

- **Exit barriers:** When firms face high exit barriers, the competition may be severe.

Case: To Pharma or not to Pharma

The fact that the pharmaceutical sector outperformed the Sensex in 2010 and recorded a gain of about 34 per cent, making it an attractive destination for foreign direct investment, has attracted the notice of Mr Balasingh, a real estate dealer, who is considering parking his profits in this sector. The information he has collected on this sector is given below:

The Indian pharmaceutical industry was almost non-existent in 1970, but over time, it became a prominent provider of health care products, meeting almost all of the country's pharmaceutical needs at the beginning of the 21st century. More than 60,000 formulations are produced, and they cover nearly every therapeutic segment. Formulations are the processed medicines. The raw materials for the pharma industry are several organic chemicals. The chemical industry is competitive and fragmented. Companies like Orchid Chemicals and Sashun Chemicals were basically chemical companies that turned themselves into pharmaceutical companies. The contribution of the Indian pharma industry accounts for 1.4 per cent of the global pharma industry in terms of value and 10 per cent in terms of volume. The volume of production ranks third in the world. The year-on-year growth rate was 18 per cent in 2011.

The pharma industry is highly fragmented, with over 10,500 manufacturing units in India. The top 10 companies contribute more than one-third of the market. The number of generic product manufacturers is quite large. The number of foreign players investing and expanding their bases in India is increasing tremendously. Further, India is fast becoming one of the biggest hubs for conducting global clinical trials. The industry witnessed eight acquisitions and 17 collaborations or partnerships in 2011.

The Government of India has given permission for 100 per cent FDI in drugs and the pharma sector to establish various pharma Special Economic Zones across the country.

The implementation of product patents has provided a thrust to innovation and research to launch new patented products. The expenditure incurred on R&D by the top five companies ranges between 5 and 10 per cent of revenues. The global R&D expenditure on sales is 15–20 per cent. Even though, English-speaking and skilled scientists are available for this sector, most of the companies have witnessed high attrition rates. Along with employment costs, raw material costs have also increased.

According to a PricewaterhouseCoopers (PWC), the Indian pharmaceutical market is expected to touch US\$ 74 billion in sales by 2020. The boom in sales is expected because of a large population, increasing health care expenditure, growing urbanization, rising life expectancy, and active private sector participation. According to McKinsey estimates, in 2025 the Indian middle class is expected to stand at 580 million, representing an annual growth of 12 per cent. The change in lifestyles has resulted in cardiovascular diseases, diabetes and depression. Drugs that address these complaints will continue to be lucrative and fast growing.

Besides the domestic market, Indian pharma companies concentrate a lot on exports. The US Food and Drug Administration (FDA) has stringent rules with respect to the inspection of manufacturing plants. The market leaders have problems with regard to their plants satisfying FDA rules.

Even though India is the largest supplier of generic drugs, the menace of fake drug is severe. Estimates show that the fakes account for 15–20 per cent of the pharma industry. The fakes are common in cough syrups, vitamin supplements, painkillers, and the like.