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Unipharma S.A.

Creating value delivering pharmaceutical
drugs

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ABSTRACT

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It was early January 2008 when the company finally started operating. The result of several months of planning, after-work hours and sleepless nights all came down to that phone call. On the other side, speaking, was the sales director of one of the most important hospitals in Portugal. Pedro Azevedo could not be more pleased.

Unipharma, S.A. is a Portuguese company that operates in the wholesaling business of the pharmaceutical industry. Due to its innovative business plan focused on the *unlicensed*, off-label and orphan drugs, the company has been consistently growing year after year, being the internationalization process a not so far away reality.

The aim of this case study is to describe the creation process of the company from the moment where the opportunity was identified until the present day. It also includes an overview of the industry, as well as all the relevant data regarding the company's creation and operation, so that the business itself is better understood.

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I would also like to show my gratitude to my advisor Mário Valente, that in spite of all the difficulties, always managed to see me and provide important feedback without which my work would not have been so complete.

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LIST OF ABBREVIATIONS

MA – Marketing Authorization

OTC – Over-the-counter

SUA – Special Use Authorization

CHAPTERS

1. CASE STUDY

1.1 Introduction

“Any way the wind blows...” whispered Pedro Azevedo in duet with Freddie Mercury as Queen’s Bohemian Rhapsody ended playing once more in his car sound system. It was just another journey between Lisbon and Oporto. Pedro would never get tired of that CD. This was the perfect closure for a week of tough decisions and the next song could not be more suitable. The show would really go on...

Pedro has been working in the pharmaceutical industry for 25 years now. Back in 2006, he decided he would improve the way hospitals make business regarding *unlicensed* drugs¹; and so he did.

After two years of intensive market research and sleepless hours the project was finally on. The operations started under the umbrella of a large British corporation which later dropped out in order to become a competitor. Today, with four years of activity, 30% of market share and eight drugs amongst the most sold within the category, Portugal does no longer seem big enough.

¹The term “*unlicensed* drug” is related to the marketing authorization. It should be referred that, in this case, being “*unlicensed*” has nothing to do with drugs undergoing clinical trials or prepared extemporaneously. These “*unlicensed* drugs” are used in other countries with proven results and, in order to be commercialized in Portugal, they have to go through an exhaustive process of evaluation conducted by INFARMED, I.P.

This case describes a real life event. Proprietary data has been disguised and despite being real, the names of characters and companies are fictitious in order to preserve confidentiality.

1.2 The Pharmaceutical Industry

The pharmaceutical industry is the responsible for the discovering, production and marketing of drugs licensed for use as medications, for humans or animals, as well as of medical devices. It is one of the most profitable and influential business sectors in the world, being subjected to high regulated environment where companies must follow a variety of laws and regulations regarding the patenting, testing and ensuring safety and efficacy and marketing of the drugs². This work will only be focusing on the drugs for humans, overlooking, this way, the production of drugs for animals and the medical devices. Henceforth, as the author refers to the pharmaceutical industry, only that specific sector is being referred to.

Due to its huge size and intrinsic complexity, the pharmaceutical industry can be segmented in several ways. Focusing just in the human sector, one basis of segmentation would be the nature of the drug, i.e., a chemical or small molecule drug versus a biologic or large molecule drug (Singh, 2005). For the sake of this analysis the segmentation will be based on the product type. On Figure 1 it is possible to realize the type of segmentation adopted. Highlighted are the branches which are considered relevant and which will be analyzed during the course of the case:

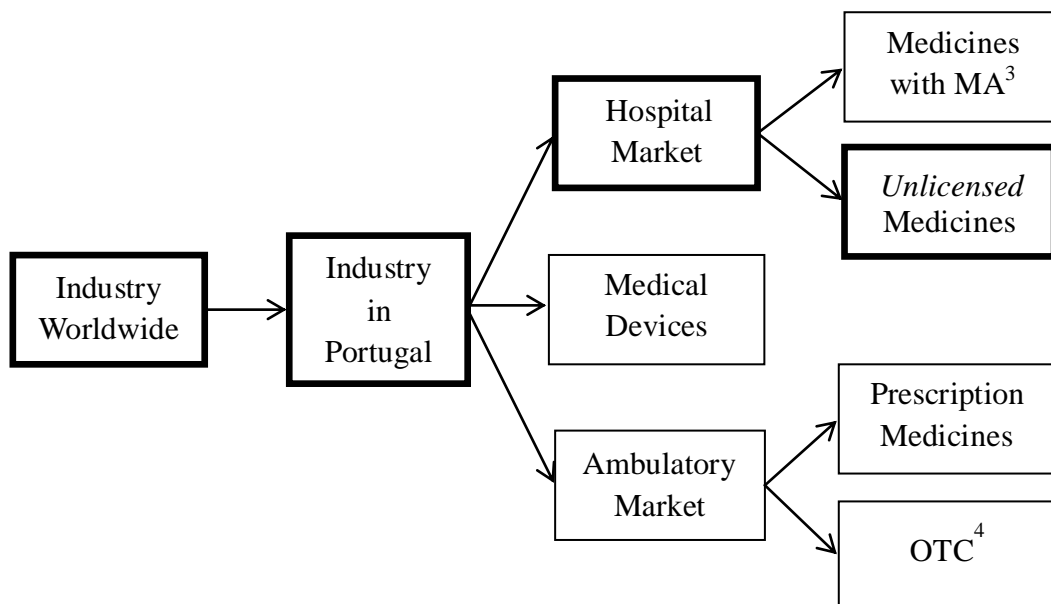


Figure 1. The Segmentation of the Pharmaceutical Industry by product type

² http://en.wikipedia.org/wiki/Pharmaceutical_industry [accessed on 08-04-2012]

³ MA stands for Marketing Authorization

⁴ OTC stands for Over-the-counter. An OTC drug is a medicine that can be sold directly to a consumer without a prescription from a healthcare professional.

i. The Industry Worldwide

a) Mission

Prolong, improve and save lives. One way or another, this declaration can be found in all the different pharmaceutical companies' mission statements around the world, making it the ultimate business objective for the industry. Regard some examples:

Pfizer (USA) – "... we at Pfizer are committed to applying science and our global resources **to improve health and well-being at every stage of life.**"⁵

GlaxoSmithKleine (UK) – "We have a challenging and inspiring mission to **improve the quality of human life by enabling people to do more, feel better and live longer.**"⁶

Novartis (Switzerland) – "We want to discover, develop and successfully market innovative products to **prevent and cure diseases, to ease suffering and to enhance the quality of life.**"⁷

Takeda (Japan) – "We strive towards **better health for patients** worldwide through leading innovation in medicine."⁸

In a few words, companies strive to achieve this common goal by whether treating and preventing diseases or by reducing their appearance and the problems associated with old age. This fact withstands the uniqueness of this industry, as the access to health care services and products are considered a personal right or a universal entitlement (Singh, 2005).

⁵ <http://www.pfizer.com/about/> [accessed on 08-04-2012]

⁶ <http://www.gsk.com/mission-strategy/index.htm> [accessed on 08-04-2012]

⁷ <http://www.novartis.com/about-novartis/our-mission/index.shtml> [accessed on 08-04-2012]

⁸ http://www.takeda.com/about-takeda/corporate-philosophy/article_61.html [accessed on 08-04-2012]

b) Industry Growth Rate

The industry's growth rate in the last decade has been remarkable, notwithstanding the downward trend of the growth over the previous periods. In 2010 the total world market was evaluated in US\$856 billion⁹, while in 2003 it was capped at US\$500 billion (see **Exhibit 1**). In 2010, the growth rate over the previous year was 4,1% (see **Exhibit 1**), being the major contributors for this progress the prevalent availability of generic drugs, the breakthroughs on therapy areas like oncology, diabetes, multiple sclerosis and HIV, which annual growth is expected to exceed 10 percent through 2014¹⁰, and the rise of the “pharmerging” markets.

The “pharmerging” markets are a set of 17 countries¹¹ where sales are forecast to grow by 13-16 percent over the next years, boosted by the greater government spending on healthcare, the expansion of the national health systems and the increasing domestic demand, and the specific agreements for the export of medicines for these developing countries. Within this group there is the special case of China, the third largest pharmaceutical market in the world, which is expected to grow at a pace of more than 20 percent annually (see **Exhibit 2**). On the other hand, European countries and Canada will face a great slowdown, growing by 1-3 percent, and the US will remain as the largest market, with sales of US\$320-330 billion, up 3-5 percent (IMAP, 2011).

On the topic of the generic drugs, the many patent's expirations in the following years will allow the industry to grow further. As in 2009 the market for these drugs was worth US\$107.8 billion, by 2014 it is expected to reach US\$129.3 billion, as a result to the rising cost pressure on healthcare and the improved accessibility to healthcare on the emerging markets (IMAP, 2011).

As a result, the global pharmaceutical market is expected to expand to US\$1.1 trillion by 2015, where the US represents 31% and the top 5 European countries 13%, values that in 2005 were 41% and 20% respectively, and the “pharmerging” markets 28%, as opposed to 12% in 2005 (see **Exhibit 3**).

⁹ Throughout the case, the short scale for International commerce is being used [one billion = one thousand million (10⁹)]

¹⁰<http://www.imshealth.com/portal/site/imshealth/menuitem.a46c6d4df3db4b3d88f611019418c22a/?vgnextoid=4b8c410b6c718210VgnVCM100000ed152ca2RCRD> [accessed on 08-04-2012]

¹¹Emerging markets targeted by pharmaceutical companies (Pharm(aceutical) + (e)merging). List of Pharmerging countries includes Argentina, Brazil, China, Egypt, India, Indonesia, Mexico, Pakistan, Poland, Romania, Russia, South Africa, Thailand, Turkey, Ukraine, Venezuela and Vietnam

c) Top companies

In the pharmaceutical industry, loosely, there are two types of companies. The major players which are known for investing a lot in R&D in order to provide new and innovative drugs to the market (generally called the Big Pharma) and the smaller companies that manufacture products with expired patents or without brand, usually generics, or that are focused on specific therapeutic areas. While the first are companies located in advanced industrial societies, the latter are very significant in countries like India, China or Brazil (Busfield, 2003), three of the “pharmerging” markets, which year after year have been gaining market share at the expenses of US and Europe (IMAP, 2011).

