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GlaxoSmithKline: Making an Impact on Emerging Markets

An interview with **Abbas Hussain**

Criticaleye recently caught up with **Abbas Hussain***, President, Emerging Markets at GlaxoSmithKline, to discuss the state of emerging markets and the initial stages of GSK's low-cost drug plan, a revolutionary scheme set to change the face of the pharmaceutical industry.*

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Early in 2009, Andrew Witty, GlaxoSmithKline's CEO tore up big pharma's rule book by radically shifting the company's strategy with his decision to provide low-cost medicines to the world's least developed countries and invest 20 per cent of profits from these sales back into the affected communities. They will also create an unprecedented pool of knowledge with other pharmaceutical companies and NGOs on neglected diseases that devastate the developing and least-developed countries in the world in the hopes of finding cures.

Five billion people live in emerging markets, of that number, 1.5 billion live on less than $1.25 per day. This population has largely been ignored by the pharmaceutical industry until now. Since April 2009 GSK has provided medications of which they are the sole supplier, at 25 per cent of the average Western price to the world's 50 least-developed countries as defined by the World Health Organisation (WHO).

Emerging markets, which haven't traditionally been seen as profitable for pharma, have, as Witty has identified, presented another opportunity. In addition to making drugs more affordable to the impoverished in these countries, they will also tackle the budding middle class, which is a widely untapped area full of growth potential. With this in mind he carved out emerging markets as an entity to grow a more diversified business.

Tasked with this enormous shift in strategy is Abbas Hussain, President, Emerging Markets at GlaxoSmithKline (GSK) and Criticaleye Advisory Board Member.

Brought on in mid-2008, Abbas is responsible for creating a business plan that captures the potential of emerging markets, a region which encompasses Latin America, Africa, the Middle East, and Asia. In fact, the only markets he doesn't touch are delevoped – Europe, the US, Canada, Australia, Japan and Korea.

Abbas says "The reason for this shift is essentially that the pharma industry has been built on a model, whereby most of the value created has been in the US and Europe through blockbuster pharmaceuticals that are patent-protected."

There are two issues with this older model, according to Abbas. Firstly, when a patent expires, all the sales associated with the products are lost overnight, because they're given over to generic companies. Secondly, the research and development (R&D) engine delivering those blockbusters has started to stutter for the industry, making it more difficult scientifically to find the right targets and hence the right medicines.

The growth of mature markets has also slowed considerably, with a growth rate of between two and four per cent of GDP, whereas emerging markets are growing at a rate of six to nine per cent of GDP.

"In the pharmaceutical industry, the emerging markets were growing at 16 per cent a year," says Abbas, "And then you've got this huge middle class. When you have these types of GDP growth, you're adding 100 million people every year in these emerging markets to a new middle class, and that's the point where people start to invest in things like health. So there was a new market being created every year that we had to find a way to tap into." Many companies have applied a mature market strategy to emerging markets, but GSK has found that this simply won't work.

Abbas says: "You need to understand the characteristics of emerging markets, because while they all look very different, there are some significant similarities among them that are however different to mature markets. You must formulate a strategy accordingly; build on what is the same in emerging markets, but keeping in mind that at a tactical level, there are slight differences.

Emerging markets are characterised by huge populations, and there is a fairly significant difference in the distribution of wealth. This will have an impact on pricing strategy and product offering. If the pricing strategy from the West is used, then 98 per cent of the population will be unable to afford the product.

Many people in emerging markets are paying out of pocket for medical attention and products and are, therefore, more brand-loyal and products have a much longer life-cycle. Because of this, the healthcare market in the developing world looks more like the consumer goods market of the West.

"The culture in emerging markets isn't: 'I have to pay for healthcare out of my pocket, and hence I will decide what I can afford.' It's, 'I have faith in a particular brand, because every time my kids have had a chest infection I've given them that brand and they got better. I won't compromise on that just because someone's telling me they've got another brand that's 20 per cent cheaper, because I'm not going to compromise my or my family's health on 20 per cent cheaper,'" said Abbas.

This fierce brand loyalty also leads to more word-of-mouth, not something typically seen in the Western healthcare market.

