant amount on training and orientation of the field force are more adversely affected.

The performance appraisal practices of the companies include an evaluation of the following.

1. Sales target v/s achievements
2. Involvement in decision making
3. Information inputs on competitors
4. Commitment to the company.

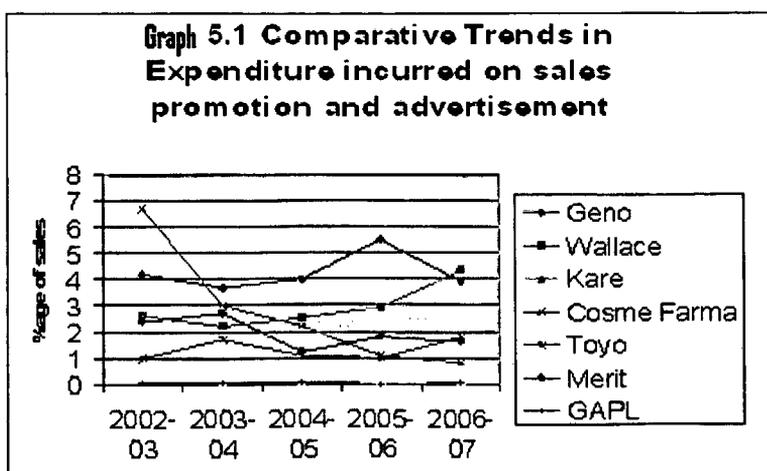
However, all companies give primary importance to achievements on sales targets, while appraising the performance of the medical representatives, and other field force staff.

A comparative picture of the amount spent by the selected companies on sales promotion and advertisements, excluding field force incentives is shown in table 5.29 and Graph 5.1

Table 5.29: Relative expenditure of companies on sales promotion and advertisement (expressed as percentage of sales)

| Expenditure incurred by | | | | | | | |
|-------------------------|------|---------|------|-------------|------|-------|------|
| Year | Geno | Wallace | Kare | Cosme Farma | Toyo | Merit | GAPL |
| 2002-03 | 4.2 | 2.6 | 0.6 | 6.7 | 1.0 | 2.4 | 0.09 |
| 2003-04 | 3.7 | 2.2 | 0.1 | 3.0 | 1.7 | 2.7 | 0.08 |
| 2004-05 | 4.0 | 2.5 | 0.1 | 2.2 | 1.1 | 1.2 | 0.07 |
| 2005-06 | 5.5 | 2.9 | 0.1 | 1.1 | 1.0 | 1.8 | 0.01 |
| 2006-07 | 3.9 | 4.3 | 0.1 | 0.8 | 1.8 | 1.6 | 0.06 |

Source: Calculated figures from company reports.



The companies that allot a relatively higher amount on sales promotion are Geno, Cosme Farma and Wallace, while the companies spending, the least are Kare and GAPL. It is to be noted that these two companies i.e. Kare and GAPL, have been incurring losses. Average expenditure has been 4.2, 2.9 and 2.7 for Geno, Wallace and CFL respectively. The proportion of expenditure incurred by the companies on sales promotion is dependent on factors like stages of the product life cycle to which the core products belong, expenditure necessary to be incurred on salaries, incentives and allowances to field staff and on distribution, competitor's activities, company goals and objectives. It is noted that CFL has reduced expenditure on sales promotion and advertisement over the period, as company sources state that expenditure on field force staff comprised the major chunk of total marketing expenditure.

Major distribution costs incurred by the companies include expenditure on transportation, commissions to C&F agents and agency expenses and other administrative overheads. Only Geno pharmaceuticals has its own sales depot and has appointed C&F agents, while Kare entrusts its distribution function to Kare Health Specialties Ltd., a specialized company of the Kare group. Wallace, CFL, Toyo and Merit have appointed C & F agents to look after logistics and physical distribution. These intermediaries are paid a certain percentage of sales as commission. The system of appointing C & F agents has helped these companies to considerably reduce the depot management expenses and field force can concentrate on promotion of the products instead of wasting time on logistics.

