

# CLUSTER PROFILE

## PHARMACEUTICAL, PESHAWAR



### ***Turn Potential into Profit***

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## **1 Description of the Cluster**

### **1.1 Cluster Brief**

At the time of Independence the country had only two small units viz B-1 Drug Company Lahore and Frontier Chemical Works Peshawar, mainly engaged in the production of generics. Subsequently, permission was granted by the Government to the foreign multinationals pharmaceutical enterprises to commence local formulation. It was in 1950 that the foundation of the pharmaceutical industry was laid with the establishment of local subsidiaries of foreign firms. Local entrepreneurs simultaneously began to formulate drugs by importing basic raw materials.

Population growth, increased urbanization, and provision of medical cover to the growing number of government employees resulted in increased demand for pharmaceutical products over time and expansion of the formulation industry. By 1960 there were 55 pharmaceutical units operating in the then West Pakistan i.e. 26 units in Karachi, 16 in Lahore and the remaining 13 dispersed throughout the rest of the country. The number of units engaged in formulation increased throughout the sixties and totaled 80 in 1970. However, there were no plants undertaking basic manufacture of drugs in the private sector until the early sixties. The first basic drugs manufacturing works was established in 1955 in the public sector under the name of Khurram Chemicals Limited. Another company under the name of Antibiotics (Pvt.) Ltd was established in 1959 in the public sector for the basic manufacture of antibiotics. Both were subsequently privatized during 1991. Today there are about 667 registered manufacturing units in Pakistan.<sup>1</sup>

The pharmaceutical cluster started growth from 1983. The total number of units in early nineteen eighties was 07, with addition of 26 more units in nineties, and finally reaching 36 by 2011.<sup>2</sup>

### **1.2 Description of Products**

The pharmaceutical products of Peshawar cluster can be categorized into Infusion Sets, Intravenous Solutions, and Medicines.

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<sup>1</sup> (Zahid Saeed, MD, Indus Pharma), DAWN, Islamabad, September 17, 2014 copy.

<sup>2</sup> Directory of Industrial Establishments 2011-Government of KP

### **1.3 Cluster Actors**

#### **1.3.1 Infusion Sets Manufacturers**

An **infusion set** comprising of a canola with a needle and a tiny plastic tube connects the insulin pump delivery device to your body. It works the same way as an intravenous line does.

#### **1.3.2 Intravenous and Intramuscular Solutions Manufacturers**

Intravenous (IV) medications are a solutions administered directly into the venous circulation via a syringe or intravenous catheter (tube). The intramuscular (IM) solutions are injected into the muscles.

#### **1.3.3 Medicines Manufacturers**

This industry has a total number of 42 units manufacturing Capsules, Injection, Ointments, Suspension, Syrups, and Tablets. This segment not only caters to the domestic market but also exporting a minor percentage to the bordering Afghanistan Market.

From the marketing point of view, the products are classified into the following categories:

##### *Prescription Medicines*

These can be purchased only with the prescription of the doctor (general practitioners and specialists). The senior doctors like professors, and the general practitioners of government and leading private hospitals consider either the products of the multinational organizations or well reputed local companies. In case of the small private clinics and quakes the common practice is the prescription of cheap products.

##### *Over the Counter Medicines (OTC)*

As per the global practice these medicines can be purchased without the prescription. In Pakistan due to the negligibly small promotional costs these products are priced very low.

### **1.4 Geographical Location**

Majority of the pharmaceutical companies is located in the Industrial Estate and Small Industrial Estates, on Jamrud Road.

## **1.5 Current Cluster Scenario**

### **1.5.1 Large Scale Organizations**

Currently the products of 11 pharmaceutical companies are reported which indicates towards the closure of large number of them. The investment in this category is Rs. 60 Million to Rs. 200 Million per factory.