A challenge faced in emerging markets is not only competing for the top two to three per cent of wealth, but competing for the masses, where there is a huge amount of profit to be made, but also a huge amount of competition. There are over 30,000 manufacturers in India producing high-volume, low-cost medications. While these manufacturers are attempting to move up the wealth pyramid, GSK believes that it is important to move in the other direction.

"In emerging markets you've got to work it back the other way. Look at the diseases the masses have, and then look at the gaps in your portfolio, and rather than just relying on R&D, you rely on other sources then fill those gaps," asserts Abbas. "You're trying to access products, but make sure that you're serving a cost structure that can be afforded by the market place, without compromising on quality. In emerging markets, you're trying to establish a totally different mindset."

With massive populations and a huge geographic sprawl, distribution of products can prove to be problematic. "There is a certain critical mass of scale needed to work profitably in these markets," says Abbas.

He believes that there are two types of strategies that can be implemented: become a mass-player and invest in scale or become a specialised player.

To become a mass player in China, for example, where there are hundreds of metropolitan areas, "you really need to get into the 'tier two', 'tier three' cities, not just focus on the 'tier one' cities. If you have that sort of scale of distribution, and sales and marketing network, then you need to complement it with an extremely broad portfolio, which is why, as I said, you can't solely rely on your own R&D lab. You actually need to go and do a lot of business development deals, acquire businesses, have different sourcing strategies, to provide a broad portfolio.

"I think that if you look at some of the players that have done very well in emerging markets, they do tend to have a terrific scale - Nokia is a great example," he says.

Finding and retaining talent provides more challenges. "It will make the difference between us and the ten other companies trying to develop a business in emerging markets," contends Abbas.

"There has been an incredible 'gold rush' into emerging markets, and as a consequence of that you've got people job-hopping on a regular basis, because there is always someone else out there willing to pay 50 per cent or 100 per cent more due to the scarcity of talent available."

The current economic condition has curbed this phenomenon slightly, but is suspected to return once the economy starts to grow.

"Compliance and corruption is clearly another challenge. We have a zero tolerance policy and everyone knows that we operate to a global set of compliance standards, so we don't tolerate any integrity issues whatsoever. It's generally known as a clear rule at GSK; engaging in non-compliant activities is the one thing that will have you marching out the door rather rapidly," says Abbas.

He believes that instilling a culture of intolerance when working in these markets, as well as rules and regulations and good governance, works well.

"What is more important is to lead by actions rather than words. It's all about the leadership we have in these markets, whereby the leaders clearly will choose to walk away from business, rather than not doing the right thing."

Sales, like population and geographical areas, can be quite fractured. Abbas's largest market, China, only represents 12 per cent of his total sales. He thinks this is a good thing. "In times like this you've got a natural geographical hedge against risk. If something terrible were to happen in even my largest country – I'm just managing that 12 per cent issue. But clearly, I would point to countries and some of the markets in the Middle East.

"One of my top 10 businesses is in Pakistan which could go either way at any time. But we've been there for over 50 years, and we've got a very robust business. It just goes to show that in some of these places you've just got to hang in through the rough times, and consequently you will hopefully come out at the end of it."

TIPS FOR ENTERING EMERGING MARKETS

The task of entering emerging markets can be daunting for any business. To close out the interview Criticaleye asked Abbas for his suggestions to leaders and executives charged with developing a strategy in lesser developed global regions.

Keep an open mind "You parachute into some of these markets and you look around, see the impoverished, and it's very easy to ask, 'how will this market ever grow out of this state?' So, keep an open mind, because there is an incredible number of entrepreneurial young people creating value in these markets."

Try not to generalise "Tactically, each and every one of these markets is going to be slightly different, you need to be open to a somewhat 'glo/local' strategy."

Emerging markets are a long-term investment "You've got to hang in there, because these markets, by nature, are volatile. All the major environmental disasters, wars, and political disasters happen – you only have to look to Africa to exemplify this. Don't buy too much into the headline news; over a course of 10 to 20 years, you can create a lot of value."

Abbas Hussain
President, Emerging Markets
GlaxoSmithKline

Abbas has almost twenty years experience in the healthcare industry. In 2008, he joined GSK as President, Emerging Markets. He previously worked for Eli Lilly where he was President, European Operations in 2006. Prior to this he enjoyed a number of positions with Eli Lilly working in Australia, the US and Europe.

Contact Abbas through www.criticaleye.net