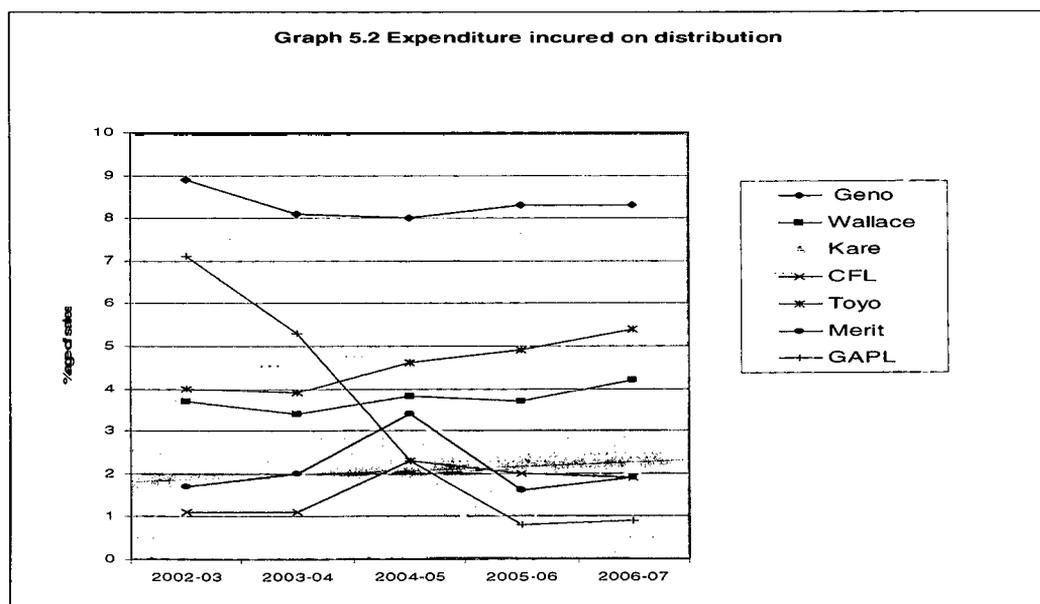
In addition to the commission paid to the agent, companies bear other additional expenses like transport costs, handling and communication expenses. A comparison is made among the

companies in terms of the main components of distributional expenditure, comprising of freight and forwarding, and commission to C & F agents and distributors as in table 5.30.

Table 5.30-Relative expenditure of companies on major distributional heads. (expressed as percentage of sales)

| Expenditure incurred by | | | | | | | |
|-------------------------|------|---------|------|-----|------|-------|------|
| Year | Geno | Wallace | Kare | CFL | Toyo | Merit | GAPL |
| 2002-03 | 8.9 | 3.7 | 1.5 | 1.1 | 4.0 | 1.7 | 7.1 |
| 2003-04 | 8.1 | 3.4 | 1.5 | 1.1 | 3.9 | 2.0 | 5.3 |
| 2004-05 | 8.0 | 3.8 | 1.2 | 2.3 | 4.6 | 3.4 | 2.3 |
| 2005-06 | 8.3 | 3.7 | 0.8 | 2.0 | 4.9 | 1.6 | 0.8 |
| 2006-07 | 8.3 | 4.2 | 2.5 | 1.9 | 5.4 | 1.9 | 0.9 |

Source: Estimated values based on company reports.

