DR REDDY'S

Pillar to success

The emerging markets beckon, says Reddy

This year Dr Reddy's Laboratories completes five years of its Chinese joint venture operations, Kunshan Rotam Reddy Pharmaceutical Co Limited (KRRP). "We want to be a global company and we can't claim to be one without being in China," says C.V. Narayan Rao, chief representative and regional head who has been associated with the company's Chinese facility from day one. "Dr Reddy's stated strategy is to become a leading player in all the major emerging markets, especially the BRIC countries which include Brazil, Russia, India and China," adds managing director and COO, Satish Reddy.

Set up in 2000 as a joint venture between Dr Reddy's (51 per cent stake), Canada Rotam Enterprises (47.41 per cent) and Kunshan Double-Crane Pharmaceutical Company (1.59 per cent), KRRP was established at a total investment corpus of nearly $27 million, with Dr Reddy's pumping in nearly $16 million over the years. Located in the Kunshan Economic and Technological Development Zone, 50 km from Shanghai, the facility is spread over 33,000 sq metres, and produces and repackages bulk formulations, tablets, capsules, ointments, gels and other products, though according to Rao, the range is limited. "In China we have huge volumes but few products. For instance, we have only six to seven products here whereas Dr Reddy's in India makes more than 200 products," explains Rao.

Companies have to choose between a basket of products or concentrate on a few, and fewer geographies

This is because pharma companies in China have to concentrate on marketing and promotion of their products. Hence, according to Rao, companies have to choose between the option of getting into a wider basket of products or concentrating on few products and even fewer geographies. No wonder, KRRP which employs 270 persons (five Indians) has nearly 150 of these working on the sales and marketing fronts. "Our sales and product management teams work at high speed and efficiency. We strive to build strong relationships with healthcare professionals through regular visits and interaction, and fulfil the information needs of doctors through seminars, continuing medical education programmes, and symposia," reveals Rao.

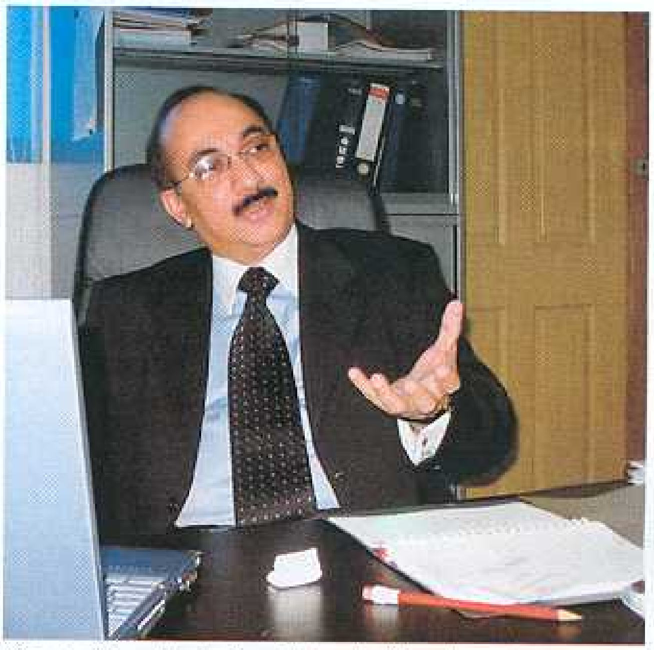
The nature of doing business in China too differs substantially. While in India, companies sell mainly through doctors' recommendations and 400,000 medical stores, in China 85 per cent of drugs are sold through hospitals, involving a prolonged registration process which may at times take two to three years. "You have to register our products with designated medical authorities in each province and after their approval, you can go to hospitals which requires patience and deep commitment," explains Rao.

"China is as challenging as it is attractive. It is important that companies have a long-term approach to the market. Management's commitment is of critical importance to achieve long-term profitability and sustainable growth," adds COO Reddy.

Patience has paid off. Today, KRRP sells its products across 18 provinces, through more than 100 distributors. Its products are accepted by 500 pharmacies, 800 hospitals and 5,500 doctors. The company broke even at the end of the fourth year and registered turnover of $9 million during 2004-05. "We have, together with our JV partners, invested significant resources, achieved operating breakeven and built a strong foundation for sustainable growth," asserts Reddy. According to Rao, the venture is looking at a turnover of $12 million at which it would start generating profits, and subsequently, $15 million "which will be a comfortable level for KRRP."

That should not be difficult, since according to Reddy, Dr Reddy's, which has been in the Chinese market for sometime now, has "built a good product pipeline and commercialised its products". The market too is growing. In 2004, China emerged the seventh-largest pharmaceutical market globally with a value of $14 billion compared to the Indian market size of $4.5 billion, and up from $4 billion in 1996. More impressively, China is set to emerge the fifth-largest pharmaceutical market by 2010 with an estimated value of $24 billion.

Why? With rapid economic growth, the lifestyles of people in China are undergoing rapid transformation, prompting significant changes in the country's disease and health profile. "In the past, majority of our people used to consume traditional medicines but now more are going in for allopathic solutions," reveals KRRP general manager and Canada Rotam Enterprises' Mark Lu. Hence, KRRP is enlarging its basket of products and has aggressively pursued a plan to introduce at least two to three products every year. Moreover, according to Lu, with the aging population in the country rising and WTO barriers and tariffs coming down, China's pharmaceutical industry is set to grow by leaps and bounds. "The China market is therefore an opportunity that fits well with our global strategy," asserts Reddy.



"You can't be global without being in China," says Rao

Additionally for companies like KRRP, China provides an effective platform to launch their exports efforts. "You enter China to gain market share, then you use it as home base and finally as a manufacturing base to export to the world," says Lu. "Since we have a relationship with Dr Reddy's, we have vision to work together towards this."

But challenges remain. Firstly, the attrition rate in China is among the highest in the world. "It is as much as 30 per cent among the sales force," confesses Rao. Rising salaries and incentives to retain employees have escalated production costs in recent years. "Don't forget, every multinational operates in China, and hence in order to hire and retain trained and experienced professionals, we have to offer them attractive salaries and incentives," says Lu. Secondly, pharmaceutical companies like KRRP have to spend increasingly larger amounts on promotion of their products, in order to compete with multinationals in the field. And finally, it takes longer time to succeed on the Chinese turf since the business environment is tough and challenging.

But that should not deter a company which is prepared for a long haul, committed to deliver products that help people enjoy longer, healthier and more productive lives and is keen to be a key player in the Chinese pharmaceutical market. "Our company has a long-term approach to the China market and we are committed to developing our business in China to its full potential as we move forward," asserts Reddy. TW