The leading companies in this industry are large scale enterprises operating worldwide not only in terms of sales, but also regarding production, through subsidiaries and affiliates (Teixeira de Carvalho, 2007). From the *Fortune Magazine Global 500 Companies* ranking it is possible to find eleven pharmaceutical giants (see **Exhibit 4**). All hosted in western countries, five are from the US, two are British and other two are Swiss, plus Germany and France with one each. Together, they total more than US\$501 billion in revenues and employ directly about 951 thousand people.

In terms of sales, the top 10 companies represent around 44% of the total industry, a value superior to US\$350 billion (see **Exhibit 5**). Regarding this topic it is important to notice the price-elasticity of the demand is almost zero, since each company, once a new drug is developed, approved and patented, owns the right to be the only one distributing and selling that drug. This exclusivity can bring perverse upward incentives on price levels, nevertheless, as one will see later, that price premium is essential for these companies to survive.

Comparing with other industries, the 5 companies with more revenues from sales in 2010 represented around 27% of the total industry sales (see **Exhibit 5**) which is a low concentration value when compared with the Aerospace (95%) or the Automotive (50%) (Ferreira *et al.*, 2011). In spite of the fact that it can be considered a concentrated industry, the possibility of companies to specialize in different specific segments (e.g. oncology, antidiabetics, etc.) results in a relative reduction of the weight of the biggest companies on the total turnover (Ferreira *et al.*, 2011).

d) R&D

Amongst the largest companies, the competitive advantage is based on product differentiation rather than on price leadership. The differentiated products are the result of enormous investments in R&D and marketing within the scientific and medical communities. Companies invest a lot in R&D and, thus, are extremely dependent on the success of their new products. They use trademarks and patents to protect new findings and maximize their potential profit, while current revenues are obtained from still patented products (IMAP, 2011). These are the funds that subsidize the expensive process for finding new drugs, turning this industry into the number one on percentage of total sales allocated to R&D (Bhattacharya *et al.*, 2005). Just to have a grasp of what this value represents, in 2010, the percentage of sales that went to R&D industry-wide was 17% (PhRMA, 2011), around US\$ 67.4 billion (Burrill & Co., 2011). This may seem a lot, however, studies show that for each dollar spent on new drugs, US\$6.17 are saved in hospital spending (Lichtenberg, 2002).

Regard some interesting facts:

- It takes 10 to 15 years (DiMasi, 2001; Dickson and Gagnon, 2004; DiMasi, Hansen and Grabowski, 2003) and US\$1.3 billion (DiMasi and Grabowski, 2007) to develop a new drug (see **Exhibit 6**).
- Only 1 out of every 10.000 discovered compounds actually becomes an approved drug for sale.¹²
- Only 3 out of 20 approved drugs generate enough revenues to cover their developmental costs.¹²
- Only 1 out of 3 approved drugs generate enough revenues to cover the developmental cost of previous failures.¹²

Facing this numbers, the bottom-line is that if a company wants to survive in this industry, it must discover a blockbuster (billion-dollar drug) every few years¹². One may understand now, how essential are the intellectual property rights conferred by patents. Without patent protection it would not be feasible to develop new drugs.

¹² <http://www.medicinenet.com/script/main/art.asp?articlekey=18892> [accessed on 18th April 2012]

e) M&A

The oligopolistic structure and subsequent consolidation of this industry have been reinforced over the past years by means of an eventful period of mergers and acquisitions among the companies in higher positions. Since the beginning of this millennium it is worth stressing the acquisition on Warner Lambert by Pfizer in 2000 for US\$90 billion, as well as the acquisition in 2004 of Aventis by Sanofi-Syathelabo in exchange for US\$65 billion (see **Exhibit 7**). More recently, in 2009, the pharma sector saw 563 deals valued at US\$161.2 billion, having been the largest one the acquisition of Wyeth by Pfizer for US\$67.9 billion.

In 2010, the acquisition spree seemed to slow down with 548 deals valued at US\$51.6 billion taking place. The major deal in this period was the acquisition of Ratiopharm by Teva Pharma for US\$4.9 billion (see **Exhibit 8**). These mega deals justify the presence of the United States and Europe at the top in terms of transaction value, however, looking at numbers as the quantity of deals, China, a market that is expected to grow 20 percent per annum through 2013 (Zacks Equity Research, 2012), appears as the leader in micro-size deals of less than US\$20 million (see **Exhibit 9**).

The acquisition of other companies operating upstream and downstream the supply chain is an alternative to the internal development. These million-dollar operations are seen as the quickest and neatest way to gain access to new capabilities (intellectual, like knowledge, or physical, like distribution channels) and to expand the product portfolio. They not only allow companies to penetrate in new markets and to incorporate new R&D skills, but they also increase firm's investing ability in new product development processes. Moreover, they work as a way to avoid future decreases in income due to the expiration of patents on current successful drugs (Ferreira *et al.*, 2011).

This consolidation through M&A and licensing activity is bound to grow further in the future as companies urge to adapt to the changing conditions within the industry. Since developing a product from scratch involves a lot of funds, pharmaceutical companies opt to shop for mid to late-stage pipeline candidates. They can come as a result of complementary capabilities between firms. For instance, while a small company may have a new drug, but lacks on sales and marketing capabilities, a large company may have an unused capacity in a large sales force. It is a matter of capitalizing the synergies between the companies.

From a survey conducted by *Business Insights*, 91 percent of industry executives believe pharma-biotech mergers will increase in the next 10 years (IMAP, 2011).

ii. The Industry in Portugal

a) Industry Growth Rate

The evolution of the Portuguese pharmaceutical industry has been similar to the global until recent years, the moment when the “pharmerging” countries started to disrupt. In terms of manufacturing of raw materials and pharmaceutical products, a flourishing period of growth started in 1996. From that year until 2008, a time frame of 12 years, the industry almost doubled its value, growing from 1.045 million € to 2.054 million €. In 2009, however, there was a negative growth when 1.975 million € were produced (see **Exhibit 10**), which represents around 0.31% of the value of the pharmaceutical market worldwide.

b) Employment

This is an industry which directly employs 10.244 people (2008). Indirectly, there is no actual data regarding Portugal, however, looking at the US, in 2008, there were 655.000 direct jobs, while indirect and induced jobs¹³ reached a value of 2.440.000 (Archstone Consulting and Burns, 2010). This creates a Ripple Effect meaning that each job in the pharmaceutical industry supports almost 4 others. Those jobs are distributed amongst the 347 medicines wholesalers, 2693 pharmacies, 221 pharmacy extensions and 838 drug stores (Infarmed, 2009), places that only sell OTCs, that Portugal had in 2009.

c) Top Companies

The top 20 pharmaceutical companies in Portugal, in a universe of 137¹⁴, are responsible for 60% of the market mainly because of the presence of large multinational companies like Merck, Pfizer or AstraZeneca (Teixeira de Carvalho, 2007), which are also the leaders on a global scale. The biggest Portuguese company is Bial, which is currently ranked 5th (see **Exhibit 11**) and was the company that first released to the

¹³ Indirect jobs are jobs that produce goods or services used to support biopharmaceutical companies. Induced jobs are jobs supported by the spending of direct and indirect employees of the biopharmaceutical sector.

¹⁴ APIFARMA’s membership (manufacturers or importers)

global market a drug made in Portugal. It closed 2011 with a turnover worth 140 million € from which 85.6 million € were from the Portuguese market¹⁵.

The second Portuguese company that most sells in Portugal is Generis, with 46.9 million €, followed by Medinfar and Tecnifar, with 42.5 million € and 26.6 million €, respectively. Fifth comes Lusomedicamenta and in the sixth, eighth and tenth places there are Pentafarma, Farmoz and Tecnimede, in that order. As they belong to the same group, if totaled together, the group would come third on the top with sales of 42.9 million € (see **Exhibit 12**).

d) Industry Total Value

Regarding total sales at ex-factory prices, the total value in 2011 was 3.716 million €, having grown roughly 1.000 million € since 2005 (see **Exhibit 13**). Easily, one realizes that imports play a crucial role in this sector, being their value in 2009 capped at 2.194 million €, while exports were five times smaller, representing 447 million € (see **Exhibit 14**). In spite of this value, a study from Universidade do Minho shows that Portuguese exports are growing at twice the pace of the world's average. As in Portugal the growth of this segment was 13.8%, globally, this value did not exceed the 7.4%. The main destination of Portuguese products is Germany, followed by Angola, France and Belgium¹⁶.

e) Ambulatory Market and Hospital Market

Looking now at retail prices, it is possible to disassemble the total market in two categories, the Ambulatory Market and the Hospital Market. This is one step more towards the desired segmentation.

In 2009 the total market value was 4.728 million € divided $\frac{3}{4}$ - $\frac{1}{4}$ between ambulatory and hospital markets, respectively. They both have been expanding throughout the last years, however, as the ambulatory faced a growth rate of -0.9% in 2008, the hospital market experienced, in this same year, an expansion of 7%. In 2009, the hospital market

¹⁵ Neves, R. (2012) Nove Portuguesas no “top 50” de vendas nacional. *Jornal de Negócios Online*. Available in http://www.jornaldenegocios.pt/home.php?template=SHOWNEWS_V2&id=553185 [accessed on 14-05-2012]

¹⁶ Peixoto, M. (2012) Exportações do sector da Saúde crescem o dobro da média mundial. *Diário Económico Online*. Available in http://economico.sapo.pt/noticias/exportacoes-do-sector-da-saude-crescem-o-dobro-da-media-mundial_144225.html [accessed on 14-05-2012]

was valuing 1.145 million €, around 25% of the total market, a clear growth since 2005 when this percentage was 19.2% (see **Exhibit 15**).

f) Hospital Market – MA and SUA

Considering exclusively to the hospital market it is possible to breakdown the total value in two categories, as illustrated in Figure 1 – drugs with an active Marketing Authorization and drugs which need a Special Use Authorization, commonly called, *unlicensed* drugs. These certifications are both under the umbrella of Infarmed¹⁷.

