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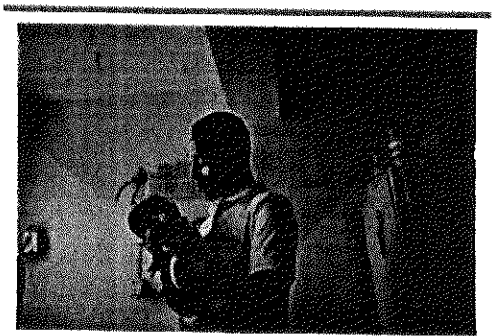
Drug Firms See Poorer Nations as Sales Cure

By AVERY JOHNSON

PETARE, Venezuela -- Julio Rodriguez was on a sales call at a clinic in this slum overlooking Caracas recently when he heard four gunshots go off nearby.

It was business as usual for Mr. Rodriguez. As a representative in Venezuela for U.S. pharmaceutical giant Pfizer Inc., his sales route takes him through one of Latin America's most dangerous neighborhoods. To avoid attracting attention, he wears a polo shirt with a red logo, the color worn by supporters of President Hugo Chávez.

Mr. Rodriguez is part of a strategic shift in the $770 billion pharmaceutical industry to target the working poor in the developing world.



David Rochkind/Rapport for The Wall Street Journal

Julio Rodriguez holds his 3-month-old niece in the kitchen of the small house he shares with his wife, mother, sister and niece.

More Photos and Interactive Graphics

For the first time in a half-century, sales of prescription drugs are forecast to decline this year in the U.S., historically the industry's biggest and most profitable market. The Obama administration and Congress's attempt to pass legislation overhauling the health-care system, including provisions that could lower the cost of medicine, could put drug makers' U.S. businesses under further pressure.

As a result, developing countries like Venezuela have begun to look more attractive to the industry. Sales of prescription drugs in emerging markets reached $152.7 billion in 2008, up from $67.2 billion in 2003, according to IMS Health, which tracks the industry. IMS forecasts sales will climb to $265 billion by 2013.

With a handful of other drug makers, including the U.K.'s GlaxoSmithKline PLC, Switzerland's Novartis AG and France's Sanofi-Aventis SA, Pfizer is making a big push into the developing world. In addition to Venezuela, the company is expanding in China, India, Brazil, Russia and Turkey. Pfizer brought in $1.4 billion in sales from emerging markets in the first quarter of this year. That's a fraction of its $10.8 billion in overall sales in the same quarter, but a slice Pfizer says it's determined to expand.

Until recently, drug companies doing business in emerging economies have catered mostly to the wealthy and middle class. Now, Pfizer is turning to what it calls, in internal marketing discussions,

the "bottom of the pyramid." Its program in Venezuela is an exercise in how to reduce prices enough to attract poorer customers while still turning a profit.

"There's an economy in the barrios," says Rafael Mendoza, the man Pfizer has put in charge of the strategy in Venezuela, as he gestures toward the satellite dishes and air conditioners that dot Petare.

Two years ago, Mr. Mendoza began laying plans for a program that would involve sending sales representatives into Petare. Caracas's largest shantytown is home to more than one million people who live in colorful houses clinging to the side of a mountain overlooking the capital's downtown.

Pfizer's New Market: Venezuela's Working Poor
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As U.S. drug sales start to slow, pharmaceutical companies are turning to the developing world for growth. In Venezuela, Pfizer is pitching its brand-name drugs over local no-name competitors. Avery Johnson reports from Venezuela.

Mr. Mendoza decided to hire someone from the slum who would know his way around and possibly be less of a target for theft. One of the office assistants in Pfizer's Caracas office persuaded her cousin, Mr. Rodriguez, to apply.

Initially reluctant, Mr. Rodriguez, 35 years old, recalls thinking that pharmaceutical sales reps were "snobs" who brushed airily past patients in busy doctors' offices. He was also intimidated by all the science and worried he wouldn't fit in at a big multinational company.

But the opportunity was hard to pass up. One of five children, Mr. Rodriguez was raised in Petare by a single mother who needed to stop working because of a shoulder injury. He started peddling women's undergarments in street stalls at age 15. By 2006, Mr. Rodriguez was working as a security guard in the Caracas subway system at night and selling Canon office supplies by day. He enrolled in college, and expects to finish an accounting degree in February.

