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9B17A047

MAHA RESEARCH LABS: THE TURKISH OPPORTUNITY

Sandeep Puri and Elena Poliakova wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In May 2017, Mohammed Isaquddin Kureshi (Isaq), the managing director of Maha Research Labs Private Limited (Maha Research Labs), sat thinking about a call he had received from a friend of his in Turkey, Afzal Khan. Khan had been working for a pharmaceutical company in Turkey since 2005, and had experience with the market there. He had suggested to Isaq to start operations in the growing Turkish market. Since starting out in 2006, Maha Research Labs had grown steadily and had succeeded in building a strong cash flow with good profits. Based in Mumbai, Maharashtra, India, the company had ended 2016 with sales worth ₹508.4 million,[[1]](#footnote-1) which was more than 31.2 per cent growth over the previous year (see Exhibit 1). It aimed for net revenue of ₹700 million in 2017 with an ambitious growth target of around 38 per cent. However, the pharmaceutical marketing industry in India had become hyperactive with the presence of innumerable pharmaceutical companies, which put pressure on the operating expenses of companies such as Maha Research Labs and affected their future growth opportunities. Government price controls on many medicinal products further reduced the profitability of these companies.[[2]](#footnote-2)

Isaq discussed exploring the Turkish opportunity with his marketing manager, Ahsan Khan. The Turkish pharmaceutical market was highly regulated, and had its own advantages and disadvantages. During the discussion, doubts came to Isaq’s mind that led him to wonder whether he should explore this opportunity: Was his product range suitable for that market? What would be the best way to enter the market in Turkey, and what were the possible risks of doing so?

COMPANY BACKGROUND

Maha Research Labs was in the business of pharmaceutical marketing, which included imports and exports. The company began in 2007 with an initial investment of ₹3 million, five employees, and seven brands. In its initial three years, the company marketed its products in eight sales territories, and Isaq took care of all marketing and sales activities. The company started to expand its business in 2010, with the marketing of 22 brands in 10 sales territories. In April 2017, the company had a portfolio of 46 brands and a team of 52 employees, which included a sales team of five area managers and 40 professional sales officers covering various areas in Western India. The company was committed to delivering high quality, international-standard products to Indian and overseas markets. It followed good manufacturing practices (GMP), and all of its products were procured from government-approved pharmaceutical companies adhering to proper quality controls.

Maha Research Labs’ line of medications included analgesics, antibiotics, anti-allergenics, cough syrups, and a range of nutritional products (see Exhibit 2). Its focused product portfolio and broad distribution network provided strategic advantages for integration that had allowed it to perform well in the increasingly competitive pharmaceutical market. The company’s comprehensive network of three carrying-and-forwarding agents and more than 100 stockists distributed its products to customers through retail pharmacies in different sales territories (see Exhibit 3).

**TURKEY AS A BUSINESS DESTINATION**

Turkey occupied a distinct geographic position, lying partly in Asia and partly in Europe, and acted as both a barrier and a bridge between the two continents. Turkey was among the larger countries of the region in terms of territory and population. It was bordered by eight countries—Greece, Bulgaria, Georgia, Armenia, Azerbaijan, Iran, Iraq, and Syria. The modern Turkish Republic, founded in 1923, was a nationalist, secular, parliamentary democracy.

As the most western country in the Middle East, Turkey presented promising and long-term opportunities for business. It was considered a commercial hub in the region, providing access to business opportunities throughout Central Asia, the Caucasus, the Middle East, and even Africa. Turkey’s strategic geographic location, stable economy, rising middle class, and young population (an average age of 29) made it a lucrative market for exporters. Moreover, Turkey’s economy had averaged 5 per cent growth since 2002. This rapid economic growth was driven in part by flourishing infrastructure projects, and had occurred despite the Turkish lira losing 25 per cent of its value in 2015. In addition, Turkey’s continued movement toward membership in the European Union had generated a momentum to embrace European business regulations and standards in Turkey, thereby making it easier, ultimately, to sell products and conduct business in that market.

