



McKinsey&Company

Insights into Pharmaceuticals and Medical Products Africa: A Continent of Opportunity for Pharma and Patients

April 2015

Authored by:

Tania Holt

Mehdi Lahrichi

Jean Mina

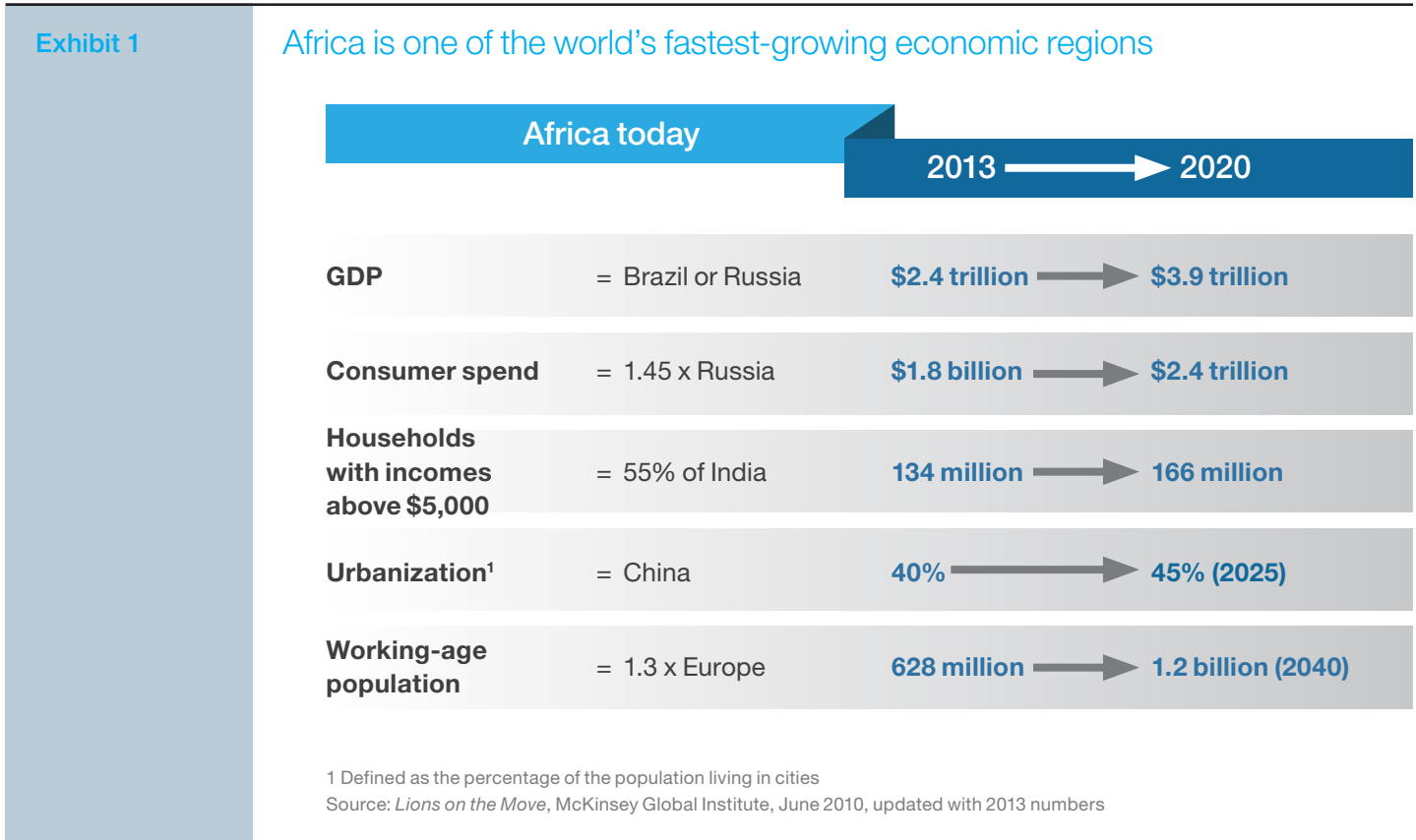
Jorge Santos da Silva

Introduction

The value of Africa’s pharmaceutical industry rose from \$4.7 billion in 2003 to \$20.8 billion in 2013.¹ These totals include patented and generics prescription drugs and over-the-counter medicines. That’s good news for MNC and local pharmaceutical companies seeking new sources of growth as developed markets stagnate and good news for patients, who have gained access to medicines previously unavailable on the continent. But knowing where to find the next growth engine isn’t enough for the industry. Leaders must also understand where growth is concentrated, what challenges they are likely to face, and how to work collaboratively with health systems to overcome the barriers to fulfill Africa’s full potential.

A major growth opportunity. . .

