Transforming Europe’s Generics Industry
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The generic-pharmaceutical market in Europe is undergoing major disruptions that make it imperative for both generics companies and originators to adapt.

**Four Powerful Forces Shake Up the Market**
Key segments of the generics industry are becoming commoditized amid challenges such as pricing pressures and effective defensive strategies from originator drug companies.

**Different Impacts for Different Segments**
By 2020, 70 percent of industry profits will be generated by more differentiated generics. Standard generics will continue to account for the bulk of industry volume, but they will produce a dwindling share of profits.

**Lessons for Surviving—and Thriving**
Both generics and originator companies in Europe can enhance competitiveness and transform their business models by learning from other commoditized markets.
Although conventional wisdom holds that the European generics market faces a bleak outlook, our work reveals a more complex reality. Certainly there are great

For many years, the stocks of companies that manufactured generic drugs were the darlings of the pharmaceutical sector. From 2005 to 2011, our global sample of 18 leading, publicly traded generic-pharmaceutical companies posted an annual total shareholder return (TSR) of 15 percent, compared with just 3 percent for a group of 35 nongeneric-pharmaceutical companies during that period. But from 2011 to 2014, TSR for generics companies dropped to 12 percent, compared with 24 percent for nongenerics companies—and three of the generics players showed a negative TSR.

Even more worrisome: the median return on capital for eight leading U.S. and European generics companies fell from 7.5 percent in 2011 to 6.7 percent in 2013. This came after several large mergers in the still-fragmented industry—transactions that have yet to translate into improved profitability levels for the industry as a whole. At these levels, returns are not covering the industry’s estimated cost of capital of around 9 percent.

The decline reflects a major disruption in the generic-drug industry. Four powerful forces are driving the shift: unprecedented pressure on prices, increasingly powerful distributors and pharmacy chains, an industry structure that remains relatively fragmented despite some merger-and-acquisition activity, and barriers to the growth of generics market share. Originator companies—the drug makers that first developed and marketed the patent-protected products—have used those barriers effectively to constrain inroads by generics. The impact of disruption—which is turning some segments of the generics business into commodities—has been particularly acute in the $80 billion market for off-patent drugs in Europe, a market second only in size to that of the U.S.

To assess the impact of these changes and determine what companies must do to respond, The Boston Consulting Group conducted an in-depth study of shifting dynamics in the European generic-drug market. The research included interviews with more than 20 industry executives and experts, analysis of data from the top six European markets (Germany, the UK, France, Spain, Italy, and Poland), and the development of financial projections for the different segments of the generics market to 2020. We also studied how other industries have responded to commoditization, using those lessons to identify a series of strategies for transforming the generic-drug industry.

Although conventional wisdom holds that the European generics market faces a bleak outlook, our work reveals a more complex reality. Certainly there are great
challenges, especially in the segments for less-differentiated generics. But opportunities exist for both current generics players and originator companies active in the postpatent market—if they adapt their business models to shifts in segment profitability and respond to commoditization in a smart way.

**An Era of Disruption in the European Generic-Drug Market**

After the financial crisis hit in 2008, new austerity programs in many European countries appeared to be a boon for generic-drug companies. After all, expanding the use of generics was advocated by many as a key tool for managing health care costs.

Those forecasts, it turns out, were overly optimistic. While generics industry revenue growth in the six European countries we studied exceeded that of the overall pharmaceutical industry—both generic and patent protected—from 2004 to 2010, that outperformance has since flagged. In 2011 and 2012, generics industry revenues were flat, a trend line that matched that of the pharmaceutical market as a whole. And in some markets, such as Germany, the postpatent market even shrank.

