Market Access
Hot Topic

**Catalyst**
Growth opportunities exist in multiple market segments despite regulatory, economic, and political risk.

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EXECUTIVE SUMMARY

Having recovered from the economic crisis of 2009, the Russian pharmaceutical market has returned to growth, with an expected compound annual growth rate for 2008–13 of around 10%. Imported products dominate the market in value terms, with higher prices and strong brand loyalty being key growth drivers. Consequently, the list of the top 10 manufacturers in the country is dominated by multinationals, with only one Russian manufacturer, Pharmstandard, making it onto the list.

The retail (commercial) segment, representing 68% of the total market (as of 2011), has been the main growth driver, with over-the-counter sales accounting for more than 50% of the segment. Strong brand loyalty, a low level of reimbursement coverage, and high levels of self-medication act as the main growth drivers in this segment.

In 2011 the hospital segment showed an increase in purchases of oncology drugs, cardiovascular drugs, blood coagulants, and antimicrobials, reflecting increased government focus on providing treatments for socially important diseases, and demonstrating that there was still an opportunity within this segment for multinationals.

However, the reimbursement segment still holds the strongest opportunity for high-cost and orphan drug therapies, although it has demonstrated slower growth compared to the retail market segment. Planned expansion of the reimbursement segment is key to future growth opportunities, although increasingly protectionist policies and pressure on prices may cloud the outlook.

Branded products (both original products and branded generics) dominate the market. This dynamic is driven by strong brand loyalty, the relative lack of generic competition (as compared to mature Western generics markets), and high out-of-pocket spend on drugs. Although the new legislation mandating prescribing using generic names will drive the growth of generics market share, this effect is expected to be significant only in the long run, with physicians still expected to recommend a particular brand to the patient. However, pharmacists will now have a more important role in terms of influence on which drug is dispensed, and will therefore become a more important focus for manufacturers. This trend will also be supported by the planned shift to a new reimbursement system under the planned expansion of the reimbursement program.
MARKET DYNAMICS OVERVIEW

Russian pharma market continues to grow at around 10%

Despite its ups and downs and frequent regulatory changes, the Russian pharmaceutical market remains one of the biggest and the most attractive emerging markets. In 2011, it was ranked as the eighth biggest pharmaceutical market globally (DSM Group, 2012). Although the market is undergoing implementation of a number of regulatory changes that have been made over the past 2 years, it is still expected to grow at a rate of around 10%. The government’s Pharma2020 Strategy along with a recently approved Strategy for Drug provision until 2025 are expected to act as key future growth drivers along with continued economic growth.

In spite of some economic and political instability, the Russian pharmaceutical market has demonstrated consistent growth, with one estimate expecting growth at a compound annual growth rate (CAGR) of 9.4% during 2008–13 to reach $28.6bn (final consumer prices including VAT) (Pharmexpert, 2012).

Retail segment accounts for the largest proportion of the Russian pharma market

The figure below shows the segmentation and growth of the Russian pharma market over 2008–13.

Figure 1: Russian pharmaceutical market size and segmentation, 2008–13

Source: Pharmexpert, 2012
The retail (commercial) segment, representing 68% of the total market (as of 2011), has been the main growth driver, with over-the-counter (OTC) sales accounting for more than 50% of the segment (see figure below). The retail market segment has been the most attractive segment of the Russian market with sustained growth rates; however, it is dependent on the continued strong economic performance and thus is vulnerable to future economic volatility.

**Figure 2: Russian retail market segment split by prescription and OTC sales, 2008–11**

![Bar chart showing sales of Over-the-Counter drugs and Prescription drugs from 2008 to 2011.]

*Source: Pharmexpert, 2010; 2012*

*Imported drugs dominate the market*

The Russian pharmaceutical market is import-oriented, and in 2011 only 24.6% of the pharmaceutical products (by value) were produced locally.
However, the policy of the Russian government and the Pharma2020 Strategy in particular supports domestic production, and going forward locally manufactured products are expected to account for a greater proportion of sales. Implementation of the first phase of Pharma2020 started in 2009 and has led to the share of local products growing from 22.8% in 2009 to 24.6% in 2011 (Pharma2020, 2012; Pharmexpert, 2013).

In addition, legislation mandating prescribing by international non-proprietary name that will come into effect in July 2013 will drive the sales of generics and locally manufactured products over their imported branded generic counterparts. Although the impact is not expected to be extensive in the short term, it will boosted growth of the domestic products’ market share in the long run.

*Branded drugs, including branded generics, dominate the market*

The structure of the market in terms of brand/generics segmentation was stable in value through 2008–11.
The market structure is heavily influenced by the long period of political isolation, the high propensity for self-treatment among the population, and the fact that traditional generics are much cheaper than contemporary medicines. The market share of branded medicines is also high due to their high prices, while strong brand loyalty drives the share of branded generics. In addition, regulatory barriers and in particular the absence of the definition of an "interchangeable product" are making the registration of new generics difficult and time-consuming. Although the government has announced that it is going to ease access to the market for cheap generics, so far the draft regulatory changes pertaining to generics that have been announced are only expected to make the process of generic registration more complex; for a generic to be approved as an interchangeable product for the original, full chemical and therapeutic equality is necessary.

In addition, although introduction of new legislation earlier in 2013 making prescribing by INN mandatory will impact the share of branded generics in the market and is expected to boost generics uptake, no significant impact can be expected in the short term. It is expected that physicians will still continue to recommend a particular brand to the patient even if the prescription is written out by INN. Consequently, it is expected that pharmaceutical manufacturers' marketing strategies will to some degree extend or switch from doctors to pharmacists as they will offer the final choice to the patient.

**Foreign manufacturers dominate the top 10 companies in the country**

The Russian pharmaceutical market is a concentrated one, and the top 10 companies represent more than 37% of the market share. Except for Pharmstandard, all other companies featuring in the top 10
list are foreign.

<table>
<thead>
<tr>
<th>Ranking in 2011</th>
<th>Corporation</th>
<th>2011 market share</th>
<th>2010 market share</th>
<th>2010–11 sales growth</th>
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<tr>
<td>1</td>
<td>Novartis</td>
<td>7.6%</td>
<td>7.4%</td>
<td>16.0%</td>
</tr>
<tr>
<td>2</td>
<td>Sanofi</td>
<td>5.7%</td>
<td>5.5%</td>
<td>17.0%</td>
</tr>
<tr>
<td>3</td>
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<td>4.1%</td>
<td>4.3%</td>
<td>9.0%</td>
</tr>
<tr>
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<td>Bayer</td>
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<td>3.3%</td>
<td>9.0%</td>
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<tr>
<td>5</td>
<td>Berlin-Chemie/Menarini</td>
<td>3.1%</td>
<td>3.2%</td>
<td>8.0%</td>
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<tr>
<td>6</td>
<td>Teva</td>
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<td>3.1%</td>
<td>15.0%</td>
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<tr>
<td>7</td>
<td>Roche</td>
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<td>8</td>
<td>Gedeon Richter</td>
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<td>2.6%</td>
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<td>Nycomed</td>
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<td>10</td>
<td>Servier</td>
<td>2.4%</td>
<td>2.4%</td>
<td>15.0%</td>
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<tr>
<td>Total</td>
<td></td>
<td>37.1%</td>
<td>37.0%</td>
<td>14.0%</td>
</tr>
</tbody>
</table>

Note: totals may not sum due to rounding.