For this segmentation the data available refers only to some hospitals from the Health National Service, therefore one must analyze it in a critical way, bearing in mind that in 2010 there were in Portugal 229 health facilities, from which 127 belong to State and 102 are private¹⁸.

In the year of 2011 the market for drugs subjected to a SUA was valuing around 5.5 million €, which represented 0.5% of the hospital market of 57 institutions which values, approximately, 1.000 million €. Looking at the numbers from 2009 in order to compare them with the data available regarding all the universe of Portuguese hospitals (4.728 million €, recall **Exhibit 15**), one can see that the SUA market represented around 1% of the hospital market of 50 hospitals, roughly 6.5 million € in a total of 670 million € (see **Exhibit 16**). This result is nearly 15% of the “true” value considering all the hospitals. As it may not be right to assume that this function is linear, predicting a value does not come as an easy task. A value somewhere between 20 and 30 million was the most common response from the interviews conducted to professional in the area.

¹⁷ INFARMED,I.P. spells its company name in uppercase letters. The author has followed standard editorial style for company names that are not acronyms and capitalized only the first letter

¹⁸ <http://www.pordata.pt/Municipios/Hospitais+total+e+por+natureza+institucional-247> [accessed on 27-05-2012]

INFARMED, I.P., the National Medicines and Health Products Authority¹⁹ is the executive agency of the Ministry of Health that is responsible for the evaluation, authorization, regulation and control of human medicines and health related products as medical devices and cosmetics. It is a public corporate body, under the state's indirect administration, endowed with administrative and financial autonomy and its own assets²⁰.

The main goal of the organization is to ensure quality, safety and efficacy of medicines and the quality, safety and performance of health products in order to avoid the risks of their use, while ensuring adequate standards of public health and consumer's protection²¹.

The Mission:

“To regulate and supervise the medicinal and health products sectors, in accordance with the highest standards of public health protection, and ensure access to high quality, effective and safe medicines, medical devices and cosmetic and personal hygiene products to health professionals and the general public.”

The Vision:

“To be a model of excellence in quality public service provision and a reference agency the European Union, while valuing its employees.”

Infarmed undertakes an important role in the fields of policy making and execution, regulation, evaluation, authorization and post-marketing vigilance and supervision. It controls the research, production, distribution and marketing, consumption and use of medicines, medical devices and personal hygiene products in Portugal. It is also Infarmed's responsibility to promote to health professionals and to the general public the access to information necessary for rational use of medicines, medical devices and personal hygiene products. Moreover, they support the research in the fields of pharmaceutical science and technology, biotechnology, pharmacology, pharmacoconomics and pharmacoepidemiology

Excerpt taken from Infarmed's Annual Report 2009

¹⁹ In Portuguese, INFARMED – Autoridade Nacional do Medicamento e Produtos de Saúde I.P.

²⁰ http://www.infarmed.pt/portal/page/portal/SOBRE_O_INFARMED/APRESENTACAO [accessed on 21-05-2012]

²¹ http://www.infarmed.pt/portal/page/portal/INFARMED/ENGLISH/ABOUT_INFARMED [accessed on 21-05-2012]

1.3 Prologue

It took seven minutes for the ambulance to arrive at Hospital de Santa Maria in Lisbon. Seven long minutes inflated by the rush hour that haunts the city every time the clocks reach the 6 o'clock.

While the ambulance was drifting through the Avenida dos Estados Unidos da América the paramedics weren't sure about what to do. She was 23. Her blood pressure was skyrocketing. The prognosis wasn't good for both of them.

Two weeks before she had noticed that her blood pressure was increasing, a sign she believed to be normal as the pregnancy was progressing, but only that afternoon she started to feel some dizziness and her legs have never been so swollen.

The presence of advanced chronic kidney disease and pregnancy is an uncommon occurrence with an incidence between 0.002 and 0.01%. She still had two weeks before delivering, however, doing so on that rainy day seemed to be the only option.

Once they arrived at the hospital she required treatment with **Labetalol** due to the increased BP and the labour was induced on the grounds of intrauterine growth restriction. The baby was born weighting 1.640g (3-10percentile) and in respiratory distress.

The infant was discharged at 23 days of age and three months later the mother was asymptomatic.

This case has been adapted from a true story reported on Revista Nefrologia, April 2010. All medical information has been preserved.

Source: Merino JL, Espejo B, Ferreiro P, Bueno B, Paraíso V. Pregnancy and advanced chronic kidney disease. Nefrologia. 2010; 30(3): 376-8

1.4 The Business Opportunity

Labetalol is one of the drugs for which there is not an active Marketing Authorization in Portugal. The reasons can vary from economical, when a company is not interested in export it due to its low business value, to logistical, when a firm has no resources to export it by itself, or even opportunistic, when a new drug was approved in all the efficacy and security clinical trials and the MA is already being requested in other country but was not granted yet.

In order for this drug to arrive at a Portuguese hospital, a lot of procedures and paperwork must be undertaken leading to a delay in one of the most important success factors in a hospital, response time. Multiplying this action for each drug the hospital may need the business opportunity becomes clear: To act as an auxiliary between hospitals and pharmaceutical companies.

This was the rationale behind the creation of Unipharma: distribute drugs for treating rare or uncommon conditions in Portugal.

Pedro Azevedo, 46 years old, started to work in the pharmaceutical industry as soon as he was discharged from the military in 1987. He was a 21-year-old young man with a lot of dreams in his green camouflaged backpack and a great will to start his life. Still galvanized by Madjer's back-heel that May 27th evening, he began to work as a medical sales representative for a French multinational company. After 13 years employed in the industry, having worked for companies like Bayer or Baxter, and an Executive Training Program from Católica-Lisbon in his résumé, Pedro was invited in 2002 to become part of the creation of a new Portuguese company in the area of biotechnology. He has been the senior business manager responsible for sales and marketing of a biotech company for 10 years now.

In 2006, after innumerable discussions with his longtime friend Miguel Pinto, an expert in tax and financial accounting, about this flaw in the national market, Pedro finally convinced him to join him in this adventure. This was the beginning of Unipharma. Pedro and Miguel were committed to defy the *status quo* in order to improve the efficiency and efficacy of Portuguese hospitals.

Having both kept his job, the two years of market research were extremely demanding and exhausting. There was a lot of work to be done, people with whom to talk and

hospitals to be informed about the new service. It would not be worth to offer drugs that hospitals would not be interested in buying. All this information needed to be collected while respecting a relatively low budget.

The company was formed as a private limited liability company with a capital of 5.000 €, the minimum required at the time, split equally between the two managers. Without recurring to any financial institution or external investor both entrepreneurs used their own debit and credit cards to buy their equity in the company, to pay all the initial expenses and to fund their working capital. It was a case of bootstrapping.

In 2008, for Pedro and Miguel delight, the company finally started operating under the name of Truepharma – Import e Export, Lda.²² containing in its portfolio 5 products for which there were already various orders from some of the most important Portuguese hospitals like Hospital de Santa Maria, Hospital de S. José, Hospital de S. João, Centro Hospitalar de Coimbra or Centro Hospitalar do Barlavento Algarvio . The drugs in question were the Isoprenaline, the Triamcinolone, the Fludrocortisone, the Phenoxbenzamine and the Ciclozerine.

At the beginning Truepharma had two key partners which were essential for the success of the company. On the supplier side, Truepharma associated with a British multinational company named Idis, which was already running this kind of business in other countries. Despite having different interests in the partnership, this alliance paid off for both of them. Truepharma was receiving the drugs from Idis which simplified the procurement process, and the latter was able to enter in the Portuguese market with virtually no costs and with all the “know-how” implied.

²² Henceforth called only Truepharma for simplifying



Around the world, patients with unmet medical needs are frequently driven to seek access to medicines outside the clinical trial and commercial setting. Idis is the leading expert in developing, implementing and managing global Managed Access Programs by which pharmaceutical and biotechnology companies and healthcare providers can respond to the needs of these patients.

Idis has 25 years experience of partnering with pharmaceutical and biotechnology companies to create regulatory-compliant, ethical access to medicines for healthcare professionals and their patients with unmet medical needs.

Since 1987, Idis has developed and managed access to thousands of medicines from virtually every therapeutic category, impacting the lives of hundreds of thousands of patients in countries around the world.

Excerpt taken from <http://www.idispharma.com/about-us>

The second important partner is Dilofar, a Portuguese specialist in logistics and distribution in the pharmaceutical industry. The commercialization of medicinal products for human use is subject to legal requirements and calls for an authorization from Infarmed. Another important aspect of this partnership was the fact that Truepharma still did not have that license to be a wholesaler of medicinal products for human use, unlike Dilofar, therefore, this outsourcing opportunity was irresistible. Truepharma benefited from Dilofar services, which in this industry must comply with an endless list of regulations, without having had to engage in huge initial investments. Still today, Dilofar is the company that stores and ships the drugs among all the hospitals in exchange of a percentage of the selling price.



Dilofar - Distribuição, Transportes e Logística, Lda, is a logistics company that operates exclusively in the pharmaceutical industry. It capitalizes on all the “know-how” and experience accumulated over more than 70 years in the market for distribution of medicinal products.

Certified by ISO 9001:2008, Dilofar ensures coverage of mainland Portugal and the Autonomous Island Regions. It pretends to position itself as a reference Logistics Operator in the national market for distribution of pharmaceuticals that can provide a fast, reliable and high quality service.

From the logistics, complemented with the financial operations (billing and collection) and the services of labeling, assembly, pharmacovigilance and regulatory affairs, Dilofar has conditions to ensure a complete high quality service, making it the number one in the Portuguese market.

Excerpt taken, adapted and translated from <http://www.dilofar.pt>

During two years, 2008 and 2009, Truepharma operated in this manner, facing turnovers of 450.000 € and 600.000 €, respectively. This is a proof that this system was, indeed, creating value to the hospitals.

The following year, 2010, was prone to changes. Idis decided it was time to enter by itself in the Portuguese market and quitted the partnership. Instead of refraining, Pedro and Miguel went for the fight and created Unipharma. The next few months were of extreme hard work. Since Idis was the exclusive supplier, they had to search for new companies which could provide them reliable drugs.