However, Turkey was a complex and challenging market requiring flexibility and perseverance. Unemployment remained obstinately high. Exporters faced challenges such as inconsistency in policies, regulations, and documentation requirements; a lack of transparency in tenders and other procurement decisions; and a time-consuming, unpredictable judiciary and legal and regulatory framework. Also, the Turkish government gave more importance to local manufacturing. It was critical for companies to consider their resources, previous international business experience, and long-term business strategy before entering the Turkish market. For many organizations, doing business in Turkey through an agent, distributor, or partner was key to success. Local partners could provide knowledge of the local regulatory framework, give language assistance, and offer valuable business contacts.[[3]](#footnote-3)

THE PHARMACEUTICAL INDUSTRY IN TURKEY

Turkey was the 15th largest economy in the world in 2016. The country’s social health care system extensively covered its population of over 80 million. Turkey’s Health Transformation Program—the country initiated a series of health care coverage reforms in 2003—aimed to position the country as a regional hub for health care tourism. Turkey’s life science industries presented many opportunities for investment and growth. The country’s pharmaceutical industry was heavily regulated, with major aspects ranging from market access to pricing and reimbursement covered by industry-specific regulation. However, this was to ensure greater public savings on the health budget, and had no negative effect on investment. Pharmaceutical companies therefore continued to view the pharmaceutical industry in Turkey as a sensible investment.[[4]](#footnote-4) Low labour costs were another factor that made Turkey an attractive manufacturing hub for foreign investors.[[5]](#footnote-5)

The pharmaceutical market in Turkey, which had grown consistently by 12 per cent since 2011, reported sales volume of ₺22.1 billion[[6]](#footnote-6) in 2015, becoming the 17th largest pharmaceutical market in the world. In 2016, it grew by 17 per cent over the previous year. With estimated double-digit growth rates over the next five years, Turkey was expected to become the 14th largest drug market in the world by 2020. Factors such as economic prosperity, an aging population, an increase in chronic diseases, high drug prices,[[7]](#footnote-7) ease of access, and improvement in health care policies drove the growth of this industry. Pain management was a major **treatment area in** the Turkish pharmaceutical market, with revenue worth ₺1.646 million and 21 per cent growth in 2015. Antibiotics constituted revenue worth ₺1.435 million in 2015, whereas diabetes-management products constituted ₺1.419 million in 2015.[[8]](#footnote-8)

Pharmaceutical Pricing in Turkey

The prices of pharmaceutical products in Turkey were regulated by the Turkey Pharmaceutical and Medical Devices Institution (TITCK), and were set according to strict calculations involving reference prices borrowed from a fixed set of reference countries. The foreign currency exchange rate used for converting the minimum reference price to a corresponding Turkish ex-factory price had remained unchanged since 2015.[[9]](#footnote-9) To determine the price of pharmaceuticals sold in the market, the lowest ex-factory price was calculated from among five European Union members (France, Spain, Italy, Portugal, and Greece) and the country of origin from where the product was purchased. This price was further reduced by 11 per cent, and a public discount of 28 per cent for generics and 41 per cent for innovative products without generic equivalents was applied to the price. The final retail prices of medicines had predetermined wholesale and retail pharmacy margins, and a value added tax of 8 per cent.[[10]](#footnote-10)

Consequently, the prices of pharmaceuticals products in Turkey were consistently the most economical among all European countries. In 2015, the new pricing decision (the Turkish pharmaceutical market had made new pricing rules that year) and official communication of the new pricing had modified the previously complicated pricing regime, and allowed for more favourable pricing determinations for pharmaceutical products having particular importance to public health.[[11]](#footnote-11)

Promoting Localization and Prioritization

Turkey’s public institutions promoted increased production of pharmaceutical products. Because of the increasingly dwindling national health budget, the government incentivized local manufacturers to discriminate against imported pharmaceutical products so that the cost of these would be reduced. According to Turkey’s Ministry of Health policy, GMP certificates issued by non-Turkish authorities were not accepted as valid. The only exceptions to these were certifications issued by a country that recognized the GMP certificates issued by the Ministry of Health. This discrimination led to an advantage for domestic products. The Social Security Institution, the state institution in charge of administration of the reimbursement system in Turkey, also promoted localization. As most pharmaceutical products were sold through the reimbursement system in Turkey, it was critical for pharmaceutical products to be included on the reimbursement list. However, there was no transparency related to the evaluation of a product for entry onto the list, with discretion granted to the Social Security Institution to prioritize the application of domestic products. In the action plan for the Healthcare Related Industries Structural Transformation Program, an action point was incorporated to exclude imported pharmaceuticals that had generic equivalents on Turkey’s reimbursement list. Another critical factor for foreign stakeholders in the pharmaceutical industry was the provisions related to compulsory licensing. Under such provisions, compulsory patents could be granted to a Turkish pharmaceutical company on the grounds of public interest.[[12]](#footnote-12)

