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## Global Forum on Competition

### COMPETITION ISSUES IN THE DISTRIBUTION OF PHARMACEUTICALS

#### Contribution from Indonesia

-- Session III --

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Ms Cristiana Vitale, Senior Competition Expert, OECD Competition Division  
Tel: +33 1 45 24 85 30, Email: cristiana.vitale@oecd.org

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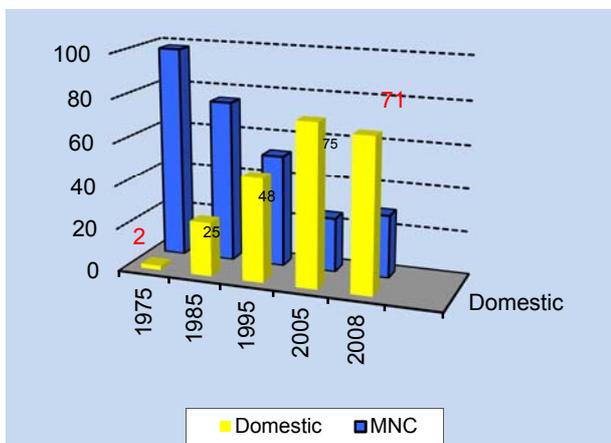
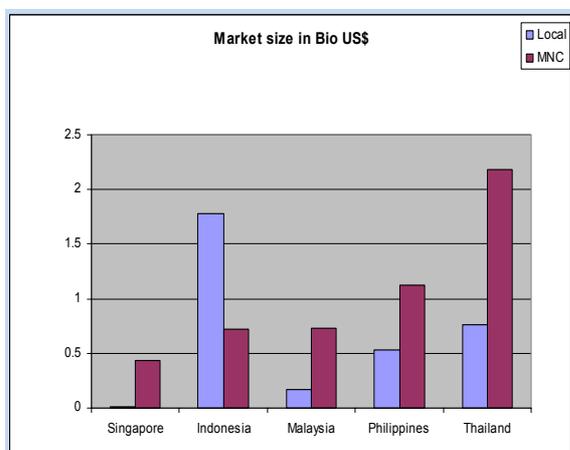
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## COMPETITION ISSUES IN THE DISTRIBUTION OF PHARMACEUTICALS

-- Indonesia \* --

### 1. Competition in Pharmaceutical Sectors: Distribution Channel - Introduction

1. The Indonesian pharmaceutical market has been dominated by local products as graphic below shows:



2. In term of market size and also in percentage, local drugs manufactured by Indonesian-based producer have dominated the market since early 2000 until now, compare to foreign based pharmaceutical producer.

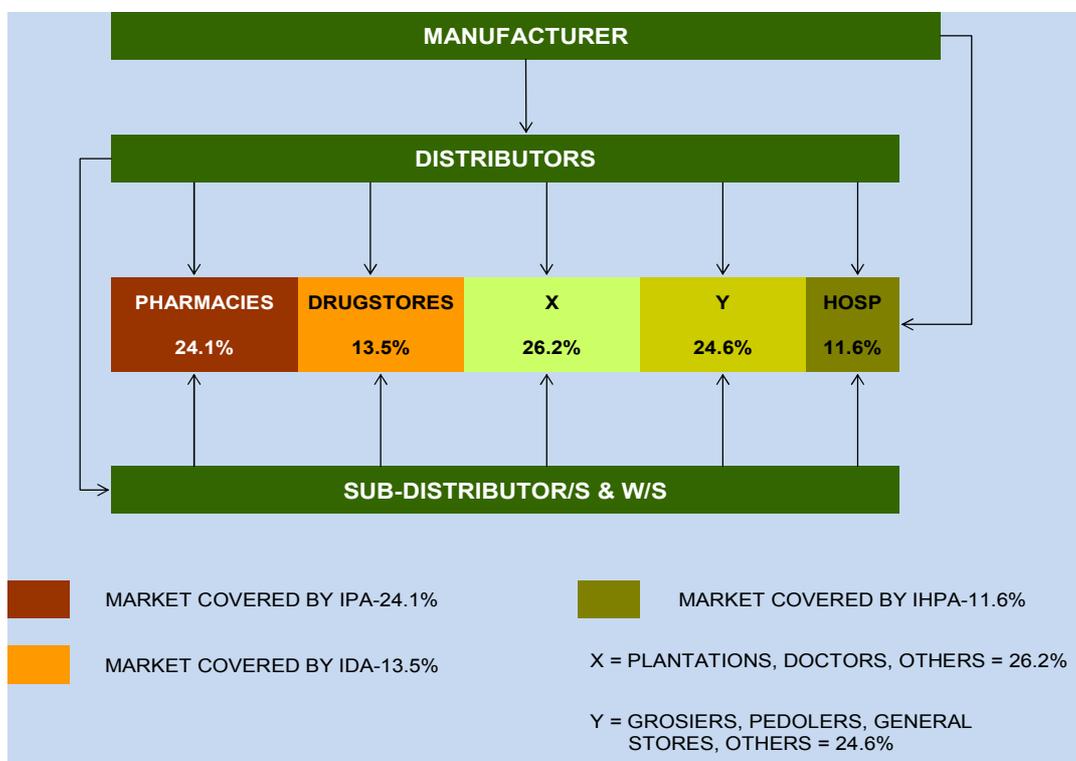
3. According to the profile of registered drug in Indonesia in 2008, local drugs (which are mostly consisting of generic and branded generic) have reached 15.224 products while the imported drugs (which are mostly in patent period) reached 1.663 products.

