Pharmaceuticals & Medical
Products Practice

India Pharma 2015

Unlocking the Potential of the Indian Pharmaceuticals Market

McKinsey&Company

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Executive Summary

As pharmaceuticals companies scan for new growth opportunities over the next decade, they have realised that some of the most promising are to be found in the world's emerging economies. In recent times, the pharmaceuticals industry has shown high interest in India due to its sustained economic growth, healthcare reforms and patent-related legislation.

Following a series of reforms beginning in the early 1990s, India has enjoyed over a decade of strong growth and a rise in the spending power of its citizens. Real average household income in India has roughly doubled over the past two decades. In the meantime, disease patterns in India have undergone a shift. Increasingly stressful lifestyles have led to significant increases in the incidence of chronic diseases. While government interventions have brought some acute ailments under control, a sizeable part of the population remains susceptible to a wide range of acute diseases.

Driven by increasing affordability, shifting disease patterns and modest healthcare reforms, the total consumer spending on healthcare products and services in the country grew at a compounded annual rate of 14 per cent from 2000 to 2005. The pharmaceuticals industry, which accounts for 15 to 20 per cent of total healthcare spend, grew at a compounded annual rate of 9 per cent during this period.

Spending on healthcare will continue to be robust. According to a recently published report by the McKinsey Global Institute, *The 'Bird of Gold': The Rise of India's Consumer Markets*, spending on healthcare will witness the highest growth rate among all spending categories over the next two decades. Healthcare grew from 4 per cent of average household income in 1995 to 7 per cent in 2005, and is expected to grow to 13 per cent by 2025.

This view of the healthcare sector has resulted in growing interest among business leaders and policy makers in the pharmaceuticals industry. Yet much remains unknown about the long-term potential and evolution of the Indian pharmaceuticals market. How is the market likely to grow? To what extent will increasing incomes and spending power drive this growth? What role will health insurance and medical infrastructure play? How is the spending on pharmaceutical products likely to differ between urban and rural regions? What share of the market is likely to be captured by patent-protected products? What are the implications for domestic players, multinational companies and policy makers?

In response to these questions, McKinsey & Company's Pharmaceuticals & Medical Products Practice launched a year-long research project to study the future of the Indian pharmaceuticals market. We built a demand model that projects the market potential based on the impact of five fundamental growth drivers: income demographics, medical infrastructure build-up, health insurance penetration, incidence of diseases and likely competitive intensity. Using the output from this model, we distributed the market forecast across therapy and geographic segments. In addition, we built a model that translates several supply factors into estimates of the share of patent-protected products by 2015. Finally, we complemented the results of the modelling with on-the-ground insights from an extensive field study.

Our analysis shows that if the Indian economy continues on its current high growth path, then the Indian pharmaceuticals market will undergo a major transformation in the next decade. The market will triple to US$20 billion by 2015 and move into the world's top-10 pharmaceuticals markets. The absolute growth of US$14 billion will be next to the growth potential of the US and China, and in the same league as the growth in Japan, Canada and the UK. While the therapy mix will gradually move in favour of specialty and super-specialty therapies, mass therapies[1] such as anti-infective and gastro-intestinal drugs will continue to comprise half of the market by 2015. Generics will continue to dominate, while patent-protected products are likely to constitute 10 per cent of the market within this timeframe. Leveraging the strong distribution infrastructure in the Tier 1 markets,[2] i.e., metros, Class I and Class IA towns, these markets

1 We define specialty therapies as those where products are prescribed primarily by specialist physicians and consulting physicians; super-specialty therapies as those where specialist and super-specialist physicians account for 80 per cent of prescriptions; and mass therapies as those where products are prescribed mainly by general practitioners.

2 We define Tier 1 markets as metros (population 1 million), Class I towns (0.5 million to 1 million) and Class 1A towns (0.1 million to 0.5 million). Tier 2 markets are the remaining urban markets (Class II, III and IV towns) and rural areas.

will account for half of the growth potential. Tier 2 markets, i.e., remaining urban markets and rural areas, will grow in importance and account for the remaining half. These changes in the market will have important implications for Indian companies, multinational firms and policy makers.

We briefly outline these findings below. Readers interested in the detailed results and analysis should see the main chapters of the report, while those interested in our methodology and assumptions are directed to the appendices.

INDIAN PHARMACEUTICALS MARKET WILL TRIPLE OVER THE NEXT DECADE

Six trends will influence the growth of the Indian pharmaceuticals market over the next decade: doubling of disposable incomes and the number of middle-class households, expansion of medical infrastructure, greater penetration of health insurance, rising prevalence of chronic diseases, adoption of product patents, and aggressive market penetration driven by the relatively smaller companies.

We believe that from a market size of US$6.3 billion[3] in 2005, the Indian pharmaceuticals market will grow to about US$20 billion[4] by 2015. This implies a compounded annual growth rate of 12.3 per cent. This growth will be materially higher than the annual growth rate of 9 per cent witnessed during 2000 to 2005.

In terms of scale, the Indian pharmaceutical market is ranked 14th in the world. By 2015, it will rank among the top 10 in the world, overtaking Brazil, Mexico, South Korea and Turkey (Exhibit 1). More importantly, the incremental market growth of US$14 billion over the next decade is likely to be the third largest among all markets. The US and China are expected to add US$200 billion and US$23 billion respectively. India, Japan, Canada and the UK are expected to be the next in line, with growth expectations in the range of US$13–14 billion during this timeframe (Exhibit 2).

