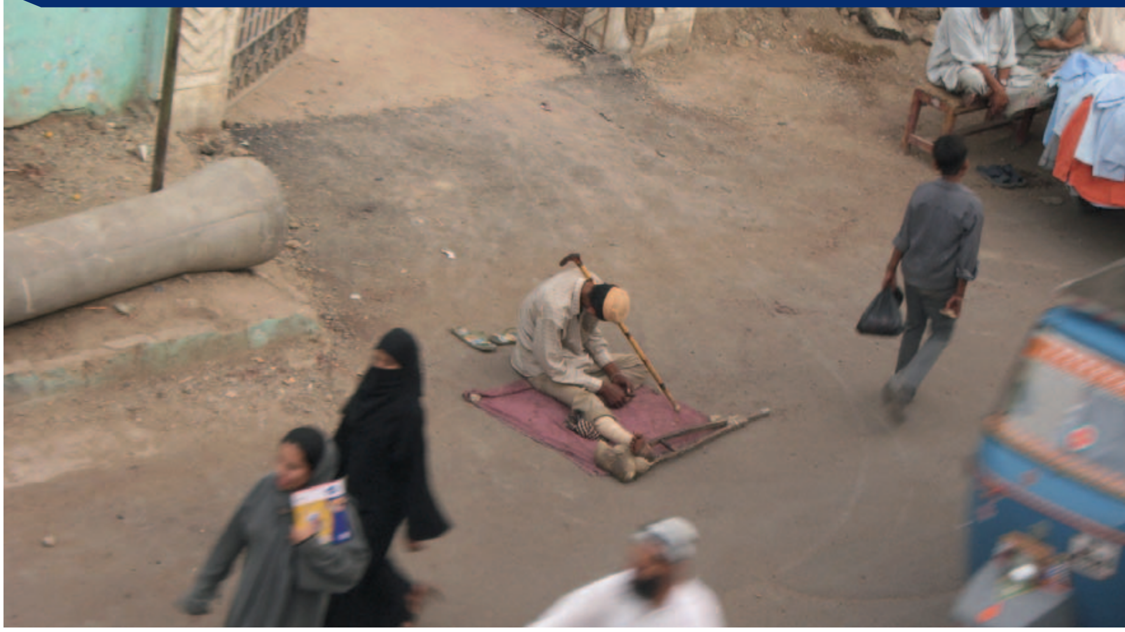

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Indian pharmaceuticals

Targeting the poor sweetens the profits pill

By Rajesh Chhabara, south-east Asia writer

Indian pharma multinational Dr Reddy's chief executive G V Prasad says that patient needs and shareholder value go hand-in-hand

"Our vision for the next five years is to ensure that no patient goes without treatment because one is not able to afford it." A statement from a healthcare charity organisation? No, it is from the head of a pharmaceutical company.

Meet G V Prasad, chief executive of Dr Reddy's Laboratories, a $1.6 billion Indian multinational that has operations in more than 100 countries. It is India's most profitable pharmaceutical company.

Prasad believes it is possible for a pharmaceutical company to model itself around sustainability. Making medicines accessible, affordable and developed to satisfy unmet patient needs does not necessarily conflict with shareholder interests, he says.

Cancer treatment is an area where Dr Reddy's is making drugs more accessible. The company this year launched its own, generic, version of Roche's blockbuster drug Rituximab, which sells at half the price of the original. Reditux, as Dr Reddy's version of the drug is known, is used to treat non-Hodgkin's lymphoma, a type of cancer that attacks white blood cells. The company plans to market Reditux in all markets including the US and Europe.

At $600 per vial, the price of Reditux is still steep for many in India, where about 40,000 patients have been diagnosed with non-Hodgkin's lymphoma. To make it accessible for the poor, the company has launched a project called Sparsh – which translates as "touch" – where it sets aside a certain volume of production to be freely distributed to those who cannot afford it. All a patient needs is a recommendation from a doctor to receive free medication.

Cardiovascular diseases are another area where Dr Reddy's wants to make treatments cheaper. Through its Little Red Heart Pills project, it is developing a combination pill – combining five ingredients into one pill – for secondary prevention of heart attacks. Aside from slashing production costs, a single pill will increase "patient compliance" as individuals will not have to remember to take five different tablets. The cost of the pills? One rupee (2.5 US cents) each.

Dr Reddy's hopes to launch the heart disease drug later this year, making it available in developed and developing markets. Prasad says: "We have spent considerable resources to develop this medicine even though it cannot be patented. However, it supports our sustainability thinking and business model of offering affordable drugs for the masses."

The company has collaborated with the University of Auckland, New Zealand, for trials, partially funded by the Health Research Council of New Zealand. New Zealand's high commissioner to India, Graeme Waters, says: "This project has the possibility of revolutionising an important aspect of healthcare in both developing and developed countries."