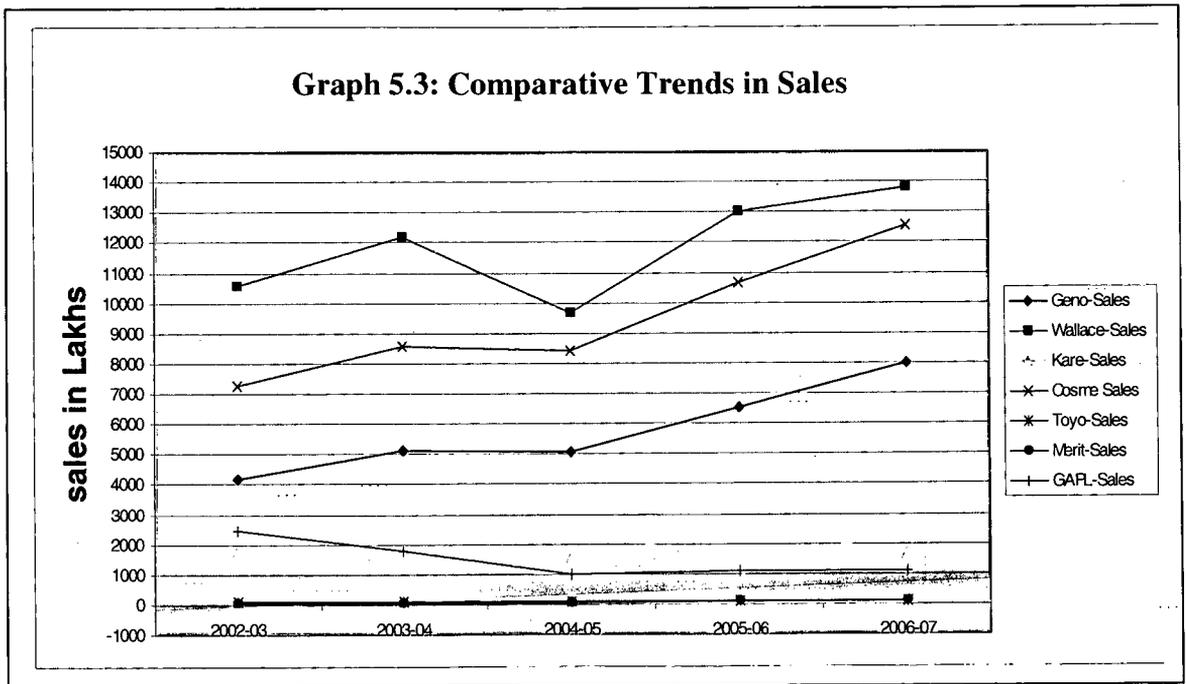


It appears from the table that Geno pharmaceuticals has scope to economize on its distributional overheads, while the other companies have to evolve policies to optimize their distributional budget. Companies should explore techniques of distribution management and optimization. Arriving at an optimal distribution system requires in-depth cost-benefit analysis by each of the companies. Ensuring that there are no stock-outs of company products is another challenge before the pharmaceutical companies.

5.6.2 Comparative Trends in Sales and Profits.

Table 5.31- Sales (expressed in lakh rupees)

| Year | Geno-Sales | Wallace-Sales | Kare-Sales | Cosme Sales | Toyo-Sales | Merit-Sales | GAPL-Sales |
|---------|------------|---------------|------------|-------------|------------|-------------|------------|
| 2002-03 | 4193.31 | 10579.24 | 1695.60 | 7283.49 | 75.70 | 62.08 | 2430.65 |
| 2003-04 | 5132.15 | 12163.78 | 1708.75 | 8558.85 | 75.71 | 71.40 | 1787.05 |
| 2004-05 | 5088.35 | 9672.23 | 1516.20 | 8388.73 | 74.51 | 71.44 | 1007.38 |
| 2005-06 | 6551.00 | 13018.51 | 2483.40 | 10668.67 | 101.21 | 89.54 | 1067.69 |
| 2006-07 | 8012.17 | 13820.74 | 1642.83 | 12524.72 | 106.03 | 89.85 | 1076.33 |