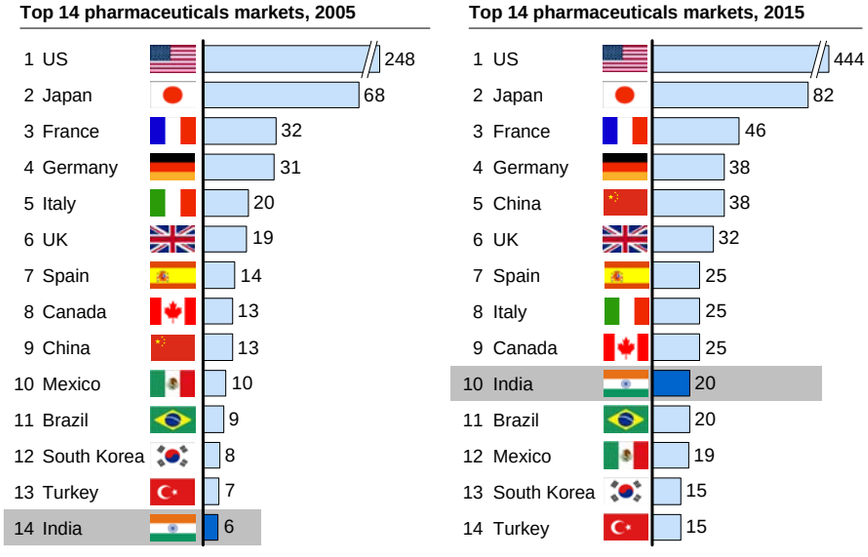
3 This estimate includes all retail sales of pharmaceutical products and institutional sales at ex-manufacturer prices (source: IMS World Review and IMS Midas).

4 This projection is at ex-manufacturer prices and is based on a Re-$ exchange rate of Rs. 45 per US$.

Exhibit 1

INDIA IS PROJECTED TO BE THE 10th LARGEST MARKET BY 2015

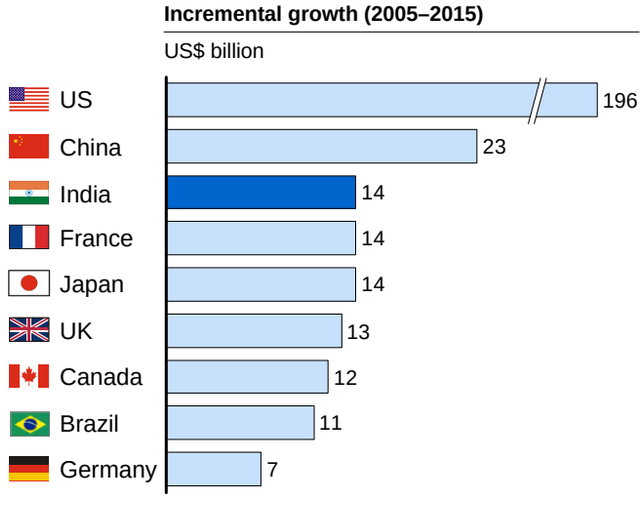
US$ billion



Source: IMS World Review; analyst projections; McKinsey India Pharmaceutical Demand Model

Exhibit 2

BY ABSOLUTE GROWTH, INDIA WILL BE AMONG THE TOP 5 MARKETS GLOBALLY DURING 2005 TO 2015



Source: IMS World Review; analyst projections; McKinsey India Pharmaceutical Demand Model

Underpinning the market projection of US$20 billion is the assumption that the growth drivers will change significantly by 2015. Real GDP will grow at the compounded annual rate of 7.3 per cent.[5] Per capita disposable income will rise from US$463 in 2005 to US$765 in 2015. Twenty-seven million households currently in the low-income category[6] will move up. The middle-income category will witness the steepest rise, with the addition of 59 million households. Driven largely through private investments, the number of hospital beds and physicians in the country is expected to double by 2015 (i.e., additional 2 million hospital beds and 0.4 million physicians). Corporate hospital chains will play a leading role in transforming the quality of secondary and tertiary care. Health insurance penetration is expected to double by 2015 to cover 220 million people. Traditional premium-based insurers will drive nearly 90 per cent of this growth in health insurance coverage. Patent infrastructure will scale up to enable up to 30 approvals annually and an average approval timeframe of two years.

A close examination of the growth drivers indicates that rising disposable incomes and an upward shift in income demographics will be the dominant growth factor and will account for nearly 40 per cent of the projected market growth. Improvements in medical infrastructure come next, accounting for 20 per cent. Greater health insurance penetration will account for nearly 15 per cent of the growth. A gradual shift in disease profile will account for another 10 per cent of the growth. Finally, population growth and other factors will make up the remaining 15 per cent (Exhibit 3).

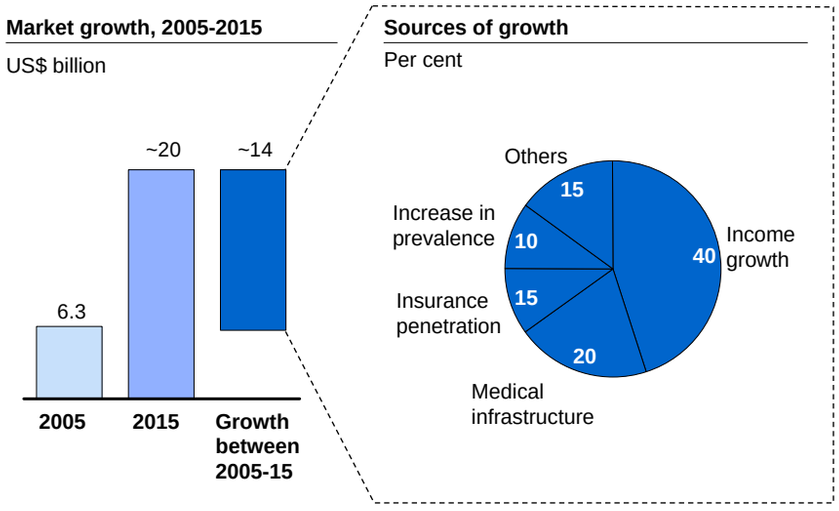
If the underlying growth drivers move more rapidly than envisaged in the base-case scenario, then the compounded annual growth rate could reach 14 per cent. In this scenario, the momentum will be steeper in medical infrastructure build-up, health insurance penetration and patent approvals, enabling the market to reach a size of US$24 billion by 2015. Conversely, if progress is slower than anticipated, then the market could remain limited to US$16 billion. This would imply a compounded annual growth rate of 10 per cent, no different from the growth rate observed over the past six years (Exhibit 4).

5 Our forecast of GDP is the same as that in the study conducted by the McKinsey Global Institute on the rise of the Indian consumer market. This estimate is derived from a macroeconomic model developed by Oxford Economics.