For the Pfizer job, Mr. Rodriguez underwent a three-month training program he found grueling. He had trouble memorizing the medical terminology. He recalls being given a binder on the cardiovascular system on a Monday and being tested on it the next Wednesday. One night, he said to his mother in exasperation, "I'm not studying to be a doctor!"

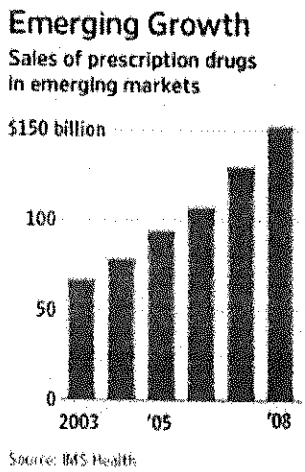
But the work paid off. His job brings in between $930 and $1,800 a month, depending on commissions, up to 60% more than his previous two jobs combined. Mr. Rodriguez drives a new Chevrolet Aveo that he can buy from Pfizer cheaply at the end of its lease.

When Mr. Rodriguez started knocking on clinic doors in late 2007, Petare's doctors were surprised to see a drug-company sales rep in a slum. The first question many asked was how he managed to reach their offices without getting his expensive samples ripped off, Mr. Rodriguez says. (The answer: He changes his route every day and sometimes carries a rolling bag, other times, a shoulder bag.) The second question he usually fielded had to do with the price of Pfizer's drugs.

Pfizer is benefiting from a belief in Venezuela and in much of the developing world that branded medicines are worth paying a premium for because they're safer and more effective than generics. Pfizer's prices in Venezuela tend to be about 30% under U.S. prices, but are still 40% to 50% more than generics, which are widely available here since patents aren't usually enforced. In some cases, the spread is even wider. In a few Petare pharmacies, for example, Pfizer's cholesterol-lowering drug Lipitor costs between $100 and $125 a month for a standard dose, compared with less than $50 for a generic.

That can add up in a place where the monthly minimum wage is roughly $450. Some public-health officials question whether Pfizer is promoting what they say is an unfounded perception that

generic drugs aren't trustworthy. "The quality of a product has nothing to do with the brand name," says Hans Hogerzeil, the World Health Organization's director of essential medicines and pharmaceutical policies.



Pfizer says the problem with generics in Venezuela is that laws requiring them to be equivalent to brand-name versions aren't uniformly enforced. Pfizer's Mr. Mendoza also cites data from the WHO that up to 30% of drugs sold in the developing world are counterfeit and may not be effective. To help with cost, Pfizer says it offers doctors in Petare discount coupons that knock the price for its drugs down another 10% to 20%. Lipitor is part of a separate buy-two-get-one-free promotion. Those deals reduce but don't eliminate the price gap.

"We are Pfizer and we sell BMWs, so we won't put our products at the price of the Chinese car," says Mr. Mendoza.

Mr. Chávez's Socialist regime was elected with a mandate to increase access to health care for the poor. But 80% of drugs in Venezuela are still paid for by patients out of pocket, according to IMS Health. Only a small percentage of well-off Venezuelans have private health insurance to cover doctors and drugs.

The Chávez government declined to comment about Pfizer's program in Petare, but Pfizer says the government has expressed interest in learning more about it. Gustavo Villasmil, the health minister for Miranda state, where Petare is located and where the opposition took power last year, says he welcomes pharmaceutical sales reps. "Governments, including mine, are not doing well at eliminating barriers to access" to drugs, he says.

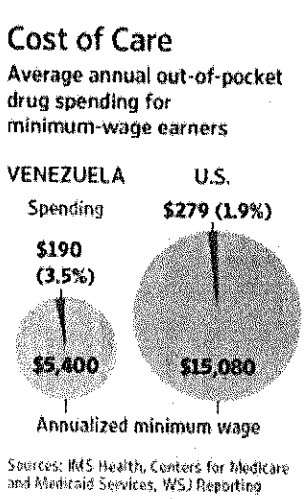
Mr. Rodriguez's main approach in persuading Petare's doctors to prescribe Pfizer drugs is to emphasize the brand's quality over generics. He tells doctors that Norvasc, Pfizer's hypertension medicine, for example, stays in patients' blood for 56 hours, making it more reliable for older patients who might forget to take their medicines. Generic drugs, says Mr. Rodriguez, can't guarantee the same longevity.