Import of Pharmaceutical Products and Alternative Reimbursement

In the event that a pharmaceutical product had not applied for market authorization in Turkey or was unavailable in the Turkish market but considered necessary by a physician, that particular product was imported. That drug would then be priced higher and put at a higher reimbursement level than if it had been granted market authorization in Turkey. The number of pharmaceutical products being imported had increased in 2016. That same year, TITCK updated its guidelines related to the procurement of pharmaceutical products from abroad with a provision to procure these products only when all treatment options in Turkey were exhausted. On the other hand, TITCK also put pressure on foreign pharmaceutical manufacturers to enter into a market authorization agreement to ensure a lower price on imported pharmaceutical products.[[13]](#footnote-13)

Value Transfer Disclosure

In 2016, the obligation to disclose value transfers delivered to health care professionals, health care institutions, universities, and foundations in the health care field was introduced in the Turkish pharmaceutical industry to protect and advance health. This new obligation required market authorization holders to disclose to TITCK any value transfer with a monetary value exceeding 10 per cent of the applicable gross minimum wage to health care professionals, health care institutions, universities, and foundations in the health care field. This disclosure obligation favoured increased transparency in areas related to the relationships between companies and health care professionals.[[14]](#footnote-14)

****The Need for a Local Partner****

It was important for international companies to work with a local partner in Turkey to manage GMP requirements. The selection of that partner was critical, as they had to have the necessary expertise to counsel pharmaceutical companies on the many complexities of the country’s frequently changing regulations and requirements. Many companies managed GMP certification requirements either by manufacturing products in Turkey or by obtaining the products from third-party manufacturers in Turkey; GMP certification conditions did not apply to products manufactured at local manufacturing facilities, as Turkish authorities inspected these on a regular basis. Companies not manufacturing in Turkey had to request TITCK to decide on the priority status of their product by explaining the importance of the product to the Turkish market. For this, it was imperative to have local expertise to understand the therapeutic needs and available competitive products in Turkey.[[15]](#footnote-15)

**CONCLUSION**

India and Turkey shared warm and cordial political relations, and the countries’ economic and commercial co-operation constituted a significant dimension of this bilateral relationship. Several bilateral agreements and institutional mechanisms were in place to further strengthen the economic and commercial ties.[[16]](#footnote-16) Isaq looked at this and all other aspects of entering the pharmaceutical business in Turkey as he wondered if he should explore the opportunity to do so. If he did, what would be the best way to enter the Turkish market? He wondered if it would be better to manufacture economically in India, or to work with a third-party manufacturer in Turkey. Furthermore, Isaq was not sure if his product range was suitable for the market in Turkey, or if he would benefit more by launching new products there. Above all, the most important issue he had to consider was the possible risks of doing business in Turkey.

Exhibit 1: SELECTED FINANCIALS FOR Maha Research LABS, 2012–2016 (in ₹ million)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2012** | **2013** | **2014** | **2015** | **2016** |
| Total Revenue | 162.4 | 251.7 | 305.8 | 387.5 | 508.4 |
| Cost of Sales | 48.8 | 75.2 | 89.3 | 111.9 | 134.6 |
| Gross Profit | 113.6 | 176.5 | 216.5 | 275.6 | 373.8 |
| Marketing & Selling Expenses | 28.8 | 45.2 | 57.1 | 72.4 | 99.8 |
| Other Expenses | 2.5 | 4.7 | 7.1 | 9.6 | 12.7 |
| Net Profit/(Loss) | 82.3 | 126.6 | 152.3 | 193.6 | 261.3 |

Source: Company documents.

Exhibit 2: Maha Research LABS, top 10 products (by sales)

|  |  |  |
| --- | --- | --- |
|  | **Brand Name** | **Category** |
| 1 | Algesic Tablets | Pain Management |
| 2 | Algesic-SP Tablets | Pain Management |
| 3 | FG-CAL Tablets | Calcium Supplement |
| 4 | Mahamox | Antibacterial Range |
| 5 | M.Panto DSR Capsules | Gastro-protective |
| 6 | FG-IRN-XT Tablets | Haematinic |
| 7 | Mahapod | Antibacterial Range |
| 8 | Maflox | Antibacterial Range |
| 9 | Enervit Capsules | Nutritional Supplement |
| 10 | M.Envervit Syrup | Nutritional Supplement |

Source: Company documents.

