

## Rethinking recession in the positive light

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*The power-packed conference jointly organized by held by the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Department of Pharmaceuticals lucidly illustrated the world of opportunities the recession can offer to life sciences companies.*

The summit entitled, "Pharmaceuticals 2014: Will India Leap Forward" was held in Mumbai. The summit was organized by FICCI with Department of Pharmaceuticals, Ministry of Chemicals and Fertilizers, Government of India and Observer Research Foundation (ORF). Cash reserves and liquidity might be at an all time low, valuations of start-ups especially small and medium size biotech companies might have shown a nosedive drop, so what? asserted experts from different spheres of the industry present at the summit.

Here goes the brownie points for the industry. While market pundits associate recession with a freeze in investments, sitting tight on cash reserves all amalgamating to the consolidation of the life sciences industry, speakers on the contrary retorted otherwise. Perhaps life sciences should take a leaf out of Ratan Tata's bold business decision in taking the plunge to launch the much awaited 'Nano' into the Indian market! If automobile companies, which was most hit by the turmoil, can do it, so can life sciences companies.

Glenn Saldanha, managing director and CEO, Glenmark Pharmaceuticals Ltd and chairman of National Pharmaceuticals Committee, FICCI, observed that the pharmaceutical sector will be less impacted by the economic slowdown, although, it will see cost containment and its impact on R&D projects. Also, with the pipeline for new products drying up, there would be consolidations in the industry.

Dr Dhankar, partner, Mckinsey and Co, New Jersey, gave a thought-provoking analysis. Life Sciences as an industry is outside recession's vicious cycle hence the answer to the most debated question of "how long will the recession last and whether it is short lived?" is plain and simple – 'It doesnt matter!'The contention being, companies develop better strategies during times of uncertainty. With cash reserves drying up, conventional business strategies adopted by companies would be

to sit tight fist with all the cash that they have for the next 24 months, as is the basic prediction about the period of recession, but McKinsey's suggestion to companies was to spend as much as they could during this period. "From the past recessions it was observed that companies which emerged stronger after a recession were the ones that followed countercyclical patterns of utilization and spending. Average sized companies that had less cash in hand but decided to spend and invest heavily were the ones which emerged stronger," told Dr Dhankar exclusively to BioSpectrum. There have been companies like Eli Lilly, Novartis, Bristol Myers Squibb, Johnson and Johnson, which have taken 'bold actions' even in this period of uncertainty. Though it has been glutalization of investments which has aggravated the intensity of the situation, globalization alone is the answer to reduction of costs and hiking up of innovation.

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With buyouts and acquisitions being the latest mantra for global companies, the assumption that Indian companies are ripe for being acquired holds no water in this period of credit crunch though the possibility cannot be ruled out totally. On the other hand, this is the conducive time for Indian companies being aggressive and buying out companies, biotech in particular, in the US.

What will the economy look like during and post recession? McKinsey presents four diverse scenarios that the economy might land up, though the outcomes are hard to predict. Scenario one is a situation where the global credit and capital markets open up, this will see a regeneration of global momentum which is moderate recession spanning over 3-4 quarters followed by strong growth and changes in the regulatory regimes. Scenario two is a situation where the global credit and capital markets reopen and recover but is coupled with severe global recession. This will see an economy which is battered but resilient marked with a prolonged recession of 2-4 years with recovery led by effective fiscal, monetary and regulatory policies. Scenario three is a situation which is an amalgamation of moderate recession with global credit and capital markets being volatile and closed down. This will see a 'stalled globalization' with a moderate recession for 1-2 years followed by slow economic growth and significant government involvement in bringing about credit allocation and regulatory changes. Lastly, Scenario four consists of two extreme factors, severe global recession coupled with global credit and capital markets which are volatile and not opening up. This will lead to a scenario of a so called 'long freeze' where we see a recession for over five years, stagnation and regulatory irregularities, and ineffective monetary and fiscal policies.

Graham Lewis, vice president-Europe, IMS Health UK, gave another angle to the solution. "A recession like this adds urgency to the situation and as a result companies start rethinking their strategies and sort out issues. This is where there will be a rise of the 'pharmerging markets' which will see a double digit growth." The US might show a flat growth but reality for all companies is that the US is still the dominant market having 40 percent of global shares. So companies need to be in the US despite its almost stagnant growth. However for companies aspiring rapid growth, 'pharmerging markets' which will show a strong double digit growth, is the right place to be.

Sameer Savkur, managing director, ORG IMS Research Pvt. Ltd, gave the India perspective, "True, recessions like this does impact all stakeholders in the value chain which includes patients, manufacturer, distributors, healthcare providers and payers. Growth might be impacted but in the process companies should not exit commercial areas where there are growth opportunities." IMS was optimistic and stated that recovery was a possibility in 2009 itself with a growth of 14 percent despite the recession. In terms of approaches companies need to revise their business strategies, rethink their R&D strategies, look at their product portfolios, even look at hospitals and rural areas and make their sales forces more effective.

The instant reaction might be everything is easier said than done. There are issues and obstacles like regulatory issues,

talent and infrastructure hurdles, but the key now is the government intervention. The US, Canada, Singapore and China governments are taking proactive roles as far as investments are concerned. The Chinese government has invested around \$1.5 billion while the Singapore government is invested \$1.2 billion. Neighboring country and rival China is focusing on surging up academic institutions, incentives for overseas talent to return, tax exemptions and to start five bioscience parks.

The Government of India too has decided to take the step and push the envelope forward. Ashok Kumar, secretary of Department of Pharmaceuticals, which has been recently set up by the Government of India, shared the proposed initiatives for making India as one of the top five global pharmaceutical innovation hub by 2020. He mentioned that the economic and social returns of the proposal are estimated to create 5 lakh high end jobs for scientists and specialist, and also provide the country with low cost healthcare for chronic and life threatening ailments including some of the neglected diseases. As a part of this effort, the government will deliberate action on four fronts – infrastructure and manpower, PPP, financial incentives and models as well as a favorable regulatory model for drug or molecule discovery. It is estimated that the annual expense towards achieving the aspirational innovation hub status would be as much as \$2 billion, for which a substantial public private partnership would be required.

“The global economic slowdown presents an opportunity for the Indian industry to work on low cost medicines, one of the key strengths that we have,” Ashok Kumar added. FICCI then organized a closed door discussion with prominent industry persons on “Drug Discovery – A Business Opportunity” in order to critically analyze the opportunity and the short comings to work out a detailed plan to accomplish stated roles of the government, industry and associations. FICCI will prepare a report and action plan for implementation and will work closely with the government and industry to help achieve the proposed vision 2020 for the pharmaceutical sector. n

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