Source: Pharmexpert, 2013

Top brands include both expensive innovative treatments and OTC/lifestyle drugs

Most of the leading brands are produced by the top 10 manufacturers and together comprise 8.0% of the total market by value.
The market-leading brand Glivec (imatinib), produced by Novartis, is one of the biggest products in the reimbursement sector. However, the patent for Glivec expired in April 2013, which will impact the product’s positioning as well as Novartis’s sales in the market.

Aside from high-cost oncology drugs featuring in the top 10 brands list, of note is the presence of a number of lifestyle and OTC brands such as Essentiale (PCC and vitamins; Sanofi), Viagra (sildenafil; Pfizer), and Nurofen (ibuprofen; Reckitt Benckiser), stemming from their high sales in the retail market segment. This is a typical trend of an emerging market, reflecting the lower purchasing power compared to Western countries.

References


GROWTH DRIVERS AND RESISTORS

Despite the Russian pharmaceutical market having great potential due to the growth of the Russian economy and the country's large population, it is also quite an uncertain market due to the unpredictable nature of government regulations and high economic dependency on volatile gas and oil prices. The key drivers and resistors of the Russian pharma market are listed in the figure below.

<table>
<thead>
<tr>
<th>Drivers</th>
<th>Resistors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large population size</td>
<td>Underdeveloped healthcare system infrastructure</td>
</tr>
<tr>
<td>Poor health status and high incidence of chronic diseases</td>
<td>Uncertain and changing regulatory environment</td>
</tr>
<tr>
<td>High rates of self treatment</td>
<td>Risk to economy from overreliance on volatile oil and gas exports</td>
</tr>
<tr>
<td>Growing economy</td>
<td>Increasingly protectionist stance of the government and pro-domestic industry measures</td>
</tr>
<tr>
<td>Planned expansion of the reimbursement program</td>
<td>From 2013 prescriptions are to be made using INNs threatening the branded sector</td>
</tr>
<tr>
<td>High physician and patient brand loyalty</td>
<td>INN=international non-proprietary name</td>
</tr>
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</table>

Source: Datamonitor Healthcare

Large population and poor health status are driving use of medicines

A large population size (140 million) and the associated potential pool of patients is one of the key market drivers. However, currently Russia is experiencing a clear declining trend in terms of its population, which dropped from 148 million in 1995 to 140 million in 2010 (UN, 2010).
According to the "World's Healthiest Countries 2012" ranking prepared by Bloomberg, Russia was ranked 97th among 145 countries with 26.4 points, ranked close to Iraq, East Timor, and Madagascar. By way of comparison, the top 20 developed countries scored 80–90 points with an average Health Risk Penalty of 5.4. The Health Risk Penalty for Russia was 7.31 points, close to those in Belarus, Rwanda, and Papua New Guinea.

Key risk factors for health are HIV/AIDS epidemics, high tobacco consumption, and chronic alcohol abuse, leading to high rates of cardiovascular disease of around 2,000 cases per 100,000 people (SIBAC, 2012). The death rate from coronary heart disease in Russia has reached 296.7 per 100,000 people (ranked ninth globally), close to Georgia, Armenia, and Uzbekistan, and clearly indicating a low level of healthcare system development. Overall, Russia was ranked 127th in the world in terms of life expectancy in 2010 (World Life Expectancy, 2013).

The Russian health profile is unique and combines traits of developed countries (an aging population, high prevalence of lifestyle-associated chronic diseases such as metabolic syndrome) and those typical of the developing world (low life expectancy, limited access to medication, high level of self-treatment, and low availability of high quality innovative medicines).

**High rates of self-treatment drive OTC segment growth**

One of the peculiarities of the Russian market resulting in a high share of over-the-counter (OTC) sales in the retail segment is that self-treatment is widespread among the population.

According to a survey organized by MedNovosti, 75% of respondents (from a total of 4,800 participants aged 21–55) with acute respiratory viral infection are using self-treatment, with 9% having never seen a doctor. The survey also revealed that 71% are choosing fever-reducing and systemic effect medicines, 66% medicines to treat sore throat, and 65% drugs to treat cold and painkillers. In addition, vitamins are purchased by 41% of respondents and gastrointestinal drugs (without prescription) by 37%. Furthermore, 21% of respondents were buying antibiotics without prescription (MedNovosti, 2012).

Respondents were also asked as to whether they read information supplied with medicines, with more than 50% reporting that they always read the information in the leaflet, while 36% did this even if the medicine was prescribed by the doctor.

Widespread self-treatment is the result of an underdeveloped healthcare system, low level of confidence in primary care physicians, and the limited scope of the reimbursement system along with the influence of pharmacists who are driven to generate sales and insufficient adherence to regulations regarding dispensing of medication without prescription.

**Fast growth of the Russian economy and future growth potential fuel pharma market, but threats remain**

The Russian economy has partly recovered after the global economic crisis, but growth is still below that experienced prior to 2008. Economic growth slowed down to 3.4% in 2012 compared to a pre-

According to the Ministry of Economic Development, GDP growth is expected to reach 3.6% in 2013 before being consistently around 4% during 2014–16.

Pharmaceutical market growth closely correlates with GDP growth due to the fact that government spending on healthcare, although important, is not the major driver of the whole system. Instead, out-of-pocket spending is the main growth driver, leaving the pharmaceutical market sensitive to fluctuations in citizens’ incomes.
Considering the challenges facing the global economy, such as China's slowdown due to decreased government investment in infrastructure along with decreasing attractiveness due to higher manufacturing costs compared to the past, the ongoing crisis in the EU, and high state debt in the US, it is possible that demand may decrease, driving oil prices down.

Given the Russian economy's dependence on oil and gas, this presents a significant threat going forwards. Furthermore, since mid-2012 there have been some signs that economic growth has already begun to slow, raising doubts about forecasted GDP growth.

The first signs of a slowdown in the economy have come from analysis of production activity (Federal Statistics Service, 2013):

Both railway transportation (which is a key transportation type for any industry considering the country's size) and production growth analyzed on a month-to-month basis in 2012 vs 2011 showed clear decreases. Although production falls are not as pronounced, the fast decrease in railway transportation points towards further declines with negative impacts for the Russian economy.

The country's trade balance has demonstrated a trend towards a decline in exportation since July 2012 (compared to 2011).

Import growth analyzed on a month-to-month basis is also decreasing, although at a slower pace than export growth, raising the probability of a negative trade balance in the future.

**WTO membership**

Russia's accession to the World Trade Organization (WTO) in August 2012 is a positive development that is expected to increase the attraction of the pharmaceutical industry due to the following:

The Russian pharmaceutical industry is import-oriented with more than 70% of the products produced abroad. WTO accession will result in a significant drop in custom fees (from around 15% to 5–6.5%). For most products, these fees are to be decreased during the next 2–3 years, with this process to be completed by 2016. However, this decrease is not expected to influence final consumer prices as the distributors and pharmacies are expected to increase their mark-ups to compensate for the reduction in fees (Farmanalitik, 2012).

WTO accession is expected to improve intellectual property protection in the country and enable closer collaboration between Russian companies and foreign investors.

**Introduction of new legislative measures has caused difficulties and confusion**

The Russian healthcare system is passing through a phase of active restructuring driven by the Russian government and new regulations, including the following:

The "Strategy of the Pharmaceutical Industry Development until 2020," also known as Pharma2020, introduced in 2009 aims to improve the competitiveness of the local
pharmaceutical industry and to decrease the dependency on imported products. This policy is the key driver of the trend of increased domestic pharmaceutical production; however, the push for import substitution is seen as a negative development by foreign manufacturers. It is expected that this will prompt some multinationals to establish local manufacturing facilities in order to secure more favorable roles in state procurement programs.