**Unprecedented Pressure on Prices.** Generic-drug prices in Europe are headed in only one direction: down. And nowhere has the change been as drastic as in Germany, the largest market among the six we studied. There, intense competition has eroded the sizable profits formerly made by generics companies in the first few months after launching generic versions of blockbuster drugs. In the past, with a limited number of generics launching at patent expiration, prices on new generics declined gradually over a period of months. (See Exhibit 1.) But thanks to low barriers to entry in the market for generic primary-care drugs, that pace has accelerated. Within three weeks of the lipid-lowering blockbuster Atorvastatin losing pat-

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**EXHIBIT 1 | Profits Are Eroding Quickly for Generics Companies in Germany**

| Generic price as a percentage of the branded drug price before patent expiration |
|---------------------------------|---------------------------------|
| **Launch**                       | **Launch + 1 month**           |
| **Launch + 2 months**            | **Launch + 3 months**          |
| **Launch + 4 months**            | **Launch + 5 months**          |
| **Launch + 6 months**            |                                 |

**Source:** BCG analysis.

**Note:** The 1995 blockbuster drug is Captopril: 50mg, 100 tablets per pack; six months after launch, the generic is 70 percent cheaper than the patented drug before loss of exclusivity. The 2012 blockbuster drug is Atorvastatin Ratiopharm: 40mg, 30 tablets per pack; six months after launch, the generic is 92 percent cheaper than the patented drug before loss of exclusivity. Tendering for Atorvastatin (which would imply an even stronger price drop) did not occur until 2013. Analysis is based on the list price; the actual price may be further reduced as a result of nonpublic tenders from statutory health insurances.
ent protection in May of 2012, for example, 17 companies in Germany launched
generic versions of the drug, and the price plummeted by 92 percent.

Compounding that pressure is the tendering process in Germany that covers about
two-thirds of the generics retail market. Tendering, introduced in 2007, encourages
companies to set low prices to secure public contracts. It contributed to an average
drop in prices of 50 percent across all categories in which drugs were subject to ten-
dering from 2006 to 2011, equivalent to a 7 percent cut in prices each year.

A number of other countries, including Norway and the Netherlands, have also put
a tendering process in place to drive down prices. Meanwhile, France and Italy have
policies that require generic drugs to be priced at a discount relative to the compa-
rable drug sold by the originator company.

These efforts by individual countries, of course, have implications beyond each na-
tion’s borders. With more than 20 European Union markets utilizing referencing
pricing—a system in which countries base drug reimbursement levels on the pricing
in other nations—a reduction in list price in one market quickly translates into
price drops in other markets as well.

Increasingly Powerful Distributors and Pharmacy Chains. The European pharma-
ceutical-distribution industry is already concentrated—with the top five distributors
holding more than 90 percent of market share in France and Germany and close to
80 percent in the UK and in Poland. As a result, distributors, as well as pharmacy
chains and pharmacy buying groups—which increasingly negotiate directly with
generics companies—are able to leverage their buying scale to extract additional
discounts on top of already depressed list prices.

Generics Industry Fragmentation. Consolidation has certainly increased the level of
concentration in more mature markets, such as Germany, France, and the UK,
where the top five companies represent 70 percent or more of the total generics
market. But the ranking of generics companies varies greatly by country, and only
two players—Teva Pharmaceutical Industries and Sandoz—are among the top five
in all three markets. In Poland, Spain, and Italy, the share for the top five companies
combined is only 50 to 60 percent. In those cases, local players continue to defend
their turf against more global competitors.

Across the broader European marketplace, the fragmentation is even more pro-
nounced. The top five generics companies represent only about 51 percent of the
genrics market throughout the six European countries in our study—with the re-
maining 49 percent of market share held by more local or niche players. This frag-
mented industry structure is a disadvantage as the industry faces hard-nosed payers
and powerful distributors and pharmacy chains.

Barriers to the Growth of Generics Market Share. Many countries have introduced
policies promoting the use of generics, including lower copays for generic products,
mandatory substitution with a generic at the pharmacy level, and policies requiring
that physicians write prescriptions only for a molecule name—the international
nonproprietary name (INN)—and not for a specific brand.
However, barriers to the expanded use of generics remain in many markets. National differences in terms of patent protection, pricing and reimbursement, and market access conditions continue delaying the penetration of generics across Europe. In some markets, prescribers and patients do not derive a financial benefit from using lower-cost generics. And pharmacies, which play a pivotal role in the choice of which drug gets dispensed, still have an incentive to sell the more expensive originator drug in cases in which they earn a percentage of the retail price rather than a fixed amount per package.

As a result, originator companies still hold 60 percent of the market—as measured by sales—for off-patent products in the six countries we studied. Even in countries with a strong generics tradition, such as Germany and the UK, generics account for only about half of the postpatent market. And this number drops below one-third in Spain and Italy, which introduced incentives for generics more recently. (See Exhibit 2.)

