Mergan Pharmaceutical's Customer-Driven Flight Into The Future

**Subroto Chatterjee*

S.S. Kutty walked rapidly down the corridor toward the president's office of Mergan Pharmaceutical's at Parel, Mumbai. He had been summoned there, pronto. It must be another crisis at the hub, he thought. His head was in a swirl. Kutty was soon going to take charge as deputy general manager (supply chain), but was only a couple of years away from retirement. He had just returned back to his Mumbai office from a three-day training program held at their Ahmedabad (Gujarat) office on "Customer Focus and Customer Satisfaction."

Presently, Kutty was senior manager (logistics) at Mergan, and had been working there for over thirty six years. He started off as a sales rep, rotated in almost all jobs conceivable in the pharma business (whatever was available in Mergan), before gradually moving over to his current assignment. He was already a well-known employee at Mergan, an old-timer whose help was sought by people at all levels – both at the factory and head office at Ahmedabad. He enjoyed his 'mentoring' role immensely, and – not surprisingly – was assigned the "greenhorns" – the freshers who joined the company straight from management institutes across the country.

He was himself only a graduate – B.Sc. (Chemistry). His lack of a management degree notwithstanding – he was surprisingly intuitive in both the *principles* and *practice* of general management. He attributed this to the rigorous field experience he garnered during his formative years at Mergan, coupled with the numerous assignments which came his way. He never refused an assignment. In fact, he *relished* challenges. Now, as he stood outside Bose's cabin, he relaxed and smiled, and slowly knuckled at the door. "Come in!" Bose's voice rang out. Kutty entered.

KUTTY TALKS ABOUT THE PROGRAMME

After the usual round of pleasantries, Bose got down to business.

"How was the training program?"

"Fine. No – great!" Kutty gushed.

"Oh?" Bose arched an eyebrow. "How's that?"

"There are some interesting things one can learn from this program. I think that we may have a problem with not having *customer competency* as one of our major focus in our value chain. Then there's the focus on *customer value*. I mean, I just realized how we can reap the benefits of placing the customer at the core of our company's existence!"

Bose widened his eyes in mock surprise.

"The customer is *always* the centre of our universe, Kutty" Bose gently chided him. "I didn't mean it *that* way." Kutty stuttered defensively. "Let me elaborate. The training program was insightful in that it revealed to me about the benefits of the future of customer focus and customer value in the pharmaceutical industry."

Bose looked at Kutty indulgently. He had known Kutty since the last four years, and it never ceased to surprise him to see Kutty's enthusiasm bursting forth at the slightest provocation. All the same, Bose had developed a soft corner for this hardworking man, whose sincerity to work was second to none in the company. Bose shifted in his chair, and slouched deeper into its confines. He decided to probe further.

"Who are our customers *really*?" For a brief moment, Kutty stared at Bose, trying to see if this was a tricky question. He decided to play along.

"I regard the customer as any party playing a role in the purchasing decision concerning a pharmaceutical product. Customers, therefore, include physicians, pharmacists, consumers or patients, insurers, governments and payers."

Bose nodded, warming up now.

"You mentioned something about *customer focus*. What is that?"

"It is the degree to which a business seeks to understand and satisfy the needs, wishes and goals of the customer."

Bose smiled and continued.

"Do you think Mergan has a clear customer focus?"

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"Yes – partly." Kutty replied.
"Partly?"
"We still have some more work to do in this regard."
"Can you explain this further?" Bose interjected.
"Sure. The pharmaceutical industry is devoting considerable resources to becoming more customer focused. Many companies, including ours, now publicly recognize in their mission statements, publications and corporate websites that the customer is at the core of their business. More and more money is being spent on market research and the segmentation of physicians and consumers. As you know, our marketing executives are being trained to improve the quality of their interaction with physicians. But are we sharing our goals with the governments and payers? As of now, this is not happening!"
Bose stared thoughtfully at the wall calendar to his left, and seemed to be lost in thought. Frankly, he hadn't expected Kutty to come out so crisp and direct. But he was happy. This was something new he was learning about Kutty, the *thinking* manager.
"You mentioned earlier something about *customer value*. What do you mean by that?"
"Customer value is how the customers assess the product's perceived benefits in satisfying their needs."
"How would you explain Mergan's approach to customer value?"
"As we know, all along the value chain, pharmaceutical companies are devoting resources to becoming invaluable partners of their customers. Clinical trials, once regarded as solely related to drug development, are now being used to build groups of physicians loyal to the company and its products. In some companies, CRM systems are being implemented to optimize every customer interaction. In others, E-detailing and practice administration systems are being used to capture the physician's desktop. Mobile devices, evidence-based treatment and diagnostic technologies are being used to build sustainable relationships with physicians. Pharmaceutical companies are exploring product bundling - for example, our Diagnostics division does this - treatment together with a medical device. However, much remains to be done, especially in an environment that increasingly erodes the perceived value that the industry delivers."
Bose exhaled audibly. "Good. Good. This is interesting. I want to discuss some more about this customer focus and satisfaction. How about some tea?" Kutty acquiesced.
While sipping his tea, Bose asked, "How do you see the pharmaceutical business shaping up? What, according to you, are some of the problems or challenges facing our industry?"
Smiling at Bose, Kutty stuck out his right palm in a beseeching sign. "I won't be able to answer the first question very well, if you don't mind. But over the years, my experience tells me that we are now in for a very rough ride, if we do not do some kind of self-introspection. You know - some kind of stop, think, ponder, and evaluate kind of exercise. I hope you can understand what I'm trying to say…..," Kutty finished uncertainly, and looked askance at Bose. But Bose waved away Kutty's uncertainty. "It doesn't matter. Tell me what you know and *feel* about our industry's future." Kutty nodded, cleared his throat, and began.
Mergan Pharmaceuticals Ltd. (MPL) is a division of Ahmedabad-based Cadila Healthcare Ltd. since the former was taken over by the latter in 2001. A milestone history of MPL is given in **Annexure C**. Details of MPL's internal sales for the year 2007 is given in **Annexure D**. A 'progress pointers' on MPL is given in **Annexure E**. The (current) strengths of MPL are given in **Annexure F**. A snapshot covering the profile and activities of Zydus Cadila – the parent company of Cadila Healthcare Ltd., is given in **Annexure G**. For a better understanding of pharma customers, **Exhibit 1** gives a brief overview of major customer groups for the pharma business.