The law "On the Medicines Circulation" approved in 2010 introduced price regulations for the products included in the Vital and Essential Drug List (VEDL), but full implementation is still pending. Price re-registration for products already on the VEDL has not been fully enforced, with prices only being reviewed when changes in the registration document are required. Furthermore, the Federal Tariff Services responsible for price control lack the resources for the full implementation, but the situation is expected to change in the light of plans for wider reimbursement. Recently, some major pharma companies in the country have had price reviews for key products and have had to drop their prices significantly. If this trend continues it will result in a sizable squeeze on industry margins within that market segment.

The law "On the Medicines Circulation" also introduced the requirement for drugs to be tested in the Russian population in order to be approved in the country. Its introduction but unclear implementation resulted in widespread confusion and created a new obstacle for entry into the Russian market, requiring allowances to be made for local clinical trials and shortening the patent protected time on the market.

The law "On the Basics of Health Protection" introduced some limitations on the interaction between healthcare professionals and representatives of pharmaceutical companies, including prohibiting medical representative visits to healthcare professionals during their working hours, and also prohibiting gifts. Furthermore, all collaboration between pharmaceutical companies and medical professionals (except for pharmacists) is to be limited to educational activity and clinical studies. All pharmaceutical companies had to take a number of measures in accordance with the legislation; they adapted the length of the visits through call structure optimization, increased the share of other promotional activities such as web conferences and seminars, and consistently scheduled meetings with a doctor in advance. However, access to some hospitals and clinics is no longer available, and this may impact the sales of certain products.

The reimbursement program was a key driver of market growth when it was introduced, and it is scheduled to be expanded in 2017.

The Additional Medicines Supply Program (Dopolnitelnoe Lekarstvennoe Obespechenie; DLO) introduced in 2005 was a key driver of the expansion of the Russian pharmaceutical market. Despite its ups and downs, including problems with budgeted expenditure, it has remained a key market segment, especially for high-cost innovative products. In 2008 it was split into two parts. For more information please see Datamonitor Healthcare’s Russia Pricing and Reimbursement.

"The Strategy for Drug Provision until 2025" for the population was approved in December 2012 and is expected to be one of the most important market drivers in the near future. The strategy introduces
plans for expansion of the reimbursement program to cover new categories of beneficiaries and more pharmaceuticals, and is expected to come into force in 2017 following pilot programs in some regions in 2015–16, where performance will shape the final coverage model. The most important change is a new role for pharmacies in the future, whereby their costs will be reimbursed by the government, and no collaboration will occur between the government and the pharmaceutical company.

Currently, patients who are eligible to receive medicines for free can fill in their prescriptions in special pharmacies. These pharmacies evaluate the demand and then send a request to the regional health authorities and organize an auction. The auction is held with the participation of distributors, and the distributors and manufacturers agree on a discount, with the winning distributor delivering the product to the pharmacies.

However, in the future there will be no auctions, and the government will reimburse a defined amount of money for all products which are included on the reimbursement list (both in the hospital and retail setting). When a patient is filling out the prescription at the pharmacy, he/she can choose from those products offered by the pharmacist. The pharmacist will dispense a drug with full or partial reimbursement to the patient and will later receive reimbursement from the government for each product dispensed to the patient. Consequently, barring any restrictions introduced by the government, pharmacists will be able to choose what products to have in stock and what products to recommend to the patient. This will impact the entire business model, with the key focus including not only physicians but also pharmacists, as in the future it will also be important to convince pharmacists to have a particular product in stock and offer it to the patient. This trend will be further strengthened by the law that makes INN prescribing mandatory.

However, the expanded reimbursement is also expected to result in more restrictive controls on drug prices. Nevertheless, the expansion of the beneficiary population should be the prevailing positive factor provided the program is introduced with sufficient funding.

References


DOMESTIC PHARMACEUTICAL SECTOR

Due to the underdevelopment of the domestic pharmaceutical sector, the Russian pharmaceutical market has been dominated by foreign manufacturers in terms of market value. The domestic pharmaceutical companies mainly produce low cost generics, with foreign manufacturers offering both patent protected and expired patent original brands and branded generic drugs.

However, the domestic manufacturing sector has been boosted by several recent programs, with the main one being the Pharma2020 Strategy.

The key goals of the Pharma2020 Strategy are the following (Pharma2020, 2013):

- improve drug provision for special categories of the population (war veterans, disabled, children, etc) and for expensive/orphan diseases
- increase competitiveness of the local pharmaceutical industry through harmonization of Russian production and R&D standards
- stimulate local R&D and production of new molecules, and support export of local products including new financing mechanisms provided by the government
- equal market access conditions for both foreign and local products
- technological re-equipment of local production facilities
- quality control system update.

The aim of the Pharma2020 Strategy is to grow the share of locally produced products up to 50% in value by 2020 (which is a doubling of the value share of local products) and to increase the export of medicines produced in Russia eightfold (vs 2008) by 2020.

Implementation of the first phase of Pharma2020 started in 2009 and has led to the share of local products growing by up to 4.0% in the last 3 years.

In addition, further legislation prohibiting the participation of foreign manufactured drugs in public procurement programs when at least two locally manufactured drugs are available is driving foreign companies to invest in moving production to Russia. The table below lists some recent moves to establish local manufacturing facilities in the country.
However, there are currently a lot of discussions as to the definition of a local product and the level of local manufacturing that is required to call the product "local." At the time of writing there is no clear legislation on this topic, but according to a recommendation from the Ministry of Industry and Trade, in the future the product can be considered local only if the full production cycle is organized in Russia; primary and secondary packaging alone can give local status only until 1 January 2014 (Ministry of Industry and Trade, 2013). Depending on any further decision, different levels of local production will be required if building a factory in order to qualify as a domestic manufacturer for state purchases.

References


HOSPITAL MARKET SEGMENT

In 2011 the hospital segment showed increases in the purchase of oncology drugs, cardiovascular drugs, blood coagulants, and antimicrobials, reflecting increased government focus on providing treatments for what it calls socially important diseases (Pharmexpert, 2012).

The hospital segment experienced growth at a compound annual growth rate (CAGR) of 7% over 2008–12. Hospital drug purchases are fully driven by government investments and thus were negatively impacted by the economic crisis in 2009, with the segment recording a 10.5% decline. After recovery from the crisis, the segment grew at a CAGR of 14.5% in 2010–12.

According to another source, DSM Group, the hospital segment has been growing consistently from year to year, and in 2011 reached RUB142bn ($4.6bn) (9% growth vs 2010). In volume terms, total purchases in 2011 were around 1 billion packs (3% growth vs 2010).

In terms of hospital segment purchases, 31% by value are products manufactured locally and 69% are imported medicines, while by volume purchases of local products are 3.3 times higher than for imported ones (see figure below).
Regional ranking

The hospital market varies by region due to regional specificity and demand for special products, mainly due to geographical and demographic differences.

The biggest regional market with a 25.3% share of hospital purchases is Moscow, followed by St Petersburg (6.1%), Kazan (3.9%), and Nizhny Novgorod (2.6%). Regional variation is also observed in product prices, with the highest average price in Kazan of $6.54 per pack and the lowest price in Novosibirsk of $2.31 per pack. The average price in Moscow in 2011 was $6.19 per pack. In 2010 the highest price reached $6.23 per pack in Moscow.