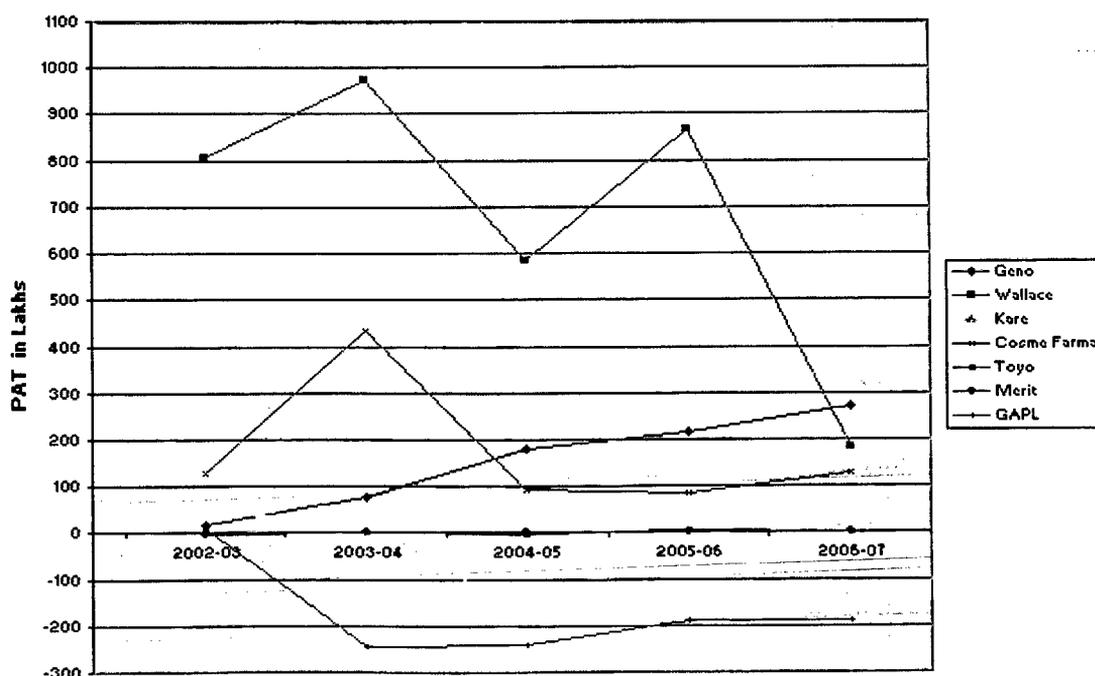
The comparative trends in sales reveals that Wallace, Cosme Farma and Geno have achieved positive growth in sales over the years, except in 2004-05, when there was negative sales growth for these companies due to the uncertainties over the implementation of value-added tax. While Kare and GAPL record negative sales growth for most of the years considered, Toyo and Merit have achieved marginal but consistent rise in sales over the period.

Profits after tax are shown in Table 5.32 .

Table 5.32 – Comparative trends in Profits after tax (in lakh Rs.)

| Year | Geno | Wallace | Kare | Cosme Farma | Toyo | Merit | GAPL |
|---------|-------|---------|---------|-------------|-------|-------|---------|
| 2002-03 | 16.4 | 805.50 | 42.55 | 127.26 | 2.07 | -1.6 | 11.15 |
| 2003-04 | 76.5 | 974.32 | 30.91 | 434.14 | 2.25 | 1.2 | -245.18 |
| 2004-05 | 181.5 | 585.32 | -184.17 | 90.77 | -0.98 | 0.64 | -238.95 |
| 2005-06 | 213.6 | 867.54 | -120.58 | 85.55 | 4.79 | 1.03 | -190.92 |
| 2006-07 | 269.9 | 184.51 | -127.79 | 126.96 | 2.21 | 2.50 | -189.17 |

Graph 5.4: Comparative trends in Profits after Tax (in Lakhs Rs.)



Among the companies, the increase in profitability is more consistent in case of Geno Pharmaceuticals. Profitability trend of Wallace and Cosme Farma has been erratic with sharp drop over some years. It is evident that there is an urgent need to bring down the costs at Kare in order to bring about a turnaround in business performance.

