Big Pharma's Most Feared Competitor

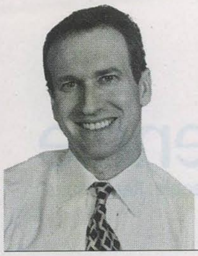
Teva Pharmaceuticals has emerged as the industry's most formidable foe

According to the recent "World Preview Report" by EvaluatePharma, which one of the following will be among the top ten pharmaceutical companies, ranked by sales, in the year 2016: A) Bristol-Myers Squibb, B) Teva, C) Amgen, or D) Genzyme?

The answer, you may be surprised to learn, is Teva Pharmaceuticals, the Israel-based generics manufacturer that began by distributing imported medicines on camels and donkeys in 1901. In 1985, Teva had only $91 million in sales, but the company's global revenues are projected to be $31 billion just six years from now. Currently, Teva distributes over 630 million prescriptions in the US—that's more than Pfizer, Merck, and GlaxoSmithKline combined. The company produces 60 billion tablets annually worldwide in 38 different locations.

Over the past ten years, Teva has become the pharmaceutical industry's most feared competitor. The company is known for relentlessly challenging brand patents, routinely suing rivals, vigorously defending its market share, and acquiring competitors and suppliers to remain the world's largest generics company.

Let's take a look at the four attributes that make Teva such a formidable competitor: strategic discipline, market aggressiveness, stakeholder differentiation, and business innovation.



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Strategic Discipline

Teva'a demonstrates the industry's most disciplined approach for developing and executing corporate strategy. The "five pillars" of their strategy include: increase market share in key markets; double the product portfolio; redefine customer service; focus on biotechnology; and innovate the business. The company's objective: $31 billion in sales by 2015. To ensure corporate alignment with this objective, Teva has initiated an internal marketing campaign utilizing the slogan "Everyone is 31," and provides a 2 percent bonus on corporate profits to employees.

Teva is also disciplined in executing its strategy, utilizing a command-and-control approach to global operations that operates with military precision—not surprising given that the company's CEO, Shlomo Yanai, is a former major general and head of strategic planning for the Israel Defense Forces. In a recent *New York Times* article, Richard Silver, an analyst at Barclays Capital who has followed Teva for over fifteen years, stated "There is a culture of excellence at Teva that, frankly, I don't see a lot in pharma. ...They just do it better."

Market Aggressiveness

Teva's market aggressiveness is legendary. The company cunningly and ruthlessly attacks branded products, typically stalking its prey for years and waiting for patent expiration before pouncing, usually before other generic competitors.

In the US, the company files Abbreviated New Drug Applications (ANDAs) earlier and with fewer revisions than competitors. Teva currently has over 216 ANDAs pending at FDA, representing over $113 billion in brand sales. (Teva prides itself on having more than double the ANDAs of its nearest competitors.) Recognizing that the first generics company to launch has a better chance to garner the largest market share, Teva has filed 89 potential first-to-file products or Paragraph IV US submissions.

In other cases, Teva ambushes brands prior to patent expiration. Over the past decade, Teva has conducted numerous generics launches in which it actually begins selling a product while patents on an innovator drug are still being litigated. This approach has worked over a dozen times, often by compelling innovator companies to enter into legal agreements that enable Teva to launch prior to patent expiration and before other generics competitors. The company has used this approach to enable earlier launches of versions of Effexor, Avandia, TriCor, and Nexium in the US before patent expiration.

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Teva is even more aggressive when defending its own products. To prevent potential generics competition to its multiple sclerosis agent Copaxone, Teva filed multiple patent infringement lawsuits against Sandoz and Mylan, and has registered two citizen petitions with the FDA. To ensure market access for its generic version of the best-selling blood-thinner Plavix, the company filed an official complaint with the French Competition Authority that accused Sanofi-Aventis of disparaging Teva's generic version. Maurice Chagnaud, CEO of the local Teva division, stated that brand-name companies "need to understand that they cannot use misleading practices to prevent competition from therapeutically equivalent and effective generic products."

Teva also exhibits aggressiveness by acquiring competitors and suppliers. Over the past two decades, it has acquired 15 companies, including Ivax, Barr, and most recently Ratiopharm, Germany's largest generics company, for which Teva outbid Pfizer. The Ratiopharm purchase makes Teva more formidable simply by eliminating a significant competitor. Meanwhile, the company increased its European and global market share, diversified its portfolio, and added new customers and biogeneric capabilities. Together, these acquisitions have enabled Teva to more than double the sales of any generics competitor.

In addition, Teva is ruthless about ensuring its product supply. The company jumped at the opportunity to form a joint venture with industry-leading biogenerics supplier Lonza, which effectively excludes biosimilar competitors from this critical supplier. Similarly, Teva has integrated backward to supply some of its own active pharmaceutical ingredients, and sells some of this API to competitors, thus making them dependent upon Teva.

Stakeholder Differentiation

Just as important, Teva has established a significant competitive advantage with stakeholders. For payers—including governments, insurers, and retailers—Teva offers the broadest portfolio of pharmaceutical products, including generics, branded generics, well-known OTCs, hospital injectables, specialty products, biogenerics, and some innovative products.

With its flexible production capacity, Teva also provides reliable, on-time delivery. Moreover, the company leverages economies of scale to offer buyers attractive prices. Consequently, Teva has become increasingly successful with larger customers. For example, Teva was successful in the initial tender offer to the largest German insurer AOK.

Business Innovation

Pharma professionals don't typically think of Teva as an innovator, but that misconception makes the company an even more dangerous competitor. In fact, Teva has been an innovator in R&D, biogenerics, supply chain management, information technology, and manufacturing practices. Teva has several innovative brands, including the blockbuster Copaxone and the Parkinson's agent Azilect, and is actively pursuing novel compounds in neurology, autoimmune diseases, and oncology. The company employed a pioneering developmental approach to produce Copaxone with Israeli biomedical researchers at one-fifth the typical cost of R&D development for brand-name manufacturers.

In addition, Teva has developed an advanced biogenerics platform that provides a competitive edge in this rapidly evolving area. The company currently markets several products, including TevaGrastim and Tev-Tropin, and has recently added Ratiopharm biogenerics products. Teva filed its first BLA for a US biogeneric, XMO2, a granulocyte-colony-stimulating factor to compete with Amgen's Neupogen. The company is also developing a biogeneric of Roche's cancer and rheumatoid arthritis agent Rituxan, and has established a strong biogenerics infrastructure, including its alliance with Lonza and acquisitions Sicor, CoGenesys, and Ratiopharm. These investments have provided substantial regulatory, clinical, manufacturing, and commercial capabilities, and the company expects that biogenerics will comprise nearly 25 percent of its portfolio by 2015.

Teva has been a supply-chain innovator with industry-leading advances in information technology, sourcing, packaging, and manufacturing techniques. It also has a state-of-the-art, $20 billion distribution center with an automated warehousing system in North Wales, PA. These innovations enhance Teva's competitiveness by dramatically improving delivery reliability and reducing customer costs.

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Competing with Teva

So, how can branded pharma companies compete with Teva and other generics manufacturers?

» **Develop a strategic plan for generics and generics marketplaces** Most branded companies don't have a clear vision, strategy, or approach for competing with generics.

» **Conduct competitive simulations** The new, improved version of war games can help competitors role-play Teva to understand its perspectives, culture, and strategies. These exercises can also pressure-test your company's competitive strategies and tactics versus Teva and other generic companies.

» **Initiate competitive training** Competing against generics companies is very different than competing against innovative pharmaceutical companies with branded products. It's critical to utilize new types of training to confront these companies. PE