As of 2011, 11 regions covered 49.5% of the total hospital market, with Moscow having the biggest share, as seen in the table below.
Anti-infectives top the hospital market segment

ATC group J, anti-infectives for systemic use, has been the leader of the hospital segment for a number of years. Although the share of this group decreased by 26% in value and by 19% in volume vs 2010, it still has the highest market share of 28.9%.

The sales drop in group J is mostly due to decreases in hospital purchases within J05, antivirals for systemic use (-34%); J07, vaccines (-64%); and J04, antimycobacterials (-50%). Taken together, these subgroups accounted for around a 43% share of group sales. The drop in J05 subgroup purchases is due to fewer purchases of HIV drugs (Kaletra, Reyataz, Prezista, Intelence, Ziagen, and others).
Sales of subgroup J01, antibacterials for systemic use, accounted for 48% of total group sales by value and grew by 3% over 2010, but dropped by 7% in volume terms. Simultaneously, in other subgroups of group J – J06, immune sera and immunoglobulins; and J02, antimycotics for systemic use – there was significant growth both in value (43% and 61% respectively) and in volume (56% and 12% respectively). In subgroup J06 this was due to greater purchases of immunomodulators (Immunoglobulin, Pentaglobin, etc). The highest growth was demonstrated by Synagis (palivizumab),

<table>
<thead>
<tr>
<th>ATC group</th>
<th>Description</th>
<th>Sales ($m)</th>
<th>Value share (%)</th>
<th>Packs sold (m)</th>
<th>Volume share (%)</th>
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</thead>
<tbody>
<tr>
<td>J</td>
<td>Anti-infectives for systemic use</td>
<td>1,316</td>
<td>28.9</td>
<td>313.8</td>
<td>30.7</td>
</tr>
<tr>
<td>B</td>
<td>Blood and blood-forming organs</td>
<td>860</td>
<td>18.9</td>
<td>321.0</td>
<td>31.5</td>
</tr>
<tr>
<td>L</td>
<td>Antineoplastic and immunomodulating agents</td>
<td>661</td>
<td>14.5</td>
<td>13.6</td>
<td>1.3</td>
</tr>
<tr>
<td>N</td>
<td>Nervous system</td>
<td>487</td>
<td>10.7</td>
<td>108.5</td>
<td>10.6</td>
</tr>
<tr>
<td>A</td>
<td>Alimentary tract and metabolism</td>
<td>409</td>
<td>9.0</td>
<td>82.9</td>
<td>8.1</td>
</tr>
<tr>
<td>C</td>
<td>Cardiovascular system</td>
<td>247</td>
<td>5.4</td>
<td>59.8</td>
<td>5.9</td>
</tr>
<tr>
<td>V</td>
<td>Various</td>
<td>132</td>
<td>2.9</td>
<td>8.6</td>
<td>0.8</td>
</tr>
<tr>
<td>M</td>
<td>Musculoskeletal system</td>
<td>125</td>
<td>2.7</td>
<td>18.6</td>
<td>1.8</td>
</tr>
<tr>
<td>R</td>
<td>Respiratory system</td>
<td>117</td>
<td>2.6</td>
<td>32.5</td>
<td>3.2</td>
</tr>
<tr>
<td>H</td>
<td>Systemic hormonal preparations, excluding sex hormones and insulins</td>
<td>68</td>
<td>1.5</td>
<td>12.1</td>
<td>1.3</td>
</tr>
<tr>
<td>G</td>
<td>Genitourinary system and sex hormones</td>
<td>62</td>
<td>1.4</td>
<td>3.1</td>
<td>0.3</td>
</tr>
<tr>
<td>D</td>
<td>Dermatologicals</td>
<td>35</td>
<td>0.8</td>
<td>35.1</td>
<td>3.4</td>
</tr>
<tr>
<td>S</td>
<td>Sensory organs</td>
<td>28</td>
<td>0.6</td>
<td>7.6</td>
<td>0.7</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>12</td>
<td>0.3</td>
<td>1.8</td>
<td>0.2</td>
</tr>
<tr>
<td>P</td>
<td>Antiparasitic products, insecticides, and repellents</td>
<td>1</td>
<td>0.0</td>
<td>0.4</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: DSM Group, 2012
which is used for the treatment of respiratory syncytial virus in children and which saw a rise of 1,700% in value terms (DSM Group, 2012).

Medicines of group B, blood and blood-forming organs, were ranked second in the hospital purchases segment in 2011. In comparison with 2010, sales in this group grew by 21% in volume terms and by 41% in value terms, with growth driven both by higher prices (for non-VEDL drugs) and a tendency towards using more expensive treatments. The subgroup B05, blood substitutes and perfusion solutions, reached a 49% share of the entire group.

Ranked third is group L, antineoplastic and immunomodulating agents. In 2011 sales of this group grew by 29% in value versus 2010, driven by increasing demand for anti-cancer drugs, wider availability of diagnostics, and government focus on socially important diseases, including cancer. The highest impact was due to L01 subgroup sales, which accounted for 63% of the total group sales. The leader by volume in this group was Cyclophosphamide (23% share), which is used for the treatment of oncology diseases and is priced very cheaply (at around RUB39 [$1.2] per pack).

**Sanofi is the leader in the hospital market segment**

With a 5.5% market share in the segment, Sanofi is the leader, followed by GlaxoSmithKline (5.0% share) and Roche (4.3% share), with the top three remaining unchanged during 2010–11.

However, there was some movement in comparison with 2010:

Veropharm reached the sixth position and is the leader among Russian producers with the antineoplastic drugs Paclitaxel, Tautax, and Doxorubicin.

Novartis went up 11 positions to ninth place thanks to high growth of hospital purchases of its products, in particular Tasigna sales, which grew by 4.5 times in 2011 vs 2010, along with a 180% growth in sales value of the immunosuppressor Simulect.
Bristol-Myers Squibb experienced a significant fall in the ranking, from ninth to 19th place, as a result of a decline in sales of antiretrovirals Reyataz and Videx (which account for 50% of the company’s sales in the hospital segment). Abbott also suffered from reduced sales of its antiretroviral drug Kaletra, with the manufacturer recording a 52% decline (equating to a 13-place fall in the rankings). Purchases of antiretrovirals are carried out through government tenders rather than regional or individual hospital purchases, with the allocation of funds at the federal level, and in this year lower priced drugs such as Combivir and Ritonavir-100 were favored (DSM Group, 2012).

### Top drugs in the hospital segment

Following sodium chloride and an unspecified vaccine, the third best selling product in the segment is GlaxoSmithKline’s Combivir, which moved up from sixth place and grew by 42% in value in 2011 as a result of preferential purchases in federal antiretroviral tenders.
Table 8: Top 10 products in the hospital market, 2011

<table>
<thead>
<tr>
<th>Rank 2011</th>
<th>Change vs 2010</th>
<th>Product</th>
<th>Sales (RUBm)</th>
<th>Growth (%)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0</td>
<td>Sodium chloride</td>
<td>155</td>
<td>21.8</td>
<td>3.4</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>Vaccine</td>
<td>69</td>
<td>-17.1</td>
<td>1.5</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>Combivir</td>
<td>68</td>
<td>41.6</td>
<td>1.5</td>
</tr>
<tr>
<td>4</td>
<td>4</td>
<td>Heparin</td>
<td>61</td>
<td>48.9</td>
<td>1.3</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
<td>Meronem</td>
<td>54</td>
<td>17.5</td>
<td>1.2</td>
</tr>
<tr>
<td>6</td>
<td>8</td>
<td>Clexane</td>
<td>51</td>
<td>55.2</td>
<td>1.1</td>
</tr>
<tr>
<td>7</td>
<td>-2</td>
<td>Pegasys</td>
<td>48</td>
<td>-42.1</td>
<td>1.1</td>
</tr>
<tr>
<td>8</td>
<td>2</td>
<td>Glucose</td>
<td>48</td>
<td>25.6</td>
<td>1.1</td>
</tr>
<tr>
<td>9</td>
<td>11</td>
<td>Immunoglobulin</td>
<td>39</td>
<td>36.0</td>
<td>0.9</td>
</tr>
<tr>
<td>10</td>
<td>8</td>
<td>Actovegin</td>
<td>36</td>
<td>23.9</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: DSM Group, 2012

References


REIMBURSEMENT MARKET SEGMENT

Reimbursement sector growth is driven by investment from the Russian government in the healthcare system, and consists of two segments:

Essential drug program (ONLS program) – Provision of drugs to special categories of the population (mostly certain categories of disabled people and war veterans).