The small scale units like Merit and Toyo have survived the competition by engaging in promotional measures, but feel the heat of competition and regulatory norms. They are constrained by resources and opine that there is no level playing field for small scale pharma players. It becomes clear that there is a need for measures from the Government for such small players in particular, to provide support to their marketing, technological and infrastructural efforts. Governmental policies should not stifle but foster the growth of such progressive units as Merit and Toyo.

In the case of GAPL, it is clear that there is an urgent need to prune labour and administrative costs and to make the company more market oriented.

The following is the ranking of the companies in terms of average sales and profits;

Table 5.33-Ranking of companies in terms of average sales and profitability.

| Company | Rank in terms of sales | Rank in terms of average profit |
|-------------|------------------------|---------------------------------|
| Wallace | 1 | 1 |
| Cosme Farma | 2 | 2 |
| Geno | 3 | 3 |
| Kare | 4 | 6 |
| GAPL | 5 | 7 |
| Toyo | 6 | 4 |
| Merit | 7 | 5 |

When classified in terms of sales turnover, companies which achieve a sales volume of more than Rs. 50.0 crore are categorized as large industries. Medium sized companies have a sales turnover between Rs. 5.0 – 50.0 crore and small- scale industries less than Rs. 5.0 crore.

Following this classification, Geno, Wallace and Cosme Farma are large scale industries, Kare and GAPL are medium scale and Toyo and Merit Pharmaceuticals are small scale enterprises.

Wallace, Cosme Farma and Geno, occupying top positions among the companies in terms of market size and performance, and are also more market oriented in their strategies and policies. Kare, although, ranking high in sales, ranks low on profitability performance because of substantial expenditure on fixed overheads. Toyo and Merit are small companies in terms of size, and need supportive measures from the government, to sustain in the fiercely competitive market place.

5.6.3. Comparative Gross and Net Profit Margins of the Selected Companies.

Gross profit Ratio for the purpose of comparison in this study is obtained as follows;

$$\text{Gross Profit Ratio} = \frac{\text{sales} - \text{cost of goods sold}}{\text{Sales}} \times 100$$

Cost of goods sold is equal to ;

Opening stock of finished goods
Add :cost of materials consumed, including packing material
Cost of Labour,
Expenses incurred on conversion of raw mater
Less: closing stock of finished goods.

It is to be noted that certain other manufacturing expenses such as power and fuel consumption and other indirect overheads relating to administration, selling and distribution, and finance are not included while computing the gross profit margin in this study.

The gross profit margin over a period of 3 years i.e. 2004-05 to 2006-07, is computed for each company. This ratio will reflect the overall operational efficiency of each company.

Net Profit Ratio is calculated as follows;-

$$\text{Net Profit Ratio} = \frac{\text{Profit After Tax}}{\text{Sales}} \times 100$$

A comparison of the net profit ratio among the companies reveals overall cost control, managerial and sales efficiency of the firms.

