

2010, Year of Collaboration

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2009 was a 'Year of Consolidation' for the life sciences industry. The economic downturn has altered the way of conducting business. Increasing cost of conducting clinical trials, drop in the bottomline, patent expiry of blockbuster drugs and fall in the new product launches, will continue to haunt big pharmaceutical companies—but the outlook looks up.

IMS Health observes that the value of the global pharmaceutical market in 2010 is expected to see a flat growth of 4–6 percent on a constant dollar basis, exceeding Rs.38.58 lakh crore (\$825 billion), driven by stronger near-term growth in the US market.

Commenting on the global pharma market, Murray Aitken, senior vice-president, Healthcare Insight, IMS Health, says, "Overall, market growth is expected to remain at historically low levels, but stronger-than-expected demand in the US is lifting both our short and longer-term forecasts. The economic climate will continue to be a dampening influence in most mature markets, particularly in countries with rising budget deficits and publicly-funded healthcare systems. In the US, pricing flexibility and inventory management actions are contributing to much higher growth than anticipated earlier this year, and are

the main reasons for the upward adjustment to our five-year forecast.”

The IMS Health noted that near-term growth prospects in the US have strengthened in recent months, reflecting both sustained levels of price increases and changing inventory stocking patterns. Pharmacy chains are more tightly managing their inventory levels based on expectations of patient demand, which has led to greater purchasing volatility than in the previous years. This also has played a role in unusually high sales growth in the first quarter of 2009, relative to forecast expectations. The US market growth in 2009 is now expected to be 4.5—5.5 percent, and 3—5 percent in 2010. While payers seek to limit price increases and boost the use of lower-cost generics, pharmaceutical manufacturers are expected to maintain their pricing practices, competing on the basis of clinical evidence and value.

Growth has slowed in countries where there is high out-of-pocket spending on pharmaceuticals and steep declines in macro-economic activity, especially in Russia, Mexico and South Korea. At the same time, growth has been less affected to date in countries where drugs are largely funded publicly, such as in Germany, Japan and Spain. However, new cost-containment measures expected to be introduced during the forecast period likely will impact the pace of growth in these markets. In the US, pharmaceutical manufacturers’ efforts to expand access to and awareness of patient assistance programs, as well as co-pay subsidies for patients in need, are limiting the impact of the economic downturn to some extent.

Consistent with the trends of the past several years, the year is expected to reflect a significant imbalance between new product introductions and patent losses. This is the primary factor limiting global pharmaceutical market growth to the mid-single digits. At the same time, new products that will enable innovative approaches for treating patients suffering from diseases such as osteoporosis, respiratory ailments, thrombosis, multiple sclerosis and cancer are not expected to generate the same magnitude of sales as products losing patent protection.

Despite economic conditions significantly affecting some markets—notably Russia, Turkey, South Korea and Mexico—the seven pharmerging countries that include China and India are expected in aggregate to grow by 12 -14 percent in 2010. China's pharmaceutical market is expected to continue to grow over 20 percent annually. The economic climate has heightened concerns by payers about healthcare funding, and intensified their efforts to limit access to non-generic drugs. This has pushed the countries having healthcare system in place to take necessary measures such as encouraging generics players.

A number of events may occur in 2010 that also could have a long-term effect on the pharmaceutical market. These include the potential for passage of comprehensive healthcare reform in the US as well as legislative or regulatory actions in other countries, the magnitude of the H1N1 pandemic, and the timing and extent of the global economic recovery.

The fundamentals for biotechnology industry, such as the number of products in clinical trials, new product approvals, profitable biotech companies and industry mergers and acquisitions will continue to remain favorable. The biotechnology industry like 2009 will continue to pass through tough period from venture capitalists. There will be casualties along the way among the undercapitalized and under-performing companies.

The companies from the APAC region such as contract manufacturing particularly in generics and active pharmaceutical ingredients, contract research, clinical research continue to do better due to lower costs of production in general as well as in improving ability of international regulators expectations.

Aitken of IMS Health notes, “While our outlook for the global market is more positive than earlier in the year, the fundamental dynamics of the innovation cycle, funding pressures, and the broader macroeconomic environment will result in mid-single-digit growth over the next five years. Notwithstanding the improved prospects in the US market, the drive by pharmaceutical manufacturers to adapt to the longer-term marketplace trends and evolving patient needs will continue undiminished.”

“In future, pharmaceutical companies will not be able to “profit alone”. They have to ‘profit together’ by collaborating with a whole range of organizations, from academic institutions, hospitals and technology providers to companies offering compliance program, nutritional advice, stress management, physiotherapy, exercise facilities, health screening and other services,” observes Abhijit Ghosh, Pharmaceutical & Life Sciences Leader, PricewaterhouseCoopers Services LLP (Singapore).

The life sciences companies have to look for collaboration, consolidation and profit sharing to be successful in near future.

Expectations

- Expect industry-wide, intense efforts to reduce healthcare costs by hospitals, physicians, payers, employers and other

providers.

- The US Congress passes healthcare reform legislation – as it hopes to do – expect major adjustments that would include insurance market and payment reforms, the addition of dozens of new agencies and grant programs, reimbursement and pricing pressures, increased oversight, tax changes and the overall implications of increased coverage and consumer demand.
- Physicians and providers will be scrambling in 2010 to adopt healthcare IT to reap bonuses in 2011 under the American Recovery and Reinvestment Act.
- Expect greater emphasis on Medicare fraud and abuse recovery. The Obama administration has boosted its fraud and abuse budget for 2010 by 50 percent, and a significant portion is dedicated to prosecution and enforcement. An increase in enforcement for Medicare billing errors is also expected.
- The technology and telecommunications sectors will become leading players in healthcare. With a huge boost from the 2009 stimulus package for broadband funding and healthcare IT expansion, technology and telecommunications companies are aggressively capturing a growing share of the healthcare business.
- Big pharma's role will grow. The role of pharmaceutical and life sciences companies will evolve from manufacturer and supplier to full partner on the healthcare delivery team as its focus shifts from lab-based outcomes to promoting prevention and patient outcomes.
- Physician groups will join health systems. The percent of hospitals employing physicians has nearly doubled since 1994, and PwC expects the trend will continue in 2010 as physicians seek greater stability and electronic connectivity.
- Alternative care delivery models will emerge, as traditional care delivery models will give way to alternative models of care outside of physicians' offices and hospitals. Expect to see an increase in the number and scope of services offered by work-site and retail health clinics and home health services as well as other technology enabled delivery such as e-mail, telehealth and remote patient monitoring.
- H1N1 will elevate emphasis on readiness for public health outbreak. Another wave of H1N1 flu in 2010 will put pressure on healthcare organizations, public health officials and employers to re-evaluate readiness for a major public health outbreak.
- Community health will become a new social responsibility. In 2010, a new social responsibility for community health will emerge among employers, healthcare leaders and community leaders, with a major boost in funding from the government.

Source: PricewaterhouseCoopers' Health Research Institute

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