Seven Nosologies program (7N or VZN) – Medicines centrally purchased by the government to treat a group of diseases included in the group of seven nosologies: cystic fibrosis, hemophilia, Gaucher’s disease, pituitary dwarfism, myelogenous leukemia, multiple sclerosis, and transplantology.

During 2008–12 the segment grew at a compound annual growth rate (CAGR) of 0.7%, driven by ONLS growth of 2.8%.

![Figure 9: Reimbursement market segment size, 2008–12](image)

However, according to another source, the VZN program recorded a 16% sales increase in 2011, amounting to RUB38.2bn ($1.2bn), against a shrinking ONLS subsegment (1% decline), largely due to the greater use of cheaper domestic drugs (DSM Group, 2012).

A future driver of the reimbursement segment could be the proposed expansion of the VZN program that is currently being discussed. It has been reported that from 2014 onwards 27 rare diseases may be included in the program, with an investment of RUB4.6bn ($148m). Furthermore, under legislation adopted in 2012, from 2014 the medicines for the VZN program will be purchased by regional
authorities and will be financed from federal budget transfers. This is expected to enable timely supply of drugs to patients; currently the medicines are purchased once a year for this program (DSM Group, 2012).

As can be expected for the reimbursement program, 98% of the sales value is derived from prescription drugs and just 2% from over-the-counter (OTC) drugs. In terms of volume, the share of prescription products changed slightly in comparison with 2010 and reached 88% (DSM Group, 2012).

**Reimbursement segment sales are dominated by imported drugs**

The dominance of imported drugs within the reimbursement segment in value terms can be seen in the figure below, despite a much lower sales volume.

![Figure 10: Reimbursement segment split by country of origin, 2011](image)

Source: DSM Group, 2012

The share of local products grew from 10% in 2010 to 11% in value terms in 2011. The dominance of imported products over local ones is more visible in the VZN segment than in the ONCS subsegment due to the nature of the drugs supplied within the VZN program.

However, in rouble terms, expenses for local product purchases increased by 16%, while imported drugs purchased in this segment grew by just 4% vs 2010 (DSM Group, 2012). The majority of the increase in the share of domestic products was generated within the ONLS program, which includes off patent molecules which can be supplied by local manufacturers, resulting in savings for the government. One example of the "switching trend" of purchases from imported to local products driven by the Pharma2020 Strategy can be seen in the case of zoledronic acid. In 2010, 73% of
purchases of this molecule were imported products, but in 2011 this share dropped to just 28%. Imported drugs were substituted by local analogs such as Zoleriks (Biocad) and Rezoklastin FS (Sintez AKO). A substitution example within the VZN program is a switch from imported NovoSeven (Novo Nordisk) to local product Coagil (Lekko) for eptacog alfa.

The shares of imported vs domestic products in the VZN and ONLS programs are shown in the figures below.

Figure 11: VZN subsegment split by country of origin, 2011

Source: DSM Group, 2012
In 2011, the share of local products within the VZN program did not show any significant increase similar to the one observed in 2010. However, with continued support towards increased domestic production of drugs, it can be expected that these trends of abrupt increases in local product share will continue, with the level of increase dependent on new products being developed and launched.

Oncology agents are the highest selling group in the reimbursement segment

The top five ATC groups cover 85% of reimbursement segment sales, with the share of oncology agents (group L) having increased from 40% in 2010 to 45% in 2011, reflecting ongoing increasing demand and prioritization of drugs to treat cancer. This is one of the most expensive groups, with an average price of RUB13,000 ($417) per pack.
According to data from the Ministry of Healthcare, cancer is the second most common cause of death in Russia after cardiovascular disease. In 2009, the special National Oncology Program was launched to improve the level of early diagnosis, resulting in a decrease in deaths from cancer. For instance, in 2010 the mortality level dropped by 0.9% vs 2009, and it dropped by a further 1.1% in 2011 vs 2010.

The leading oncology products sold in the reimbursement segment are imatinib (Glivec; Novartis), rituximab (MabThera; Roche), and bortezomib (Velcade; Janssen), which are included in the VZN program.

Teva’s Copaxone (glatiramer acetate), which is used to treat multiple sclerosis, is also supplied through the VZN program. However, glatiramer acetate is one of the strategic products which the government wants to be manufactured locally in the near future. Immunosuppressants used in transplants are also included in the VZN program, and a significant increase in the number of transplants in 2010 resulted in high demand for certain products, in particular for mycophenolate mofetil (CellCept; Roche) and mycophenolic acid (Myfortic; Novartis).
Top manufacturers in the reimbursement segment

In 2011, 350 manufacturers were participating in the reimbursement program. Among the producers participating for the first time in the program, Amgen was the leader (RUB80m [$2.6m]) with Aranesp (darbepoetin) and Vectibix (panitumumab) from ATC groups B and L respectively.
## Table 9: Top 20 manufacturers in the reimbursement segment, 2011

