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Millions? Billions? A Matter of Perspective

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37 comments

Numbers have different meanings in different contexts or scenarios. In pharmaceuticals, a billion, or billions, in sales would define a blockbuster, while anything less than that would be seen as a marginal success, or even a failure. However, in the generics world, millions represent a sizeable business opportunity. Even increasing sales by one table per day, to a billion patients, would be major growth.

Looking at the numbers explains why brand-name and generic companies often operate as they do. These numbers are simplistic, intentionally, and are based on some assumptions, which readers can change as they see fit.

First, let's look at brand-name drugs (Table 1). In this table, I deliberately left out the number of tablets sold per day, since total sales and profits are more relevant in this business model. Generally, the sales price of a brand-name pharma tablet that is still under patent is high.

Table 1: Brand-Name Drugs

Sales (\$) 1,000,000,000.00
Profit after tax (\$) 250,000,000.00
Sales period (years) 10

Since it takes about ten years to get the drug approved, a productive sale period of ten years is assumed before the patent expires. Higher total sales multiples per year (2-15) increase a drug's success. Generated revenue affects a pharmaceutical company's market capitalization and relative value for the stockholders and gives financial analysts something to talk about.

Now, consider generics. If a billion people were to take a medication, at an average of ten cents profit per tablet on a one-per-day schedule, that would result in \$36.5 billion profit for generics companies. As the number of tablets taken per day increased, the financials would change accordingly. This is where there are opportunities, and we see many generic producers participating to fulfill demand.

Table 2: Generic Drugs

Tablets per day: 1
Tablets per year: 365
Number of patients: 1,000,000,000.00
Total tablets/year 365,000,000,000.00
Profit per tablet: \$36,500,000,000.00
Number of pharma companies: 100

Considering the economic realities, it's understandable that most name brand companies have not ventured into generics, and also, why there are so many generics companies.

Until recently, brand pharma successfully discovered and commercialized multiple new drugs per year, resulting in a steady stream of profits. Thus, they did not feel compelled to produce generics.

With brand companies losing their monopoly through patent expirations and challenges, different strategies are being considered, and we now see more name-brand pharma getting into generics markets. Will brand-name pharma companies succeed at discovering and developing new blockbusters? Can they discover drugs that are significantly better than what's already available? They are diversifying their businesses, and embracing the generic model in a number of different ways.

Generics producers have used the opportunity and served a growing need while making money by riding on the coat tails of brand-name pharma companies as their patents expired. Now Big Pharma is eyeing, or openly involved in, generics.

Generics in the last eight to 10 years have changed the global landscape. They have a significant opportunity to fulfill the needs of patients who need less expensive drugs, and they are meeting these needs.

Alternate models and strategies will, no doubt, continue to change the playing field. However, to get to a new level of business growth, manufacturers of generics (whether they are generics or offshoots of name-brand drug companies) will need to lower costs by commercializing better technologies for API production and their formulations. Economies of scale could be a way.

What are your thoughts?