

The “Romanian Patient” Is on the Mend

EU entry reveals potential in Romania’s pharmaceutical market

The emerging Eastern European pharmaceutical markets are growing much faster than established Western European economies, at an average growth rate of 7 percent. On the eve of the EU accession last year, Romania had the fastest growth rate in the region.

Pharmaceutical and health care spending is still relatively low, but pressure to move in line with EU requirements and become an integral part of international pharmaceutical operations will boost spending significantly over the next few years.



Romania’s health care system has seen sweeping changes over the past decade. From a communist, state-owned enterprise, it has moved to embrace both public and private sector elements. These changes have fueled new opportunities for companies, which will only expand with Romania’s entry to the EU this year. Among the emerging pharmaceutical markets of Eastern Europe, which are growing faster than the established markets in Western Europe, Romania has the fastest growth rate (see figure 1).

The following outlines strategic opportunities and success factors for companies in Romania’s burgeoning pharmaceutical industry. This is a crucial time for companies to help shape the course of an emerging new market.

Pharmaceutical Market Is in the Fast Lane

The Romanian pharmaceutical market has expanded steadily during the past

five years. Overall, it grew at an average of 21 percent through 2005, reaching a market volume of € 1.45 billion ex-wholesale prices in 2006. It is set to continue this fast-paced rate through 2010 at an average of roughly 15 percent (see figure 2). This increase will mainly be fueled by the prescription drugs segment (Rx), which is expected to grow three times faster than the over-the-counter (OTC) segment due to price reductions in generic drugs and an increase in government expenditures on health care services.

The key driver of growth in the Rx segment is the National Health Insurance House (NHIH) and its drug reimbursement system. The NHIH reimburses patients and hospitals for the costs of drugs on the basis of a national reimbursement list. This list contains the names of generic substances that can be reimbursed at rates of 50, 90 or 100 percent depending on the type of product involved and the severity of the patient’s illness.

Romania offers a number of attractive investment opportunities for pharmaceutical companies. With the EU entry this year, there will be more competition but it will be balanced by increased purchasing power in health care services.

All pharmaceuticals sold in Romania require the approval of the main regulatory authority, the National Drug Agency. The registration of imported drugs requiring EMEA (European Medicines Agency) approval takes around three to four months, while registration for those medicines that do not require EU approval can take up to 12 months.

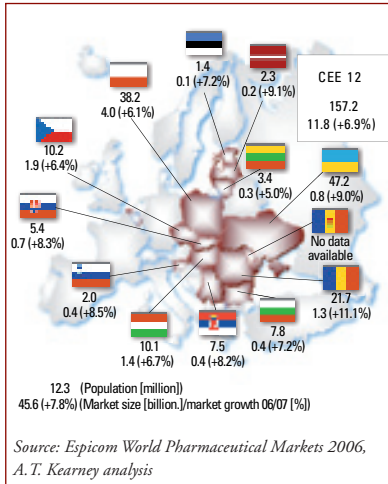
Domestic production largely consists of low-value generic drugs, while imports are centered on more sophisticated, patent-protected drugs. Consequently, imported drugs account for 20 percent of the market by volume and 75 percent by value.

Strategic opportunities for investors.

With the EU entry this year, Romania's health care system must contend with the legal and regulatory framework of the EMEA. This puts added pressure on the country's pharmaceutical sector – especially domestic companies – to align with international operations. More competition is expected, but this will be balanced by increased purchasing power and rising per-capita health care spending. In this environment, Romania offers a number of attractive investment opportunities.

Low-cost production site. Lower salaries and a qualified workforce are factors that should be considered in the outsourcing decision. Romania offers both of these in addition to its close proximity to Western European markets. The most attractive option for outsourcing pharmaceutical produc-

Figure 1: Size and growth of Central and Eastern European pharmaceutical markets (2006)



tion in Romania is on a greenfield basis, since foreign investors have already bought up most of the existing production facilities.