### **1.5.2 Medium Scale Organizations**

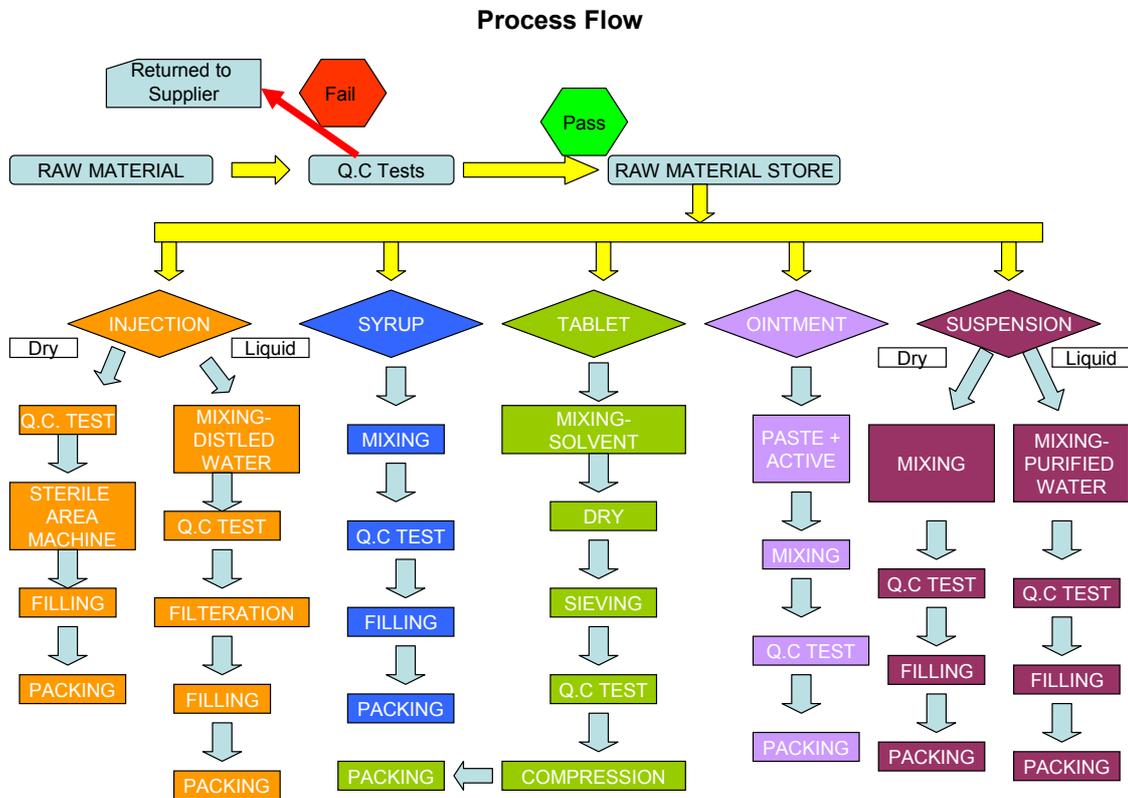
The Third Party manufacturing concerns are about 20, producing as per the demand of the marketing companies. These are the Medium Sized organizations with an average investment of Rs. 10 Million per unit.

### **1.5.3 Small Scale Organizations**

There are about 50 small scale pharmaceutical marketing organizations and about 20 distributors with an average investment of Rs. 1.5 Million per unit and 2.5 Million per unit respectively. The role of the marketing companies is to buy the pharmaceuticals from Third party manufacturing units and market these as own brand, whereas the distributor markets the brands of manufacturers.

## 2 Analysis of Business Operation

### 2.1 Production Operation- Process Flow



### 2.2 Raw Materials Availability

The raw material is mainly imported from China and India. Occasionally it is also imported from Europe but due to higher costs of the European raw materials the preference remains the mentioned neighboring countries.

### 2.3 Technology Status

The common trend of the cluster is to import machinery from China. The cluster has a negligibly small capability of the Research and Development. The time and high costs affiliated with the R&D render even the large sized units unable for the purpose.

### 2.4 Financing

Financing is easily available to the investors of the cluster by all of the commercial banks.

