

Dr. Reddy's Laboratories

MarketBuster

Summary

Beginning as a small firm with scanty resources, Dr. Reddy's Laboratories has grown into the second largest pharmaceutical in India. Dr. Reddy, chairman and founder of the company, has played a pivotal role in the company's position today. His dynamic leadership, entrepreneurial mindset and innovation-driven ideas are starting to mould the company into a true innovator in the pharmaceutical arena and compete in global markets. Following a series of acquisitions and strategic alliances, the company has grown enormously providing a wide variety of products and services with research efforts in some of the most pressing health issues today. Apart from its technological excellence and sales, DRL contributes considerably to the community and has established the Dr. Reddy's Foundation to develop talent in children and promote sustainable human and social development.¹ They have helped improve the lives of many worldwide through their products and thousands in poverty-stricken areas of India through their social outreach programs. With strong financial footholds, established markets, human capital and advanced facilities, DRL continues to grow as a global pharmaceutical.

The Story

In 1984, Dr. Anji Reddy, an entrepreneur-scientist, had a vision to establish India's first discovery led global pharmaceutical company. Prior to starting Dr. Reddy's Laboratories, he had successfully co-founded Standard Organics Limited. With \$40,000 in cash and undertaking \$120,000 through a bank loan, Dr. Anji Reddy started Dr. Reddy's Laboratories. His passion for research and his entrepreneurial spirit allowed the company to enter international markets in 1986 by exporting a drug, Methyldopa. In the same year, the company went public and obtained its first approval from the USFDA² for Ibuprofen.

Dr. Reddy's carried out its first acquisition in 1988 of Benzex Laboratories Pvt. Limited to expand one of its businesses. For the first time in India, in 1990, Norfloxacin and Ciprofloxacin were exported to Europe and the Far-East with exports to Russia in the following year. 1993 was a milestone in the company's history with the establishment of the Research Foundation and initiation of the drug discovery program. The next year they were able to cater to the highly regulated markets in the US via their finished dosages facility and soon set up a joint venture with Russia. The company changed the perceived 'imitator' image of Indian companies in 1997 when it licensed an anti-diabetic molecule to Novo Nordisk. The breakthrough made it the first Indian pharmaceutical company to out-license an original molecule and they were looked at as 'innovators' rather than 'copycats'. The next year, it licensed another original anti-diabetic molecule to Novo Nordisk and in 1999, acquired American Remedies Limited, an Indian pharmaceutical. In 2000, it merged with a group company, Cheminor Drugs Limited. A subsidiary, Reddy US Therapeutics, was established in Atlanta, US to conduct target based drug discovery.³

Dr Reddy's became the first Asia Pacific pharmaceutical (outside Japan) to be listed on the New York Stock Exchange in 2001 (NYSE: RDY). The same year, it licensed another molecule to Novartis for a \$55 million upfront payment and entered the US markets with its first generic drug, Ranitidine. The company pursued its first overseas acquisition in 2002 of BMS

¹ 'Dr. Reddy's Foundation'

² United States Food and Drug Administration

³ Dr Reddy's Key Milestones

Laboratories Limited and Meridian Healthcare in the UK. In 2003, they announced a 15-year exclusive product development and marketing agreement for OTC drugs with Leiner Health Products in the US. They also launched their first generic product in the US this year, Ibuprofen with the 'Dr. Reddy's' label.⁴ By 2004, they had acquired Trigenesis which gave them access to Drug Delivery Technology Platforms in the dermatology segment.

With an impressive track record even today, as of 2005, the company has revenues of \$446 million and is the second largest pharmaceutical company in India. It operates under 6 main businesses: Active Pharma Ingredients, Generics, Specialty Pharmaceuticals, Branded Formulations, Biologics and Custom Pharma Services. Establishing a global presence in North America Europe, India, Russia and parts of Asia and Africa, they have offices, subsidiaries and research centers with over 950 scientists working toward scientific breakthroughs around the clock.⁵

MarketBusting Moves

As one of India's largest pharmaceuticals, Dr. Reddy's Laboratories entered the market and strives to reach the top using the following MarketBusting moves:

- #18: Improve your Customer's Personal Productivity
- #24: Exploit Shifts in Industry Constraints or Barriers
- #27: Exploit your Industry's Structure for the Next Life Cycle Stage
- #33: Shift the Dimension of Merit

#18: Improve your Customer's Personal Productivity

One of Dr. Reddy's business units, the Custom Pharma Services (CPS) provides strategic sourcing needs and helps clients with specific projects. The company has specialized project management teams that walk their clients from initiation to closure providing high quality, cost-efficient products and services rapidly. CPS has well-resourced synthetic organic chemistry laboratories with 150 chemists & engineers to serve the needs of drug development. Each project team is supported by world-class software, hardware and communication channels that help in executing the project smoothly. All products are compliant as per regulations and are manufactured in USFDA approved, ISO certified advanced facilities.⁶ Customer satisfaction is of utmost importance and they make every effort to avoid cost and time overruns.