<table>
<thead>
<tr>
<th>Rank 2011</th>
<th>Change vs 2010</th>
<th>Company</th>
<th>Sales ($m)</th>
<th>Growth (%)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0</td>
<td>Roche</td>
<td>385</td>
<td>20.6</td>
<td>14.2</td>
</tr>
<tr>
<td>2</td>
<td>0</td>
<td>Novartis</td>
<td>292</td>
<td>5.8</td>
<td>10.7</td>
</tr>
<tr>
<td>3</td>
<td>0</td>
<td>Janssen</td>
<td>224</td>
<td>1.2</td>
<td>8.3</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
<td>Teva</td>
<td>167</td>
<td>24.6</td>
<td>6.1</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
<td>Sanofi</td>
<td>121</td>
<td>1.2</td>
<td>4.4</td>
</tr>
<tr>
<td>6</td>
<td>2</td>
<td>AstraZeneca</td>
<td>106</td>
<td>12.7</td>
<td>3.9</td>
</tr>
<tr>
<td>7</td>
<td>8</td>
<td>Baxter Healthcare</td>
<td>101</td>
<td>141.1</td>
<td>3.7</td>
</tr>
<tr>
<td>8</td>
<td>-4</td>
<td>Novo Nordisk</td>
<td>99</td>
<td>-26.0</td>
<td>3.7</td>
</tr>
<tr>
<td>9</td>
<td>1</td>
<td>Merck</td>
<td>73</td>
<td>-0.3</td>
<td>2.7</td>
</tr>
<tr>
<td>10</td>
<td>-1</td>
<td>Bayer</td>
<td>63</td>
<td>-23.0</td>
<td>2.3</td>
</tr>
<tr>
<td>11</td>
<td>0</td>
<td>Eli Lilly</td>
<td>54</td>
<td>-7.8</td>
<td>2.0</td>
</tr>
<tr>
<td>12</td>
<td>7</td>
<td>Lekko</td>
<td>53</td>
<td>50.4</td>
<td>2.0</td>
</tr>
<tr>
<td>13</td>
<td>-1</td>
<td>GlaxoSmithKline</td>
<td>47</td>
<td>-12.0</td>
<td>1.7</td>
</tr>
<tr>
<td>14</td>
<td>3</td>
<td>Genzyme</td>
<td>46</td>
<td>20.2</td>
<td>1.7</td>
</tr>
<tr>
<td>15</td>
<td>85</td>
<td>Laboratorio Tuteur</td>
<td>45</td>
<td>4,062.7</td>
<td>1.7</td>
</tr>
<tr>
<td>16</td>
<td>0</td>
<td>Boehringer Ingelheim</td>
<td>44</td>
<td>15.5</td>
<td>1.6</td>
</tr>
<tr>
<td>17</td>
<td>-3</td>
<td>Servier</td>
<td>42</td>
<td>-0.3</td>
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<td>18</td>
<td>-12</td>
<td>Octapharma</td>
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<td>-71.7</td>
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<td>19</td>
<td>2</td>
<td>KRKA</td>
<td>36</td>
<td>28.0</td>
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</tr>
<tr>
<td>20</td>
<td>0</td>
<td>Astellas Pharma</td>
<td>31</td>
<td>5.8</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Source: DSM Group, 2012
In 2011, Roche held onto its leading position in the reimbursement segment, with sales reaching RUB12bn ($385m), representing a 20.6% increase over 2010. The key driver of sales growth was Rituxan/MabThera sales (accounting for nearly 47% of the company’s sales by value), which grew 41% in 2011 in comparison with 2010.

Novartis and Janssen came in second and third respectively, with Novartis sales growing 5.8% in 2011 due to Glivec sales growth (+34%), with the product accounting for 70% of total company sales in this segment. However, the second best selling product in 2010, Zometa (zoledronic acid), saw its sales drop fourfold in 2011. Out of 31 products, 17 recorded a decline, limiting the growth of Novartis in this market segment.

Janssen sales grew 1.2% in 2011 thanks to 17% growth of Velcade (which accounted for 78% of company sales), while other products demonstrated negative growth dynamics.

**Top brands in the reimbursement segment**

The table below lists the top 10 brands in the reimbursement segment. Together, these brands accounted for 37% of the segment’s value in 2011.
A notable new entrant is Genfaxon (interferon beta-1a), manufactured by Argentina’s Laboratorio Tuteur, which participated in the tenders for the first time and managed to enter the top 10.

References


<table>
<thead>
<tr>
<th>Rank</th>
<th>Change vs 2010</th>
<th>Product</th>
<th>Sales (RUBm)</th>
<th>Growth (%)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>Glivec (imatinib; Roche)</td>
<td>199</td>
<td>33.8</td>
<td>7.3</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>MabThera (rituximab; Roche)</td>
<td>181</td>
<td>41.1</td>
<td>6.7</td>
</tr>
<tr>
<td>3</td>
<td>-2</td>
<td>Velcade (bortezomib; Janssen)</td>
<td>176</td>
<td>16.9</td>
<td>6.5</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
<td>Copaxone (glatiramer acetate; Teva)</td>
<td>122</td>
<td>31.0</td>
<td>4.5</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
<td>Lantus (insulin glargine; Sanofi)</td>
<td>76</td>
<td>13.3</td>
<td>2.8</td>
</tr>
<tr>
<td>6</td>
<td>50</td>
<td>Hemofil M (antihemophilic factor; Baxter)</td>
<td>59</td>
<td>443.9</td>
<td>2.2</td>
</tr>
<tr>
<td>7</td>
<td>2</td>
<td>Herceptin (trastuzumab; Roche)</td>
<td>54</td>
<td>26.7</td>
<td>2.0</td>
</tr>
<tr>
<td>8</td>
<td>5</td>
<td>Coagil (eptacog alfa; Lekko)</td>
<td>53</td>
<td>52.2</td>
<td>1.9</td>
</tr>
<tr>
<td>9</td>
<td>2</td>
<td>Remicade (infliximab; Janssen)</td>
<td>44</td>
<td>14.7</td>
<td>1.6</td>
</tr>
<tr>
<td>10</td>
<td>New</td>
<td>Genfaxon (interferon beta-1a; Laboratorio Tuteur)</td>
<td>42</td>
<td>n/a</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: DSM Group, 2012
RETAIL MARKET SEGMENT

The retail market segment is the key driver of Russian market growth

The retail (commercial) segment is driving overall market growth with around a 70% share, and it is forecast to reach $19.5bn in 2013 (Pharmexpert, 2013).

Figure 14: Retail segment sales value, 2009–11

Source: Pharmexpert, 2013
Given the modest volume increase in sales from 2010 to 2011, it can be concluded that the key growth drivers are the growing preference for higher priced products and rising prices rather than volume increases. With Russian consumers' tendency to purchase more expensive products among equivalent drugs and the dominance of branded generics, this market segment is relatively insulated from the ongoing government push towards the greater use of generics and locally manufactured products, especially since the sales in this segment are derived from out-of-pocket purchases. However, this market segment is heavily dependent on performance of the Russian economy, and although it has been the most attractive and consistently high performing market segment it is vulnerable to any future economic volatility.

**Imported products dominate the retail segment by value**

Most of the products in the commercial segment are imported, and price growth for these products reached 11% in 2011 compared with 2010. However, sales of locally produced drugs grew faster than those of imported products, resulting in a slight increase in the share of local products in 2011.
Price growth in parts of the commercial segment is limited through price regulations on VEDL products, but for the 64% of the commercial segment which comprises over-the-counter (OTC) products, prices are not controlled in this way, which drives average price growth of the sector as a whole. In 2011, prices of non-VEDL products grew by 19.3% in comparison with their 2010 level.
Products included in the EDL account for 36% of the commercial segment, and this share has slightly decreased during the last 3 years, most probably due to a lack of opportunity to increase prices, which grew at a compound annual growth rate (CAGR) of just 5% in 2009–11.

The majority of EDL products are prescription-only, while most non-EDL products are OTC.

**OTC brands dominate the leading products by value in the commercial segment**

The top three products in the retail segment by sales value are Arbidol (umifenovir; Pharmstandard), Essentiale (PCC and vitamins; Sanofi), and Viagra (sildenafil; Pfizer).
The top 10 products account for 8.3% of total segment sales value. Just over half (52.8%) of total sales in this segment were derived from prescription products, with the remainder generated by OTC drugs. In terms of sales volume, prescription drugs accounted for only 29% of sales in 2011, with the disparity between value and volume share stemming from the higher price of prescription drugs compared to OTC products (DSM Group, 2012).

**Top therapy groups in the retail segment**

The ranking of ATC group sales within the retail market segment has remained unchanged for the past 2 years, with group A, alimentary tract and metabolism, being the leader in terms of sales value since 2010.
The key growth drivers of the retail segment are ATC groups A, R, and N, with value growth being key against almost unchanged sales volume, indicating that growth is being driven by increasing prices, or a move towards the use of more expensive brands, rather than by an increase in absolute consumption.