4. Other than multinational pharmaceutical companies with production facility in Indonesia, most of the imported drugs are distributed by their affiliates or subsidiary in Indonesia. Latest data showed, there are 12 imported companies which are affiliated with their multinational companies without production facility in Indonesia.

\* This report is jointly prepared by Research Bureau and Foreign Cooperation Division. For further information, please contact us at [international@kppu.go.id](mailto:international@kppu.go.id).

**2. The Pharmaceutical Channel**

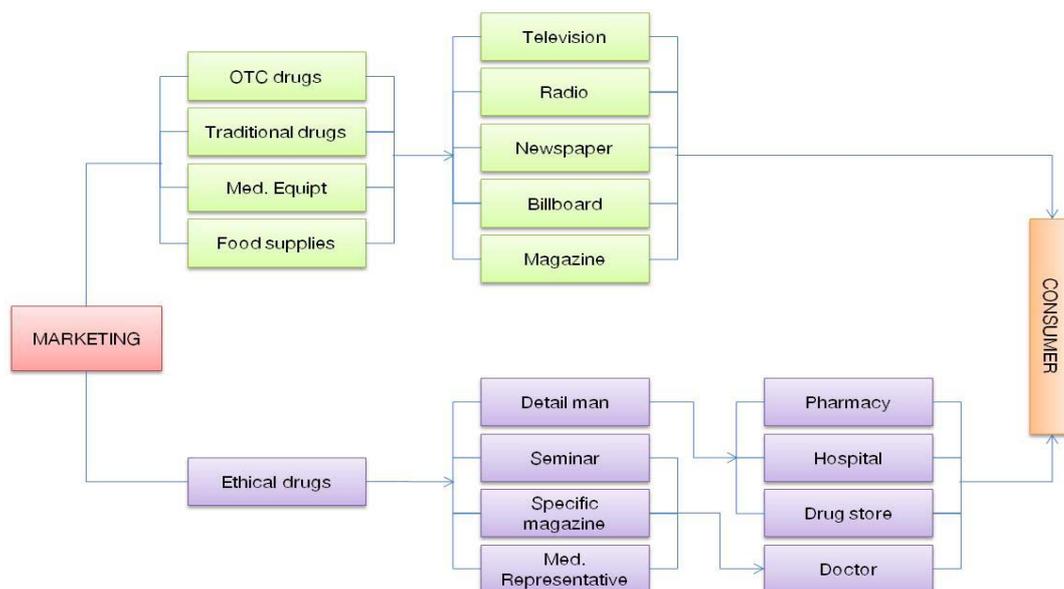
5. Indonesian pharmaceutical distribution channel can be described as follow:



6. Drugs distributed from producer to retail level using distributors and sub distributors. Most of the prescribed drugs mainly distributed to pharmacies outlet (around 24%), drugstores (13.5%) and hospital (11.6%). By regulation, prescribed drugs cannot be sold directly to end consumers. Most of general stores and groceries only sold over-the-counter or non-prescribed drugs.

7. Existing social insurance and health coverage only apply to government employee and military personnel. For this market, the pharmaceutical companies shall bid their drugs to National Health Insurance Agency. This agency will make annual bidding for drugs to be included in their coverage based on the recommendation from nationwide panel of experts. Since the insured consumer is fixed in numbers and their historical health, the pharmaceutical company could bid with cheaper price. The gap between drugs used by national insurance coverage and non-national insurance coverage could reach up to 30 – 40 percent. These margins came from marketing efficiencies claimed by pharmaceutical companies.

8. The marketing channel for drugs in Indonesia is illustrated below:



9. Prescribed drugs (ethical drugs) cannot be promoted and distributed using ordinary channel. They must be prescribed by medical doctors and reimbursed by patient in the nearest pharmacy or hospital. To promote prescribed drugs to doctors, pharmaceutical company uses:

- Medical representatives to explain the drugs directly to doctors;
- Detail man to promote prescribed drugs to retail outlets;
- Workshops, seminars and journals to present latest information about prescribed drugs to the doctors;

10. Sometimes, detail man can also act as surveyor where they would collect information on actual sales or prescription of ethical drugs from retail outlet. This information would be used as marketing feedback for pharmaceutical companies.