#24: Exploit Shifts in Industry Constraints or Barriers

Expensive drugs from western pharmaceuticals as well as high licensing fees for Indian pharmaceuticals kept the prices high for the common Indian needing the drug. Legal constraints prevented any cost reduction for the customers. A radical change occurred in the Indian pharmaceutical arena when the government declared the Patent Act 1970. This act allowed Indian companies to reverse-engineer western drugs without paying licensing fees. The act produced newer, better and cheaper drugs for the Indian market without having to invest heavily in R&D ventures. As a pioneer in its field, DRL started bulk production of drugs for Indians capturing a vast majority of the market. Dr. Anji Reddy, the founder and Chairman of DRL was quoted during this turn point, "This opportunity must be utilized by the industry not to make enormous profits for themselves; but to bring these drugs to the masses of India at affordable prices."⁷

⁴ *Ibid*

⁵ Dr. Reddy's Key Milestones

⁶ Dr. Reddy's Businesses, Custom Pharma Services

⁷ 'Business Personality of the Year 2000-2001'

#27: Exploit your Industry's Structure for the Next Life Cycle Stage

Observing the trends in the biotechnology sector with heavy investments in recombinant proteins, DRL decided to strengthen its biogenerics business. At the time in 2001, the global market for recombinant proteins was almost \$14 billion and DRL took upon some major investments. The biogenerics unit's initiatives include setting up a new formulations facility meeting the USFDA specifications and entry into the biotechnology market with a robust branded portfolio of leading biogenerics in key therapeutic segments targeting cancer, immunology, cardiovascular and diabetes. The company began focusing on efficiencies along the value chain to leverage its core competencies and help it compete in regulated biogenerics markets. In addition to DRL's expertise, large infrastructure and capital, experience and distribution networks, it had a technology platform that included complete product development from molecular biology to production. They have obtained approvals from the Drug Controller General of India (DCGI) to market its first biotechnology product Grastim.⁸ DRL holds several patents and admits that the industry poses high barriers due to regulations and expensive legal battles. However, due to its prior experiences and timely investments, DRL has prepared itself to compete in the new recombinant protein based markets.

#33: Shift the Dimension of Merit

DRL lobbied the Indian government to enforce the international drug-patent regime, which was promised by 2005 under a World Trade Organization agreement. Chairman, Dr. Reddy wants to transform the enterprise into a research-based drug firm, one that is recognized as an innovator and not an imitator, by the developed countries. Executives in the firm say, "We have brilliant people who are as good as or even better than anywhere in the world. We're ready for 2005. Our chemistry skills are among the best in the world." DRL invested about 6.5% of sales into research with successful results. The company discovered a few molecules in diabetes and licensed some discoveries to western pharmaceuticals such as Novo Nordisk and Novartis. The company's listing in the New York Stock Exchange raised \$133 million with the help of Merrill Lynch.⁹ With a strong financial backing, great performance and focus on R&D, DRL continues to be an innovator in a region where similar firms still operate as imitators.

Key Lessons

There have been several reasons behind the success of DRL, but one of the driving forces was its position as a first mover in introducing new products, getting listed on the New York Stock Exchange, obtaining patents and combating legal battles in India and abroad. They have managed to grasp opportunities in the market and observe trends as well as second-order effects to plan their strategies for expansion and product development. Innovating new products while bulk production of generics to provide affordable, high quality drugs to the poor in India has helped it capture a range of market segments. The company values sustainable development, technological innovation, its employees and customers. Dr. Reddy's visionary leadership should help DRL achieve even more than it has today and tap new markets with breakthrough products.

⁸ 'Dr. Reddy's into Biogenerics'

⁹ 'Pill Factory to the World'

DRAT Table, Dr. Reddy's Laboratories**SOURCE**

External

| | |
|------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| Powerful Incumbents | Stiff competition from domestic and international companies and adapting to changing needs of different market segments. |
| Opposition from advocacy groups | Possible problems with local competitors if DRL supports laws helping innovators and not imitators through product patents. |
| Risk to key external stakeholders | N/A |
| Inertia | Continuing to innovate and introduce new drugs. Further expansion into global markets. |
| Disruption of customer's and system or process | Maintain current customers and attract new segments through their superior technologically advanced products and quality service. |
| Changes in standards or regulations required | Various regulations entering into different regional markets. |

Internal

| | |
|--------------------------------------------------------------------|---------------------------------------------------------|
| Internal political maneuvering | N/A |
| Reluctance or resistance by those needed for active implementation | People satisfied with current products and performance. |
| Resource Constraints | N/A |

Platform changes required

| | |
|-------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| Human resource and skills platforms | Greater expansion will require more employees globally. |
| Logistics platforms | Keep looking for cheaper and faster ways to deliver products to the consumer; increase the speed of the supply chain. |
| Distributor platforms | Expanding distribution, service centers. |
| IT and database platforms | N/A |
| Technology platforms | Constantly improving technology and R&D centers. |
| Assets, operations, and systems platforms | Increased interaction between the supply chain links to eliminate bottlenecks and deliver products faster to the consumer. |

Marketbusting Kite

| Element | Needed to Support the Marketbusting System |
|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Agenda The key things that the critical people spend time on | 1. Commitment to quality manufacturing standards 2. Developing new products 3. Customer satisfaction, value for price 4. Global expansion |
| Norms What principles and behaviors are valued? | 1. High quality at the best price 2. Unparalleled customer satisfaction and service 3. Technological innovation |
| News What information and measures are paramount? | 1. Customer and supplier feedback 2. Indian market share and global segments 3. Lead the industry and introduce products superior to competitors in a timely manner. |
| Allocations What gets resourced and how are people rewarded? | Resources go to 1. Research for continual improvements 2. Cutting-edge technology and testing methods 3. Marketing, brand image, legal requirements Rewards and recognition for successes go to 1. Innovative ideas and new products 2. Successful market entry and dominance |
| Structure Power, authority, responsibility structure | 1. Some business units, dynamic chairman 2. Divisions managed by senior management, overseen by chairman and board |
| History Key routines that have developed and drive activities | 1. Focusing on latest technology, customer needs 2. Innovation, excellence and technologically proven products 3. Building relations with distributors, suppliers and customers |

Sources

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