### Table 12: ATC group ranking and sales in the Russian retail market segment, 2011

<table>
<thead>
<tr>
<th>ATC group</th>
<th>Description</th>
<th>Sales ($m)</th>
<th>Value share (%)</th>
<th>Sales (millions of packs)</th>
<th>Volume share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Alimentary tract and metabolism</td>
<td>2,229</td>
<td>19.6</td>
<td>811</td>
<td>18.3</td>
</tr>
<tr>
<td>N</td>
<td>Nervous system</td>
<td>1,443</td>
<td>12.7</td>
<td>908</td>
<td>20.5</td>
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<tr>
<td>C</td>
<td>Cardiovascular system</td>
<td>1,415</td>
<td>12.4</td>
<td>409</td>
<td>9.2</td>
</tr>
<tr>
<td>R</td>
<td>Respiratory system</td>
<td>1,372</td>
<td>12.1</td>
<td>606</td>
<td>13.7</td>
</tr>
<tr>
<td>M</td>
<td>Musculoskeletal system</td>
<td>845</td>
<td>7.4</td>
<td>257</td>
<td>5.8</td>
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<td>G</td>
<td>Genitourinary system and sex hormones</td>
<td>835</td>
<td>7.3</td>
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<td>1.7</td>
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<tr>
<td>J</td>
<td>Anti-infectives for systemic use</td>
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<td>7.2</td>
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<td>D</td>
<td>Dermatologicals</td>
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<td>5.5</td>
<td>470</td>
<td>10.6</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>498</td>
<td>4.4</td>
<td>293</td>
<td>6.6</td>
</tr>
<tr>
<td>L</td>
<td>Antineoplastic and immunomodulating agents</td>
<td>487</td>
<td>4.3</td>
<td>64</td>
<td>1.4</td>
</tr>
<tr>
<td>B</td>
<td>Blood and blood-forming organs</td>
<td>322</td>
<td>2.8</td>
<td>109</td>
<td>2.5</td>
</tr>
<tr>
<td>S</td>
<td>Sensory organs</td>
<td>314</td>
<td>2.8</td>
<td>112</td>
<td>2.5</td>
</tr>
<tr>
<td>H</td>
<td>Systemic hormonal preparations, excluding sex hormones and insulins</td>
<td>80</td>
<td>0.7</td>
<td>19</td>
<td>0.4</td>
</tr>
<tr>
<td>V</td>
<td>Various</td>
<td>59</td>
<td>0.5</td>
<td>25</td>
<td>0.6</td>
</tr>
<tr>
<td>P</td>
<td>Antiparasitic products, insecticides, and repellents</td>
<td>41</td>
<td>0.4</td>
<td>23</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Source: DSM Group, 2012
**Multinationals dominate the retail segment**

In 2011, 1,000 players participated in the commercial segment (540 local and 460 foreign manufacturers). The leading 10 companies accounted for 33% of the segment.

<table>
<thead>
<tr>
<th>Rank 2011</th>
<th>Change vs 2010</th>
<th>Company</th>
<th>Sales ($m)</th>
<th>Growth (%)</th>
<th>Share (%)</th>
<th>Sales (RUBm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0</td>
<td>Pharmstandard</td>
<td>547</td>
<td>13.7</td>
<td>4.8</td>
<td>17,036</td>
</tr>
<tr>
<td>2</td>
<td>0</td>
<td>Sanofi</td>
<td>472</td>
<td>8.2</td>
<td>4.2</td>
<td>14,715</td>
</tr>
<tr>
<td>3</td>
<td>0</td>
<td>Berlin-Chemie</td>
<td>421</td>
<td>5.8</td>
<td>3.7</td>
<td>13,100</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
<td>Novartis</td>
<td>396</td>
<td>23.3</td>
<td>3.5</td>
<td>12,328</td>
</tr>
<tr>
<td>5</td>
<td>-1</td>
<td>Nycomed</td>
<td>386</td>
<td>15.3</td>
<td>3.4</td>
<td>12,016</td>
</tr>
<tr>
<td>6</td>
<td>-1</td>
<td>Bayer</td>
<td>369</td>
<td>10.9</td>
<td>3.2</td>
<td>11,491</td>
</tr>
<tr>
<td>7</td>
<td>0</td>
<td>Gedeon Richter</td>
<td>351</td>
<td>15.3</td>
<td>3.1</td>
<td>10,943</td>
</tr>
<tr>
<td>8</td>
<td>0</td>
<td>Servier</td>
<td>285</td>
<td>12.6</td>
<td>2.5</td>
<td>8,882</td>
</tr>
<tr>
<td>9</td>
<td>1</td>
<td>Lek DD</td>
<td>284</td>
<td>15.6</td>
<td>2.5</td>
<td>8,835</td>
</tr>
<tr>
<td>10</td>
<td>-1</td>
<td>Pfizer</td>
<td>281</td>
<td>12.1</td>
<td>2.5</td>
<td>8,757</td>
</tr>
</tbody>
</table>

Source: DSM Group, 2012

Pharmstandard, a local player with a relatively wide portfolio, is the segment leader and also produces the leading brand in the retail segment, Arbidol (umifenovir). In 2011, Arbidol’s share of company sales reached 28%, with 6% annual growth. The highest growth was for Fosfogliv (threefold growth), which is used for liver treatment. In volume terms, the company’s leading products are also the segment leaders – Activated Carbon, Citramon, and Validol (accounting for 27% of sales by volume, but just 2.4% by value) (DSM Group, 2012).

Sanofi kept its second position through Essentiale, No-Spa, and Magne, which all featured in the top 20 bestselling brands in the retail segment.
Berlin-Chemie, with a share of 3.7%, was the third-ranked company in 2011, with growth of 5.8% being around 2.4 times lower than the segment in total.

The share of generics in the retail segment has been stable over recent years at around 21%, with branded generics reaching more than 70% of the market by value. This trend is heavily driven by prescribing habits in the country, whereby physicians are using brand names instead of the international nonproprietary name (INN). However, this is set to change due to recently passed government regulations requiring physicians to prescribe by INN; a change deemed necessary for successful implementation of the drug coverage system, which is expected in 2017. Going forward pharmacists are expected to exert a great amount of influence over which product is dispensed.

References


MARKET ENTRY STRATEGIES

Most of the leading global pharmaceutical companies are present in Russia through local offices. Some companies, for example Novartis and Abbott, have entered the market by establishing representative offices with direct export sales in Russia. The increased scale of operations has motivated companies to establish local offices operating independently in order to enable faster decision-making and growth.

In addition, market entry to Russia has also been achieved through acquisition. For example, Takeda Pharma entered the Russian market through M&A by acquiring the Swiss company Nycomed in 2011, utilizing its focus on emerging markets which accounted for 39% of its revenues. In Russia, Nycomed was one of the market leaders, and this helped Takeda to establish a presence in the country. The brand Nycomed has been retained in Russia due to high public awareness and its reputation in the country.

Abbott Laboratories also used M&A to expand its portfolio and strengthen its position in the Russian market through the acquisition of Solvay Pharma. Before the acquisition Abbott’s market share was around 0.84%, while Solvay had a share at least twice that size in Russia (Pharmvestnik, 2009). This move also helped Abbott to establish a global presence and strong position in the branded generics business.

Given the Russian government’s drive to increase the local manufacturing of medicines and participation in the local market (through its Pharma2020 Strategy), acquisition of a local player or a multinational company with local manufacturing facilities is a wise move for a company planning its entry into the Russian market.

The government’s plans involve stimulating the establishment of local manufacturing facilities in Russia through contracts with factories that are already present in the market.