6 We define low-income households as having annual income < Rs. 0.9 lakh and middle-income households as having annual income between Rs. 0.9 lakh and 5 lakh

Exhibit 3

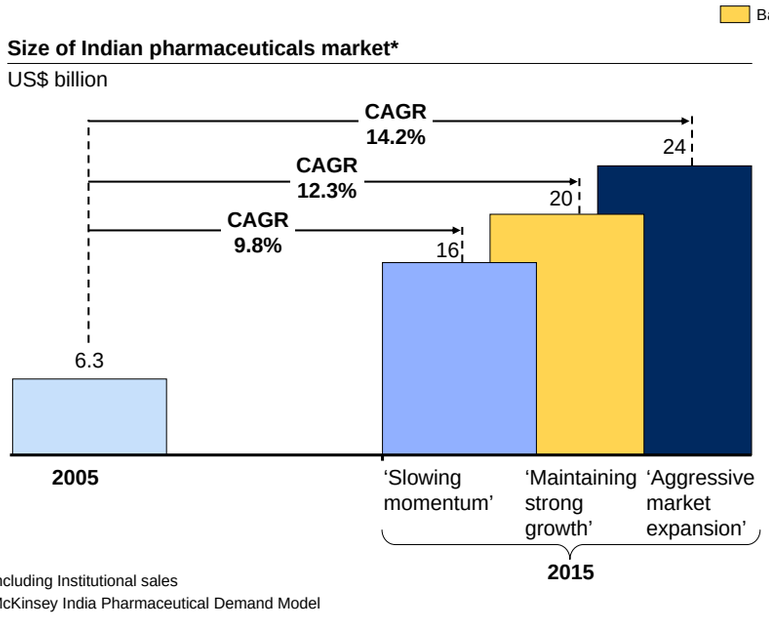
AFFORDABILITY AND MEDICAL INFRASTRUCTURE WILL DRIVE 75% OF DEMAND GROWTH



Source: McKinsey India Pharmaceutical Demand Model

Exhibit 4

INDIAN PHARMA MARKET IS LIKELY TO TRIPLE BY 2015



* Including Institutional sales

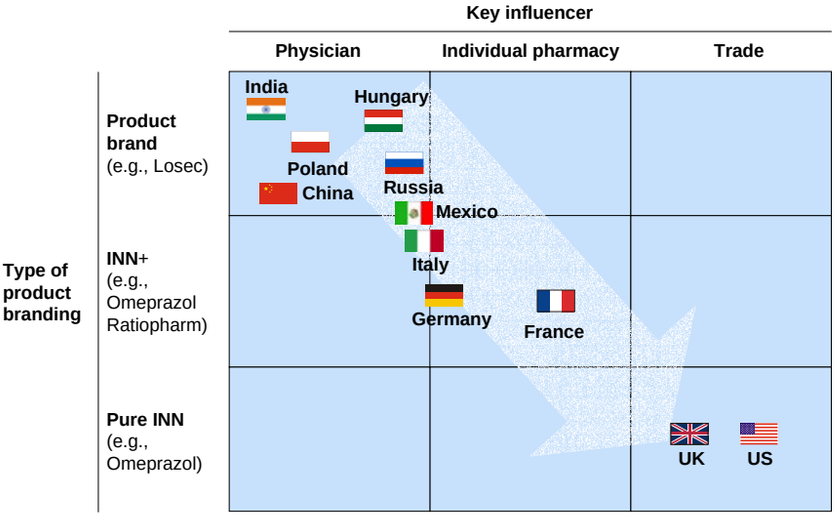
Source: McKinsey India Pharmaceutical Demand Model

Beyond scale, the high potential of the Indian market is underpinned by attractive industry dynamics as compared to other generics markets (Exhibit 5). India's is primarily a branded generics market. The influence of physicians remains high, allowing fair competition on the basis of product quality and scientific detailing.

This picture is markedly different from other important generics markets. For example, the US and UK are pure generics markets with balance of power entirely in favour of the trade. Markets such as Germany, France and Mexico have a strong share of branded generics. However, the influence of individual pharmacies and retail chains is on the rise.

Exhibit 5

MOST MARKETS ARE MOVING TOWARDS TRADE-DRIVEN PURE GENERICS



Source: McKinsey analysis

MASS THERAPIES WILL REMAIN IMPORTANT DESPITE A SHIFT TOWARDS SPECIALTY THERAPIES

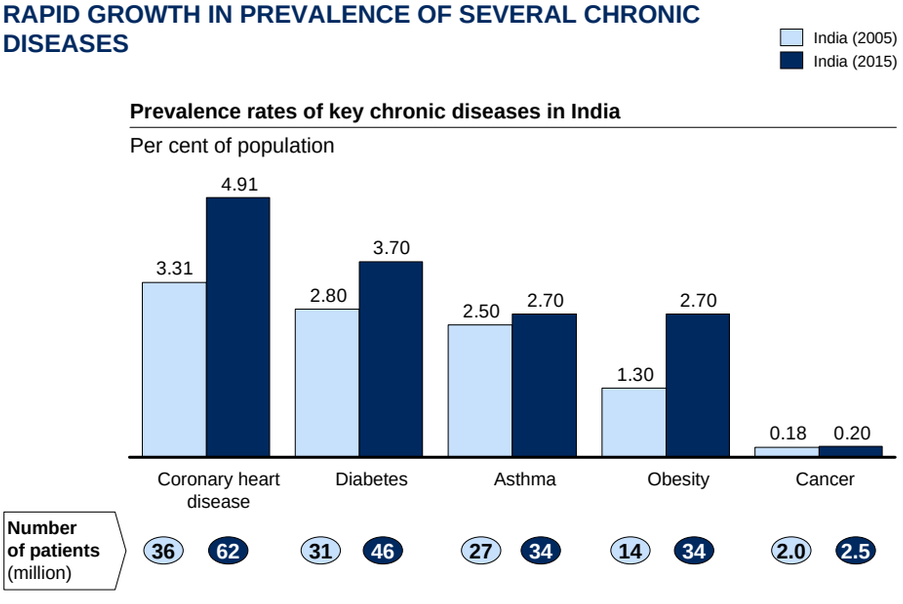
The relative importance of mass and specialty therapies is an important aspect of market evolution. During 2004 to 2006, the share of specialty and super-specialty products has inched up from 35.2 to 35.9 per cent. We expect this trend to gain momentum. By 2015, we expect specialty and super-specialty therapies to account for 45 per cent of the market.