Over the past two decades Africa has emerged from a troubled history to become one of the world’s fastest-growing economic regions.. Africa’s GDP—\$2.4 trillion in 2013, and expected to climb to \$3.3 trillion by 2020—is already on a par with Russia’s. Household spending is rising too: Africa’s consumers spent \$1.8 trillion in 2013,



more than their Russian counterparts. By 2020, consumer spending is expected to reach \$2.4 trillion (Exhibit 1).²

So what does this mean for the pharmaceutical industry? Our estimates indicate that the African market will be worth between \$40 billion and \$60 billion by 2020 (Exhibit 2). That’s far below the US (with an estimated value of \$393 billion) and Japan (\$123 billion), for instance. However, Africa’s attractiveness lies not in its market size but in its rapid growth, with an estimated 9.8 percent compound annual growth rate between 2010 and 2020,

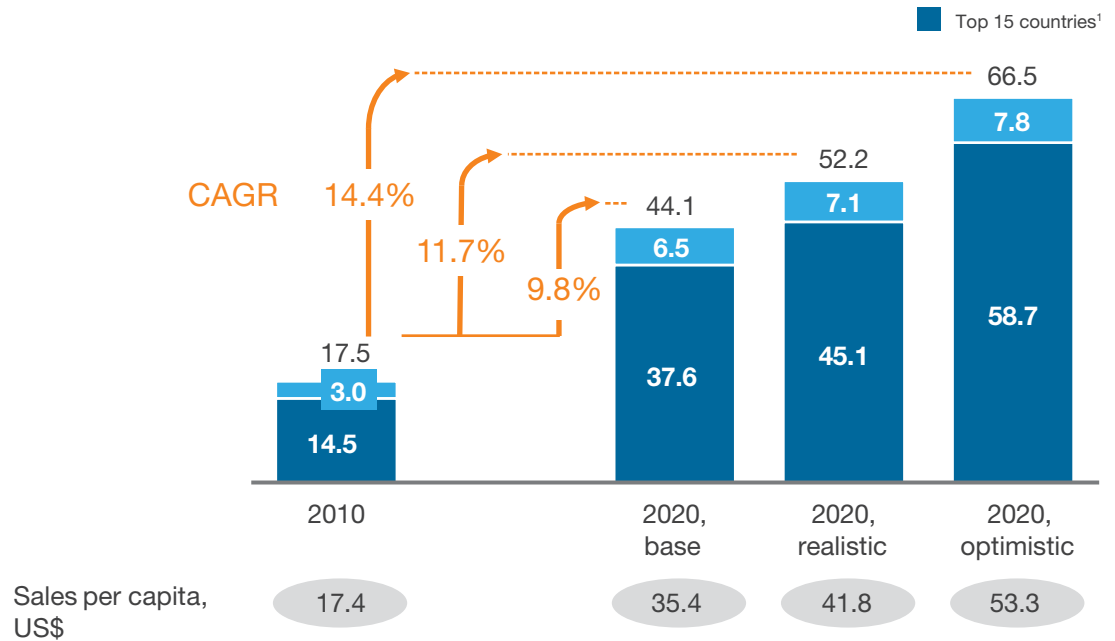
¹ These totals include patented and generics prescription drugs and over-the-counter medicines.

