

New opportunities for Asian pharmaceutical firms

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While it has been accepted wisdom in the pharmaceutical industry that only firms of very large size and with deep coffers can survive, what we are seeing today is a significant change. Research methods have changed substantially and are engendering a new trend, with far-reaching consequences for the nature and organization of pharmaceutical R&D. While being big still has a number of advantages, it also has certain critical disadvantages. Small firms may actually be more productive in research than big firms. This article explains why industry is finding that the most efficient way to conduct pharmaceutical R&D may be to combine the research strengths of small specialized firms with the development, testing and marketing strengths of large ones. This opens a window of opportunity for small firms, especially for Asian companies.

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Introduction

Over the last 15 years, the world pharmaceutical industry has witnessed a mergers and acquisitions (M&A) wave that is unprecedented in history. The rationale for this hectic deal-making is the inherent volatility of profits in the pharmaceutical industry. Costs of R&D are enormous (currently US\$ 500 million per new drug) and rising, while the risk of innovative failure is equally high. Since firms typically introduce just 1-3 major new medicines per year, of which only very few become commercial blockbusters, size is seen as a cushion to ensure a more regular profitability.

Over the same period, however, under what is sometimes referred to as the 'biotechnological revolution', there

has also been a wave of new, small entrants into the pharmaceutical industry. In this article, we shall argue that this is no passing fad, but evidence of a new division of scientific labour, made possible by recent technological advances and breakthroughs in scientific understanding; and that this opens up a window of opportunity for Asian firms.

The pharma industry - basic facts

More than in any other industry, commercial success in the pharmaceutical industry is determined by successful research and development (R&D) and subsequent marketing. The pharmaceutical industry has both the highest R&D/sales and marketing/sales ratios. While the former lies in the 10-20 per cent in