He says patients in Petare will follow orders even if it means spending more. "If their doctor tells them -- their doctor from birth, the doctor they have had all their life -- 'Look, this is what is going to cure you, this is what will guarantee your health,' that's what the patient buys."

Pfizer also woos doctors by giving them computers and Internet access for use at their offices. In the U.S., the practice of drug maker "giveaways," even of items as small as pens and coffee cups with logos, has drawn fire for influencing doctors' prescribing, and the industry has voluntarily done away with most freebies.

In Venezuela and much of the developing world where doctors don't earn as much, the practice is more common, and it sometimes can benefit patients. At one of the clinics Mr. Rodriguez visited recently, for example, Carlos Serrano beamed about the computer and free Internet access Pfizer has given him. Dr. Serrano, who has practiced medicine in Petare for 30 years, uses the computer and a Pfizer "telemedicine" Web page to help diagnose patients online by communicating in real time with doctors in downtown Caracas.

Pfizer says the computers start out as loans and become permanent gifts once the doctors have shown that they are using them for medical purposes and have signed a waiver stating they understand they're not intended to influence their prescribing.



Dr. Serrano says he's increased by 40% the number of Pfizer drugs he prescribes since Mr. Rodriguez started calling on him in late 2007. The aid doesn't sway him, he adds. "There are some illnesses that have to be treated with a good product, no matter what the cost," Dr. Serrano says.

In the coming weeks, Pfizer plans to refurbish the crumbling exterior of Dr. Serrano's office and paint it with the logo of its program in Petare, called "Healthier Community," which combines "Pfizer blue" and Chávez red.

Mr. Rodriguez visits between eight and 10 of Petare's roughly 560 doctors a day. One group he says he's had less success with are Cuban doctors who staff the several dozen government-run clinics -- part of an oil-for-medicines swap between oil-rich Venezuela and the Castro regime. The clinics give away free drugs.

Mr. Rodriguez says he courted them for a year by passing them Pfizer-branded prescription pads, free samples and educational materials through the gates outside their buildings. At first skeptical, some doctors finally agreed to talk to him, says Mr. Rodriguez. He says he's now able to call on 17 of Petare's roughly 40 Cuban-staffed clinics.

The Venezuelan office that oversees the clinics couldn't be reached for comment. The Venezuelan Embassy in Washington declined to comment.

Maximo Lobato, a 62-year-old resident of Petare who helps support his daughter and grandson on a carpenter's salary of about $750 a month, says he would rather pay for branded drugs than take free drugs handed out at clinics, or pay for cheaper generics.

Mr. Lobato has been diagnosed with high cholesterol and also has had prostate surgery. He has been taking Lipitor and several other medications. Before buying the drugs in June, he said he would allocate money to other pressing bills: $240 to get his phone turned back on; $51 for his monthly satellite-TV subscription; and $23 a week for his grandson's day care. With what is left over, he said he'd buy a supply of Lipitor and one of the other drugs. Referring to branded drugs, Mr. Lobato says, "According to the price, they probably work better."

In part because of this view, drugs like Lipitor continue to sell well in Venezuela. The Venezuelan market has six generic versions of Lipitor. Yet the brand is still the second-biggest seller among all drugs, with $37.5 million in 2008 sales, up 44% from 2007. In Petare alone, Pfizer has tripled its market share to 18% from 6% in late 2007, when the program launched. Pfizer has hired three reps to work other slums around Caracas and hopes to roll the program out nationwide by the end of the year. It also has plans to expand it to other countries in Latin America.

Not all patients want to splurge for branded drugs. Luis Osuna, 54, needed an antibiotic for his wife's leg infection, and was happy when the pharmacist gave him a generic version of Pfizer's Zithromax that cost $12. "I don't think there was too much of a difference," he says. "It had the same effect. It worked on her."

Alexis Quijada, who dispenses drugs at the pharmacy where Mr. Osuna was shopping, says he routinely recommends generics to patients. He recently suggested a generic alternative to a patient who came in asking for Lipitor because, he says, "Petare is a humble area."

—Juan Carlos Lagorio contributed to this article.

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