Comprehensive Global Management Consulting Services

Commentaries and Insights from Allawos & Company

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"Global Pharma Opportunity: Focus on Africa"

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Global pharmaceutical sales reached a $1 trillion in 2014. However, growth remains uncertain due to two big challenges: First, declining prescription drug sales, especially in the United States, and second, losing patent protection for many profitable drugs. To make up for these down drifts, the industry is relying increasingly on new markets such as China and Africa. That expansion, however, is challenged by unique market conditions that will only reward market specific approaches. Those companies that succeed in doing it the right way will not only establish a leadership, but also open a lifeline for future survival and success.

By 2016, pharmaceutical spending in Africa is expected to reach US$30 billion. This value is driven by a 10.6% compound annual growth rate (CAGR) through 2016, second only to Asia Pacific (12.5%) and in line with Latin America (10.5%) during this period. Spurred by a convergence of demographic changes, increased wealth and healthcare investment, and rising demand for drugs to treat chronic diseases, this market potentially represents a US$45 billion opportunity by 2020.

The appeal of Africa lies not in its size – the continent accounts for just 3% of the global economy – but in the dynamics that drive sustainable growth at a time when the major established pharmaceutical markets face a more uncertain future.

The changing economic profile of Africa is also linked to an increased demand for chronic care drugs, reflecting a marked shift in the burden of illness towards non-communicable diseases (NCDs) and the continued impact of (HIV/AIDS) on the continent. The NCD proportional contribution to the healthcare burden is forecast to rise by 21% through 2030. While continuing to struggle with infectious and parasitic illnesses, Africa is expected to experience the largest increase in death rates from cardiovascular (CV) disease, cancer, respiratory disease and diabetes over the next ten years, resulting in greater demand for healthcare services and appropriate medicines.

The combination of economic strength and an expanding middle class is already driving a demand for medicines across Africa. For example, in Algeria, Morocco and Tunisia, a rise in wealth has triggered demand for chronic medicine consumption. In Algeria, the chronic medicine to essential medicine ratio increased by 72% from 2002 to 2011, accompanied by a total Gross National Income (GNI) increase of 70%. A similar trend is likely to emerge in other countries, such as Kenya and Botswana, where NCDs have been declared a national priority at the ministerial level.

Most of the major pharmaceutical MNCs (Pfizer, Abbott, GSK, Sanofi, Bayer, etc.) have had a presence in Africa for a number of years. In recent years the most aggressive drive has come from Asian companies, most notably from India and China. Companies from these countries have gained market share primarily through competitive prices and simultaneously targeting different markets in the generics space.

However, most African countries are not well regulated. This allowed scrupulous companies from Asian countries to supply African countries from parallel systems - one for the controlled market, with corresponding higher costs, and the other targeting unregulated markets, with fewer quality mechanisms. The risks in these unregulated markets are increased due to political pressure on final formulators to cut costs, opening the possibility of risk-taking in quality controls. This issue was addressed in a May 2012 report in the *Lancet Infectious Diseases* journal. It showed that up to 35% of drugs (in five categories) imported into unregulated African countries, from South East Asian countries, did not meet chemical standards. (Based on WHO statistics)

Local companies in South and Northern Africa have been leaders in their domestic markets that showed years of successful partnerships with multinationals. South Africa, the most advanced and largest economy in Africa has a relatively mature market, but it has a combined developed and emerging local economy and uses a regulation standard that is on par with a country such as Australia. These factors, combined with a perfectly located geographical location, relationships, treaties and logistic infrastructure, positions South African companies ideally as partners to launch into Africa. Drugs in the OTC category present a notable opportunity at the moment.

Allawos & Consulting LLC is well positioned in South Africa's healthcare market, (owning and publishing the leading pharmaceutical publication, PharmaExec, and providing strategic consulting services through its partnership with StratMont Pty Ltd)

About Allawos & Company, LLC

Allawos & Company is a comprehensive global business-consulting firm, tuned to enable organizations to identify and exploit opportunities through creative engagement built on a foundation of decades of senior management experience.

Whether in corporate development, strategic planning, alliances, market development, diplomatic engagement or manufacturing optimization, our team is focused on client-specific value creation.

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