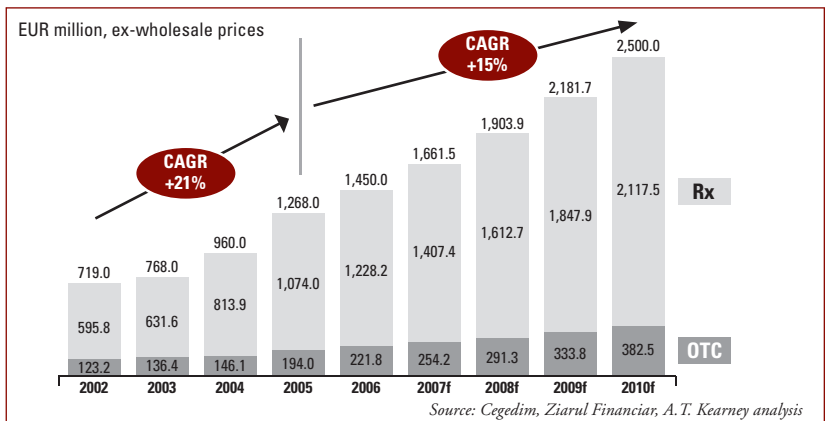
Clinical trials. Romania has conducted clinical trials for large pharmaceutical firms for many years now and has built up a solid reputation. Given its large population, there is no shortage of patients willing to take part in clinical studies. Such trials can also be carried out economically, since researcher fees are lower and less startup

time is required. The fact that the medical system is centralized ensures speedier regulatory and ethics committee approval. Moreover, the qualification level of clinical research associates is very high, due to the fact that many physicians have decided to switch from poorly paid jobs in public hospitals to work for the biopharmaceutical industry.

New sales channels. Since new tendencies in retail show that an increasing number of Romanians prefer the American model of one-stop shopping, it is expected that in the near future distributors of parapharmaceuticals and certain OTC drugs will enter these channels, which provide excellent access to end consumers and guarantee a high volume of business. Certain pharmaceutical products could even be placed in the fast-moving consumer goods (FMCG) category in terms of logistics and marketing dynamics.

In rural areas, there are often no pharmacies within dozens of kilometers, so innovative concepts such as

Figure 2: Romanian Pharma market expected to be steady through 2010



mobile pharmacies could help put an end to an unsatisfactory supply situation.

Key factors for succeeding in the Romanian pharmaceutical market.

Even though the Romanian pharmaceutical industry is still fragmented across all segments of the distribution channel, the competition is expected to increase. Under these circumstances, the key to achieving strategic competitive advantage is to identify the main factors for success and position the company accordingly. Following are key success factors for the manufacturing, wholesale and pharmacy segments, as well as hospitals and policlinics.

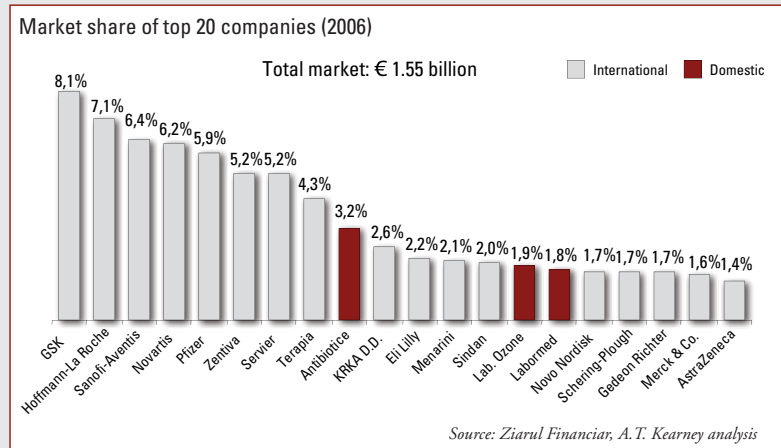
Manufacturers. Manufacturers need cost-competitive products and a well-developed product pipeline. A powerful brand name is another important factor: International manufacturers are already present with strong branded products, and there has been a great deal of rebranding of domestic products in the marketplace. The distribution network must be powerful and focused on relations with all key distributors and assure national coverage. The best approach for a company's product portfolio is to focus on generics, due to the NHIH's concern with reimbursing lower-priced drugs. In-depth experience of the local registration process and a partnership with a national sponsor is also necessary.

Wholesalers. Wholesalers should concentrate their efforts on retail phar-

Current Players in the Pharmaceutical Market

The Romanian pharmaceutical market shows a marked tendency toward integration across the market segments. Three of the 10 largest wholesalers are owned by local manufacturing companies and the largest wholesalers also own pharmacy chains.

Manufacturers. The manufacturing market is highly fragmented, with the leader, Glaxo-SmithKline, holding less than 10 percent of the market and the top 10 pharmaceutical companies accounting for just one-half of the market. GSK earned sales of € 125.5 million in 2006, followed by Hoffmann-La Roche and Sanofi-Aventis. Domestic producers Antibiotice, Ozone and Labormed have roughly a 7 percent market share (see figure). In recent years, the dynamics in the market has increased, with Zentiva acquiring Sicomed, Ranbaxy purchasing Terapia, and Actavis' acquisition of Sindan.