EXHIBIT 1: OVERVIEW OF THE MAJOR CUSTOMER GROUPS: *WHO ARE PHARMA CUSTOMERS*?
Unlike the traditional customers of other businesses, the customer of the pharma industry does *not* select, purchase, and use the product. Rather, in this industry, one customer group decides *which drug to prescribe*, another usually *bears much of the cost*, and the third is the *actual user*.
The *Demand Drivers* of the pharma industry are (i) physicians, (ii) consumers and patients, and (iii) payers and pharmacy benefit managers (PBM).
The *Supply Driver* of the industry is made up of pharmacies.
The different customer groups influence each other. For instance, variations in pay coverage for different drugs affect patients, who may in turn have a significant impact on the prescribing choices of physicians. And physician demand for a product often encourages payers to cover it.

Most pharmaceutical companies invest significant resources to encourage each of these customer groups – physicians, and other prescribers such as nurse practitioners and physician assistants; payers; and patients and their families – to select and use their products.

The strategy for influencing demand is usually developed by Marketing in collaboration with Field Sales. Each therapeutic area and even each product requires a separate marketing strategy tailored to the most influential customer segments and the **mconcerns** driving product choices.

A summary of each is given below:

Payers attempt to curb drug costs by establishing utilization controls and incentives that encourage consumers and prescribers to choose less-expensive alternatives.

Physicians or other authorized healthcare professionals select and prescribe the most effective drug therapy possible, keeping costs and access in mind. Physicians typically initiate therapy by writing a prescription for a specific product. Patients then use (or fail to use) the medication. If those patients have health coverage, health insurers usually cover a substantial share of the cost.

Key opinion leaders (KOLs) are select groups of physicians who are sought by companies because of their leadership role in clinical trials and their influence on the adoption of novel medications.

General practitioners (GPs) or ***primary care physicians*** (PCPs) treat a wide range of conditions; PCPs can be family practitioners, internists, pediatricians, and obstetricians/gynecologists. ***Specialists*** concentrate on relatively narrow, often highly complex, medical or surgical categories. They include, for example, neurologists, rheumatologists, psychiatrists, and cardiologists.

Consumers initiate requests for treatments and pay a share of the costs. They may express drug preferences to prescribers, based on favorable product experiences, impressions driven by such factors as direct-to-consumer promotion, and/or cost considerations.

Pharmacies* and *wholesalers (i.e. the trade customers) work with pharma companies to ensure the supply of product to the marketplace.

Drug wholesalers specialize in distributing pharmaceutical products to pharmacies, hospitals, clinics, and occasionally to physicians' offices. As the primary distribution channel for the industry, wholesalers assume responsibility for ensuring product supply, managing receivables and credit risk, and enforcing regulatory requirements for product handling and distribution.

Pharmacies* and *pharmacists are responsible for dispensing drugs in a variety of inpatient and outpatient settings. Pharmacists may provide ongoing care management and counseling to patients, such as oncology patients. ***Payers*** include the insurers, indemnity plans, managed care organizations (MCOs), and pharmacy benefit managers (PBMs) that administer healthcare benefits on behalf of the purchasers of healthcare insurance (often employers) or the government. From a pharmaceutical company's perspective, these customers are concerned primarily with drug utilization and cost, and they reimburse a large portion of prescription drug costs in India.

Pharmacy Benefit Managers (PBMs) are organizations that administer pharmacy benefits on behalf of healthcare payers. PBM clients include self-insured employers, MCOs, and insurers. In some cases, PBMs are owned by insurers. PBMs simplify the administration of management of pharmacy benefits, since they operate large-scale, sophisticated operations and information systems to administer benefit plans and review and approve claims at the point of service – i.e., when the prescription is filled.

Pharmaceutical companies attempt to influence the demand for pharmaceuticals at each step in the decision-making process. Companies work with each customer group to drive the demand for their products. They may try to increase awareness of a disease and available therapies, or they may focus on the differentiating features of their products. Ultimately, they seek to ensure that patients fill their prescriptions promptly and comply with the prescribed regimen.

PHARMACEUTICAL BUSINESS ENVIRONMENT: TRENDS IN FOCUS

The pharmaceutical industry in India has come a long way over the past one hundred years. Since the last six-seven years, with regard to the customer-focus-customer-satisfaction initiatives undertaken in the industry, experts and consultants had identified a number of trends coming to bear on the industry. From these, two were identified as predominant ones: ***customer trends* and *technological trends***. The gist of each is given here.

CUSTOMER TRENDS

Payers and providers are increasingly concerned about the increasing explosion in health-related expenditure across the globe. Economic, demographic and political pressures have complicated the debate about the allocation of healthcare resources. Consumers are a concerned lot about the quality of their healthcare, thanks to media coverage of issues, such as safety and access, and direct-to-consumer advertising. People are ageing and suffering from chronic conditions. They also have continuous access to news (not necessarily accurate) about medical discoveries and general healthcare information, thanks to the Internet.