² For more insights into the development of consumer markets, see *The rise of the African consumer*, McKinsey & Company, October 2012.

Exhibit 2

Africa's pharma markets can expect strong growth

A clear correlation between a company's DQ and its financial performance



¹ Algeria, Angola, Cameroon, Egypt, Ethiopia, Ghana, Kenya, Libya, Morocco, Nigeria, South Africa, Sudan, Tanzania, Tunisia, and Uganda
 Source: WHO; World Bank; IMF; African Development Bank; BMI Research; McKinsey analysis

compared with just 2 percent for the US and 1 percent for Japan.

Spurred by rising spending power and retail-sector growth, but also by the mounting cost of fighting disease, Africa's healthcare spending rose from \$28.4 billion in 2000 to \$117 billion in 2012. Over the same period, its per capita expenditure almost tripled, from \$41 to \$112.

... but a complex one

These headline figures mask a much more complex reality. Africa is not one market, but many: a continent of 54 countries, each with its own legislative code, macroeconomic landscape, and political complexities (which vary widely between countries, especially after the Arab spring).

Nor is growth a given everywhere. In oil-producing countries such as Nigeria, Algeria, and Gabon, as well as those that discovered oil more recently, such as Ghana, the collapse in the oil price is likely to trigger a slowdown in growth. In fact, Algeria has already frozen public hiring. At the same time, the Ebola outbreak has had a devastating effect on the previously fast-growing economies of Liberia, Sierra Leone, and Guinea – an effect that neighboring countries are also likely to feel, albeit to a lesser extent. World Bank estimates indicate that Ebola will have a high economic as well as human cost for the continent, reaching \$32 billion, 0.5 percent of Africa's GDP, by the end of 2015.

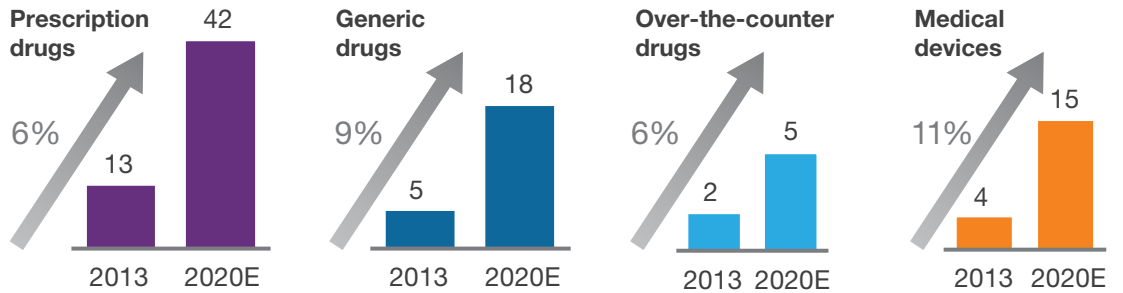
What is driving growth

Over the next five years, strong growth can be expected in every segment of Africa's pharmaceutical markets:

Exhibit 3

All pharma segments are poised to grow in Africa

A clear correlation between a company's DQ and its financial performance



Note: 2013 numbers are approximate; 2020 numbers are estimates; CAGR is for top seven countries [Algeria, Egypt, Ghana, Kenya, Morocco, Nigeria & South Africa] Source: BMI Research; World Bank; McKinsey analysis

prescription drugs, generics, over-the-counter (OTC), and medical devices (Exhibit 3). Three factors will drive this growth: the rise of major cities, the expansion in healthcare capacity, and the maturing of the business environment.