The Impact of Disruption Differs by Market Segment

The impact of the four forces differs dramatically across market segments. To account for these differences, we have segmented the European generics market into...
three categories that reflect the degree to which barriers prevent the entry of new competitors.

The barriers to entry fall into two sets. The first comprises technical obstacles that arise because the drugs are either difficult to produce or are delivered through devices that are hard to replicate. The second set is linked to the way drugs are prescribed and dispensed. Drugs prescribed by specialists rather than general practitioners are often substituted less easily, creating barriers for generics companies. Such commercial barriers can also exist when products are sold through processes or channels in which price is not a critical factor and prescribers, pharmacists, and patients do not have strong economic incentives to use generics.

Based on these barriers to entry, we identified three segments with different competitive dynamics and key success factors:

- **Standard Generics.** Drugs in this segment are the least differentiated, are easy to make, and are typically dispensed in oral solid forms, such as pills. They fall into two categories: branded and unbranded. Unbranded products are dispensed under the INN and dominate in Germany, Nordic countries, and the UK. They are sold through tenders or other methods in which price is the main purchasing criterion, and they are not typically promoted by a sales force. Switching among different manufacturers of the same unbranded product is common. By contrast, branded generics are typically promoted by a sales force to physicians who prescribe them or pharmacists who dispense them based on decisions they make for individual patients. This makes switching somewhat more difficult. Most generics sold in Spain, Italy, and central and eastern European markets are branded. France is an interesting hybrid case in which standard generics are unbranded but still promoted to, and sold through, pharmacies.

- **Specialty Generics.** These drugs often have formulations that are more complex, such as inhalable products, eye drops, topical treatments, and certain injectable therapies. They can be harder to develop and produce, and they typically require a sales effort focused on specialty physicians. Generic substitution is less common for this category of generics.

- **Biosimilars.** These biological products have the highest barriers to entry among the three segments because of the regulatory, development, and manufacturing requirements associated with them. Such requirements result in development and launch costs that are typically two orders of magnitude higher than those of standard generics, thus preventing many companies from entering this space. Physicians prescribe brands to individual patients, and no mechanisms for substituting generics are in place at this stage.

The four forces remaking the generics market are producing the greatest impact on standard generic drugs, leading to steep price erosion in this segment. We estimate that in 2012, standard unbranded generics accounted for about 38 percent of generics industry revenues in the six markets we studied, yet they produced only 25 percent of industry profits (measured as earnings before interest, taxes, depreciation, and amortization). Standard branded generics, meanwhile, accounted for 23 percent...
of revenues and about 25 percent of profits. Combined, these two categories make up the standard generics category in Europe and account for about 80 percent of the volume of generics (in terms of units) and 61 percent of sales, but only 49 percent of profits.

Specialty generic drugs and biosimilars have been much less affected by the disruptive forces to date. Specialty generics continue to boast attractive operating margins and account for almost 50 percent of industry profits, but they generate less than 40 percent of revenues. Biosimilars make up a tiny sliver of the market right now—just 1 percent of sales. (These two categories combined make up about 20 percent of volume.)

The differing impacts of the market changes on these segments highlight a critical fact. The traditional generic-drug market—where primary-care drugs are prescribed in high volumes to patients in solid oral form, and where patients are reimbursed by public payers—has been largely commoditized, with manufacturers’ prices pushed down close to their marginal costs.

A Favorable Outlook for Specialty Generics and Biosimilars
The future looks quite different for companies in segments with higher barriers to entry than it does for those in less defensible positions.

Standard generics will be squeezed further. Profits in standard generics will be compressed further—by payer pressure, continued industry fragmentation, and the increasing power of distributors and pharmacy chains. In addition, standard brand-ed-generics companies will find that some of their market is eroded by unbranded products, such as those sold through INN prescribing, and by newly implemented policies mandating substitution with low-priced generics. And even companies concentrating on the low-priced, commodity generics segment may find it tough to hang on to their market share as new competitors make inroads. (See the sidebar, “New Competitors Bring New Challenges.”)

The upshot: we project that by 2020 standard generics will account for less than one-third of industry profits, down from about half in 2012. The market will remain sizable in terms of sales, however, with standard generics accounting for about 50 percent of revenues and the bulk of industry volumes.