As a result, more consumers are actively interested in health issues and consumer activism is increasing. Cost-cutting payers, patient pressure groups and consumers who want specific treatments from physicians are all here to stay.

TECHNOLOGICAL TRENDS

Advances in biology and information technology are producing new treatments such as biopharmaceuticals, gene therapy and tissue engineering. At the same time, diagnostics are being developed to identify patients who suffer adverse reactions to particular drugs, and medicines are being designed for certain patient segments based on their genetic profiles. The convergence of information technology and genomics is leading to more rapid drug development. And while e-business may not, as yet, have radically changed the pharmaceutical business model as a revolutionary new way of communicating with customers, it will have a particular impact on sales and marketing.

THE GENTLE INTELLECTUAL GIANT

Sixty-three years old Bidesh Bose is a forty-one-year veteran of the pharma industry. He has a quiet and reserved demeanor, coupled with a steely resolve to tackle the most challenging issues. His friends and colleagues in the industry call him a “gentle intellectual giant.” The praise was well-deserved: an alumnus of the prestigious IIM (Ahmedabad) and a Ph.D from Harvard, he did not find it necessary to make a noise about himself when he felt his work could do the talking. It did - almost all the time.

Post-retirement now, he was the president (operations) of Mergan. Bose had the onerous task of handling four strategic business units (SBUs), which stood for the ‘customer focus’ of the company (see **Annexure A**). Each SBU head reported to him directly. In turn, Bose reported to the executive director of the company, Dr. Sanjeev Wagle, who operated from the head office at Ahmedabad.

Bose was working in Mergan since the last four years, having retired from the previous company Wyderley Pharma, which now ranked third among the top ten pharmas in India (ORG-IMS Research).

In between daily meetings and decision-making like most heads do in companies, Bose also made time (he termed this an “essential commitment”) to travel to different locations in the country with his marketing executives (at least twice a month) to small towns and cities, meeting the company’s customers – the doctors, the dealers, and institutions – all who formed the value chain of Mergan’s deliverables. He made it his business to keep his ears to the ground. And his feet as well!

Now, as he listened to Kutty, he couldn’t help thinking about his younger days gone by. It seemed so *long* ago, he suddenly realized (was it twenty or thirty years ago?) that in one of the companies he worked in, he had attended a workshop on ‘Customer Focus’ and he could still remember *something* about it. What was it? Ah, yes – the workshop started off by defining what customer focus *was* (naturally!); then he and the participants had to do an internal assessment of their (own) organization’s focus on customers; compare assessment vs. other industries and companies, and finally determine areas that required improvement. And this was only the *beginning* of the workshop, taking just half-a-day! It was a four day workshop, and he was *curious* to know what lay in store for the remaining period. Curious, because he knew that pharma managers in general then thought that pharma business was (indeed) a ‘sunrise industry.’ He did not believe it then, nor did he now.

The sun does set, but it rises again, he mused. Irrespective of the products or services sold by the pharma industry, the business model *had* to change – and it did, over the years. The consolidations, mergers and acquisition sprees, FDIs – all these were modern phenomena. *The bottom line was survival of the fittest, pharma or no pharma*. So it was no surprise that the ‘customer is king’ was there to remain for a long time. So customer focus has not really gone out of focus! Customer satisfaction is the key, no doubt, thought Bose. *But we do have our customers in focus* *very well*. He mentally drew the chart of his division's 'customer focus', an exercise done with the SBU heads, and the other head office people, which included the managing director, Paresh Parikh, and executive director, Sanjeev Wagle.

Now, Bose reached below and opened the second drawer under his table. He removed a thick spiral-bound book entitled '*Customer Insight.*' The information contained in the book was valuable to him and Mergan. It was compiled after months of meetings and debates, and ***focusing***.

HOW THE BUSINESS HAS CHANGED

According to Bose, today, a number of factors are causing pharmaceutical companies to rethink their business model amid the changing dynamics of the healthcare system. There were two dominating reasons for this: one, the rising cost of healthcare and two, greater public and patient knowledge about healthcare.

Such access to information has drastically altered the formerly distant relationship between the general public and pharmaceutical activities, products, and stakeholders.

Historically, healthcare for many people was private – between them and their doctors. Pharmaceutical companies were almost invisible to patients. Bose feels that, "Today we have a much more engaged public and there's significantly more information available to them. There is increased attention being paid to the risks and benefits of pharmaceutical products. We believe this is a good thing, but it requires us to think and behave, and communicate differently."

Mergan has responded to such industry changes by creating a new commercial model, much more focused on external relationships. The new customer-oriented model is geared around helping customers achieve their objectives alongside Mergan's intentions. As part of its outward focus, Mergan recently reorganized its marketing and sales departments by integrating both as a single entity. As a result, Sales at Mergan had undergone a significant shift. "We've directed our people to migrate from a model that was much more focused on repetition and quantity to one that's much more focused on building and strengthening longer-term relationships and bringing value to our customers," Bose explains. "This is a significant shift in design, structure and functioning of the sales organization." This is expressed in the Customer Focus diagram (**Annexure A**). These four functions are actually the Strategic Business Units (SBUs) which Bose oversees through his senior vice presidents and managers. The basic thrust of these SBUs, as he explains, is arrived at when "we conduct activities and campaigns which are focused to ensure higher productivity from the key focus customers and be associated with them in their endeavor to serve the patients better."