Table5.34: Comparative Gross Profit, Net Profit and Selling Expense Ratios

| Geno Pharma YEAR | Cost of sales* (in lakh Rs.) | Sales (in lakh Rs.) | GPR(Percentage)* $\frac{\text{Sales}-\text{cost of goods sold}}{\text{Sales}} \times 100$ | NPR* (PBT)x 100 Sales | Selling Expense Ratio* (per cent) |
|-------------------------------|-------------------------------------|----------------------------|---|----------------------------------|--|
| 2004-05 | 2365.31 | 5088.34 | 53.51 | 4.7 | 19.15 |
| 2005-06 | 2675.63 | 6550.90 | 59.15 | 4.8 | 21.2 |
| 2006-07 | 3509.17 | 8011.72 | 56.19 | 5.1 | 18.8 |
| Wallace Pharma YEAR | Cost of sales (in lakh Rs.) | Sales (in lakh Rs.) | GPR(Percentage) $\frac{\text{Sales}-\text{cost of goods sold}}{\text{Sales}} \times 100$ | | |
| 2004-05 | 4875.29 | 9672.23 | 49.59 | 10.1 | 13.4 |
| 2005-06 | 6728.12 | 13018.51 | 48.30 | 11.1 | 11.6 |
| 2006-07 | 4420.49 | 13820.74 | 68.0 | 03.0 | 17.2 |
| Kare Labs YEAR | Cost of sales (in lakh Rs.) | Sales (in lakh Rs.) | GPR(Percentage) $\frac{\text{Sales}-\text{cost of goods}}{\text{Sales}} \times 100$ | | |
| 2004-05 | 984.16 | 1516.20 | 35.09 | -12.1 | 0.9 |
| 2005-06 | 1103.02 | 2483.40 | 55.58 | -4.8 | 0.7 |
| 2006-07 | 856.79 | 1642.83 | 47.84 | -12.0 | 1.8 |
| Cosme Farma YEAR | Cost of sales (in lakh Rs.) | Sales (in lakh Rs.) | GPR(Percentage) $\frac{\text{Sales}-\text{cost of goods sold}}{\text{Sales}} \times 100$ | | |
| 2004-05 | 3213.63 | 8388.73 | 61.69 | 1.8 | 22.9 |
| 2005-06 | 3762.26 | 10668.67 | 64.73 | 2.6 | 20.7 |
| 2006-07 | 4575.71 | 12524.72 | 63.46 | 2.2 | 21.9 |
| Toyo Laboratories YEAR | Cost of sales (in lakh Rs.) | Sales(in lakh Rs.) | GPR(Percentage) $\frac{\text{Sales}-\text{cost of goods sold}}{\text{Sales}} \times 100$ | | |
| 2004-05 | 42.93 | 74.51 | 42.38 | -1.3 | 14.7 |
| 2005-06 | 57.75 | 101.21 | 42.94 | 4.4 | 11.8 |
| 2006-07 | 55.73 | 106.03 | 47.43 | 2.9 | 14.3 |
| Merit Pharma YEAR | Cost of sales (in lakh Rs.) | Sales (in lakh Rs.) | GPR(Percentage) $\frac{\text{Sales}-\text{cost of goods sold}}{\text{Sales}} \times 100$ | | |
| 2004-05 | 43.76 | 71.44 | 38.74 | 6.4 | 9.8 |
| 2005-06 | 51.80 | 89.54 | 42.14 | 4.6 | 8.2 |
| 2006-07 | 53.16 | 89.85 | 40.83 | 3.7 | 5.8 |
| GAPL YEAR | Cost of sales (in lakh Rs.) | Sales(inlakh Rs.) | GPR(Percentage) $\frac{\text{Sales}-\text{cost of goods sold}}{\text{Sales}} \times 100$ | | |
| 2004-05 | 616.02 | 1007.38 | 38.84 | -23.71 | 2.4 |
| 2005-06 | 709.45 | 1067.69 | 33.5 | -17.88 | 0.8 |
| 2006-07 | 702.98 | 1076.33 | 34.68 | -17.57 | 1.0 |

Source: * calculated from balance sheet data of companies.

The important observations from the comparative trends in Gross and Net Profit Ratios are as follows;