The new company was created as a S.A. with a capital of 50.000 € from which the only shareholder is Truepharma with an interest of 100%. Once again, the duo opted to avoid any external funding.

This was a significant upgrade to the company since from that moment on it was not just about the paperwork to obtain the SUA, but also about the procurement, inward and

outward. Unipharma's activity consists on searching, obtaining and supplying recognized quality pharmaceutical products which are subject to a SUA in Portugal. The products should be of the highest quality, economically feasible and with recognized origin. The ultimate goal is to launch, promote and firmly implement these innovative drugs in the Portuguese hospital market. Additionally, another aspect on which Unipharma started working was the promotion of Portuguese manufactured drugs overseas. At the end of the year the portfolio was consisting of 14 new drugs.

“Every cloud has a silver lining. If this would have happened one or two years later it would be practically impossible for us to overcome the situation because the market would be to “stuck” on those specific products.”

Pedro Azevedo, 30th May 2012

Dilofar remained as a partner, warehousing and shipping the products.

According to Unipharma's website, these are the mission statement and vision of the company:

- Mission

We are committed to deliver unconditional support to Portuguese hospitals on searching, obtaining and supplying pharmaceutical products of undeniable quality, feasible economically and always from a recognized source (EU, USA, Canada and Japan), subject to SUA.

We work in order to support other worldwide companies searching and obtaining pharmaceutical products of Portuguese origin with recognized quality and duly licensed by the Portuguese authorities.

It is also our concern to support hospitals obtaining pharmaceutical products for rare diseases.

- Vision

We value, above all, our ability to serve Portuguese hospitals in developing the bureaucratic process like filling in the required forms and sending them by electronic or post mail. We want to offer competitive prices with no further costs on the provided service and we always present the costs on the European official currency.

We are proactive in searching pharmaceutical products for the treatment of rare diseases no matter its prevalence.

We are proactive in licensing each product in Portugal, whenever allowed by its manufacturers.

We are proactive in remarking the quality of Portuguese pharmaceutical products in the treatment of patients all over the world whenever they are necessary.

The criteria for a drug's approval by the Infarmed for a special use are very tight. First of all, only drugs with a MA from the European Union countries, USA, Japan or Canada are eligible. Then, the MA from the country of origin and the Summary of Product Characteristics must be delivered to the Infarmed translated and approved by the producer. These are the elements that should be stated:

- a) Identification of the health facility where the drug will be used;
- b) Identification of the drug, including its qualitative and quantitative composition of active substance, pharmaceutical form and presentation;
- c) Identification of the MA holder in the foreign country, country of registration, manufacturer, country of manufacture, liberating batch, country of releasing, distributor in the country of origin, distributor in Portugal and customs;
- d) Indication of the price per unit and an estimate of the total expenditure;
- e) Copy of the MA from the country of origin, or preferably, the last renewal accompanied, when applicable, with a proof that the MA still remains valid or, alternatively, the WHO export model identifying the MA holder;
- f) A copy of the updated Summary of Product Characteristics;
- g) In the case that the drug is not acquired under the MA in a UE Member State or in a country with which there is not a mutual recognition agreement, presentation of a written document of compliance with good manufacturing practices.

Moreover, Infarmed requires that a form is filled and delivered by a clinical director. As neither Pedro nor Miguel were pharmacists, Dra. Joana Silva joined the Unipharma team in April 2010.

The applicants must, normally, submit every year during September, a single application of SUA for each drug with well-recognized clinical benefit. An approved SUA is valid for one year, starting the following January. The applicant must also ensure that the product is accompanied by a document in Portuguese, stating the conditions of storage, keeping, handling, manipulation, compatibilities and incompatibilities, stability, post-reconstruction and post-dilution expiration and administration, so that such information is accessible to users that may need.

In spite of all the changes, the company continued prospering, presenting in the first ten months of 2010 a turnover of 700.000 €.

In October 2010 Unipharma was finally granted Infarmed's license to be a wholesaler of medicinal products for human use, nevertheless, that activity was kept outsourced, once again, through Dilofar.

As the portfolio was being enlarged, also the money coming in was increasing. Another collaborator was hired to personally go from hospital to hospital offering the service.

Due to some new products' transport specifications which required refrigerated transport, the contract with Dilofar was renegotiated, passing from 3.9% for 4.9% of the invoicing. Yet, the profit kept growing as the turnover from the last 2 months in 2010 together with 2011 peaked the 1.8 million €.

Today, Unipharma holds 47 products in its portfolio. The 16 most sold are showed in the table below:

Table 1. Unipharma's top medicines in terms of sales

	Description	Sales 2011
1	Cycloserine	210.000,00 €
2	Isoprenaline 0,2mg/ml 10 pills box	185.000,00 €
3	Ethionamide	147.500,00 €
4	PAS (4-Aminosalicylic acid)	147.000,00 €
5	Prednisolone 25mg	89.000,00 €
6	Labetalol 100mg/20ml Injectable Solution 20ml Flask IV	80.000,00 €
7	Capreomycin	80.000,00 €
8	Triamcinolone 40mg/ml Injectable Solution 1ml Flask	67.000,00 €
9	Foscarnet 24mg/ml Injectable Solution 250ml Flask	52.500,00 €
10	Mercaptopurine 50mg	46.000,00 €
11	Etoposide 100mg Capsules	39.800,00 €
12	Fludrocortisone 0.1mg pills	35.400,00 €
13	Etoposide 50mg Capsules	29.000,00 €
14	Scleremo 0,8% + 72% 5ml 5 ampoules box	25.000,00 €
15	Sulfadiazine 500mg 100 pills box	21.000,00 €
16	Isoprenaline 0,2mg/ml 6 pills box	12.000,00 €

Source: Unipharma internal company records

In terms of market share, as of 2011, Unipharma comes second with 30%, behind Idis with 50% that despite having higher prices can offer a broader range of products. The remaining market is divided among smaller companies like Clinigen, Overpharma, Genopharma or Pharmispharma which cannot be competitive due to the reduced product portfolios, higher prices and longer delivery times.

1.5 The Changed Paradigm

Before Truepharma/Unipharma²³, hospitals had to contact each producer independently, followed by all the bureaucratic process required by Infarmed for obtaining the respective SUA. Only after this period, if the SUA was granted, the hospitals could contact the producer again for the discussion of prices. Prepayment was always required and then, finally, the drugs would be shipped to Portugal. It was a process that could last up to two months. Today, with this company, the process can be concluded in a matter of days. The benefits for the hospitals are obvious, as Unipharma takes the responsibility for all the important steps of the import process:

- the Infarmed's requested forms;
- the procurement;
- the acquisition;
- the warehousing;
- the distribution.

On the top of that, the unitary price of each drug the hospital pays is lower than when bought directly to the producer, due to Unipharma's increased bargaining power derived from the greater quantities purchased. In terms of delivering time, it was reduced for 24 to 48 hours. The company preferably works in a prepayment scheme, however, in special cases and larger orders, it may accept that the invoice is paid in 30 days.

²³ Henceforth called Unipharma in order to simplify, but always referring to the moment the company started

Meanwhile, on the other side of the fence... An interview with a Director of Pharmacy

Interviewing the Director of Pharmacy of one hospital which buys from Unipharma was an interesting exercise to see things from the opposite point of view.

A Director of Pharmacy is the responsible for the efficient operation of the hospital pharmacy. Among other tasks, he is the person responsible for the planning and coordination of all the activities regarding the drug's procurement process, a practice that, for SUAs in particular, was, in his words, *“very exhausting and time consuming as we needed to contact each producer directly”*.

After a quick glance on how the process was before and on some important political issues he admitted that for him, the first advantage Unipharma provides is the reduction of the bureaucratic burden for the hospitals which contributes for the acceleration of the process. Nevertheless, this was not considered the most important since it only implies a reduction in the workload. The real advantage is the possibility to manage the acquisition of the products not by their unitary price but by the cost of the package provided. This bundle includes, usually, the product and all the implied procedures to obtain it, the shipping, the customs clearance when needed and the delivering. *“Knowing this value putting the existing companies in a war of prices is really easy”*, still, there are other services that can make the difference. And the pharmacist proceeded with an example: *“Imagine that I order 600 ampoules of a given drug. I am getting to the end of their expiration date and I still have 100. I call the company from where I bought them (in this case, Unipharma) and they manage to allocate them to other hospital that is currently in need. With this action I saved costs, despite having paid a premium for the ampoules. If I had bought from other company at a lower unitary price but that wouldn't allow me to make these gymnastics, I would have lost more money.”*

Concluding, the strategic advantage of Unipharma is empowered by other services they provide so that the cost for hospitals can become lower. The important thing is that *“the client perceives additional services as being part of the final cost”* whether they need them or not.

30/06/2012

1.6 Conclusions

Just like the situation of the young pregnant woman described above, there might be in Portugal hundreds of different cases which drugs sold by Unipharma come in handy or otherwise the patient would not get the best medical treatment possible. For the unfortunate people that require these products, the value added provided by Unipharma might be close to a maximum, if that conception even exists.

Although 2012 is exceeding the initial expectations, the prospect that the national market is decreasing together with the fact that foreign companies are becoming more competitive in prices due to their countries' lower tax rates, cause serious threats to Unipharma.

The future is already being planned and according to Pedro's words the next years seem promising:

“We want to become a global reference.”