THE IMPORTANCE OF CUSTOMER FOCUS

Some years ago, top management at Mergan had undertaken a futures exercise, in order to develop and refine strategic thinking for a pharmaceutical industry faced with rapid transition. Consulting firm Andersen was roped in to help in this effort. The underlying theme was that the industry would have to go "at risk" – in other words, take and share risk along the value chain and with a range of partners. Mergan believed that the best framework for this model of going "at risk" is in the domain of customer focus and customer value. Mergan's management then explored some of the logical risks that pharmaceutical companies need to take to enhance customer focus and value and succeed in the future. The critical questions faced were:

(a) What is the management skill-set that will permit a pharmaceutical company to thrive in the next few years? (b) What is the right size and best internal structure for a global pharmaceutical company? and, (c) What is the best networks and partnerships that pharmaceutical companies have to build and seek?

In order to attain true customer focus, pharmaceutical companies - including Mergan - would have to become more closely "networked" with their various customers – patients, physicians, payers, insurers and governments.

Mergan's top management was then told how they could increase customer value. There were at least seven generic ways for companies to increase the value they deliver to their customers:

1. ***Defy comparison*** – Have a product that is completely distinct and unique.
2. ***Remove the risk*** – Guarantee that your product will fulfill the customer's needs. If it doesn't, and they complain within a certain time, give the money back.
3. ***Qualify your customers*** – Identify your loyal customers, and reward them accordingly with discounts or bonuses.
4. ***Narrow your offerings*** – Simplify the customer's decision by offering fewer (quality) options.

5. Tell the truth – Promote without hype and deliver on your promises.
6. Consistency rather than occasional excellence – Satisfy your customers every time.
7. Keep in touch – Remind your customers that you have delivered what they wanted.

Andersen's study (2002) showed that there was an important and growing body of evidence showing that companies that focus on their customers do better. In one recent survey, over 250 chief executive officers ranked customer satisfaction as the top measurement of value creation, emphasizing that managers must pay close attention to intangible assets, such as organizational assets, employee and supplier assets and customer assets, that fall outside the formal financial reporting systems (**Annexure B)**.

Several major pharmaceutical companies mention customers explicitly in the statement of their vision, mission, values or goals on their websites. However, a number of global pharmaceutical giants do not mention customer value or customer focus – in fact, *several do not even mention customers at all*!

Some companies which do mention this fact are, for example:

Bristol Myers Squibb, which has a quality code of practice that facilitates "increased productivity, growth and customer focus."

Novartis's mission is to "bring value to patients and customers."

Pharmacia states that one of its key guiding principles is to "operate through customer channels. Through this approach, we put the customer – in particular healthcare providers and their patients – at the center of our company and everything we do. Commitment to our customers is one of the hallmarks of Pharmacia Corporation."

Boehringer Ingelheim's vision is founded on five key principles, one of which is value- "in a competitive world, we expect our customers to constantly demand more for less."

Baxter states, "We constantly strive to understand and exceed the requirements of our customers. Our commitment to quality builds customer trust and loyalty, which leads to outstanding results for our shareholders. We provide world-class products and services and enhance customer satisfaction every day."

In contrast, **Mergans's mission** (as expressed by Cadila Healthcare Ltd.) is that it "shall be a leading global healthcare provider with a robust product pipeline and sales of over $1 billion by 2010; (and) shall achieve sales of over $3 billion by 2015 and be a research-based pharmaceutical company by 2020." A brief history of Mergan is given in **Annexure C.**

SELLING TO CONSUMERS

One of the most significant healthcare trends over the last ten years has been the emergence of the healthcare consumer, and the recognition by physicians and pharmaceutical companies that patients truly are consumers who care about quality, cost and access to care and information. However, the *best methods* of building relationships with, and marketing to, health consumers are yet to be found. Not surprisingly, Bose took upon himself the onerous task of finding some solutions in this regard. He met with some mixed results.

OPERATING IN A TURBULENT ENVIRONMENT

Mergan was increasingly anxious about its future and attempting to increase its understanding of customer needs. Market research currently covers two main areas. Prescribing data, competitive ranking and descriptions of the market environment are provided by ORG-IMS Health and similar organizations. Segmentation and targeting data are gathered mainly prior to drug launches by specialist pharmaceutical market research organizations.

During a conference some years back which Bose attended in a five-star hotel in Boston, USA, he got into a conversation with the CEO of one of USA's leading pharma companies. The American minced no words, "As an industry, health has miserably failed to be consumer focused due to the imbalance in power relations between providers and patients. Often, when we talk about the consumer, we talk about people as though they are a disease. They are a diabetic, or an asthmatic, or they are something. And, in fact, what they are is an individual with all the genetic and environmental variability with a disease superimposed. Even the disease is variable."

Another senior manager (a German) had remarked to Bose: "There has been an imbalance in the pharmaceutical industry – the focus on shareholder value has far outweighed that on customer focus." Bose had winced at these words, but could not think of saying *something* to contradict the man. There did not seem to be *anything* to contradict. The situation was not any different in India, then and now.

But Bose did agree with an ebullient pharma executive from Pfizer when they sat down for dinner on the last day of the conference. A Mexican, Eduardo Carriegas sagely remarked, “The name of the game in any business is customer value and customer focus. It’s something that the pharmaceutical industry has been a little bit slower in recognizing than some other industries.”

Since that important meeting and workshop with the consultants from Andersen, Bose could appreciate the learning points gained from the interaction. It boiled down to focusing on three stakeholders: physician, payer, and consumer.

With respect to the *physician*, Mergan was already investing more in training in order to improve the quality of the interaction between the sales representative and the physician. A recent addition to this effort involved medical training to help representatives communicate more effectively with specialists such as oncologists. Many representatives were also now specializing in conditions or diseases in an attempt to offer physicians the specific solutions they need. Mergan as of now, did not include pharmaco-economic* training for its representatives to deliver objective information on outcomes.

With regard to *payers*, whether governments or private insurers, payers are influential in the healthcare transaction. Mergan had yet to develop specific strategies for these institutional customers.