11. For the distributor, research showed that distributors are responsible to maintain the supply of prescribed drugs in designated retail outlets and hospitals. They take distribution fee (range from 5% to 10%) from the total turnover value of prescribed drugs they handled. To support their responsibilities, they must be equipped with adequate MIS also logistic team, who are maintaining supply in their areas. Some of the big companies in distribution sectors have national wide coverage, where becomes one of the competitive advantages they could offer to bargain with pharmaceutical companies.

12. Total number of distributor is around 260 companies nationwide<sup>1</sup>. The ratio is 1 pharmaceutical company for 11 distributors, and 1 distributor for 4 drugstores. These ratios reflect that competition between distributor are quite high because they have to get distribution orders from 1 pharmaceutical companies and face pressure from other 10 companies. In the retail level, each distributor has to maintain at least 4 drugstores within their coverage areas.

<sup>1</sup> These numbers are collected from the business association data. Data from government may different because not all of the registered distributors are still active or join the association.

13. Some pharmaceutical companies have made long term agreement with independent distributor or acquire distributor as their subsidiary. Reducing transaction cost is one of major arguments. By making long term agreement or by using subsidiary, they could have better certainty in maintaining the availability of their products in the targeted retail outlets.

14. Distribution companies are different with marketing representative or detail man used by pharmaceutical companies. Their cost and activity are not the same. Marketing representative or detail man, and other marketing channel are used by pharmaceutical companies to inform their stakeholders. Their costs are covered by the pharmaceutical companies. Although, in practice, there are high possibilities that detail men are coordinating their efforts with the distributors.

15. There is a regulation concerning drug prices. By regulation, pharmaceutical manufacturer must print the maximum retail price on the drug's label. The maximum price consists of three components such as factory prices, distribution-retail margin (maximum amount of 25%) and taxes (added value tax est. 10%). These means that distributor and retailer cannot effect or change the prices as already imprinted on drug label. Nevertheless, based on KPPU market surveys, price deviations still can be found in several drug stores. Some drug stores sold below the maximum price and the others sold above the maximum price. Until now, there is no information about the enforcement of this law especially to the retail outlets which sold drugs above the maximum retail prices<sup>2</sup>.

### 3. Basic Problems

16. The basic problem in Indonesian pharmaceutical sectors is the relationship between doctors and pharmaceutical companies, especially doctors who have been captured by "pharmaceutical companies" through the networks of medical representatives and or detail men. Allegedly, these doctors would prescribe specific drugs from certain company, and in the end, they would receive some bonuses from the pharmaceutical company<sup>3</sup>. In this practice, detail men and medical representative from pharmaceutical company plays a major role in maintaining relationship with the "captured doctors". While in the other hand, consumers or patient don't have adequate knowledge or information to review the doctor decision about drugs usage or prescribed to them.

17. Regulations also prohibit pharmaceutical specialist to switch or replace the prescribed drugs with other drugs (generic drugs or cheaper drugs with similar function) as substitution without permission or approval from a doctor. This makes doctor decision as final, and can only be replaced based on their consideration and approval.

18. The prescription of off-patent drugs is higher than generic drugs. This problem still related to the captured doctor issue. Captured doctors will prescribe off-patent drugs which are more expensive compare to their generic. Data on most sold generic are not the same brand with the lowest price generic for several types of drug treatment in Indonesia, confirmed that behavior.

19. In Indonesia, prescribed drug can be divided into three groups, namely patent drugs, off-patent drugs (branded generic), and generic drug. Off-patent drug or branded generic is the off-patent drugs repackaged with new name (brand). The price is lower compare to their patent periods but still much more expensive compare with generic substitutes.

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<sup>2</sup> The regulation issued by Ministry of Health, but no record of information yet about the effectiveness or the enforcement of the law.

<sup>3</sup> Doctors are not allowed to sell the prescribed drugs directly to patient by regulations.

20. For example, specific drug therapy such as Captopril (for hypertension), the price varies from IDR 205 (generic) per unit to IDR 313, or until IDR 5,436 per unit for branded generic. Other types of drug therapy also have similar condition. The antibiotics type of amoxicillin with generic price of IDR 323 per unit can be sold from IDR 1,134 to IDR 3,134 per unit for their branded generics. Most likely consumer or patient has to pay drugs treatment higher than they could have from its generic. A doctor prescriptions as follow can explain the phenomenon.