1. There was an increase of around 6 percent in Geno's gross profit margin in 2005-06, while it declined by about 3 percent in 2006-07. Although the trend indicates the appropriateness of manufacturing policies and achievement in terms of sales, there appears to be a need for effective cost control measures, to achieve a more consistent performance. It can be implied from the net profitability figures that, although sales volume has increased, expenditure relating to selling, distribution, administration and other fixed overheads is high, resulting in pressures on profitability.
2. Wallace recorded an impressive increase in the gross profit margin in 2006-07, indicating improvements in manufacturing efficiency and sales performance. However as can be seen from the table, this was at the cost of increasing overall expenditure as net profit margin drastically declined in 2006-07. The company incurred a higher selling expenditure during that year.
3. The sharp increase in the gross profit margin, recorded by Kare, in 2005-06, could not be sustained due to drop in sales in 2006-07 and there was a decline of over 7 per cent. There is an urgent need to bring about manufacturing cost control and a better sales performance. Selling expense ratio has increased marginally during the period.
4. Cosme Farma has a higher gross profit margin than the other companies in the select group. It reflects the company's relatively better performance in terms of production and sales efficiency. However, overall expenditure is high as can be seen from its net profitability estimates. A large part of the total expenditure is on selling and distribution as is evident from its selling expense ratio.

5. Toyo has consistently increased its gross profit margin over the period with a 5 percent increase in 2006-07. However, a higher margin is required to be attained to cover other operating and administrative expenses and to improve profitability in order to undertake capital investments. High selling expenses that are needed to be incurred to sustain in the fiercely competitive market are seen to be putting pressures on overall profitability
6. Merit Pharma incurs high manufacturing and labour costs as can be interpreted from its gross profit margin. This could be due to high prices of raw materials and/ or labour costs. Net profit margin has sharply decreased during the period. Selling expense ratio has declined over the period.
7. GAPL has a lower gross profit margin among the group, indicating the inadequacy of this rate in meeting other operational and administrative costs. Manufacturing and labour costs are substantial, whereas selling costs are low. Net Profit Margin is negative, and the company is continuously incurring losses.

All of the companies under study face pressures on their profitability margins. The bigger of the companies, who have invested more in manufacturing capabilities, appear to have better manufacturing efficiencies as is evident from their gross profit margins. Geno, Wallace and Cosme Farma attained an average gross profit margin of more than 50 per cent over the 3-year period. It also appears that these companies spend more on marketing as they record a higher selling expense ratio. This enables them to attain higher sales volume, but net profitability tends to be low.

The smaller companies in the group exhibit a mixed performance. Merit and Toyo record lower profit margins. Kare and GAPL have been consistently incurring losses. GAPL requires urgent administrative, managerial, and labour reforms

5.7 Conclusion

The study makes it clear that all the pharmaceutical companies adopt a mix of promotional measures, without exclusively relying on medical representatives. Therefore, the fourth hypothesis that personnel selling strategies are used by the pharmaceutical companies in combination with other sales promotion strategies is proved by the study. However, given the nature of pharmaceutical selling, medical representatives are indispensable to the marketing plans of companies. Therefore, devising motivational plans to retain quality field force staff is of utmost importance and is the main challenge before the companies.

Another pertinent implication from the analysis is that the pharmaceutical industry is cost-intensive and companies are required to spend substantially on technology up gradation and quality control. They are also required to comply with the Good Manufacturing Practices norms and to project themselves as quality conscious and ethical organizations. They have to incur increasing expenditures on sales promotion, in providing salaries and incentives to sales staff and in managing distribution channels. In the present competitive era, they are also required to invest in R&D. The study therefore concludes that marketing success and business performance of the pharmaceutical companies depends to a large extent on their size, where size is measured in terms of total fixed capital and sales volume. The fifth hypothesis of the study is thus proved. However, all the companies irrespective of size need to improve their production and marketing efficiencies to better their performance.

The Government policies, while effectively regulating the industry, should not impede the growth prospects of this industry. The study makes it clear that, given the low profitability margins, especially of the small industry, the Government should evolve a price and competition policy aimed at the survival and growth of the indigenous pharmaceutical manufacturers.

The analysis concludes that the infrastructural and technological base of the small industries in the group do not provide them a level playing field vis-a-vis large companies and hence the researcher would recommend tax concessions, technological and infrastructural support as well as preference in Government purchase programmes to enable the small players to survive the competition.