References

RETAIL AND DISTRIBUTION SECTORS

The distribution and retail sectors are both concentrated, and consolidation is a continuing trend. To maintain power over pharmaceutical companies, distributors have started to expand business into retail, which holds special importance in light of the upcoming increased drug coverage. According to the drug coverage strategy approved by the government, all reimbursement will most likely happen at the pharmacy level. With prescriptions set to be made by international nonproprietary name (INN) instead of brand name as is the case at the moment, pharmacists will have a greater influence over what drug will be dispensed and hence reimbursed.

Distributors

The role of distributors is still very important due to the geographical peculiarities of the country. Distributors need to have developed a network of offices all across Russia to enable timely delivery of medicines to pharmacies in different regions. This trend is being followed not only by key players in the segment, but also by second-tier players, which are creating networks of small warehouses.

In order to expand a network of offices and warehouses, big distributors need to attract additional investment. For example, the European Bank of Reconstruction and Development owns 15% of stocks of Katren, which has announced plans for warehouse network expansion and M&A activity in Russia and the CIS (Gazeta, 2012).

The distribution sector is characterized by growing concentration, with the top 10 distributors reaching an 83% share in 2011, and with the top three players in the market remaining stable.
In 2011, CIA International’s sales grew by 17.2%, considerably outperforming and overtaking Protek (3.6% growth). However, the highest growth among the top 10 distributors came from second-tier companies R-Farm and Biotek (35.9% and 50.0% respectively).
In the near future, the trend for increasing market concentration and consolidation is expected to continue. The main market dynamics influencing distributors are the increasing consolidation of pharmacies and the increasing power held by pharmacy chains over distributors. Consequently, in order to mitigate risks, all of the biggest distributors have started to diversify their businesses.

The Protek group of companies includes not only the pharmacy chains Rigla and Panatseya in St. Petersburg and Novaya Apteka in the Yaroslavl region, but also the pharmaceutical manufacturers Sotex and AnviLab (which owns the rights to the Antigrippin brand) (Rb.ru, 2010; Gazeta, 2011).

Furthermore, Oriola is an internationally diversified company with wholesale business in Sweden, Russia, Finland, and the Baltic countries, and retail business in Sweden and Russia (through the pharmacy chains Apteka-03 and Stariy Lekar) (Old Lekar, 2013).

With the active support of Alliance Healthcare, in 2011 Alfega Apteka consolidated 720 independent pharmacies into one virtual pharmacy group. The pharmacies in this group have special conditions relating to the purchase of medicines from Alliance Healthcare, which help the distributors to expand
their client bases.

A similar scheme was used by Protek in launching the pharmacy association SoyuzPharma. In addition, Protek is also focused on improving the level of services through a new business portal. Through this online portal any client can check the status of operations between the pharmacy and distributors. This system increases Protek's attractiveness in the market, but overall Internet penetration in Russia remains low, which will limit the impact of this approach.

The state purchasing segment also experienced some changes in 2011. Previously, work with the Russian government meant stable contracts and a certain future, but considering continuously changing requirements from the government, this is no longer true. Therefore, distributors actively working in the state purchases segment have begun to increase their focus on commercial sales. Rosta and Protek are good examples of companies decreasing their participation in the Seven Nosologies program, but increasing commercial sales (Pharmexpert, 2012).

Pharmacies

In 2011 the retail segment experienced pressure from the government in the form of pricing regulations and changes in tax legislation, limiting the mark-ups on EDL products and therefore eroding pharmacies' margins.

Furthermore, tax legislation changes impacted profitability, primarily through the social tax increase from 14% to 30% (PwC, 2013).

As such, decreases in profitability triggered the privatization of some state pharmacies. For example, Mosoblpharmacia was sold to pharmacy retailer A5, which optimized the use of the greater sales space to improve profitability (Ad Index, 2012).

A positive impact is expected after the implementation of drug coverage for the population, which is due in 2017, with pharmacies expected to play a key role in the coverage scheme and gaining additional powers over distributors due to the introduction of INN prescribing.

The previous year's trend of discount pharmacies (pharmacies selling products with minimum mark-ups) continued in 2011. Pharmacy chain Rigla launched its own discount chain in 2009, and in the following 2 years the company moved or opened 103 new discount pharmacies under the brand "Budzdorov." In September 2011, A5 started to move some pharmacies into the discount segment under the brand name "Norma." At the end of 2011, the 36.6 pharmacy chain announced the move of 50% of its pharmacies into the discount segment under the brand name "Leko." The range of products is to be the same in both 36.6 and Leko pharmacies, but in the discount arena the mark-ups are to be lower.

Meanwhile, the pharmacy chain Doctor Stoletov selected another approach for expansion, namely a contract with the retail chain 7th Continent which was signed to place pharmacies within 7th Continent outlets.
Most of the pharmacies currently sell products under their own private labels in the parapharmaceutical segment (mostly cosmetics). The share of such products is growing, and has reached 14% for the 36.6 chain (DSM Group, 2012).

In 2011, the top 10 pharmacies accounted for 15.5% of market share, which was 1.5% more than in 2010.

Table 15: Ranking of pharmacy chains in Russia, 2011

<table>
<thead>
<tr>
<th>Rank in commercial segment, 2011</th>
<th>Pharmacy chain</th>
<th>Head office</th>
<th>Number of pharmacies</th>
<th>Market share, 2011 (%)</th>
<th>Market share, 2010 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Rigla</td>
<td>Moscow</td>
<td>694</td>
<td>2.55</td>
<td>2.38</td>
</tr>
<tr>
<td>2</td>
<td>36.6</td>
<td>Moscow</td>
<td>1,005</td>
<td>2.33</td>
<td>2.47</td>
</tr>
<tr>
<td>3</td>
<td>5 Group</td>
<td>Moscow</td>
<td>1,371</td>
<td>1.99</td>
<td>1.61</td>
</tr>
<tr>
<td>4</td>
<td>Alfega Apteka</td>
<td>Moscow</td>
<td>720</td>
<td>1.56</td>
<td>0.83</td>
</tr>
<tr>
<td>5</td>
<td>Farmacor</td>
<td>St Petersburg</td>
<td>399</td>
<td>1.51</td>
<td>1.66</td>
</tr>
<tr>
<td>6</td>
<td>Implosia</td>
<td>Samara</td>
<td>741</td>
<td>1.29</td>
<td>1.38</td>
</tr>
<tr>
<td>7</td>
<td>Farmaimpeks</td>
<td>Izhevsk</td>
<td>288</td>
<td>1.22</td>
<td>1.09</td>
</tr>
<tr>
<td>8</td>
<td>ACHA</td>
<td>Moscow</td>
<td>154</td>
<td>1.11</td>
<td>0.87</td>
</tr>
<tr>
<td>9</td>
<td>UMG</td>
<td>Moscow</td>
<td>397</td>
<td>1.00</td>
<td>0.86</td>
</tr>
<tr>
<td>10</td>
<td>Raduga</td>
<td>St Petersburg</td>
<td>514</td>
<td>0.99</td>
<td>0.79</td>
</tr>
</tbody>
</table>

Source: Pharmexpert, 2012

References


APPENDIX

About the author

Maria Merinova has 5 years' experience working in the pharmaceutical industry in Russia along with 3 years' experience in consulting. Maria's experience in the pharmaceutical industry covers a number of functions including R&TD, regulation, and market access. Maria currently works for Abbott Laboratories in the Russian Federation as a business finance analyst. Her previous experience was gained at Novartis, Ernst & Young, and Roland Berger Strategy Consultants.

Maria holds an MBA from ESADE Business School and a BA degree in Engineering in Physics with a minor in Biophysics from the Moscow Engineering Physics Institute.