Price advantage

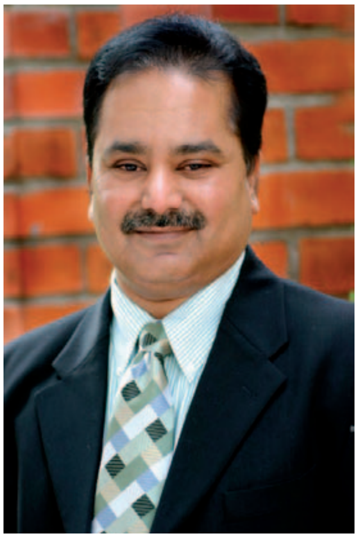
As heart disease rates rise, investment in developing a cheaper cardiovascular treatment makes business sense for the company. A low-cost drug would mean competitive advantage in this growing market. The World Health Organisation projects that cardiovascular diseases will kill almost 20 million people a year worldwide by 2015. India alone reports 2.8 million deaths a year from cardiovascular ailments. Cheaper drugs could save many of these lives.

Dr Reddy's at a glance

- Second largest pharmaceutical company in India.
- Fourth largest branded generics player in Germany.
- 11th largest finished dosage player in India.
- 18th largest pharmaceutical company in Russia.
- Among the largest API players in India and the US.
- Among the top five in the US in terms of ANDA and DMF pipeline.
- Among the largest players in the custom pharmaceutical services segment.
- North America (44% of Dr Reddy's sales) is the company's largest market followed by Europe 23% and India 14%.
- The first Asia-Pacific company outside Japan to list on the New York Stock Exchange.

Developing generics and active pharmaceutical ingredients (APIs) can help find lower-cost alternative drugs. Few companies invest in these initiatives because patent protection is not available for such products. However, Dr Reddy's believes these drugs are strategic to its gaining cost-competitiveness in the marketplace – the company can profit by selling high volumes. Dr Reddy's has built up a wide portfolio of APIs – one of the largest in the world – backed by a global team of 1,700 staff.

Apart from generics and APIs, the company has an impressive performance on the research and development front. In 2005-06, the company spent $52 million (9% of sales) on R&D, making it the largest spender in India.


Prasad wants treatment for all

Developing affordable drugs is the most effective way for Dr Reddy's to enhance its reputation. But community investment can help. The company's flagship initiative is an employee volunteering programme with child development agency Naandi. As India's largest non-governmental organisation, with an annual budget of $30 million and 200 full-time professionals, Naandi operates in more than 20,000 villages, providing free mid-day meals, tuition and healthcare for state school children, who are often under-privileged.

Naandi chief executive Manoj Kumar says Dr Reddy's leadership has displayed a "consistent commitment to addressing larger social concerns such as child development, education, drinking water and livelihood generation for rural youth and tribal farmers". This, he says, differentiates the company from many other large Indian firms. The company is one of the few in the country to produce an annual sustainability report following Global Reporting Initiative guidelines.

Prasad says: "Investment in social initiatives is not huge. We spend about 2% of profits. It's a little cost to us, but it makes a big impact on society." ■

Making medicines accessible and affordable does not necessarily conflict with shareholder interests

Corruption

Bangladesh counts graft's costs

By Rajesh Chhabara, south-east Asia writer

Bangladeshi business groups have rushed to welcome the government's anti-bribery clampdown. But international brands have so far remained silent

For five years Bangladesh has held the dubious honour of being perceived as the world's most corrupt country, according to anti-bribery watchdog Transparency International.

To rehabilitate the nation's poor reputation, the military-backed government has launched an unprecedented anti-corruption crackdown. A month after declaring a state of emergency and cancelling general elections, the army-installed administration signed up to the UN Convention against Corruption in February.

Since then, more than 200 influential politicians, businessmen and bureaucrats – including two former prime ministers, a son of an ex-prime minister, several ministers, business leaders and most recently a UN human rights expert – have been charged and put behind bars.

The newly formed Anti-Corruption Commission (ACC) continues to release updates of the latest public figures to be implicated as a fast-track anti-graft court hands out speedy verdicts. Every day for the past six months, Bangladeshis have woken to the news of high-profile individuals being arrested, their bank accounts frozen, vehicles impounded, stashes of cash recovered and mansions confiscated.

Of the businesses caught in the clampdown, many are clothing manufacturers for big multinational brands. It is as yet unclear how brands will react to their suppliers being caught in bribery scandals. Currently, brands' supplier codes of conduct do not include auditable standards that expressly prohibit bribery.

Taking a tough line on corruption

All major business associations including the Employers' Federation and the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), the nation's most powerful business group, have issued a joint statement welcoming the anti-corruption drive.

A former BGMEA chairman told Ethical Corporation that bribes increase costs by 5% for garment exporters. Another garment exporter revealed the extent of the challenge facing law enforcers, saying: "Bribery is not as open as before because of the crackdown. But it is not over yet. In some cases, the asking price has actually gone up because of the enhanced risk."

Transparency International Bangladesh, which has been campaigning against corruption since 1996, estimates that the country loses about $1.5 billion – about 2% of GDP – to corruption every year. World Bank and International Finance Corporation surveys have indicated that 91.8% firms in Bangladesh report having to pay bribes.

International development organisations have long complained that widespread corruption is the main obstacle to economic growth in Bangladesh, where more than 60 million people survive on no more than $1 a day.

In fact, Millennium Challenge Corporation, which operates US assistance for poor countries, has excluded Bangladesh from the list of beneficiaries for the past two years, citing corruption as the reason.

For international brands to follow suit and stop sourcing from Bangladesh would further impede the country's economic growth. Their task now is to ensure suppliers play fair. ■