Lastly, with regard to *consumers*, like all pharma companies, Mergan realized that consumers were better informed than ever, not only by the internet, but because health *is* a media issue – reports about new treatments, side effects or medical mishaps are immediately translated into a consumer response.

Bose had then long since recognized and noted the successes and constraints of Mergan’s attempts in gaining superior performance in the market. In the past, the most effective way to sell pharmaceuticals has been to “push” products to physicians (or pharmacists) through sales representatives. Mergan did this like many other companies throughout the world. For example, Bose knew that while Pfizer has benefited from some excellent research, its success was generally seen to have been driven by its ability to use its sales force to turn in-licensed drugs into billion-dollar blockbusters.

The problem, Bose theorized correctly, is that pharmaceutical companies are now caught in a vicious cycle, employing an ever-increasing number of sales representatives to target the same pool of physicians. Now, the major pharmaceutical companies employ 1,000 or more, and are spending more than twice the amount on sales, marketing and administration than they spend on R&D.

If the current model of interaction between sales representatives and physicians changes (and current levels of physician dissatisfaction suggest it must), then pharmaceutical companies will face a major internal upheaval.

Bose had made an uncanny prediction some years ago, which he was sure was already happening in the Indian pharma scenario. In the American and European markets, in recent years, Contract Sales Organizations (CSOs) had emerged to provide services such as sales force recruitment, training, deployment and management. Bose wondered to himself: “*Sales and marketing capability has always been one of the key barriers to entry into the pharmaceutical business but outsourcers can increasingly reproduce these capabilities.*”

HOW TO INCREASE CUSTOMER VALUE AND PHYSICIAN VALUE?

As the pharmaceutical industry gains a better understanding of what its customers want, it is attempting to fulfill those desires in novel ways. The concept of responding better to the needs of physicians at every point of contact (or “touch point”) through a range of channels and using the information gathered to improve sales and marketing effectiveness is described as customer relationship management (CRM). The ultimate goal is to incorporate sales force automation, customer intelligence and a range of channels, including the internet and call centers, into a seamless interface with the customer.

Mergan was continually seeking cheaper and more efficient ways of selling to physicians. For example, its efforts in e-detailing (which involves delivering information to physicians via the internet) has already met with some success. Bose confirmed in a recent meeting with the author that “e-detailing has further motivated the field to enhance their in-clinic performance and created a better image of the organization in the doctor’s mind.” Mergan has realized that if e-detailing is to be successful, systems will have to give customers the information they

*Pharmaco-economics is a methodology in which the cost and benefits of medical therapies are weighed against outcomes to determine their value. Theoretically, providers can use pharmaco-economics to choose a treatment option that is both clinically effective and allows them to contain costs in the long term.

need in the right place at the right time, rather than just flooding them with the same information through a different channel. Physicians will accept the internet as a tool only if it synchronizes well with what doctors are already doing, offer time or cost savings and do not create extra work.
In summary, increasing use of e-sales and marketing should lead to the packaging of personalized services for individual customers and resurgence in disease management.

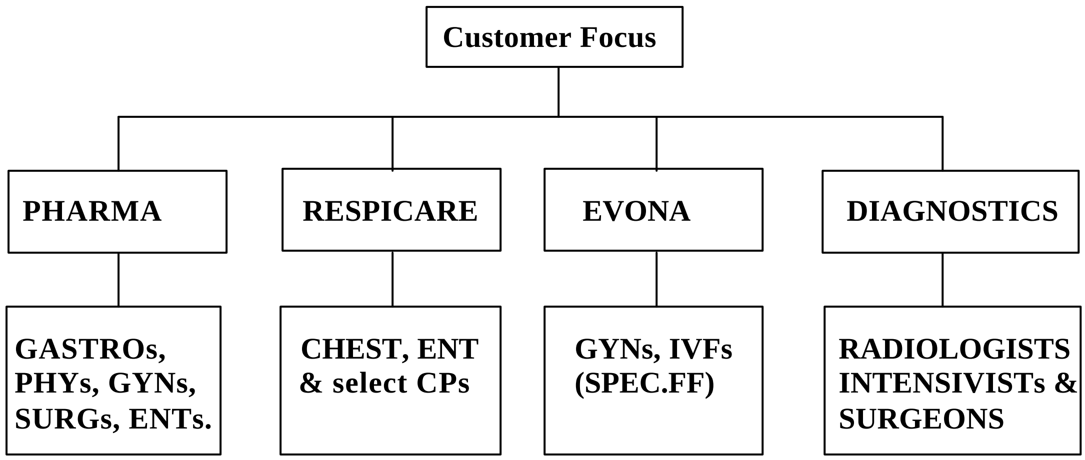
GOING "AT RISK" TO INCREASE CUSTOMER FOCUS AND CUSTOMER VALUE

Industry experts and stakeholders now feel that the industry will have to go "at risk" – in other words, take and share risk along the value chain and with a range of partners.
Bose realized that the answer lay in undertaking change that limits the "downside" (destroying the existing strengths of a company), but maximizes the "upside" (allowing a company to profit from social health, economic, demographic and technological changes).
Mergan believes that the best framework for going "at risk" is in the domain of customer focus and customer value. Bose impressed upon Mergan's management to explore some of the "logical" risks that they needed to take to enhance customer focus and value and succeed in the future. He could only hazard a guess as to what kind of challenges they would face – the upside and risks inherent in such a venture.
Like many, Bose wondered: will the global pharmaceutical company of the future resemble the organization of today? Clearly, no simple answer would suffice. Some feel that that it is inevitable that a range of technological, economic and social forces will come to bear on pharmaceutical companies in the not-too-distant future.