The growing prevalence of lifestyle disorders will spur the growth in specialty and super-specialty therapies (Exhibit 6). Most notable among these ailments will be those under the broad umbrella of ‘metabolic disorders’. India is already home to the largest diabetic population in the world. The prevalence of diabetes will rise from 2.8 per cent in 2005 to 3.7 per cent in 2015; coronary heart disease

from 3.3 to 4.9 per cent; and obesity from 1.3 to 2.7 per cent. The population of patients suffering from hypertension will grow by another 50 million cases over the next decade. Prominent among the therapeutic areas that will grow as a result of the increase in lifestyle disorders are cardiovascular, neuropsychiatry and oncology.

Exhibit 6

RAPID GROWTH IN PREVALENCE OF SEVERAL CHRONIC DISEASES



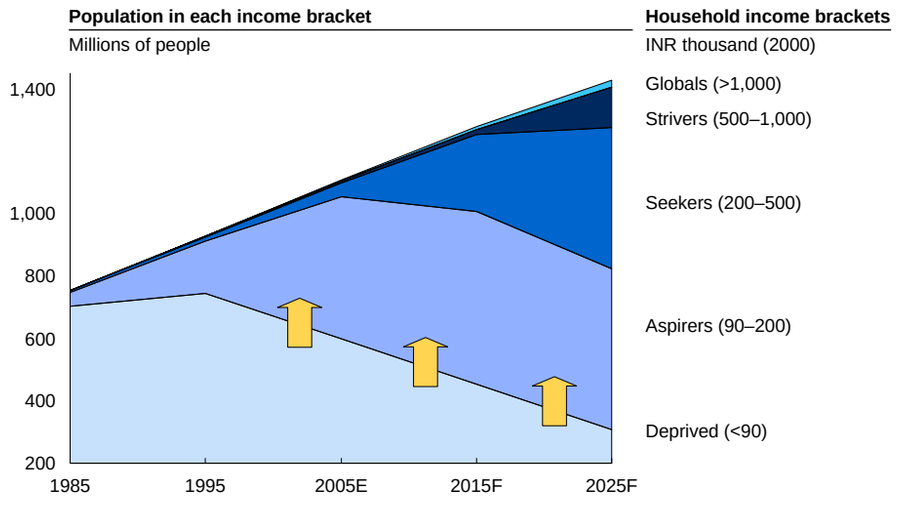
Source: NCMH background papers, 2005; Central Bureau of Health Intelligence; WHO; Decision Resources; McKinsey analysis

Despite this shift in disease profile, the growth opportunity in mass therapies will remain significant for two reasons. First, the gap between prevalence and treatment rates remains high in a range of diseases spanning anti-infective, gastro-intestinal, respiratory and pain management therapies. While a fifth of the population exhibits some degree of anaemia, only 25 per cent receive treatment. Similarly, for anti-peptic disorders and diarrhoea, the treatment levels languish at 30 per cent. Second, nearly 140 million people will move above the poverty line[7] during the next decade (Exhibit 7), which should increase the spending on basic healthcare and the consumption of mass therapy drugs for acute ailments. Over the past few years, several smaller players have spotted the opportunity in mass therapies and grown strongly by driving market penetration to a new level.

7 Our definition of poverty is different from that of the Indian government, it is based on caloric intake and is set at 2,400 calories per capita per day for rural areas and 2,100 calories for urban areas. The government's definition corresponds to an income of approximately Rs. 330 to Rs. 450 (US$7 to US$10) per capita per month.

Exhibit 7

140 MILLION INDIANS WILL MOVE ABOVE THE POVERTY LINE IN THE NEXT DECADE



Source: *The 'Bird of Gold': The Rise of India's Consumer Market*, May 2007, McKinsey Global Institute

This projected change in the therapy mix is similar to what has been witnessed in other developing markets. In China for example, the share of mass therapies has declined from 60 per cent in 1999 to 54 per cent in 2006. This implies a shift of 6 percentage points in favour of specialty therapies in a seven-year timeframe. This experience is quite similar to our projected shift for the Indian market of 10 percentage points in a decade.

Neither specialty nor mass therapies can be ignored during the next decade. The rising prevalence of one and low treatment levels of the other make both areas of concern.

GENERICS TO DOMINATE WITH SHARE OF PATENTED PRODUCTS RISING TO A SIZEABLE 10 PER CENT

Generics products will continue to dominate the Indian market. Over the next few years, the patent laws will provide an impetus to the launch of patent-protected products. Such products have the potential to capture up to a 10 per cent share of the total market by 2015, implying a market size of US$2 billion. This segment is likely to grow strongly beyond 2010, by which time we expect patent-related infrastructure to be in place and the regulatory issues to have been finalised.