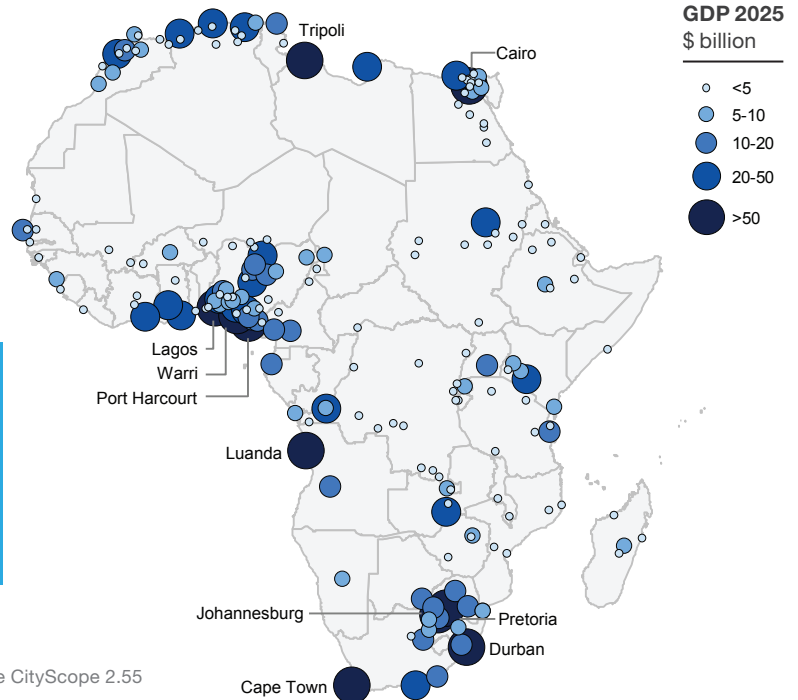
The rise of major cities

Half the population of Africa will be living in cities by 2030. The continent is already home to two megacities with

Exhibit 4

We expect that there will be 10 cities with a GDP above \$50 billion in 2025 – creating large centers for consumption

Top African cities by GDP,¹ 2025



30 largest cities with over 2 million inhabitants will contribute over 40% of GDP growth in 2025

¹ Predicted real exchange rate. Source: McKinsey Global Institute CityScope 2.55

more than 10 million inhabitants (Lagos and Cairo), and eight metropolises of more than 3 million people. By 2025, two-fifths of Africa's growth will come from 30 cities with populations of 2 million or more. Ten of these cities will have GDP in excess of \$50 billion (Exhibit 4).

Cities enjoy better infrastructure and healthcare provision than rural areas, and urban households have more purchasing power and are quicker to adopt modern medicines. For instance, McKinsey CityScope analysis indicates that by 2025, Lagos will have almost 1.5 million households with incomes of \$20,000 to \$70,000—more than twice Zurich's number.

The expansion in healthcare capacity

According to the World Bank, between 2005 and 2012, Africa acquired 70,000 new hospital beds, 16,000 doctors, and 60,000 nurses, adding up to a total of 1,050,000 beds, 498,370 doctors, and 1,250,000 nurses. As well as expanding, healthcare provision is also becoming more efficient and flexible through initiatives such as the switch to specialist nurse anesthetists in Mozambique, the use of nurses to initiate anti-retroviral drug therapy in South Africa, and the introduction of midwife-led birth units as an alternative to hospital admission for women with low-risk pregnancies in South Africa.

Some countries are pursuing innovative delivery models that increase capacity still further. With 720 million Africans—more than 65 percent of the population—owning mobile phones, mobile health will be a game-changer, especially for remote diagnostics in rural areas. Rapid growth is also occurring in pharmacy-based provision. In addition, the establishment and growth of pharmacy chains, often backed by private-equity investors, is providing easier access to safer medicines for more people.

The maturing of the business environment

Many African countries are taking steps to protect consumers and corporations against corruption and create a more supportive environment for business. Some governments have introduced pricing controls on pharmaceutical goods, and many have tightened restrictions on import, wholesale, and retail margins. To encourage local manufacturing, some nations are imposing import restrictions too: for instance, Algeria prohibits the importing of any drug that can be manufactured locally. Country-specific labeling is required in some countries striving to reduce counterfeiting and parallel imports: all drugs in Nigeria must carry a local address on their packaging, for example.