Pedro Azevedo, 26th April 2012

Exhibit 1 - Total Pharmaceutical Market Sales, 2003 – 2010

Total Market Sales 2003 - 2010

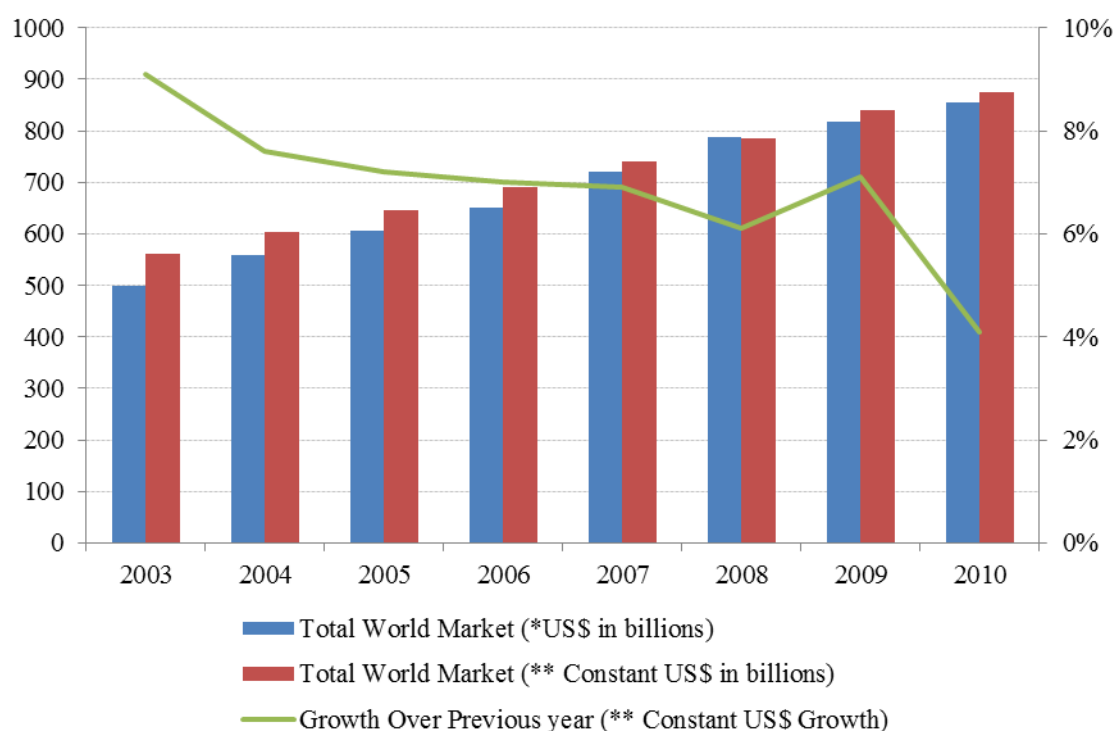


Figure 2. Total Pharmaceutical Market Sales, 2003 – 2010

Source: IMS Health Market Prognosis, March 2011

Exhibit 2 – List of Pharmedging Countries

Table 2. List of Pharmedging Countries

Tiers	Countries	2009 GDP based on PPP valuation (US\$ trillion)	Incremental Pharma Market Growth from 2009-13 (US\$ billion)
Tier 1	1. China	9	40
Tier 2	2. Brazil 3. Russia 4. India	2-4	5-15
Tier 3	5. Venezuela 6. Poland 7. Argentina 8. Turkey 9. Mexico 10. Vietnam 11. S. Africa 12. Thailand 13. Indonesia 14. Romania 15. Egypt 16. Pakistan 17. Ukraine	<2	1-5

Source: IMAF's Pharmaceuticals & Biotech Industry Global Report (2011), IMAF, Turkey

Exhibit 3 – Spending in the Pharmaceutical Industry by geography

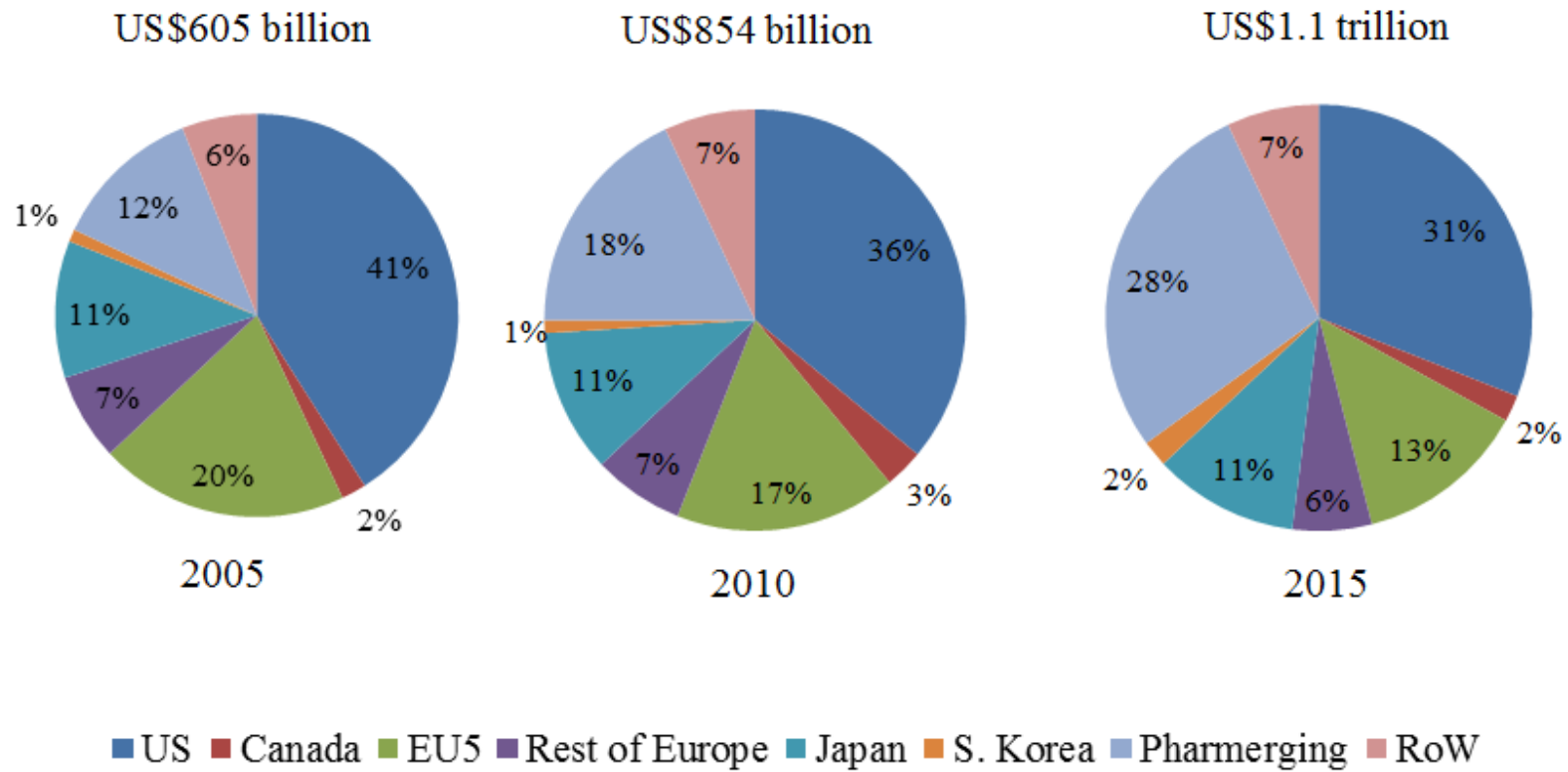













Figure 3. Spending in the Pharmaceutical Industry by geography

Source: IMS Market Prognosis, April 2011

Exhibit 4 – The largest companies in the Pharmaceutical Industry

Table 3. The largest companies in the Pharmaceutical Industry

Rank		Company	Country	Rank in Fortune's Global 500	Revenues (US\$ millions)	Profits (US\$ millions)	Employees
1		Pfizer	USA	103	67.809	8.257	110.600
2		Johnson & Johnson	USA	123	61.587	13.334	114.000
3		Novartis	Switzerland	164	51.561	9.794	51.561
4		Roche Group	Switzerland	174	47.171	8.314	80.653
5		Bayer	Germany	178	46.473	1.723	111.400
6		Merck	USA	180	45.987	861	94.000
7		Sanofi-Aventis	France	187	45.056	7.241	101.575
8		GlaxoSmithKline	UK	194	43.857	2.524	96.461
9		Abbot Laboratories	USA	255	35.167	4.626	91.440
10		AstraZeneca	UK	281	33.269	8.053	61.100
11		Eli Lilly	USA	423	23.078	5.070	38.350