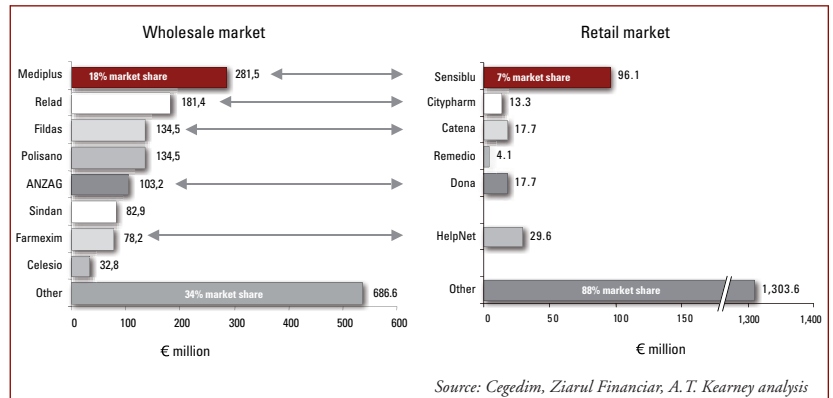
Wholesalers. The Romanian wholesale pharmaceutical market is also highly fragmented, reflected in that the top five distributors (by turnover) control just over one-half the market while the leading 25 wholesalers represent 95 percent of total market sales. Consolidations have reduced the number of pharmaceutical wholesalers from several hundred in 2000 to 40 in 2006. To increase margins and negotiating power with manufacturers, larger wholesalers are developing their own retail networks.

Retail and Hospital Pharmacies. There are two types of pharmacies: retail pharmacies, accounting for 75 percent of the market sales, and hospital pharmacies, which account for 25 percent. The hospital pharmaceutical sales is however declining steadily in importance as compared to retail pharmacies. The retail channel shows an increasing tendency toward consolidation. Currently, one-third of the retail market is in chain pharmacies and the retail chains are looking for opportunities for further growth. Further expansion in the retail sector is however hampered by the legal restriction which states a fixed rate of inhabitants per new pharmacy (between 3,000 and 4,000 inhabitants per pharmacy). Therefore expansion is only possible through the acquisition of independent pharmacies.

macies, which account for most of the market growth in comparison to hospitals. The key drivers for wholesale market growth are Rx, plus a range of high-margin products. On the revenue side, companies can achieve diverse revenue flows by integrating vertically on the manufacturer or the retail side (see figure 3). Exclusive distribution contracts with major pharmaceutical manufacturers and OTC products provide significant competitive advantage. However, on the cost side, as competition increases leading to reduced markups, cost management is a critical factor for wholesalers seeking to achieve economies of scale.

Pharmacy chains. A good brand is very important for pharmacy chains and can increase trust of patients and customers. Also important for pharmacies is to provide excellent service and secure good locations in highly populated areas, including shopping malls and railway stations. The portfolio should cover a broad range of products (Rx, OTC, cosmetics). To reduce purchasing prices, chain pharmacies need to cooperate and increase the financial strength to secure better terms. Since there is a current shortage of pharmacists in the market, pharmacy chains should be able to attract qualified employees.

Figure 3: Wholesale and retail market share (2005)



Private hospitals and policlinics. Bucharest and other large cities (Timișoara, Cluj-Napoca, Brașov and Constanța) boast high salaries and are attractive locations for opening private hospitals and polyclinics. In Romania, “word-of-mouth” information about good quality of service is a pivotal marketing factor, since health care services are mostly a question of recommendation and trust. The best hospitals must find and attract recognized doctors and physicians who will bring in their pool of patients. Therefore, we recommend developing strong recruiting skills to attract experienced professionals. Cooperation with powerful partners, such as insurance companies, should also be used to pay for services and increase patients’ access to health services.

New Prospects in Health Care Services

The Romanian pharmaceutical market has undergone remarkable changes over the past decade. Privatization offered foreign companies an excellent opportunity to enter the market, and this will only increase with Romania’s membership in the EU. Although more regulation and competition are expected, the growth in purchasing power and per-capita health care spending holds out new prospects in the health care services sector. Companies that apply the key strategies and success factors outlined in this paper will stay ahead of the curve and be better prepared for increased competition in the future.

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