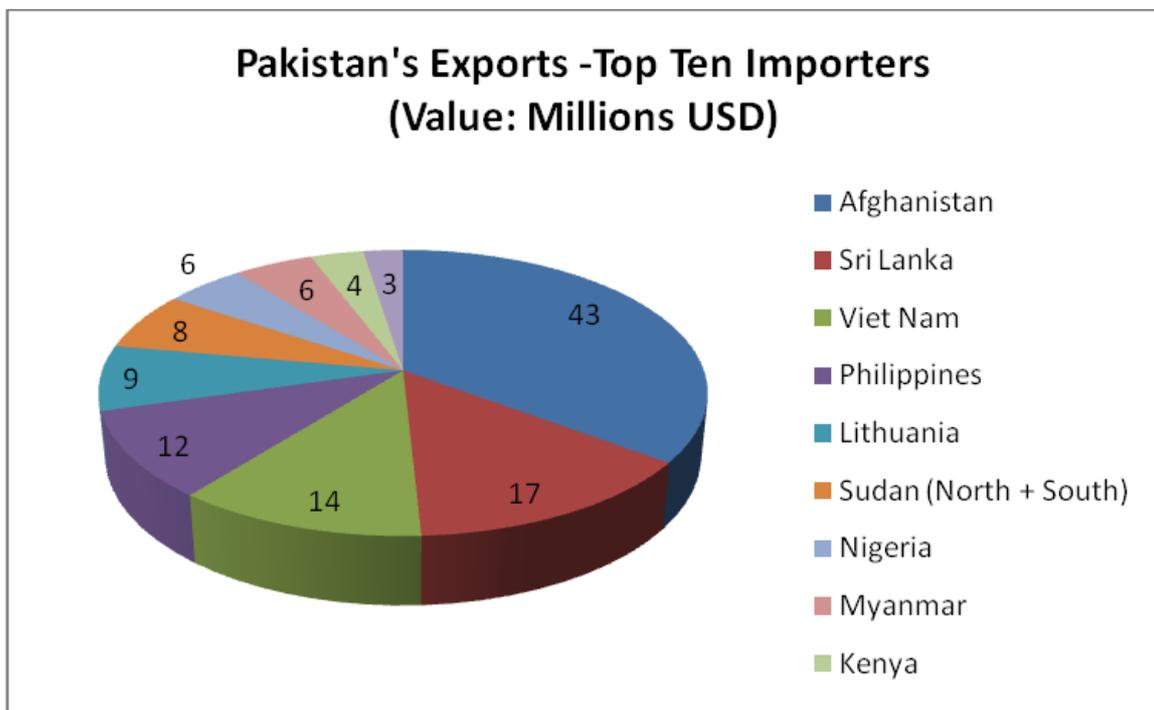
## 2.5 Human Resources

The simple nature of labor job and the abundance of human resource is an encouraging factor for the investors. The administration manager is responsible for employees' recruitment and retention whereas the production manager ensures achievement of production targets through the shift supervisors. The availability of qualified pharmacists is easy due to the increasing number of the pharmacy graduates from the University of Peshawar. The nature of the product demands highly trained marketing representatives. Also the qualified accountants (Commerce/Business Graduates) are employed due to the size of the organizations and the nature of financial transactions.

## 2.6 Marketing

The marketing depends upon the scale of investment. It may be own marketing team, or may be done through third party or distributors. Similarly the promotional techniques may include samples, brochures, small gift items, renovation of doctors' clinics, educational and recreational trips to doctors etc. The supply of infusion sets and solutions require bulk purchase orders, normally not less than 3,000 units, whereas the medicine supply has requirements of about 300 packets and above.

The export market for the cluster follows the same as the rest of country's units. During the year 2013, following was the export condition.



### **3 Institutional Setup**

#### **3.1 Government & Semi-government Organizations**

The Drug Regulatory Authority of Pakistan (DRAP) is responsible for the registration of the pharmaceutical companies and products. The SMEDA and TDAP provide facilitation as per their scope.

#### **3.2 Associations and Trade Bodies**

The Pakistan Pharmaceutical Manufacturers Association of Pakistan established in 1961. Currently it has 210 members.

### **4 SWOT Analysis**

#### **4.1 Strengths**

- ✚ Efficient technologies for large number of branded generics
- ✚ Logistics of Raw Material economical because of small quantities and the existence of the Peshawar Dry Port
- ✚ Local consumption in KP is higher than other provinces because of the sale of packets of tablets above the prescribed quantity. In other provinces the consumer buys even 02 or 04 tablets which is not the case in KP. Even in most of the areas, the medical stores don't sell such small quantities so the turnover is high
- ✚ Lower labor costs
- ✚ The nature of production being very technical, so lesser investors opt
- ✚ More professionalism than other industries
- ✚ Market growth in double digits

#### **4.2 Weaknesses**

- Low level of strategic planning and technology forecasting
- Very low key R&D, and poor platform for clinical research and trial
- Shortage of Skilled Labor
- Regulation gaps in handling distribution checks for quality of biological in local as well as international network
- Lack of experience in international trade
- Lack of professional laboratory services and inspections

### 4.3 Opportunities

- Large consumer market with growing demands (sales 0.2% of world sales but having 2.5% of world's population)
- Ageing of the world population
- Large population with epidemic diseases
- Growing incomes
- Growing attention for health
- Open up of health care insurance
- Gradual decrease in the prices of raw material
- Emergence of generic sector
- Increasing number of hypertensive patients and emergence of new diseases
- Increased market share of national units in the country, i.e., growth from 20% to 55% in the last 15 years

### 4.4 Threats

- ✿ Containment of rising healthcare cost
- ✿ Stricter registration procedures in the market and high entry cost in the international market
- ✿ The introduction of the unregistered wholesaler into the supply chain has resulted in spread of substandard and smuggled pharmacy products, while jeopardizing the sale of the legal entities and the health risks to consumers
- ✿ Worldwide focus on regularization of countries pharmaceutical imports
- ✿ More patented new drugs and more efficient therapies
- ✿ More strict quality assurance demands
- ✿ Applications for registration with the Drug Regulatory Authority remain pending. Early it was mandatory to hold the BOD meeting every month but now it is being held within 06 to 08 months. This causes delays registration. Main reason for delays in meeting is the fact that Board's members need to be gathered from throughout the country.
- ✿ Discrimination in authorization of prices. For example, for a same products, one is allowed Rs. 15,000/, another Rs. 20,000/, and third Rs. 30,000/. This leaves no margin for promotion for the one with lower prices.
- ✿ The Central Research Fund (CRF) is collected by the Health department from pharmaceutical companies, but not spent for development purposes.

## 5 Suggestions

- Capacity building of the pharmaceutical sector on issues pertinent to strategic planning, quality assurance, and bringing the local industry at par with international standards.
- Drug act should be followed and implemented in true spirit.

- The Drug Regulatory Authority being established in October 2010 is still working under CEO appointed by ad hoc basis. The nature of the CEOs job should be a permanent one.
- The R&D taxes collected by the Ministry of the Health on Gross Profits, should be utilized for Research and Development.

## **6 Investment Opportunities**

Owing to the potential of the pharmaceutical cluster the following investment opportunities exist:

- ☆ Large Scale Pharmaceutical Manufacturing
- ☆ Medium Scale Third Party Manufacturing Unit
- ☆ Marketing Company
- ☆ Distributorship