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RANBAXY LABORATORIES

Although the global pharmaceuticals war is driven by large doses of R&D, the Rs. 1,065.70 crores Ranbaxy Laboratories' success has been attained through a different route. For his company, CEO Parvinder Singh, has developed capabilities in manufacturing and marketing fanning out into seven developing markets, and growing strengths in product engineering.

Being a low-cost manufacturing is Ranbaxy's highest priority in order to compete with global players in foreign waters. While economies of scale and low-cost research help, much of the advantages comes from a holistic approach to costs. Instead of trying to cut costs at each stage without factoring in possible increases in downstream costs, the company employs the concept of total activity cost to optimise its expenses. Many of the cost benefits also flow from benchmarking against international competitors. Cost data from the world's four most competitive generic drugs-manufacturers—Mylan and Ivax of the US, Teva of Israel, and Doffar of Italy—is constantly fed to the process design, manufacturing, and product-development teams.

While some of its domestic rivals are fixated on basic research, Ranbaxy is differentiating itself by designing Novel Drug Delivery Systems (NDDS). The NDDS—an unconventional way of administering a drug such as helper compounds or polymer implants—makes differentiation easier to achieve than developing innovative new drugs would. It is also cheaper and quicker, taking between Rs. 72 crore and Rs. 108 crore, and between three and five years to develop, versus an average of Rs. 1,800 crore and between 10 and 12 years for a new drug. Moreover, it offers an opportunity for Ranbaxy to leverage a competence it does possess.

Ranbaxy is actually two companies rolled into one. Globally, it is determinedly focused on generic molecules, and refuses to venture into other areas. That, naturally, gives it a sharp business focus. At home, where its market-share of 5.60% market it is second only to the Rs. 731 crore Glaxo Welcome's 7%. It takes the conventional route of branded products, with seven brands enjoying market shares of over 2.70%.

To make it more difficult for new competitors to enter, Ranbaxy is eschewing the highly competitive pockets in the market. Since almost every generic player keeps blockbuster drugs—which deliver high returns to their inventors during their patent lifetime—in its sights, the consequent flood of generic offerings saturates the market. But by veering away from them and focusing on complex molecules—which attract only one or two competitors—Ranbaxy is counting on the relatively smaller size of its target market to deter new entrants. Confirms Singh: "We aim to make products involving complex chemistry". Moreover, the skills required in its product lines aren't easy to acquire.

In its very choice of product with which to go global-general—lies Ranbaxy's understanding of the competitive environment. The generics business, which has been sparked off by cost-containment pressures from the developed markets, opens up as soon as a patent expires. Typically, generic drugs cost between 50 and 70% less than patented ones, and account for 32% of the total drug market in the US. Since the competition is intense, critical to the business of generics are process capability and

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manufacturing powers. Understanding these requirements, Ranbaxy has focused its internal development on these two areas.

One of Ranbaxy's greatest strengths lies in the fact that is vertically integrated through five stages of the value chain, which helps it manage cost and quality across the chain. Naturally, that ensures this the benefits from efficiencies can be soaked up from every activity in the chain. Thus, raising capacities is a natural way of maximising the gains from vertical integration. But high capacities also need large-enough markets to sustain them, which is why Ranbaxy operates in 26 different countries. And by raising scale and redesigning processes, Ranbaxy has been able to cut the costs of production of some its key bulk drugs—6APA, 7ADCA, fluoroquinolones, and cephalexin—by half.

For Ranbaxy, the strength in servicing its global customers comes not from deep distribution or selling skills, but from developing relationships with them. Among its major global customers, for instance, are Eli Lilly and Genpharm. What Ranbaxy promises them is exclusive marketing rights for its products, gaining their loyalty in exchange.

Without chasing the chimera of developing new drugs, Ranbaxy uses guerrilla skills. A classic example: it synthesised cefaclor—a complex molecule patented by the $ 7.30 billion Eli Lilly—through an alternative route, becoming the only company in the world to develop a process for the product without infringing on the original patent. Alarmed, Eli Lilly had no choice but to strike a joint venture with Ranbaxy to protect its turf, which allowed the Indian company to access the transnational's distribution network in the US. And Ranbaxy has now perfected the art of developing drugs by setting up teams that work on parallel processes for producing generic drugs.

Having consciously opted out of the mainstream drugs business, Ranbaxy has developed competitive advantages in areas where most large companies are only marginally involved. Applied in the developed markets which it is now targeting, that focus will make Ranbaxy's prescription even more potent.