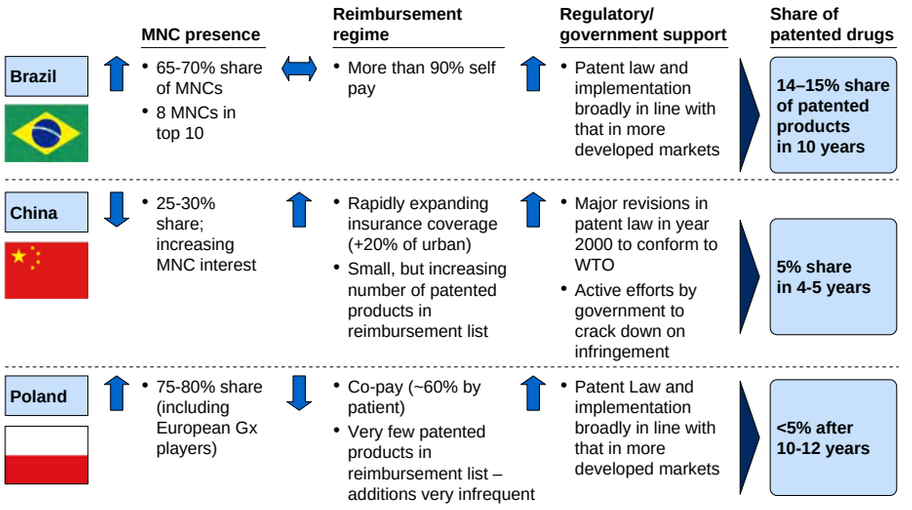
The positive outlook for generics products is due to several factors. First, the current pipeline of generics products that are either undergoing new process development or have been recently launched is strong. In addition, domestic players have the opportunity to develop new combinations and formulations of products that are already in the market. Second, and more importantly, generics players continue to have a wide range of options for new generics launches from the basket of pre-1995 products. The total number of such products is more than 200, and with the inclusion of combinations and formulation changes, the list is likely to get much longer. Third, it is likely that a proportion of post-1995 molecules will not get full patent protection due to the relatively narrower definition of patentability in the Indian Patent Act. Finally, the sales and marketing infrastructure of domestic companies has grown substantially over the past decade and is well positioned to maintain the market dominance of generics products.

Patentability and data exclusivity will be key determinants of the future of patented products. Patentability is lower in India than in other markets such as Brazil and Russia. Indian patent law does not allow for the automatic patentability of different forms such as salts, esters, ethers, polymorphs and isomers. These decisions are taken case-by-case on the basis of arbitration. Similarly, patents granted are not automatically extendable to new indications. The government's stance on data exclusivity is another factor of great importance. This policy issue is currently under the consideration of the government. One of the options being considered is to implement data protection after a transition period.

The experience of other developing markets underscores the importance of regulatory support and the interest levels of multinational firms. In Brazil, driven by the market dominance of multinational companies, patented products have captured a 15 per cent share of the market within 10 years of patent protection. This was despite reasonably high product prices (i.e., 60 to 70 per cent of US price levels) and a primarily self-pay market mechanism. In China, the share of patented products has gone up to 5 per cent after five years of patent protection. High interest levels of multinational companies as well as government support in patent implementation have been the main drivers. In contrast, the share of patented products in Poland has remained below 5 per cent despite a decade of patent protection. Inadequate regulatory support is behind this outcome—patented products have failed to make it to the reimbursement list (Exhibit 8).

Exhibit 8

DEVELOPING COUNTRIES HAVE SEEN VARYING LEVELS OF SUCCESS OF PATENTED DRUGS



Source: Secondary research; expert interviews; McKinsey research

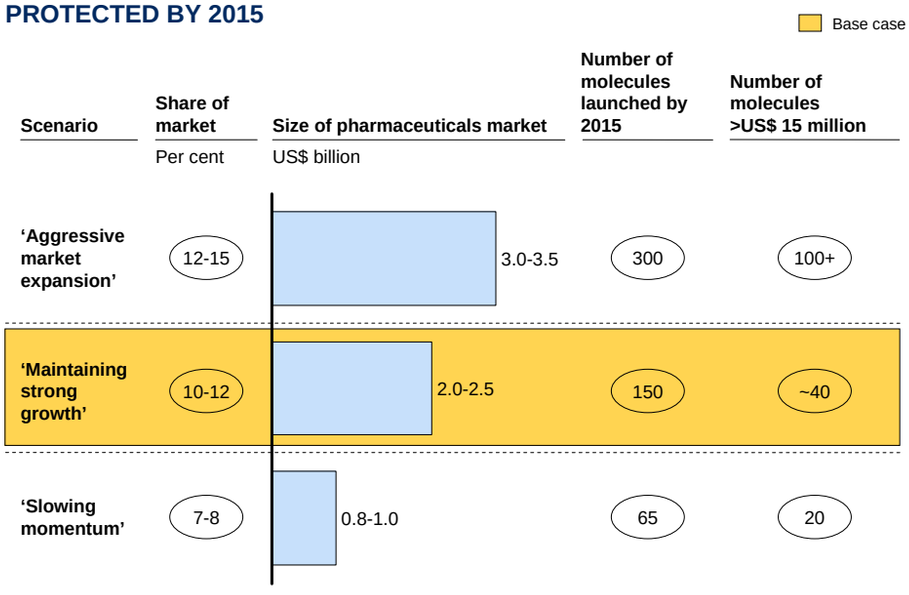
We have based the estimate for patent-protected products on four factors: global product pipeline, share of the pipeline introduced in India, time gap between the global and India launches, and likely commercial success of the products launched. The base-case estimate of a US$2 billion market size in 2015 assumes that, during 2010 to 2015, 35 to 40 new molecules will be launched globally every year, and 75 per cent of these will be introduced in the Indian market within a year of global launch.

If the multinational pharmaceuticals companies lower their emphasis on the Indian market, then the market for patented products could be significantly lower than the base-case estimate of US$2 billion. This segment could then be limited to a 5 to 6 per cent share of the market and a size of US$0.8–1 billion by 2015 (Exhibit 9). The government's stand on the issue of data exclusivity, the outcome of the initial spate of arbitrations on patentability and the progress in patent infrastructure build-up will play important roles in shaping the outlook of multinational companies towards the Indian market opportunity.

We expect the market for patented products to be concentrated in five therapeutic areas: neuropsychiatry, oncology, anti-infective, gastro-intestinal and cardiovascular. By 2015, we expect these five therapies to contribute 60 to 70 per cent of total patented product launches (Exhibit 10).