In the pharma industry itself, companies are experiencing a wave of consolidation. Most of the 400 new pharmacies opened in South Africa since 2006 are operated by just two retailers, for instance, and pharmacy chains are expanding in Kenya, Uganda, and Rwanda. Horizontal and vertical integration are also on the rise: Clicks, a South African pharmacy chain, now owns the largest pharma wholesaler in South Africa and Botswana. Again in South Africa, Shoprite has bought a local drug wholesaler to help its pharmacies expand into rural areas and offer customer deliveries.

A flurry of mergers and acquisitions, joint ventures, strategic alliances, partnerships, and private-equity deals are further extending Africa's markets. Recent examples include the 2011 purchase of a 50 percent stake in Morocco's Ipharma by Spimaco, a Saudi Arabian medical and pharmaceutical manufacturer; the 2013 acquisition of several African pharma companies by Hikma, a Jordanian pharmaceutical manufacturer; and joint ventures by Indian drug-maker Cipla in Morocco, Algeria, and South Africa.

Manufacturing is expanding too. More than 300 companies are active in drug production across the continent, among them multinationals such as Johnson & Johnson in South Africa and Sanofi in Algeria. Mindful of the effect of drug imports on the balance of trade, governments in Algeria, Nigeria, and South Africa are offering tax exemptions, reduced land prices, and other incentives to encourage pharma companies to build manufacturing plants in their countries.

The shift to generics

In many African countries, generic drugs are gaining market share at the expense of over-the-counter and branded products. In South Africa, Egypt, Algeria, Morocco, Nigeria, and Kenya, generics grew at an average CAGR of 22.3 percent between 2004 and 2011, considerably faster than the 13.4 percent for pharmaceuticals as a whole. This trend looks set to continue. Between 2010 and 2014, generics' share of the market grew from 22 to 25 percent in Algeria, for instance, and from 23 to 28 percent in Morocco.

Several factors are responsible for this shift. First, physicians and pharmacists are getting used to prescribing generic drugs. Second, as national insurance programs expand and more people gain access to health care, demand for generics will rise at the expense of costlier branded drugs. Third, many governments are showing strong support for generics. For instance, South Africa requires pharmacists to inform private patients about generic alternatives when they purchase prescription drugs; Nigeria has a similar law; and Morocco aims to increase generics sales to 70 percent of publicly funded pharmaceuticals.

What it takes to win in Africa

For pharma companies seeking to capture Africa's growth potential, the first task, put simply, is to work out *where to play*: which markets offer the greatest opportunities, as well as good prospects for access.