Specialty generics and biosimilars will make gains against originator drugs. While companies focused on the specialty-generics and biosimilar markets have enjoyed relatively high profitability, there have been significant hurdles to expanding their reach.

A key barrier is originator companies’ success at deploying a mix of legal, regulatory, commercial, and product development strategies to hold on to specialty-drug market share well after patents have expired. And originators that previously may have given up on their postpatent products are now investing in life cycle management well ahead of loss of exclusivity in order to limit inroads by generics. So while originators hold about 55 percent of the market for standard generics in the six

We project that by 2020 standard generics will account for less than one-third of industry profits, down from about half in 2012.
The originator hold on the specialty-drug market is particularly strong in certain therapeutic areas. This is the case even in mature generics countries, such as Germany, where originator companies hold 50 to 65 percent or more of the market share in the postpatent drugs that are used to treat respiratory, central nervous system, dermatological, oncological, and sensory organ conditions, such as ophthalmics. (See Exhibit 3.)

Despite the persistent challenges, we project that generics revenues in the specialty-generics and biosimilar categories will grow rapidly in the years ahead. For one thing, while primary-care products have accounted for the bulk of patent expirations in the recent past, two-thirds of the drugs losing patent protection from 2014 to 2020 will be either specialty drugs or biologics. Driven by this opportunity—and by the
eroding in profits of standard generics—generics players are investing aggressively to
tackle the technological and legal barriers inherent in producing these products.

As a result, by 2020, we expect that about 70 percent of generics industry profits in
the top six European markets we studied will come from specialty generics and
biosimilars. (See Exhibit 4.) In particular, biosimilars—which until now have made
up a scant 3 percent of profits—should become a powerful growth engine.

Transformation Lessons from Other Industries
With most generics companies still heavily concentrated in standard generics, the
pressure to adapt is intense. Executives we interviewed say it is clear that what
previously assured success in the generics business—proactive pipeline
management, legal and patent challenge capabilities, agility and speed to market,
and low sourcing, production, and distribution costs—will remain important but
will likely be insufficient to ensure winning in the future. They are looking to
remake their existing business model and, where possible, to move in to market
segments with higher barriers to entry.

The challenges facing the generics industry are hardly unique. Commoditization
and price erosion have buffeted many industries—airlines, textiles, chemicals, steel,
cement, and fast-moving consumer goods, to name just a few. And while many com-

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### Exhibit 3 | The Penetration of Generics Has Been Weaker in Therapeutic Areas with a Higher Share of Specialty Products

<table>
<thead>
<tr>
<th>Therapeutic areas</th>
<th>Generics penetration of postpatent market in Germany, 2011 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anti-infectives</td>
<td>80</td>
</tr>
<tr>
<td>Hormones</td>
<td>77</td>
</tr>
<tr>
<td>Gastrointestinal</td>
<td>76</td>
</tr>
<tr>
<td>Cardiovascular</td>
<td>64</td>
</tr>
<tr>
<td>Genito-urinary system</td>
<td>62</td>
</tr>
<tr>
<td>Musculoskeletal</td>
<td>60</td>
</tr>
<tr>
<td>Blood/blood-forming organs</td>
<td>52</td>
</tr>
<tr>
<td>Respiratory</td>
<td>50</td>
</tr>
<tr>
<td>Nervous system</td>
<td>44</td>
</tr>
<tr>
<td>Dermatological</td>
<td>40</td>
</tr>
<tr>
<td>Oncology, Immunology</td>
<td>35</td>
</tr>
<tr>
<td>Sensory organs</td>
<td>35</td>
</tr>
</tbody>
</table>

**Therapeutic areas with a high share of specialty products**

**Sources:** Arzneiverordnungs-Report 2007; Arzneiverordnungs-Report 2012; BCG analysis.

**Note:** Analysis of top ~400 molecules in generic-capable postpatent market, by retail channel only and excluding biologics, biosimilars, and over-the-counter products. Market share is based on sales in euros.
Companies have disappeared in such difficult environments, others have flourished. The companies that have been able to thrive have done so with a variety of “decommoditization” strategies. These strategies range from embracing commoditization through a relentless attention to costs to defying commoditization through moves such as refocusing on differentiated products segments, developing new capabilities, and revamping the business model.

