

Addressing Global Animal Health Challenges

Global economic health and social wellbeing depends a lot on both humans and animals. The animal health industry globally, especially in the developing world, is on the cusp of change. Given that 70% of all diseases suffered by humans are caused by animals (zoonotic), this has resulted in the world paying much more attention to the veterinary pharmaceutical industry.

The global animal health industry is a steadily developing organism which is adapting to its environment according to the changing needs of consumers. The players are mitigating varied challenges to succeed in the business; they are addressing the fast-growing industry requirement through high-quality affordable solutions, while paying due attention to specific local needs.

The animal health industry is worth approximately USD 22.5 billion globally, which has evolved at the rate of 6% CAGR in the last 10 years and will continue to do so in future.

Quality Benchmarks Determining Sustainability

Growing awareness about safe and healthy animal proteins and milk is pushing drug manufacturers to comply with increasingly stringent quality standards. The world today has woken up to the fact that equal attention needs to be paid towards higher quality standards in the veterinary industry, similar to those that have been seen in the human pharmaceutical industry. This has led to regulatory changes both in the developed and emerging worlds.

In the developed world, veterinary pharmaceutical companies are now more focussed on sourcing raw materials (active pharmaceutical ingredients), equipment and packaging material from approved vendors/manufacturers that adhere to stringent global quality standards such as USFDA and EU-GMP.

In the emerging world, the government and regulatory bodies are coming down hard on veterinary manufacturers who do not abide by the set regulations and compliance standards. This has resulted in a lot of unregulated veterinary pharmaceutical companies closing down / merging / being acquired by major veterinary pharmaceutical companies that have the ability to upgrade facilities and comply with the new global regulations. This change is clearly evident in countries like China, Latin America and India, where manufacturers either had to upgrade their facilities and standards or risk closing down.

Catering to Global Animal Protein and Dairy Demands

As we grow in numbers there is and will be increased demand for dairy and animal protein globally. To cater for such a massive requirement, developed countries have shifted from scattered and intensive animal farming to organised animal farms, which is also trending in emerging markets such as Latin America, China, India and other emerging Asian economies.

The organised farms need organised and well-established players to take care of their animal's health. In this endeavour, developed countries have stabilised themselves in terms of meeting demand by providing best-in-class animal health products, but they alone cannot meet the ever-growing global needs and the continuous demand for inexpensive quality products. To fill in this gap, new players from emerging economies (Latin America, China, India) are stepping in and leaving their mark by innovative use of their inexpensive and efficient technologies, infrastructure, quality standards and management systems producing world-class vaccines, feed additives, pharmaceuticals, parasiticides and anti-infectives. To place products in the market, they have access to effective warehousing and distribution channels.

Today, Latin America, China, India and other Asian emerging economies are not only catering for the global demands of animal protein and dairy, but also they are leading the growth of the animal health industry. As the developed countries such as North America and Europe have stabilised themselves resulting in stagnant or slow growth, the emerging economies are the need of the hour. Emerging economies are not only catering for the developed nations, but they are also providing solutions to various new age economies which cannot afford the products from companies in developed nations.

Product Evolution at Regional Level

The product evolution being witnessed in the veterinary industry has to be broken down regionally, because there are variances in regulations, environment / climate, local needs, species-specific requirements, generics / patents and the economies / purchasing power which govern the use of products in that particular region.

Biologicals are one of the fastest-growing product groups globally. As the world is preferring vaccines and slowly reducing use of antibiotics due to awareness about antibiotic residues in meat leading to resistance against diseases, the animal health companies are focussing on preventing diseases before they even occur. In countries such as China, being one of the largest producers of swine the government is instructing farm-owners to vaccinate the livestock with four kinds of vaccines. The same goes for regions in the EU and North America showing more and more interest in vaccinating their livestock. Swine and poultry are the largest consumers, followed by companion animals, of vaccines and biologicals. A recent example is the global epidemic of PEDv and FMD which are reducing swine herds drastically and further affecting humans. The answer to them can be a vaccination programme.