CONCLUSIONS

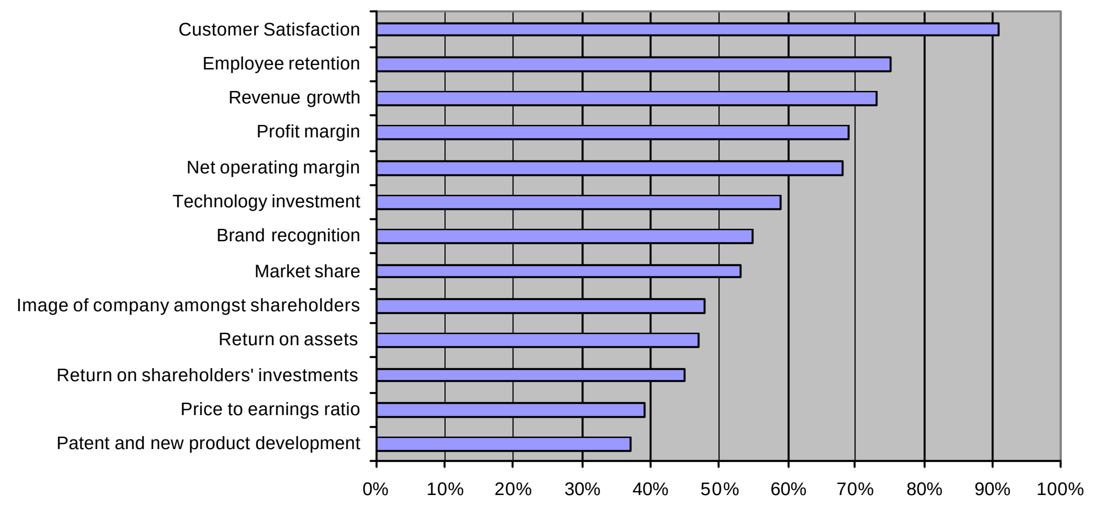
The landscape in which pharmaceutical companies find themselves is changing and senior managers are being forced to ask themselves if the traditional, relatively simple business model will satisfy either their customers or the financial markets in the future. Experts now contend that the current pharmaceutical business model cannot effectively support the competencies necessary to succeed in the near future – the competencies needed to develop and sell the most appropriate solutions to distinct customer segments.
The modern pharmaceutical industry is generally regarded as a safe and profitable haven for investment. It is quite possible that, in the future, we may still see pharmaceutical "business as usual" dominated by today's research-based giants.
The pharmaceutical industry is being forced to listen to the growing demands of its customers. The challenge is now for Mergan and other companies to run the gauntlet - to take risks in order to meet those demands.

<u>Annexure A</u>



Annexure B

ESSENTIAL PERFORMANCE MEASUREMENTS FOR FIRMS OVER THE NEXT 3 TO 5 YEARS.



ANNEXURE C

Mergan Pharmaceuticals Limited

- 1949 : Mergan was founded by German Entrepreneur Mr.F.K.Heller.
- 1962: Mergan became a joint venture with Schering AG, Asta Medica, Boehringer Ingelheim and Smithkline Beecham.
- 2001: Zydus-Cadila acquired Mergan. Mergan has strong brand equity in Female Healthcare, Gastro, Respi, Diagnostics & Onco.
- 2006: Today Zydus-Cadila is exclusive distributor for Schering products in India.

.MILESTONES

Date	Phenomena
25th November 1949	The Company was incorporated as a private limited company under the name Mergan Pharmaceuticals Ltd. (MPL).
1952	The name was changed to Mergan Pharmaceuticals & Trading Co. Ltd. The trading department was closed in 1962 and the name was changed to Mergan Pharmaceuticals Private Ltd. It became a public limited company on 22nd May, 1973. The Company entered into agreements with West German companies for scientific and technical collaboration in respect of the products manufactured by the Company.
8th May 1962	Sole distribution and manufacturing agreement was entered into with Schering AG, Berlin/Bergkamen, for the distribution and manufacturing in India of some of their pharmaceutical specialties.
12th November 1964	An agreement was entered into with Schering AG, which granted the Company a license to manufacture 17-Hydroxy progesterone-17-caproate by esterification of 17-hydroxy progesterone in India under an Indian patent owned by the collaborators.
5th February 1965	The Company entered into an agreement with C.H. Boehringer Sohn, Ingelheim am Rhein (also known as Hoehringer Ingelheim GmbH) who agreed to give the Company free of royalty their know-how for the manufacture of (4, 4-Diacetoxy iphenyl) - (pyridil-2) - methane.
3rd January 1966	An agreement was entered into with Nordmark-Werke GmbH, which agreed to provide the technical know-how and to permit the Company to manufacture their products in India.
15th October 1969	An agreement was entered into with Chemiedwerk Homburg, Frankfurt am Main, which agreed to provide the technical know-how and to permit the Company to manufacture their products in India without any royalty being payable.
1972	An agreement was entered into with M/s. Kapjamm A. Wulfing, West Germany, under which, the collaborators agreed to provide the know-how and to permit the Company to manufacture 7-2 hydroxy-3 (N-2-hydroxyethyl-N-methylamino) propyl-1, 3-dimethyixanthine-pyridine-3-carboxylate.