Our research shows that a number of generics companies have started embracing some of these strategies but few have moved to radically overhaul their business models. This is why understanding how companies in rapidly commoditizing industries have successfully adapted to new conditions yields powerful insights for generics companies fighting to remain competitive.

**Relentlessly Reducing Costs**

In commodity businesses, the lowest-cost company wins. And studying companies that have successfully competed in such environments reveals a number of ways to ensure that excess cost is stripped from the business.

_Simplify to reduce costs._ Airlines figured this out years ago by offering point-to-point connections when possible instead of feeding passengers into hubs, operating a standard fleet of airplanes to achieve economies of scale in maintenance, and shifting to online booking and check-in.
Some generics companies have already embraced this mind-set. They have pared down the number of SKUs they offer and redesigned production so that certain sites focus on particular technologies or processes—a shift that reduces overall complexity. They can extend that simplification to other areas of the business. Possible moves include eliminating undifferentiated development efforts, standardizing regulatory approval filings across markets, discontinuing the use of sales reps in the field in markets that no longer respond to promotion, and switching to uniform packaging.

**Consolidate to create scale.** Mergers and acquisitions in any industry typically result in a consolidation of assets and the emergence of regional or global leaders. And that consolidation has driven the elimination of excess capacity, ensuring high utilization rates for manufacturing plants, improved pricing power, and economies of scale.

Generics companies have begun to pursue similar benefits of scale to spread their fixed costs in development, manufacturing, and commercialization over a broader base. Typical moves in this area include international expansion and partnerships to supply other companies with the regulatory filings and compounds that those companies need. In addition, generics companies are streamlining their manufacturing network and supply chain to ensure that the benefits of scale are not eaten away by the costs associated with a large and fragmented product portfolio.

**Rethink the manufacturing footprint.** In the textiles industry, companies have designed their manufacturing supply chains to ensure the rapid creation and delivery of new products at the lowest cost. Thus labor-intensive production has been moved to Asia, and both specialized production and the manufacturing of products requiring fast turnaround times are located closer to the markets where the goods will be sold.

Generics companies adopting a similar strategy typically produce or buy commodity pharmaceutical ingredients, for example, from low-cost countries such as India (ensuring the same rigorous quality processes for both their supplier networks and their own manufacturing operations) while locating packaging facilities and technology sites close to end-user markets.

**REFOCUSING ON DIFFERENTIATED PRODUCT SEGMENTS**

While eliminating excess cost is critical, it is just as important to take a hard look at which areas of the portfolio deserve the most attention—and which may be ripe for divestiture. Successful companies will strive for differentiation and a lack of interchangeability—which is ironic considering the definition of “generic.”

**Change the mix.** Few industries are as commoditized as steel—and yet there are higher margin segments within even that sector. Companies focused on steel plates with special geometries and grades—or on high strength and wear- and corrosion-resistant steel for special applications such as oil and gas and engineering—have outperformed competitors concentrated in highly commoditized segments, such as steel for shipbuilding and construction.
The obvious answer in the generics industry is for companies to focus their development and commercial efforts on more differentiated products or on segments with fewer competitors. As they venture into new segments, including specialty generics and biosimilars, they must build a whole set of new development skills—either internally or through partnerships.

**Add unique product features.** In the electronics business, smartphone companies cloned market-leading products and then progressively added features to devices. These enhancements—such as a better user interface or open-source operating systems that enable access to more apps—are distinctive enough to make the product stand out and to contribute to high levels of overall customer satisfaction.

The generics industry has plenty of room to innovate as well. Whether it is through fixed-dose drug-combination products, prefilled bottles and syringes, slow-release formulations that allow for less frequent dosing, or other differentiated product features, there is opportunity to improve and enhance generic products to make them stand out from competitors. The important question that teams pursuing innovation will need to address, of course, is the extent to which payers will be willing to pay a premium for those improved product features and outcomes.

**Build leadership through microsegmentation.** In the cutthroat fast-moving-consumer-goods space, some companies have excelled at focusing on narrow market segments where there are fewer competitors or where there is significant unmet need. Those companies have been able to grab the first positions in those niche markets, enhancing profitability. A key reason for that success has been building customer loyalty by developing distinctiveness in a specific niche.