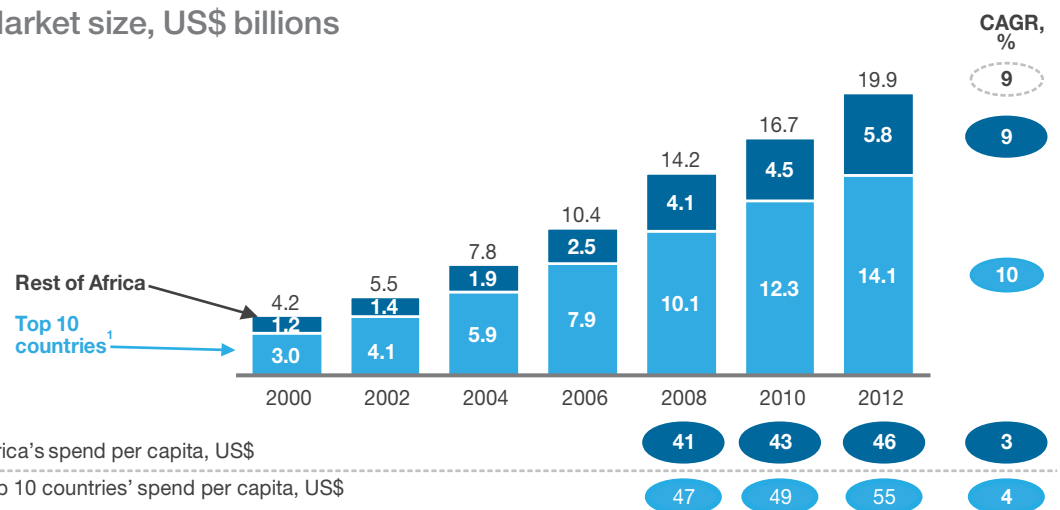
1. Focus on where the growth is

Africa's many markets vary enormously in their size and growth trajectories. More than two-thirds of the continent's GDP and cumulative growth over the past decade came from just 10 of its 54 countries (Exhibit 5). Broadly speaking, these markets represent the biggest opportunity for pharma companies in the medium term. But while leaders should naturally focus first on the markets with the greatest potential, they also need to consider which are the most accessible from an operating perspective.

Exhibit 5

Ten countries represent 70 percent of Africa's pharma market

Market size, US\$ billions



1 Algeria, Egypt, Kenya, Ivory Coast, Libya, Morocco, Nigeria, South Africa, Sudan, and Tunisia

Source: BMI Research; World Bank; McKinsey analysis

That said, much of the opportunity in Africa lies at the city rather than country level. We estimate that 37 percent of all consumers in Africa are concentrated in 30 key cities. By 2025, these cities, taken together, will have more consuming households than Australia and the Netherlands combined. In our view, companies should quickly decide on their target countries, carry out a further segmentation to identify the cities with the highest discretionary household incomes, and then scrutinize non-target countries to pinpoint which cities are likely to be strategically important, using current and projected macroeconomic drivers as a guide.

Adopting a city view can make a big difference to investment and expansion decisions. A company may, for instance, do better by investing in the second- and third-largest cities in a market where it already has a base than by expanding into a new country, with all the set-up costs involved. After winning in the biggest cities, companies can move on to consider targets in mid-sized markets, as well as examining rural micromarkets in countries where they have a presence. Having decided where to play, companies then need to tailor their offer to their chosen country or city by evaluating the right mix of public tender, retail, and hospital channels, and the right product mix and promotional focus. This will involve creating a broad offering that spans as many locally relevant therapeutic areas and drug categories as possible, designing tier pricing, and adapting products to local needs.

Once companies have identified their target markets and tailored their offerings accordingly, their next step will be to work out *how to play*. Our experience indicates that successful companies focus on building local teams, forging local partnerships, and addressing supply and distribution challenges.

2. Invest in building a strong local sales and marketing team

Pharma companies need to invest in effective local sales teams – real talent is key. That means developing teams' technical skills, hiring more pharmacy representatives, and choosing strong local managers. The return on this investment should be substantial, especially as the opening up of new retail channels shift the emphasis to pharmacies and direct-to-consumer sales.

In shaping their sales teams, leading companies build in a high degree of flexibility to ensure local organizations are responsive to the needs of local markets.

GlaxoSmithKline, for example, has created multiple autonomous business units across Africa, each with responsibility for its own budget and performance. Pfizer maintains a large in-house sales force and uses a general distributor and a dedicated distributor for fine distribution.

One of the hallmarks of successful companies is their ability to hire and develop strong managers to lead local sales teams. Talent is still scarce in Africa, with just 7 percent of the population educated to degree level—a share that is growing only slowly, to a predicted 8 percent by 2020.³ Pharmaceutical companies often find themselves competing for talent with much bigger banks, telecoms companies, and other businesses. Management expertise is in particularly short supply.

Under these circumstances, companies would do well to build capabilities in house and grow their own leaders. In Morocco, Pharma5 has built a sub-Saharan sales team of 70 people in just four years, for instance. It uses its top sales reps to drive its recruiting process, charging them with interviewing, hiring, and training new recruits from target markets.

³ *Africa at work: Job creation and inclusive growth*, McKinsey Global Institute, August 2012.