Prescription		Generic 1		Generic 2	
Ponstan 250mg	15,000	Pondex 250mg	7,100	Asam Mefenamat	3,100
Claritin	30,000	Alloris	21,700	Loratadine	3,800
Ciproxin 500mg	220,400	Baquinor	103,000	Ciprofloxacin	12,400
Total Cost	265,400	Total Cost	131,800	Total Cost	19,350

21. For usual illness like common cold, doctor would prescribe the off-patent drugs and vitamins. Combined cost for almost IDR 265,400. But if we search for the alternative drugs (generic), we could reduce the drugs cost. Alternative 1 would cost only IDR 131,800 and the cheapest is alternative 2 with total cost of IDR 19,350. All of drugs have the same basic materials, thus equivalent with the off-patent drugs.

#### 4. Competition Issues

22. In term of competition, the most significant issues are vertical integration between pharmaceutical company and distributor. The vertical relationships (such as long term agreement and subsidiaries) have the potential to reduce competition between distributor companies to get order from pharmaceutical companies. Here are some examples of vertical integration collected from KPPU surveys.

No.	Producers	Distributors	Relation
1.	Bristol-Myers Squibb	Enseval Putra	Affiliated
		Multi Husada	
		Bristol-Myers Squibb	
		Bristol-Myers Squibb Philippines	
		Bristol-Myers Squibb Malaysia	
		Bristol-Myers Squibb Myanmar	
2.	Schering-Plough Indonesia	Anugerah Pharmindo	Affiliated
		Schering-Plough Division of SQL Limited, HongKong	
3.	Pyridam Farma	Antarmitra Sembada	Affiliated
		Sawah Besar Farma	
		Surya Bioperkasa	
		Monsai Farma	
		Belibis Muda Perkasa	
		Kalimantancitra	
		Gidion Jaya	
		Active Hubrillant Success	
		Mereson Teguh Mandiri	
		Lima Jaya Firmatama	
		Bina Catur Marga	
		Pimadona Pancasentosa	
4.	Merck	Millenium Pharmacon International	Affiliated
		Borwita Indah	
		Multi Husada	
		Mestika Sakti	
		Banyumas	
Perusahaan Dagang Tempo			

23. So far, there are no single pharmaceutical companies which only use one distributor, due to their coverage. If pharmaceutical company wants their drugs available in most of Indonesian regions, they have to use more than one distributor companies. KPPU also found that certain distributor companies (usually the big company with MIS and logistic facility) have two or more pharmaceutical companies as their principal<sup>4</sup>.

24. KPPU focuses to the issue of intra brand competition between distributor companies. Preliminary findings suggested that distributor companies are not operating in the same region or given different coverage areas by the pharmaceutical company. So, in specific region, the competition is between distributors of certain pharmaceutical company with distributor of other pharmaceutical company (inter-brand competition). The business processes are very dynamics and KPPU would keep on monitoring these practices.

25. Entry barrier lead to market concentration for specific drug class. For example hypertension therapy with Amlodipine class. Generic drugs are expected to enter the market but, new entrants have to follow the same tradition to maintain the network with doctors. If the doctors do not recognize the new drugs or still not sure about the bio equivalency and bio availability of the new drug, they may hesitate and will not prescribe the new drug to their patient. At the end, new drugs would find it more difficult to enter and survive in the drug market. With the tendency for doctor to prescribe branded generic (not generic generic), the potential of market concentration for specific drug class therapy is quite significant. KPPU still in the process of mapping the market concentration for drugs by therapeutics class types<sup>5</sup>.

26. Drugs are not normal product<sup>6</sup>. Therefore it demands regulation on price. In Indonesia, regulation about prescriptions and price only covers public health facility. In private facility and practices, these regulations are not applied; hence most consumers still have to pay more expensive drugs<sup>7</sup>. KPPU in process of advocating the policy makers in pharmaceutical and public health services. The objectives are to have better regulations on drug prescriptions and pricing policy, so that it could protect consumer welfare and competition process at the same time.

## 5. Closing

27. Indonesian pharmaceutical market is big and growing. With the upcoming program of safety net in public health in 2014, the basic problem of Indonesian pharmaceutical market (such as drugs prescription and branded generic drug price) could be minimized. Public health program with national coverage will create significant change, since most of Indonesian lives without health insurance.

28. KPPU would maintain its surveillance and monitoring program toward pharmaceutical sector, to make sure that, all the business process still complies with fair competition principles regulated by the law.

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<sup>4</sup> The considerations of economics of scale and economics of scope also applied. Most pharmaceutical companies have more than 10 products; include drugs and other health related products. Some distributors have better network for non-ethical drugs while other specialize in ethical drugs and networking with pharmacist outlet and hospitals.

<sup>5</sup> Using the Chemical component group as relevant market criteria.

<sup>6</sup> Meaning that normal market mechanism cannot be applied without proper regulations.

<sup>7</sup> Mostly out of pocket expenses.