Medicinal feed additives are the most sought-after products after biologicals. Globally, the leading regions will be animal protein and dairy-producing emerging economies such as Latin America, China, India, Russia and North

America. MFAs are also in use for the companion animals for regions such as Australia, North America, and China.

Anti-infectives / antibiotics have commonly been used globally, but now due to regulatory pressure in developed countries, demand is declining in developed economies. However the emerging economies are still relying on them due to the increase in animal numbers and low regulatory constraints. Swine and poultry remain the largest consumers, followed by companion animals and ruminants.

Parasiticides are consumed mostly by the cattle- and swine-producing economies such as Latin America, China, North America, Russia and others. The demand also depends on climatic conditions or disease outbreak. The demand will be greater for Latin America and China than for other economies.

Other than the above segments, new emerging segments are breaking through in pain management, anaesthetics and analgesia, with steady and growing demand and animal welfare guidelines pushing the usage, starting with developed countries towards emerging economies.

The most successful global animal health pharmaceutical companies have understood the changing dynamics and adapted their practices to suit the needs of the newer compliant world.

Generics and Prices Driving the Animal Health Market

The animal health industry is driven by branded generics rather than patented drugs, as most animal health drugs were originally developed for human health or crop protection. The unprecedented interdependence between human and animal health today has created a new dynamic, requiring a collaborative approach to solving human and animal health issues. Among the top 85 products – with total global sales of US\$ 10.8 billion – US\$ 3.5 billion sales are accounted for by products with limited patent protection, such as formulation patents or species/use patents. It is largely a generic business, as less than 20% of the business is protected by patents. Therefore, there is limited scope for R&D in the industry, leading to lower R&D expenditure.

Animal health products have less pricing pressure than human health products. This happens because a smaller product size limits competition. Besides, the self-paying nature of the business creates fewer hurdles. There is no external pressure from payers like insurance companies or the government to lower the product price.

Direct selling relationships and brand loyalties are easier to create in the animal health space, as the decision-makers are often the users or the veterinarians who also sell the products.

Inorganic Growth in the Animal Health Market

In the last few years the animal health industry has seen a lot of spin-offs, strategic tie-ups or M&As at a global level, adding to the enthusiasm and the market appetite towards more growth. Some of the big deals are Bayer acquiring

Teva's and KMG's animal health business; Eli Lilly acquiring Novartis's and Lohmann's animal health business, as well as strategically tying up with China Animal Healthcare for entering the China market; Vetoquinol acquiring Bioniche animal health; Zoetis spinning off from Pfizer and offering an IPO; and Sequent Scientific acquiring a major stake in Provet (Turkey).

The Indian Advantage

With the latest campaign - "Make in India" - promoted by the Prime Minister of India, Mr Narendra Modi, we cannot ignore the opportunities that Indian markets are offering globally.

India has a vast pool of competent personnel with high managerial and technical competence, and has already established a leading position globally in the human pharmaceutical sector. This young and educated workforce is comparable with the best in the world. In cost-effective chemical synthesis, India's history of development has been excellent, particularly in the area of improved cost-beneficial chemical synthesis for various drug molecules. It supplies a wide variety of bulk drugs and exports sophisticated bulk drugs.

The animal health industry in India has reached US\$ 500 million in 2014, and it is expected to grow to US\$ 800 million by 2017. Although contributing a mere 2.5-3%, India is among the fastest-growing regions in the animal health space. The business approach of animal health majors has changed for the Indian market, and we are witnessing a renewed and more aggressive approach of MNCs in Indian markets.

India is one of the largest global producers of dairy products and poultry, and the Indian animal health market is forecast to grow around 7% per annum to 2020. Poultry is forecast to be the fastest-growing sector (11.6%), followed by companion animals/others (5%) and pigs (3.6%).

The Indian market is dominated by MNCs and there are many Indian companies present in the market. With a proportion of Indian companies being acquired by these large MNCs, there are domestic companies catering to the animal health requirement and creating value in the animal health space, giving a wide-ranging product portfolio and having appetite for more such as Sequent Scientific, Venky's, Zydus, Intas, Alembic etc.



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