Generics companies are increasingly looking to benefit from similar microsegmentation strategies. They are building portfolios—through a mix of internal development as well as licensing and acquisition activity—concentrated in selected therapeutic areas, physician segments, and patient categories. The portfolios are focused sharply on these segments and include a mix of standard generics, specialty generics, and even over-the-counter products.

**Exit profitably when necessary.** The electronics industry—especially the personal-computer segment—has faced intense commoditizing forces. IBM has stood out for its ability to respond and adapt in the face of such market pressure. Among the moves employed by the company have been strategic divestitures, such as the sale of its personal-computer business, which included the brand, manufacturing operations, and sales organization.

Generics industry leaders need to take a similar, objective view of their business, exploring divestiture of low-margin segments and regional operations if cost reductions and other steps cannot boost profitability.

**Create brand advantage.** Even in commodity markets, brands can matter. Successful companies in the fast-moving-consumer-goods market know this, investing in the development and updating of their brands through packaging and promotion to maximize brand awareness and customer loyalty.
This is an underutilized opportunity in the generics industry and is especially relevant when prescribers and patients are more inclined to trust originator products than generics—such as with differentiated drugs. But even for standard generics, we have seen opportunities to build powerful individual brands as well as strong umbrella brands, which cover a wide range of products. Ultimately, however, a strong brand needs to be more than a recognizable name; it must offer tangible benefits to customers in order to sustain a price or volume premium. In this sense, branding is underdeveloped in the generics industry.

**DEVELOPING NEW CAPABILITIES**

Mitigating the impact of market commoditization typically requires breaking with very well-established processes and practices. For most companies, this means developing new skills and abilities.

**Introduce dynamic pricing.** The airline industry has set the standard for adaptive pricing, developing sophisticated forecasting algorithms to price tickets according to demand levels. A similar opportunity exists in the generics industry; companies can collect real-time information about supply and demand by SKU in order to establish dynamic pricing. This would allow prices to shift rapidly in the face of market changes such as shortages, shifts in demand patterns, and aggressive promotional moves by competitors.

**Radically accelerate and transform product development.** Speed is critical in the fashion business. The textiles industry has developed systems for moving hot fashion trends onto retail floors with lightning speed. These systems include processes for monitoring fashion demand trends as well as fast copying and prototyping of designs. This is typically done through a network of small and midsize companies collaborating under the leadership of one orchestrating company. That orchestrator connects demand and supply and ensures that requirements for product characteristics and quality are met.

Taking a similar tack in the generics industry warrants a rethinking of the traditional development and pipeline-management processes. This requires a faster, decentralized analysis of demand patterns to spot untapped opportunities and translate them into development and fulfillment programs.

Pioneers such as Momenta Pharmaceuticals, which develops biosimilars, are betting on new methods—including deep analytical characterization of drug molecules and shorter and more focused clinical trials—to trim development time and cost. Developing differentiated generics will often involve a longer and deeper set of partnerships with external companies and higher stakes and risks. Managing such complex projects effectively requires building teams that combine commercial, technical, development, and regulatory skills—a feat that many companies have so far found to be challenging.

**Shape regulatory standards.** The pharmaceutical industry is one of the most regulated sectors in the world. And nongeneric-pharmaceutical companies have been particularly effective at shaping regulatory and legislative action to protect their positions on issues of patent advocacy, data exclusivity, and high-quality standards.
The generics industry needs to up its game in this area by becoming more focused on shaping the policies of regulators and payers—a move that is particularly important when it comes to quality standards for production. Such standards must be set to ensure that trust in generics is not undermined by market participants with deficient quality—and care must be taken to avoid unreasonable costs for payers and patients.

**REVAMPING THE BUSINESS MODEL**

Shaping the external environment is important. But companies that aspire to defy commoditization must also reexamine all elements of their business models—from the identification of new revenue-generating opportunities to the structure of the balance sheet.

**Shrink the balance sheet.** It’s simple arithmetic: generating the same income level with a smaller balance sheet results in a higher return on investment. Some leading electronics and textiles companies have shifted to an “asset light” structure by outsourcing much of their production to contract manufacturing networks and their sales and service operations to partners and franchise chains. Those arrangements allow them to operate with fewer assets than might be expected given their revenue base.