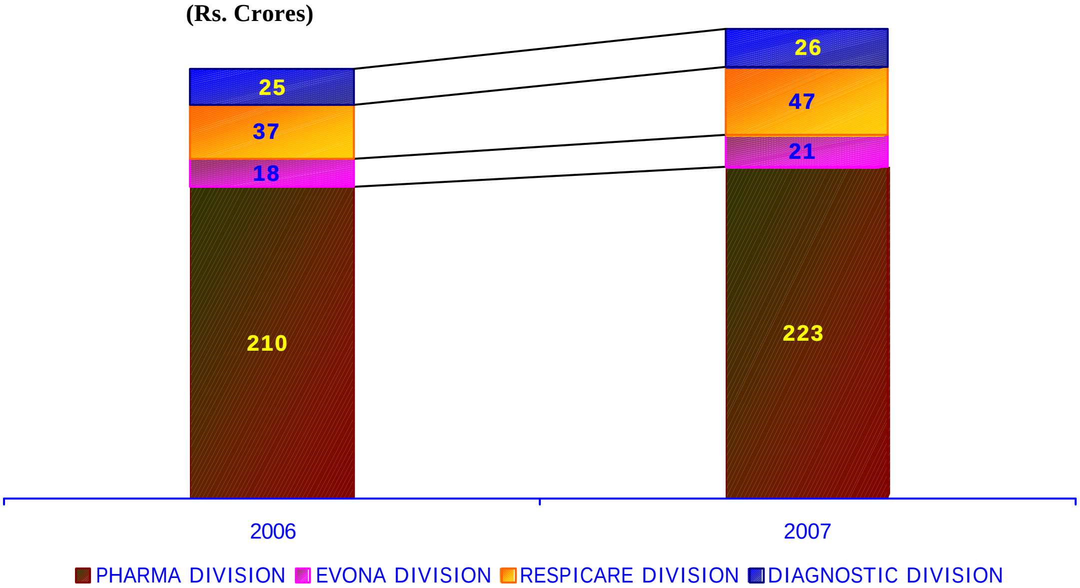
Date	Phenomena
1987	The Company acquired approvals from Government to produce bulk drugs, including Theophylline.
1989	The Company launched an internationally well-known antibiotic product called ***Augmentin*** during the year.The Company undertook to set up one more modern formulations production plant in Goa. The production plant was equipped to produce ointments, tablets and injectable products.
1993	The Company commenced marketing of several oricology products of Asta Medica AG in the domestic market besides producing and marketing new products like JONAC range of anti-inflammatory drugs and various generic products.
1995	New products such as Uchalist, Belovas and Styporin were launched in the local market.
1996	New products like Somatosan, Zelbend, Paractol liquid and Kamillosan liquid were launched for the local market.
1997	New products such as Jonac Drinkable Tablets, Jonac CR Capsules and Azep Nasal Spray were launched during the year.In 1997, the company entered into a licensing arrangement with Novartis for one of its products.German Remedies' other technical collaborators include Schering AG, Chemiewerk Homburg Zweigniederlassung and Boehringer Ingelheim International GmbH.German Remedies is engaged in the manufacture of antibiotics, pharmaceutical drugs, pharma chemicals, oilmat gel, powder, liquids, oral and injectibles. The company entered into agreements with German companies for scientific and technical collaborations for its products.Beecham Wulfing, Germany, holds a 40 per cent stake in the company.
1998	Mergan Exports, Ltd., is a subsidiary of the Company.Mergan Pharmaceuticals Ltd, the Rs 143-crore pharma company has signed a licensing agreement with Dr Falk Pharma GmbH of Germany to make and market their products in India. MPL has entered into a joint venture with Madaus AG.
1999	Two major products would be launched in the gastro-intestinal and hepetological categories in the next 18 months, but they refused to disclose other details.The Rs 200-crore MPL forged a tie-up with French multinational Ethypharm SA to register, manufacture and market the latter's drug-delivery systems in the country.For MPL, the tie-up is one in a lengthening list of agreements with companies. For instance, it has joined hands with Dr. Falk Pharma GmbH for marketing its products. It also manufactures products for Madaus AG in a modern manufacturing facility set up in Goa under a joint venture agreement.It launched a hormone-replacement therapy called ***Progynova***.
2001	Ahmedabad based, Zydus Cadila, entered into an agreement to pick up 27.7 per cent stake in MPL from its promoters, Asta Medica and Heller group, through its wholly-owned subsidiary.The board of Mergan Pharma Ltd. was reconstituted, with Zydus Cadila chairman Mr Ramanbhai B. Patel elected as the chairman of Mergan Pharma Ltd..
2005	MPL unveils ***Betaferon***.

ANNEXURE D

Mergan's Internal Sales

	2006	2007
PHARMA DIVISION	210	223
RESPICARE DIVISION	37	47
DIAGNOSTIC DIVISION	25	26
EVONA DIVISION	18	21
MERGAN PHARMACEUTICALS	**289**	**317**

(Rs. Crores)



ANNEXURE E

» **ORG-IMS Pointers**

- MPL is Ranked 27th on MAT basis in IPM. (Indian Pharma Industry)
- MPL is Ranked 1st in Gyanec Mkt in its CVM.
- MPL is Ranked 3rd in Anti Asthmatic Mkt in its CVM.
- MPL is Ranked 1st in its CVM. (Covered Market)
- MPL is Ranked 6th in Gastro Mkt in its CVM.

» **Rx Pointers**

- MPL is ranked 26th in Total RX of IPM.
- MPL is ranked 9th in Gyanec's. (Total Rx,Its Major Dr.SP.)
- MPL is ranked 7th in Chest. (Total Rx)
- MPL is ranked 12th in Gastro's. (Total Rx)

ANNEXURE F
Mergan's Strengths

Core Strengths

- Customers
  - » Covering more than 120000 Doctors all across India
  - » Strong Relation with Key Customers
    - Leaders in Rx from Gynaec
    - Second ranked in Asthma Market
- Coverage
  - » Strong presence across India : 700 Reps
- Distinctive Marketing & Sales Capabilities
  - » 4 Brands feature in Top 300 Brands of India
- Therapy
  - » Female Health Care
  - » Respiratory
  - » Gastro
  - » Diagnostic

ANNEXURE G

Zydus Cadila is an innovative global pharmaceutical company that discovers, develops, manufactures and markets a broad range of healthcare products. The group's operations range from API to formulations, animal health products and cosmeceuticals. Headquartered in the city of Ahmedabad in India, the group has global operations in four continents spread across USA, Europe, Japan, Brazil, South Africa and 25 other emerging markets.