Exhibit 9

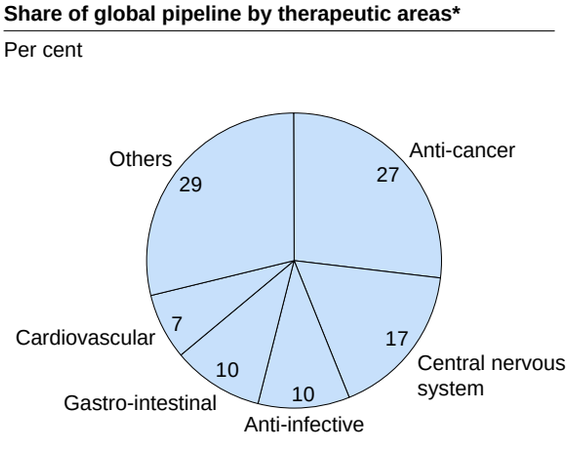
10% OF THE INDIAN MARKET IS LIKELY TO BE PATENT PROTECTED BY 2015



Source: McKinsey India Patent Share Model

Exhibit 10

GLOBAL PIPELINE FOR PATENTED PRODUCTS IS CONCENTRATED IN FIVE TAs



* Excluding pre-clinical

Source: Pharmaprojects; McKinsey analysis

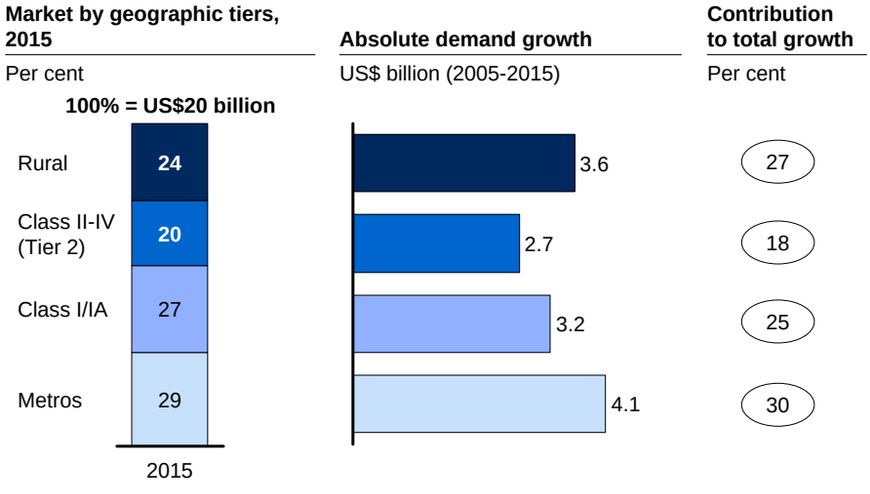
TIER 2 MARKETS WILL REGISTER HIGH GROWTH BUT TIER 1 MARKETS WILL REMAIN IMPORTANT

Growth in the Indian pharmaceuticals market will be well distributed across urban and rural demand centres. Currently, Tier 1 markets account for nearly 60 per cent of the market. Tier 2 markets account for the remaining 40 per cent. The significant share of Tier 2 markets can be credited to a large extent to the strong wholesale distribution system.

Nearly 45 per cent of market growth in the next decade will take place in Tier 2 markets. Rural markets alone will account for 27 per cent, with the Class II, III and IV towns accounting for the remaining 18 per cent. By 2015, the share of Tier 2 markets will grow marginally to 44 per cent, implying a market size of US$8.8 billion (Exhibit 11).

Exhibit 11

RURAL AND TIER 2 MARKETS WILL CONTRIBUTE ALMOST HALF OF PHARMACEUTICALS GROWTH TILL 2015



Note: Metro: >1 million population, Class I towns: 0.1-1 mn, Class II-IV: 5k- 0.1 mn, Rural: less than 5K
Source: McKinsey India Pharmaceutical Demand Model

A strong shift in income demographics underpins the growth potential of the Tier 2 markets. By 2015, these markets will add 46 million households with high and medium levels of affordability. This compares favourably with Tier 1 markets, which will add 19 million households with similar affordability levels.

According to the McKinsey Global Institute's report, rural areas are expected to account for a third of the country's consumption growth in the next two decades. Our conclusion that rural markets will account for 27 per cent of the growth in pharmaceuticals is in line with the projected consumption increase in rural India.

The rising importance of Tier 2 markets has an important implication for pharmaceutical companies. Sales infrastructure deployed in Tier 2 markets does not match the current revenue share or the future market potential of these markets. In an average mass products sales division, only 20 to 30 per cent of the sales force is deployed in Tier 2 markets. The number is even lower for specialty products divisions. Sales force coverage and deployment needs to rise in these markets to capture the market potential.

While Tier 2 markets will show strong growth, Tier 1 markets will remain important, driven by four factors. First, affordability will rise significantly in these markets due to higher disposable incomes. Second, the prevalence of lifestyle-related ailments is likely to be much higher than in the Tier 2 markets. Third, there is an opportunity to further intensify coverage of GPs, particularly for specialty therapies. Finally, these markets will witness the steepest rise in the standards of healthcare infrastructure.

IMPORTANT IMPLICATIONS FOR INDUSTRY AND POLICY MAKERS

The upcoming changes in the Indian pharmaceuticals market will create major opportunities for Indian and multinational companies alike. Mass therapy and specialty therapy in Tier 1 markets is expected to reach US$5.7 million and US $5.5 million respectively. Mass and specialty therapies in Tier 2 markets are expected to grow to US$8.8 billion. Biological products are expected to reach US$1.4 billion and institutional sales to reach US$4.1 billion.

However, for pharmaceutical companies, the call for decisive action is not a matter of choice, contingent on whether they want to address a new growth opportunity. It is a matter of necessity borne out by the need to withstand competitive pressure and maintain market standing. A closer examination of the shifts in industry dynamics illustrates this point.

Over the past five years, the relative performance of the large domestic companies, the mid-sized and small domestic companies and the multinational firms has changed. On the back of enterprise and innovative sales and marketing models, the mid-sized and small domestic companies have outperformed the market in terms of growth. During this timeframe, the large domestic companies have managed to grow with the market. The multinationals appear to have lost some momentum and market share since 2000.