Generics companies have many opportunities to shift toward a similar business model with low assets, including entering into partnerships with contract manufacturers, reconfiguring the supply chain to shift inventories to partners, making stronger use of importers and distributors to manage the physical flow of goods, and partnering with other companies to reap synergies rather than buying them for a large goodwill that will stay on their balance sheet.

**Offer value-added services.** Combining products and services can be a powerful tactic. Consider the chemicals industry, in which chemical companies are running paint shops for automakers and operating industrial-gas facilities for steel plants. Providing such services enhances the “stickiness” of certain products by increasing barriers and the cost of switching to another supplier as well as providing additional—and distinctive—value.

Today it is not typical for a generics company to provide services on top of its products. Still, we have seen examples of players providing compounding services for hospitals (essentially preparing ingredients for patients in the exact dosage and form required), managing hospital pharmaceutical inventories, providing extensive education and training to physicians and patients on how to use their drugs, and monitoring patients remotely to make sure that they are sticking to prescribed drug regimens.

**Expand your reach into distribution channels.** Cement manufacturers need to exploit every opportunity to create a barrier to entry for competitors. One effective maneuver has been to become more integrated into the distribution of cement by delivering ready-mix cement directly to customer construction sites.

Generics companies can similarly tighten their links with distribution by establishing exclusive contracts with distributors and pharmacy chains, better managing re-
relationships with retail chains through steps such as the creation of customized offerings, and selectively providing white-label products to distributors in return for exclusivity.

Taking Transformation from Plan to Reality

It is one thing to know what must be done to respond to the upheaval in the generics industry. It is quite another to execute on that insight. Such transformations are not onetime events but rather multiyear processes that require determined leadership, a clear strategy, and robust planning around multiple aspects of change—from developing new products and services to building new capabilities and processes.

Overcoming Obstacles to Change. As in other industry disruptions, incumbents face the greatest challenges. After all, newcomers have the advantage of being able to design a business model tailored to the current market realities. Existing companies, however, must change long-held—and often previously successful—strategies, processes, and beliefs.

Upgrading the Talent Pool. Even when companies recognize the need for change, existing teams often do not have all the required capabilities and knowledge to meet the challenge. Companies will need to strengthen the organization by bringing in fresh talent—even from other segments and industries—and by finding ways to mobilize the existing organization. In addition, it may be relevant to rethink the organizational structure of the business. This may involve changing roles within the company and finding new ways to encourage effective collaboration among areas such as development, manufacturing, and commercial operations.

The talent required depends on the segment of generics in which a company is competing. In the biosimilars segment, this can mean recruiting people from the patented-pharmaceutical industry who have expertise in developing and marketing differentiated drugs. For companies manufacturing standard generics, bringing in managers from the consumer or industrial-goods industries—that is, people with experience in branding, merchandising, and supply chain management—should be a good way to upgrade skill levels.

Thriving amid Disruption

For generics players, it will be critical to assess which areas of the market are most attractive, how existing assets and capabilities will need to be adapted to match up with those segments, and what financial resources will be needed to fund the journey. Many companies will compete in multiple segments of the market and will therefore need to develop and execute different business models for each of them. That ability to consistently deploy different strategies, tactics, and skills simultaneously in different markets and regions is one that most players are only beginning to develop.

Originators participating in the postpatent market should also take note of the disruption and transformation of their generics challengers. As the pressure mounts on generics companies, originators should expect a new breed of fitter and more fo-
cused generics competitors. That means originators will need to work harder to hold on to differentiated segments—segments that were more easily defended in the past—by leveraging their intrinsic advantages in scale, technical capability, financial capacity, and influence. And they should also take another look at opportunities in postpatent specialty drugs and biosimilars, segments that could be a better fit with their skills and strengths than standard generics ever were.
About the Authors

Ewald Kreid is a partner and managing director in the Vienna office of The Boston Consulting Group. You may contact him by e-mail at kreid.ewald@bcg.com.

Martin Reeves is a senior partner and managing director in the firm’s New York office and director of BCG’s Strategy Institute. You may contact him by e-mail at reeves.martin@bcg.com.

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For Further Contact

If you would like to discuss this report, please contact one of the authors.