EXHIBIT 3: LOGISTICS at MAHA RESEARCH LABS

Central Warehouse

C&F Agents

Stockist

Retail Pharmacy

Customer

Note: C&F = carrying-and-forwarding

Source: Company documents.

1. ₹ = INR = Indian rupee; all currency amounts are in ₹ unless otherwise specified; ₹1 = US$0.02 on May 1, 2017. [↑](#footnote-ref-1)
2. “Implementation of New Drug Pricing Policy to Impact Profits: Wyeth,” *Hindu* Business Line, August 5, 2013,accessed April 11, 2017, www.thehindubusinessline.com/companies/implementation-of-new-drug-pricing-policy-to-impact-profits-wyeth/article4991779.ece. [↑](#footnote-ref-2)
3. “Doing Business in Turkey,” export.gov, August 31, 2016, accessed May 8, 2017, http://2016.export.gov/turkey/doingbusinessinturkey/. [↑](#footnote-ref-3)
4. Özge Atılgan Karakulak and Bentley James Yaffe, “Life Sciences 2017, Trends & Developments, Turkey Chapter,” Gün + Partners, November 7, 2016, accessed April 15, 2017, http://gun.av.tr/tr/chambers-global-practice-guides-life-sciences-2017-trends-developments-turkey-chapter/. [↑](#footnote-ref-4)
5. Ahmet Faruk Aysan and Burcu Dinçsoy, *Cost of Labor in Manufacturing Sectors of Turkey Compared with Other Transition Countries: Hungary, Poland, Czech Republic and Slovakia,* 2007, accessed April 23, 2017, www.econ.boun.edu.tr/content/wp/ISS\_EC\_07\_04.pdf. [↑](#footnote-ref-5)
6. ₺ = TRY = Turkish lira; ₺1 = US$0.28 on May 1, 2017. [↑](#footnote-ref-6)
7. “Focus on Every Aspect of Human Life,” Fortune Turkey, June 6, 2016, accessed April 10, 2017, www.fortuneturkey.com/insan-hayatinin-her-noktasina-odaklanmak-34721. [↑](#footnote-ref-7)
8. Anadolu Agency, Turkey Drug Sector 2017 report (Which Drug Company Do You Use the Most?), NTV, March 2, 2017, accessed April 10, 2017, www.ntv.com.tr/saglik/turkiye-ilac-sektoru-2017-raporu-aciklandi-en-cok-hangi-ilaci-kullandik,JIEM9YQ9mEaSdCj\_Fgl\_Sw. [↑](#footnote-ref-8)
9. Özge Atılgan Karakulak and Bentley James Yaffe, “Life Sciences 2017, Trends & Developments, Turkey Chapter,” Gün + Partners, November 7, 2016, accessed April 17, 2017, http://gun.av.tr/chambers-global-practice-guides-life-sciences-2017-trends-developments-turkey-chapter/. [↑](#footnote-ref-9)
10. Deloitte, *The Pharmaceutical Industry in Turkey*, invest.gov.tr, March 2014, accessed April 19, 2017, www.invest.gov.tr/en-US/infocenter/publications/Documents/PHARMACEUTICAL.INDUSTRY.pdf. [↑](#footnote-ref-10)
11. Ibid. [↑](#footnote-ref-11)
12. Ibid. [↑](#footnote-ref-12)
13. Ibid. [↑](#footnote-ref-13)
14. Ibid. [↑](#footnote-ref-14)
15. “The Challenges and Opportunities of the Turkish Pharmaceutical Market,” ProductLife Group, July 27, 2016, accessed April 15, 2017, https://productlifegroup.com/blog/challenges-opportunities-turkish-pharmaceutical-market/. [↑](#footnote-ref-15)
16. “India–Turkey Relations,” Embassy of India: Ankara, Turkey, April 11, 2017, accessed April 17, 2017, www.indembassy.org.tr/cgi.php?id=Relation. [↑](#footnote-ref-16)