Source: Fortune Magazine, The Global 500 Companies, 2011

Exhibit 5 - Top 10 Global Corporations in terms of sales

Industry Sales 2010

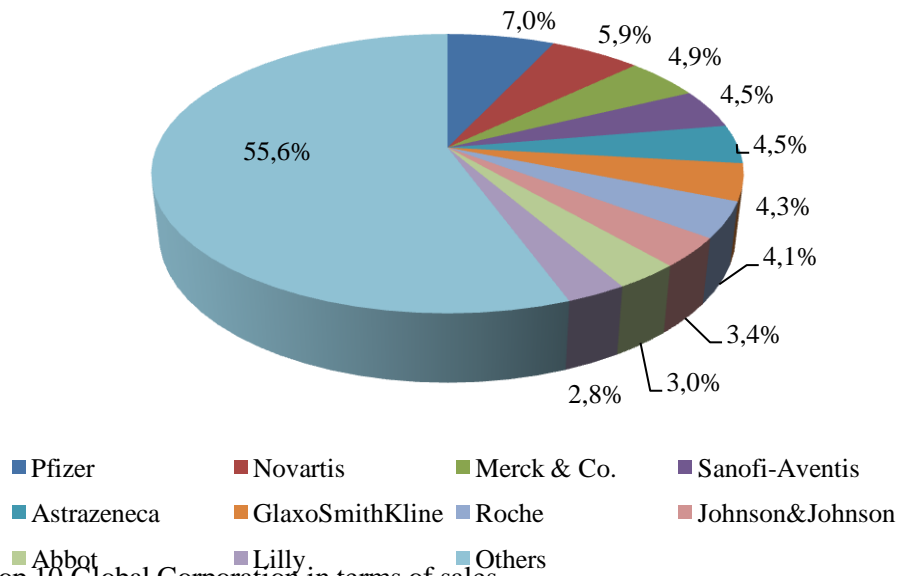


Figure 4. Top 10 Global Corporation in terms of sales

Source: IMS Health Midas, December 2010

Exhibit 6 – R&D phases of a new drug

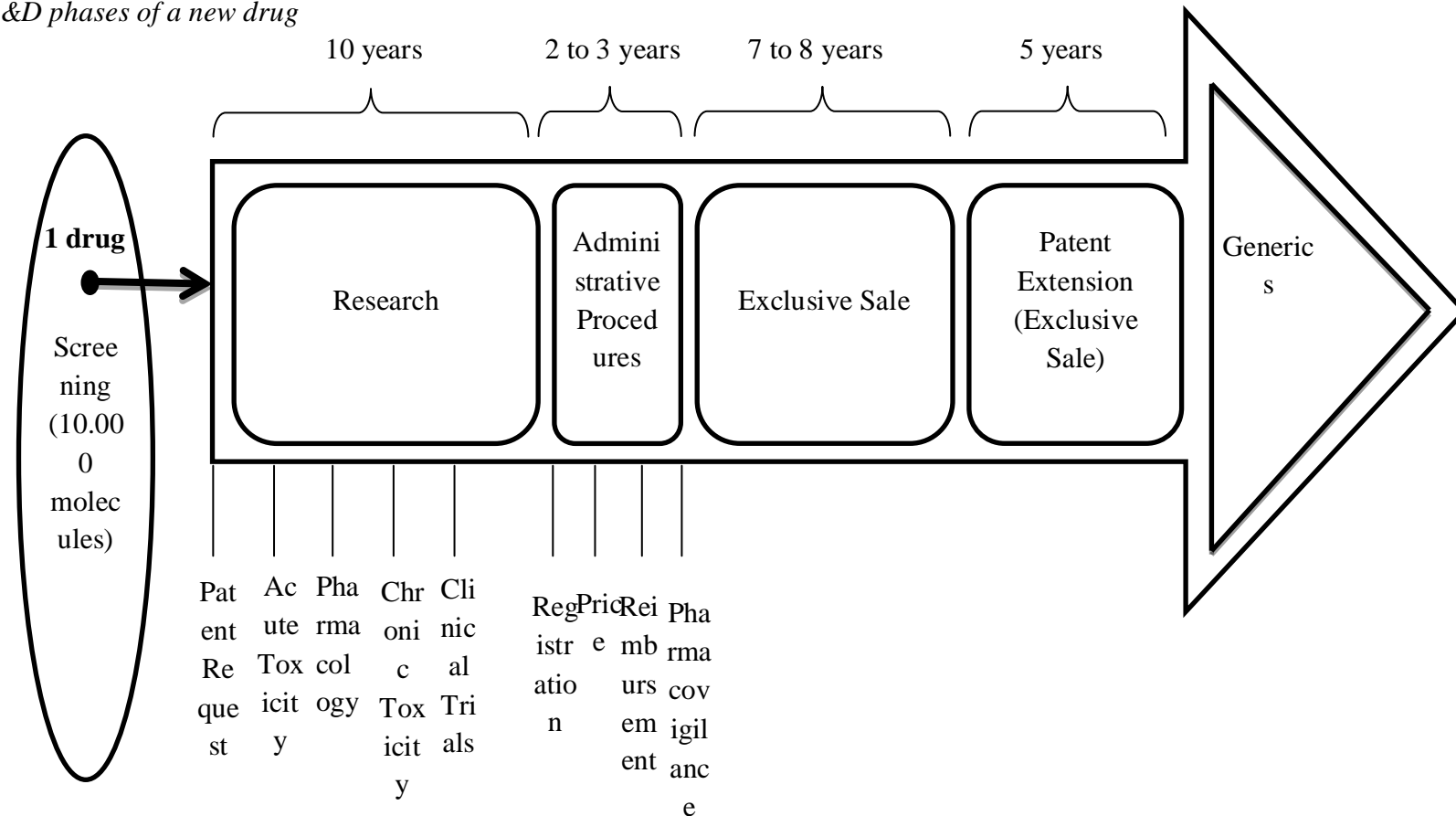


Figure 5. R&D phases of a new drug

Source: Adapted from Portela, Luís (2010) *I&D: Novos Medicamentos para o sistema nervoso central – O caso BIAL*, Prime: Uma retrospectiva 2000-2009

Exhibit 7 – Major acquisitions in the Pharmaceutical Industry between 2000 and 2009

Table 4. Major acquisitions in the Pharmaceutical Industry between 2000 and 2009

Year	Buyer	Target	Transaction value (in US\$ billions)
2000	Pfizer	Warner Lambert	90
2001	Bristol-Myers Squibb	DuPont Pharmaceuticals	7.8
2001	J&J	Alze	10.5
2001	Angea	Immunex	14.8
2002	Pfizer	Pharmacia	60
2003	General Electric	Amersham	9.5
2004	Sanofi-Syathelabo	Aventis	65
2006	Merck KgaA	Serono	13.3
2006	Bayer	Schering AG	21.5
2007	Schering-Plough	Organon BioSciences	14.5
2007	AstraZeneca	MedImmune	15.6
2008	Tabeda	Millenium	8.8
2008	Novartis	Alcan	11
2009	Merck & Co.	Schering-Plough	41
2009	Roche	Genetech	46.8
2009	Pfizer	Wyeth	67.9

Source: Adapted from ITRI (2009), Invest in Taiwan, Industrial Technological Research Institute of Taiwan

Exhibit 8 – M&A Activity in 2009 and 2010

Table 5. M&A Activity in 2009 and 2010

Particulars	2009	2010
Total number of deals	563	548
Deals with available transaction value	314	309
Total transaction value	US\$161.2 billion	US\$51.6 billion
Largest Deal	Acquisition of Wyeth by Pfizer for US\$67.9 billion	Acquisition of Ratiopharm by Teva Pharma for US\$4.9 billion
Top 5 deals as a % of total deal value	78.4%	38.8%

Source: Thomson M&A Database, IMAP's Pharmaceuticals & Biotech Industry Global Report (2011), IMAP, Turkey

Exhibit 9 – Transaction values and Number of deals in 2010

Table 6. Transaction values and Number of deals in 2010

Top Five Countries	No. of transactions	Value (US\$ billion)
--------------------	---------------------	----------------------

United States	114	25.6
Germany	18	5.4
India	48	4.9
China	105	3.4
Brazil	13	1.9

	U.S.	Europe	Japan	China	Latin America	RoW	TOTAL
Undisclosed deals	47	79	16	26	7	64	239
Up to US\$20 Million	21	24	6	58	2	55	166
US\$20 to US\$50 Millions	13	10	2	13	5	17	60
US\$50 to US\$100 Millions	11	7	2	3	2	4	29
US\$100 to US\$250 Millions	10	3	0	2	1	4	20
US\$250 to US\$500 Millions	4	5	1	2	1	0	13
Above US\$500 Millions	8	6	0	1	1	5	21
TOTAL	114	134	27	105	19	149	548

Source: Thomson M&A Database, IMAP's Pharmaceuticals & Biotech Industry Global Report (2011), IMAP, Turkey

Exhibit 10 – Manufacturing of Raw Materials and Pharmaceutical Products

Table 7. Manufacturing of Raw Materials and Pharmaceutical Products

Years	Production (€ millions)	Growth Rate
2000	1.493	13,8%
2001	1.450	0,8%
2002	1.469	1,3%
2003	1.560	6,2%
2004	1.590	1,9%
2005	1.745	9,7%
2006	1.829	4,8%
2007	2.003	9,5%
2008	2.054	2,5%
2009	1.975	-3,8%

Source: EFPIA; Apifarma

Exhibit 11 – Top 10 Portuguese Pharmaceutical Companies

Table 8. Top 10 Portuguese Pharmaceutical Companies

Company	
1	Merck Sharp Dohme

2	Pfizer
3	AstraZeneca
4	Novartis Farma
5	Bial
6	Servier
7	Bayer Portugal
8	Sanofi-Aventis
9	GlaxoSmithKleine
10	Lilly Portugal

Source: IMS (Var M1 vs. M2 €) March, 2012

Exhibit 12 – Top 10 “MADE IN” Portugal

Table 9. Top 10 “MADE IN” Portugal

	Company	Sales (million €)
1	Bial	85,6
2	Generis	46,9
3	Medinfar	42,5
4	Tecnifar	26,6
5	Lusomedicamenta	17,3
6	Pentafarma	16,6
7	Atral-Cipan	16,5
8	Farmoz	16,1
9	Tetrafarma	14,8
10	Tecnimede	10,2

Source: IMS Health

This ranking elaborated by “Jornal de Negócios” uses data from IMS Health and it only includes pharmaceutical companies controlled by Portuguese capitals, taking into account the sales from April 2011 to March 2012.²⁴

²⁴ Neves, R. (2012) Nove Portuguesas no “top 50” de vendas nacional. Jornal de Negócios Online. Available in http://www.jornaldenegocios.pt/home.php?template=SHOWNEWS_V2&id=553185 [accessed on 14-05-2012]

Exhibit 13 – Portuguese Pharmaceutical Market Value (At ex-factory prices)

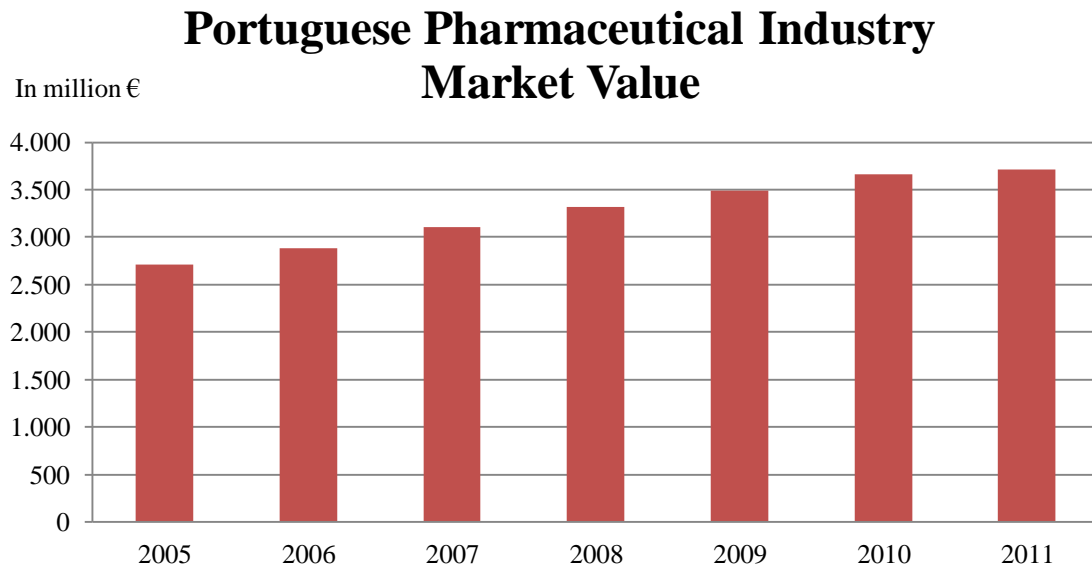


Figure 6. Portuguese Pharmaceutical Market Value

Source: EFPIA member associations (official figures)

The figures above are for pharmaceutical sales, at ex-factory prices, through all distribution channels (pharmacies, hospitals, dispensing doctors, supermarkets, etc.), whether dispensed on prescription or at the patient’s request. Samples and sales of veterinary medicines are excluded.