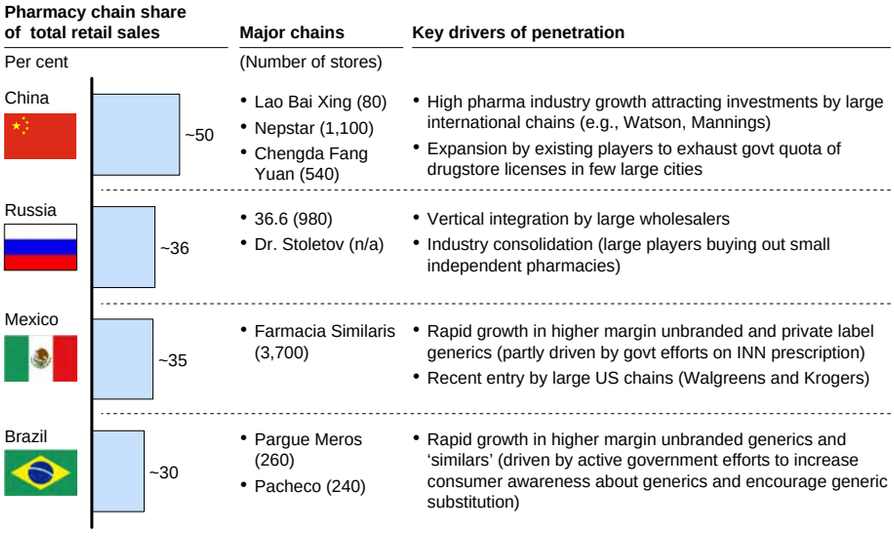
Going forward, the large domestic companies will face strong competition on both sides. On one hand, smaller players can mai ntain their trajectory if they continue to pioneer market creation. On the other, multinational firms can gain share through the launch of patented products depending on the level of regulatory and infrastructural support. In such a competitive scenario, top-tier domestic players will find it a challenge to maintain or improve their market share performance.

Hence the priorities are likely to differ for the three groups of industry players. For leading domestic companies, the case for action is underpinned by the need to counter the threat to their market leadership. For mid-sized and small domestic players, the challenge lies in replicating past success and coping with increasing scale and complexity. For multinational firms, the imperative is to build businesses of scale in the new patent regime and be relevant in this high growth market.

Another change expected is the rising influence of retail. Organised retail currently constitutes less than 1 per cent of the pharmaceuticals market. This share is expected to grow, resulting in a shift in influence from physicians and manufacturers to the retail trade. Organised retail accounts for 30 to 40 per cent of all retail sales in countries such as Brazil, Mexico and Russia (Exhibit 12). While it will take time to reach such levels in India, pharmaceutical companies will do well to recognise this trend and prepare for the implications.

Exhibit 12

LARGE SHARE OF PHARMACY CHAINS IN OTHER BRANDED GENERICS MARKETS



Source: Secondary research; expert interviews; McKinsey research

The combination of market opportunities and the likely changes in industry structure have different implications for domestic players and multinational companies. While their strategies must take into account these implications, policy makers will need to provide the appropriate incentives to encourage access and innovation.

Significant implications for Indian players

Indian companies will need to pursue differentiated strategies, sustain product access, drive market creation and strengthen sales and marketing capabilities.

1. **Shift focus from market share capture to market creation.** Traditional product markets today are well covered and growth opportunities are medium or low. Coverage of specialist physicians for specialty therapies such as anti-depressants is a case in point. Further intensifying coverage of psychiatrists in Tier 1 markets can lead to only mediocre growth. Higher growth can come from expanding to CPs and GPs in Tier 1 markets. In India, the share of CPs and GPs in anti-depressant prescriptions is much lower than that of their counterparts in developed markets such as the US, indicating untapped opportunity.

2. **Adopt new and differentiated business models.** With the ongoing changes in market opportunities, competitive scenario and disease profiles, a homogenous business model is unlikely to work. For example, the sales infrastructure needed and expected financial returns are likely to differ significantly across Tier 1 and Tier 2 markets. Hence, domestic companies will do well to vary their approach in terms of products, pricing, physician coverage, selling approach and infrastructure, and financial expectations.

3. **Sustain product access.** For local players over 200 pre-1995 products will be the primary source of product access. In addition, incremental innovation through fixed-dose combinations will be important. Finally, in-licensing will provide a meaningful opportunity and the basket could include as much as one-third of all globally launched products. Companies with high quality sales coverage, strong marketing capabilities and a reputation for fair selling practices will emerge as the preferred partners for product in-licensing.

4. **Strengthen sales and marketing capabilities.** To withstand competition and create genuine differentiation in the market place, domestic companies will need to upgrade their sales and marketing capabilities. These capabilities will need to encompass new product development and launch, brand lifecycle

management, marketing spend effectiveness and sales force effectiveness. As companies attempt to create newer markets and adopt different business models, these capabilities will become more specialised.

Multinationals need to align aspirations and business model

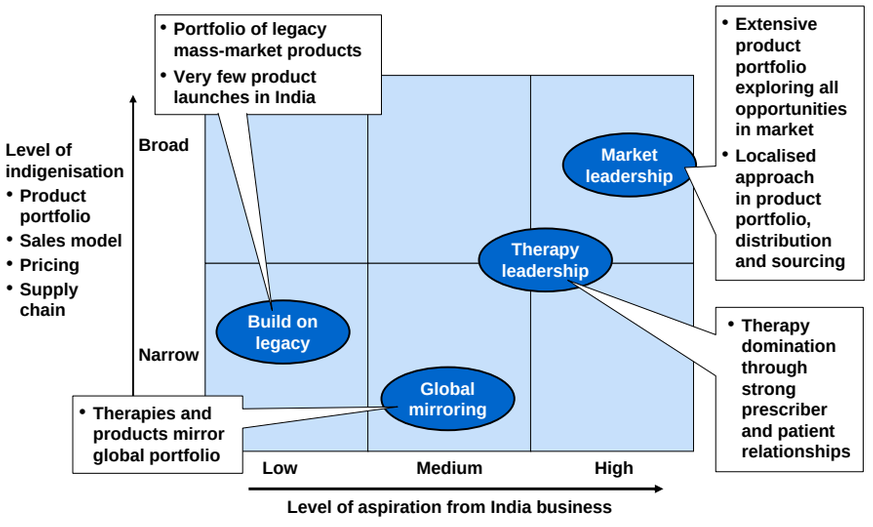
To build a business of meaningful scale, multinational companies will need to clarify aspirations, customise their business models and invest in the country organisation.