3. Forge local partnerships in the private and public sector

Global pharmaceutical companies need local business partners to help them navigate Africa's many markets, which vary widely in consumer preferences, pricing, manufacturing and distribution infrastructure. In the absence of a pan-African pharma regulatory body, they also need to invest in local partnerships to understand varying regulatory environments. Leading companies are building partnerships with local manufacturers and distributors to acquire expertise in all these areas and to facilitate market access and expansion in particular countries.

To appeal to multiple consumer segments, GSK works with drug formulation and packaging companies in Nigeria and Kenya to offer products in a range of sizes and price points. To comply with import restrictions in Nigeria, Merck imports only the active pharmaceutical ingredient for its diabetic drug Glucophage, while its local partner presses the tablets and handles the packaging. And Cipla works with local distributors to reach geographically dispersed healthcare facilities and pharmacies.

Where public partnerships are concerned, companies should plan market access to ensure their drugs are reimbursed by healthcare payers, whether that means the government, insurance plans, or some other entity. Companies should also identify corporate social responsibility investments that are consistent with their business and with local needs.

At a strategic level, pharma companies can work with medical opinion leaders to guide research priorities and secure funding, and with governments to secure access and volume commitments in return for preferential pricing and services. At a tactical level, they can work with health ministries and NGOs to develop public-awareness campaigns, health screening, and treatment in core therapeutic areas, or provide hospitals and clinics with equipment and training. Such relationships give companies opportunities to work on important issues such as counterfeiting and intellectual property rights, while also allowing them to develop expertise in markets and health systems and play an active part in improving public health in Africa.

Philips, for example, has partnered with the Zambian and Dutch governments to modernize more than 70 Zambian hospitals, helping to install and maintain diagnostic and imaging equipment and provide training for local medical staff. Johnson & Johnson has partnered with the South African government to introduce an education program for maternal, newborn, and child health that operates via mobile phone messaging. Novartis has joined forces with IBM, Vodafone, and a range of agencies and government bodies to improve the availability of anti-malarial drugs in Tanzania. Roche has partnered with a Moroccan foundation to provide free anti-cancer treatments for disadvantaged local people.

AstraZeneca has partnered with the Kenyan ministry of health, care providers, and community organizations to raise treatment standards for hypertension in Africa. Gilead is supporting the Egyptian government in its struggle against hepatitis C by supplying innovative drugs at a low price and contributing to initiatives to raise awareness and speed up diagnosis and treatment.

4. Address supply and distribution challenges

Establishing reliable supply and distribution mechanisms is still a major challenge in parts of Africa. Regulations are still evolving, transport and other logistics infrastructure remains patchy, and lead times can be long. The ability to innovate the distribution channel and set up effective operations against this challenging backdrop will be critical to capturing growth opportunities in Africa.

Some pharma companies have responded by locating their fixed assets in countries with more established political and business structures, or by outsourcing their supply chain to third-party operators such as Eurapharma in West Africa. Others work closely with local logistics companies that are familiar with the most efficient transport routes and can help identify backhaul opportunities. Consumer companies such as Nestlé and Unilever offer helpful lessons in the importance of using route-to-market as a strategic lever.

Pharma companies should also pay close attention to the processes associated with customs and border control. We recommend they work with the most reliable agents so as to minimize shipping delays, use only bonded distribution centers, and ensure all customs paperwork is airtight. To minimize delays and reduce lead times, companies should consider using the coastal countries with the most reliable ports, and the land-locked countries with the most adequate road and rail infrastructures.

.....

In a world of slowing and stagnating markets, Africa represents the last geographic frontier where high growth is still achievable. As ever, the key to success lies in understanding individual markets in granular detail. Early movers with the right approach should be able to capture competitive advantage.

Africa will continue to grow for the foreseeable future. Now is the time for drug companies to decide whether they want to be part of that growth, and most importantly, play an active role in improving public health.

Tania Holt is an associate principal in McKinsey's Johannesburg office; **Mehdi Lahrichi** is an associate principal in the Casablanca office; **Jean Mina** is an associate principal in the Geneva office; and **Jorge Santos da Silva** is a principal in the Zurich office.