Exhibit 14 – Portuguese Imports and Exports of Raw Materials and Pharmaceutical Products

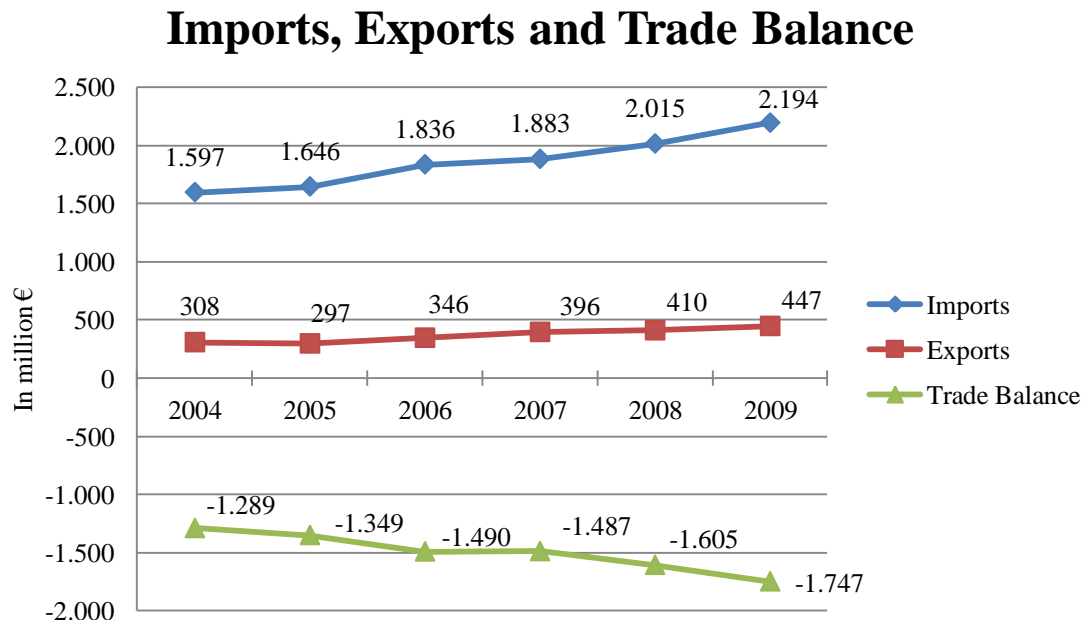


Figure 7. Portuguese Imports and Exports of Raw Materials and Pharmaceutical Products

Source: EFPIA (from Eurostat)

Exhibit 15 – Total Market in Value for Portugal

Table 10. Total Market in Value for Portugal

	2005	Growth Rate %	2006	Growth Rate %	2007	Growth Rate %	2008	Growth Rate %	2009
Total Market⁽¹⁾	4.164	4,7	4.359	3,4	4.508	3,9	4.683	0,9	4.728
Ambulatory Market⁽²⁾	3.364	2,8	3.457	3,5	3.577	1,0	3.614	-0,9	3.583
Prescription Medicines	3.112	3,3	3.213	3,9	3.338	1,4	3.384	1,0	3.350
Non Prescription Medicines	252	-3,7	243	-1,6	239	-4,2	229	1,8	233
Hospital Market⁽³⁾	800	12,7	902	3,1	930	15,0	1.070	7,0	1.145

Units: Million Euros

(1) Total Market = Ambulatory Market + Hospital Market

(2) Ambulatory Market = Prescription + Non Prescription

(3) Hospital Market of National Health Service

Source: Apifarma, The Pharmaceutical Industry in Figures (2010), Portugal

Exhibit 16 – Value of SUAs

Table 11. Value of SUAs

	Total Hospital Market (€)	% relative to SUAs	Value (€)	# Hospitals
2007	707.798.931	1,30%	8.899.095	64
2008	573.227.979	1,50%	8.681.529	50
2009	670.027.626	1%	6.491.863	50
2010	993.787.331	0,80%	7.484.470	60
2011	1.012.518.276	0,50%	5.494.492	57

Source:

http://www.infarmed.pt/portal/page/portal/INFARMED/MONITORIZACAO_DO_MERCADO/OBSERVATORIO/ANALISE_MENSAL_MERCADO/ANALISE_MERCADO_MEDICAMENTOS_CHNM [accessed 29-05-2012]

2. TEACHING NOTES

2.1 Introduction

The case-study “Unipharma, S.A.: Creating value delivering pharmaceutical drugs” was prepared so that it can be used as class discussion material. It is not the author’s intention to make use of it as an endorsement, a source of primary data or an illustration of effective or ineffective practices.

The first chapter of this case consists of two parts. It starts with an analysis of the pharmaceutical industry, focusing on the specific segment where Unipharma operates, and then passes to the description of the company itself. All the relevant data is provided throughout both parts of the case therefore any additional information should not be necessary.

2.2 Synopsis

The pathway of Pedro Azevedo has always been related to the pharmaceutical industry. Having started as a medical sales representative without any prior experience, Pedro made his way to the top due to his hard-work, perseverance and resilience. Currently, he occupies the position of senior business manager in a successful Portuguese biotechnology company. Regardless of his busy professional life, Pedro was feeling he could do something more for the industry that took him when he was just a 21-year-old lad coming from the military service. As a result, in 2008, driven by his pro-activeness and entrepreneurial spirit, he started his own company together with a longtime friend.

The objective was to illuminate a grey area in the Portuguese market regarding the *unlicensed* drugs for hospital use, a current practice in countries like France, England or Germany, but totally neglected in the smaller European countries.

The company was a success and is consistently growing year after year. Its main competitor is a British multinational company that was firstly a partner and then turned to the other side. Together, they hold a market share of some 80%, being the other 20% held by smaller companies that have appeared in the market commercializing just 2 or 3 products in specific therapeutic areas.

The future is being planned with a great focus on internationalization. Spain, Brazil and the more recent UE members are the most attractive targets.

2.3 Suggested assignment questions

- 1. From what you have learned during the reading of the case, how would you characterize Unipharma? In which industry does it operate?*
- 2. Unipharma only sells products conceived for rare or uncommon conditions. How would you justify the attractiveness of a market with such low demand? Is the market still attractive?*
- 3. What should be, in your opinion, the value proposition of Unipharma?*
- 4. In your opinion, what type of innovation does Unipharma stand for? Incremental or Disruptive?*
- 5. Considering that the SUA market in Portugal is not growing any further what do you suggest for the future?*

2.4 Teaching Objectives & Use of the Case

The main teaching objectives of this case deal with strategy, entrepreneurship and innovation concepts. The students should be able to apply the correct theoretical frameworks in the appropriate situations so that a better analysis is accomplished.

This case was conceptualized to be used in an undergraduate strategy course since it allows students to use and recall most of the theoretical topics learned during over the course of the semester in an innovative market, different from what is common on these courses.

2.5 Analysis and Discussion

The guiding lines to explore this case are based on the questions above proposed. The case is designed to be lectured in a 90 minute class and to promote discussion among students.

1. From what you have learned during the reading of the case, how would you characterize Unipharma? In which industry does it operate?

(This introductory question should serve as an ice-breaker. The instructor's role should be provocative in order to stimulate discussion and controversy. 15 minutes should be enough to cover all the points.)

By no means should ever be said that Unipharma is a pharmaceutical company. The company does not produce any medicinal product; it only provides a service related to the industry. The company operates in the pharmaceutical industry. It made use of all the regulations and bureaucracy regarding drugs subject to SUA and created a market where before there was nothing.

Another interesting detail is that Unipharma is not a transport and logistics company whatsoever. Despite dealing with all the processes involving this industry, all these tasks are outsourced.

Through the analysis of the marketing-mix one can easily understand the business:

- Product / Service – Deliver medicines that need a SUA in the Portuguese Market, taking care of all the procedures between producers and hospitals
- Placement / Channels of distribution – Outsourced to a company specialized in logistics in the pharmaceutical industry
- Promotion – Advertising medicines that need a medical prescription is not legal in Portugal. Unipharma has one collaborator that goes, personally, to all the hospitals offering the service and inquiry about potential new additions.
- Price – Try to be competitive enough that the final unitary price, all services included, results cheaper than in the hospital does it by itself.

In the founder's words Unipharma is “a B2B and B2G marketing company that commercializes and distributes pharmaceutical products”. In one word, Pedro calls the company an “auxiliary”. Unipharma was created in order to streamline the process of procurement, acquisition and distribution of *unlicensed* drugs. Just like e-bay or Amazon, with the appropriate limitations, of course, Unipharma brought suppliers and clients together, as an intermediate in the supply chain, smoothing the buying process. Unipharma enters in the definition of “market maker”, a company that buys, sells and

holds inventory, as opposed to a “broker” intermediary, the other type of supply chain intermediation that essentially deals with the provision of services without owning the goods being transacted (e.g., insurance agents, financial brokerage) (Resnick *et al.*, 1998).