In its mission to create healthier communities globally, Zydus Cadila delivers wide ranging healthcare solutions and value to its customers. With over 9,000 employees worldwide, a world-class research and development centre dedicated to discovery research and eight state-of-the-art manufacturing plants, the group is dedicated to improving people's lives.

A mission to create healthier communities

Zydus Cadila is dedicated to life….

In all its dimensions, our world is shaped by a passion for innovation, commitment to partners and concern for people in an effort to create healthier communities, globally.

A vision that unleashes value

To be a leading global healthcare provider with a robust product pipeline and sales of over $1 bn by 2010; we shall achieve sales of over $3 bn by 2015 and be a research-based pharmaceutical company by 2020.

Source: www.zyduscadila.com

Formulations Business - India

With three multi-therapy divisions and eight specialty divisions, Zydus Cadila is one of the leading players in the Indian healthcare industry. It is the leading player in the cardiovascular, gastrointestinal and women's healthcare segments. The group has strong presence in respiratory, pain management, CNS, anti-infectives, oncology, neurosciences, dermatology and nephrology segments. It has been able to maintain overall position and market share through faster growing chronic / lifestyle segments. With several new product introductions and pillar brands such as Aten, Ocid, Deriphyllin, Pantodac, Atorva, Nucoxia, Mifegest to name a few, Zydus Cadila is considered a tour-de-force in therapy management and brand management. The group has several in-licensing alliances with global multinationals such as Schering AG, Boehringer Ingelheim, Viatris,

The portfolio of over 200 products are marketed by a specialised field force of 3,000. With one of the strongest distribution channels in the industry, the group reaches out to 1,00,000 chemists and serves 2,00,000 doctors including physicians, specialists and super specialists.

Consumer Products Division (CPD)

Apart from a strong presence in the prescription market, the group also caters to the growing health and wellness segment through its Consumer Products Division.

The Consumer Products Division of Zydus Cadila aims to promote 'healthy living' by anticipating the emerging and day-to-day needs in dietetic / health foods. Health and wellness have been identified as the emerging areas in consumer healthcare. The Consumer Products Division is focussed on empowering individuals who wish to adopt healthy eating habits and lifestyles.

(contd. on page 40)

correlations between the factors and the variables. A coefficient with a large absolute value indicates that the factor and the variables are closely related. The coefficients of the factor matrix can be used to interpret the factors.

Although the initial or unrotated factor matrix indicates the relationship between the factors and individual variables, it seldom results in factors that can be interpreted, because the factors are correlated with many variables. Therefore, through rotation, the factor matrix is transformed into a simpler one that is easier to interpret. Here we adopt the **varimax procedure** for rotation which is an **orthogonal rotation method** (the axes are maintained at right angles) that minimizes the number of variables with high loadings on a factor, thereby enhancing the interpretability of factors.

In the table we see that whereas five variables are correlated with factor 1 in the unrotated matrix, only variables Q1, Q3, and Q5 correlate with factor 1 after rotation. Hence, this factor may be labeled a quality benefit factor. It may be noted that a negative coefficient for a negative variable (Q5) leads to a positive interpretation that prevention of strain on the eyes is important .The remaining variables Q2, Q4, and Q6, correlate highly with factor 2.Thus, factor 2 may be labeled as a social benefit factor. Furthermore, no variable correlates highly with both the factors.

One could summarize it by stating that consumers appear to seek two major kinds of benefits from a Plasma TV set: quality benefits and social benefits.

MARKETING IMPLICATIONS

Plasma TV set manufacturers should emphasise on two major benefits in their communication to the consumers: quality benefits and social benefits.

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(contd. from page13)

The Consumer Products Division is a pioneer, offering healthier dietary options to the consumers. The product range comprises **Sugar Free Gold**– India's No.1 sweetener with a market share of over 70%, **Sugar Free Natura**– a zero calorie sucralose based sugar substitute, **Sugar Free D'lite**– a low calorie healthy drink and **Nutralite**– a premium cholesterol-free table spread.

The Division also caters to the skincare segment with its **Everyuth** and Dermacare brands, which occupy a unique distinction of being a 'skincare brand from a healthcare company'. Enriched with the power of natural ingredients, EverYuth has a strong presence in advanced skincare segments like soap-free, face washes, face masks, scrubs etc.

***Source**: www.zyduscadila.com*

FOCUS

At Zydus Research Centre (ZRC), our focus is on finding innovative therapies for diseases affecting mankind through continuous research and development. The major areas of research includes:

- New Molecular Entities
- Novel Drug Delivery Systems
- Therapeutic proteins and Vaccine by r-DNA technology
- Identification and validation of Therapeutic Targets

Source: www.zyduscadila.com

Notes:

1. Board of Directors of Cadila Healthcare Limited (Cadila Healthcare) and Carnation Nutra –Analogue Foods Limited (Carnation) at their meetings held on July 4, 2008 have approved the modalities of the composite scheme of arrangement for restructuring of the Consumer Products Division of Cadila Healthcare. The Boards have approved the demerger of the Consumer Products Division of Cadila Healthcare into Carnation, which is a subsidiary of Cadila Healthcare and the merger of Zydus Hospital and Medical Research Pvt. Ltd. (ZHMRPL) with Cadila Healthcare.

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