1. **Clarify aspirations for the India business.** Multinational companies can focus on high-end specialised segments and be niche players. At the other end of the spectrum, they could aspire to be market leaders by introducing a full portfolio of products, extending presence to generics and indigenising their business model. The aspiration will have implications for business model, organisation and resourcing, and hence needs to be clarified upfront.

2. **Customise the strategy and business model.** Multinational companies can follow one of four business models (Exhibit 13). Each can serve a specific level of market presence and revenue aspiration. If the aspiration is to be among the leading players in the market, then the approach needs to be indigenised. GlaxoSmithKline's approach towards the Indian market is a case in point. In contrast, leading in a specialised therapy or a niche segment is likely to provide higher profitability, but is unlikely to lead to a top-15 position.

Exhibit 13

MNCs HAVE TRADITIONALLY ADOPTED ONE OF FOUR MODELS IN INDIA



Source: IMS; secondary research; McKinsey analysis

3. **Invest in the local organisation.** The experience of multinational companies across sectors in India clearly indicates that a strong local team with local market experience is key to success. However, this in itself may not be sufficient. For multinational companies with significant aspirations for the market, the corporate organisation and senior leaders need to visibly support and champion the India business.

Policy makers will need to encourage access and innovation

Access to affordable healthcare will remain a key imperative for the government. It also has the responsibility of encouraging product as well as process innovation.

1. **Emphasise access through health insurance.** The government should play two roles in this area. First, it needs to encourage private health insurers through regulatory reform (i.e., reducing the minimum capital requirement levels) and help build consumer awareness of the need for health coverage. The second role is more direct and involves providing a minimum level of cover to a large section of the deprived in both rural and urban areas. Several options are being debated, the most recent being one that combines health cover and social security benefits for the unorganised sector. We believe that such efforts will be required to provide the majority of the population with basic access to healthcare.

2. **Ensure smooth implementation of patent law.** The patent infrastructure in the country has been appreciably upgraded over the past two years to support the new law, with the addition of patent examiners, decentralisation of the filing process and digitisation of records. These are all important achievements during the initial years. It will be critical though to maintain this momentum and ensure a speedy and effective approvals process. Another important question is that of data exclusivity. Most developing nations, including the other BRIC countries, have adopted some form of data exclusivity. The matter is now being examined by the government. It should be settled in a time-bound manner to provide clarity to the industry.

3. **Support capability building in R&D.** Although it is recognised as a strong source of R&D talent, India faces strong competition from several countries in Asia, Eastern Europe and Latin America. Beyond the existing financial benefits, the government will need to encourage capability building in R&D. The measures adopted by the Singapore government in the biotechnology sector are a pointer. Aspiring to make biotechnology investments reach 3 per cent of the country's GDP, the Singapore government is providing tax incentives, but also supporting industry in forging links with companies in the US and Europe for training and secondment. Securing linkages between

industry and academia is another important role that the government needs to play.

4. **Continued emphasis on improving public health resources and infrastructure.** The low treatment rates for diseases such as respiratory infections and diarrhoea highlight the need to further build awareness of public health issues such as sanitation and access to healthcare support. In order to step up disease prevention, the government should consider private-public partnerships and undertake human resource reform to attract professionals in public health by creating career tracks and incentives.

5. **Adopt a broader view of healthcare costs.** Drug pricing is an important issue and is on the agenda of most governments. However, drugs account for 15 to 20 per cent of healthcare expenditure. Moreover, driven by intense competition, drug prices in India are already among the lowest in the world. In such a situation, the government will need to take a holistic view of healthcare costs and pursue a broader set of initiatives to ensure access and affordability. Ensuring some form of health coverage for a large part of the population is a critical step. Other examples include introducing some form of reimbursement control, ensuring higher patient co-pays for lifestyle diseases, making preferential tenders and improving the economics of public hospitals (Exhibit 14).

Exhibit 14

MEASURES UNDERTAKEN BY COUNTRIES TO IMPROVE HEALTHCARE ACCESS AND REDUCE COSTS

Measures	Description	Examples
1 Public health insurance	• Provision of healthcare – either health insurance or tax-financed	• All large European countries, Japan, Korea, New Zealand • China – urban (BMI)
2 Reimbursement control	• Control of reimbursement list through exemption from government reimbursement scheme or higher co-pays	• UK, Spain, Germany, France, Poland, New Zealand, China
3 Preferential tenders	• Nationwide tenders for drug purchase by all community pharmacies or by public hospitals	• New Zealand, NHS (UK)
4 Improved hospital economics	• Use of treatment protocols, and other reforms to improve cost economics of public hospitals	• DRG system in Germany to reduce LOS in hospitals
5 Fixed trade margins	• Fixed retailer margins on drugs to discourage dispensing of higher priced brands	• Germany, UK
6 High patient co-pay for lifestyle drugs	• Low/zero reimbursement for OTC or lifestyle drugs	• Germany, UK, Spain, France, Poland

Source: Secondary research ; McKinsey research

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We would like to emphasise that the overall outcome we have described depends on three preconditions. First, that India maintains a relatively high rate of long-term growth, in the range of 7 to 8 per cent a year. That in turn depends crucially on the government continuing to pursue a pro-reform, pro-growth economic agenda. Second, the public and private sectors continue to invest in the development of healthcare-related hard and soft infrastructure and creating a thriving labour market. Third, the government adopts a regulatory stance on pricing and implementation of patent legislation that encourages industry growth. A slowdown in these areas could dampen growth and put the opportunities we have described at risk. Quite importantly, it will disrupt the industry's social role in providing wide access to affordable life-enhancing drugs.

India's pharmaceuticals market has grown at a reasonable pace during the past decade. The market has the potential to transform itself over the next 10 years and play a crucial role in countering the growing burden of disease. Sustained, progressive and collaborative efforts by the government and the pharmaceuticals industry hold the key to achieving India's full potential.