This intermediation process occurs when “a group of suppliers and buyers find beneficial to seek the service of a third party agent as an *intermediary*” and can be considered in two broad categories: *transactional intermediaries* and *informational intermediaries* (Shimchi-Levi, Wu and Shen, 2004). Unipharma can be placed within the definition of *transactional intermediary* as in general, these type of companies serve the following functions:

- Reduce uncertainty by setting and stabilizing prices;
- Reduce the costs associated with searching and matching;
- Provide immediacy by holding inventory or reserving capacity;
- Aggregate supply or demand to achieve economies of scale.

Concluding, it is not unusual to see large multinationals displaying a high degree of vertical integration, participating in a broad range of activities that go from the early discovery to the distribution of a drug. This process comprises an enormous array of activities, including the development, manufacturing and quality control phases, which then evolve to the business stage, where the marketing, sales and distribution departments start operating. Nonetheless, for the reasons outlined during the case related to the SUAs, the Portuguese market was underserved which opened the window of opportunity for Unipharma.

2. Unipharma only sells products conceived for rare or uncommon conditions. How would you justify the attractiveness of a market with such low demand? Is the market still attractive? (Hint: The Porter's 5 Forces analysis may be useful.)

(The time frame to answer this question should be around 20 minutes. It is important that the students clearly define the market for *unlicensed* drugs, using the concepts and frameworks learned during the theoretical classes. The class should come to the conclusion that given the actual circumstances the market is not attractive anymore.)

The first thing that should be said is related to the first-mover advantage. Having moved beforehand any other company into a Blue Ocean (Kim and Mauborgne, 2005) Unipharma created a market space untainted by competition. The company created demand gathering all the interested hospitals and joining their needs. This first-mover advantage can be proved looking at present market shares where Idis and Unipharma (which entered the market as a sole company) are the leaders, with 50% and 30%, respectively.

In addition, a Porter's 5 forces analysis may help to assess the attractiveness of the market. The guidelines which are considered relevant are provided below:



Figure 7. Porter's Five Forces Analysis

The overall conclusion is that the market is not attractive at all for new entrants which decide to offer this type of services because now the Ocean is turning Red. In the short-run, the prognosis is that Unipharma and Idis will continue in dispute for market share leadership and smaller companies, which do not compete directly with the big players since they are specialized in specific segments, will continue to operate on those markets.

3. *What should be, in your opinion, the value proposition of Unipharma?*

(In this simple question, planned for 10 minutes, it is intended that 2 or 3 students come up with a value proposition which states the most important points that characterize Unipharma, reason why the class should come to an answer to about the competitive advantage of the company.)

“Strategy is based on a differentiated customer value proposition. Satisfying customers is the source of sustainable value creation.” (Kaplan and Norton, 2004)

In this case, the creation of value to customers, the hospitals, is based in four pillars, which are also the factors that concede Unipharma competitive advantage:

- The simplification of the acquiring process reducing the bureaucratic load;
- The possibility to only buy the quantities needed and reduce stocks;
- The decrease in delivering times increasing the response time;
- The fact that, although there is one more player at the supply chain, the prices can be lowered.

These four pillars support the two most important strategic objectives of any hospital, public or private, the improvement of the service increasing the patient welfare, which spends less time waiting for the drug, and the cost reduction.

In turn, the attainment of these objectives is due to the differentiated service and the low prices Unipharma practices.

Table 12. Strategic Matrix

		Competitive advantage	
		Low	High
Differentiation	High	Pure Differentiation	Differentiation with low cost leadership
	Low	No advantage	Pure low cost leadership

Source: Freire, A. (1997) “Estratégia: Sucesso em Portugal”, Editorial Verbo, Lisboa

This competitive advantage can be considered as Differentiation with low cost leadership. It not also increased the market, allowing several hospitals to gain access to

many *unlicensed* drugs that were before unreachable, but also decreased prices substantially since it first begun. This resulted in hospitals getting their necessities close to 100%.

Based on these facts, one example for a value proposition using the template proposed by Geoff Moore (1991) would be:

For hospitals that have difficulties in buying *unlicensed* drugs, our service comprises all the steps of the process getting the drug to the final destination in a maximum of 48 hours at a competitive price.

**4. In your opinion, what type of innovation does Unipharma stand for?
Incremental or Disruptive?**

(This question requires some knowledge on innovation courses. It is meant to alert the students that a disruptive innovation does not directly imply a disruptive technology, since there are other factors that come into the equation. In this case, it is clear that with a technology far from being disruptive or even incremental, Unipharma created a new market through a disruptive strategy. 20 minutes are recommended so that the instructor can explain the relevant the concepts, if necessary.)

The answer to this question is not straightforward since both answers can be accepted if well-founded. In order to get an accurate analysis, the suggestion is to breakdown the company into three areas and look at them separately:

- a) The technology
- b) The business plan
- c) The strategy

As stated by Christensen (2003), “Disruptive technologies bring to a market a very different value proposition than had been available previously, Generally, disruptive technologies underperform established products in mainstream markets. But they have other features that a few fringe (and generally new) customers value”. Looking at a term in a broader way, it is possible to apply it not only to a technology but to innovation in general, whether it is a technology, a product or a service. Opposed to this type of innovation, there is the incremental or sustaining innovation, a type of innovation that does not create new markets or value networks but improves the existing ones (Christensen, 1997).

Taking into account these definitions, one can conclude that regarding the technology there is not a clear degree of innovation present, at least for now, and that the business plan results as an incremental innovation of what was being done by the hospitals. What is disruptive in this company is the strategy, the way they changed the paradigm of the industry. Unipharma created a new market and changed the fundamentals of the business. Some reasons can be appointed to the success of the disruptive strategy:

- The founders were both experienced managers in the industry

- Unipharma rearranged the process of acquisition, keeping to itself the tedious parts, making the purchase simpler and more pleasant for the hospitals
- Unipharma provided purchase motivators (the services included and the prices)
- Adoption barriers like switching costs or unavailability of the products were not present
- The word-of-mouth together with the personal presentation from hospital to hospital increased the rate of diffusion of the service.

5. *Considering that the SUA market in Portugal is not growing any further what do you suggest for the future? Should the company engage in an internationalization strategy? Should it expand its portfolio? (Hint: a SWOT analysis may be a useful tool to answer this question)*

(This is the question that gives more freedom for personal interpretation. As it is an intuitive question rather than quantitative one, the instructor should allow students to discuss it for some minutes. After this period, the instructor should intervene providing some additional input that may be useful in the analysis. 25 minutes should, at least, be saved for this question.)

The best framework to predict the challenges Unipharma will face in the future is the SWOT analysis. According to Adriano Freire (1997), for a good strategist there are no threats since an apparent threat can be turned into a new opportunity. Therefore, companies must strengthen their competencies in order to take full advantage of windows of opportunity in the appropriate timing. In accordance, the new SWOT analysis replaces Threats with Time to better frame the strategic suggestions for the company.

Below is presented a suggested new SWOT analysis:

Table 13. New SWOT Analysis

			OPPORTUNITIES & TIME	
			Short term	Medium-long term
			<ul style="list-style-type: none"> National market decreasing Product volatility Brazil as a pharmerging country 	<ul style="list-style-type: none"> New EU countries investing in health Decreasing bargaining power of pharmaceutical companies
STRENGTHS				
<ul style="list-style-type: none"> Service Quality Delivery Time Strong name Competitive prices Stock management 			<ul style="list-style-type: none"> Decrease bureaucracy Internationalize through spot exports to Spain, Angola, Brazil Increase portfolio <i>unlicensed</i> 	<ul style="list-style-type: none"> Internationalize through spot exports and direct investment to Spain, Brazil, new EU countries Develop an online platform to help in the stock management among hospitals
WEAKNESSES				
<ul style="list-style-type: none"> Small structure Difficulties in obtaining original documents Inexistence of any alliance with other companies Undiversified portfolio (only <i>unlicensed</i>) 			<ul style="list-style-type: none"> Strategic alliances with Portuguese smaller companies Expand the company structure in order to keep up with the company growth 	<ul style="list-style-type: none"> Expand portfolio with MA products Risk of acquisition by an international company Develop a software to make a personalized management Strategic alliances with international players

For 2013, internationalization is on the agenda. Starting by Spain, due to vicinity, and Brazil and Angola, due to cultural ties, the plan seems robust, though dare. Certainly the good relations with the suppliers and the “know-how” in the industry will play crucial roles, nevertheless, one must not forget that knowing in-depth the market is also important. In the short term, maybe an approach through transactions only is safer. Suggestions are the Spot Exports and the Exports through agents.

At a longer run, other opportunities arise. Regarding internationalization the new UE countries must be considered due to the investments taking place in the health sectors and to the nonexistence of such type of service on those countries. At that time, maybe direct investment start to make more sense, if they comply with the company strategy. Nonetheless, it is important that, before, the company expands its structure so these actions are in line with the company size.

As regards to the portfolio management, this is a case where the BCG matrix does not apply so well due to the high volatility of the market, which increases the uncertainty regarding the products *per se*. This means that there are no such things as Cash Cows since one product that one year sells, for instance, 10000 units, can on the following year sell as much as 100 units, or vice-versa. Naturally, this does not apply for every product. For example, Antituberculostatics have a high demand every year due to the prevalence of HIV, a disease that increases the odds of getting tuberculosis.

Looking back over the past 5 years one can easily verify the volatility of the products and this is why it is extremely important to being constantly expanding the portfolio of *unlicensed* drugs. In addition, there is the belief that this market will start to grow eventually in the next few years, another reason to justify the relentless search for new drugs.

Looking further into the future, expanding the portfolio with other type of drugs may be a profitable opportunity. The Ansoff matrix can help on this analysis:

Table 14. Ansoff Matrix

		Product	
		Present	New
Market	Present	Market penetration	Product Extension Short Term Strategy
	New	Market Extension Short-Medium Term Strategy	Diversification Medium-Long Term Strategy

The company should continue its product extension actions so they can offer a wider span of products to the hospitals. The following phase would be the market extension, maybe trying to convert those SUA drugs in MAs., so they can be available to more

people. Finally, the diversification strategy would be distributing drugs with the MA already available.

All these opportunities seem very likely to happen in the future, as the company evolves naturally. Nevertheless, they won't just happen. Pedro and Miguel have a long way to run.

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