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Winning in Nigeria: Pharma’s next frontier

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Winning in Nigeria: Pharma's next frontier

Amid the country's downturn, should companies still be looking here for growth? Yes—and we can learn five lessons from players getting it right today.

Five years ago, Nigeria's strong economic growth sparked a burst of enthusiasm about opportunities in its pharmaceutical market. Yet capturing that promise has proved harder than expected, with many multinationals struggling to find a recipe for success. More recently, the economic downturn has cast an altogether different light on the industry's prospects. Given past challenges and today's woes, companies are starting to wonder whether Nigeria is ready for pharma—and even, as they reflect on their own experiences, whether pharma is ready for Nigeria.

We believe leaders should not be discouraged. Short-term shocks do not alter the fact that Nigeria still offers attractive opportunities for companies with realistic expectations and carefully tailored strategies. But as leaders have learned in the past few years, growth must be earned, not taken for granted. To capture Nigeria's potential, companies need to take a long view, weather near-term economic headwinds, and overcome structural obstacles by developing creative solutions tailored to the Nigerian context and local patient journeys.

To find pockets of growth and to improve patients' access to medicines, successful companies will conduct a granular analysis by city, therapeutic area (TA), and channel, and counter barriers to healthcare access by developing innovative offerings that drive penetration in the growing Nigerian middle class. They will get closer to healthcare providers and build capabilities for handling complex sales-and-distribution networks. Finally, they will invest in local talent to empower and optimize their Nigeria operations.

Putting growth in perspective

As Africa's largest economy and most highly populated country, Nigeria has been hailed as the next frontier for pharma, in the wake of industry successes in South Africa and the growth hotspots of Northern Africa. But the country's recent slide into recession is prompting some companies to take a step back and consider whether robust growth is still attainable.

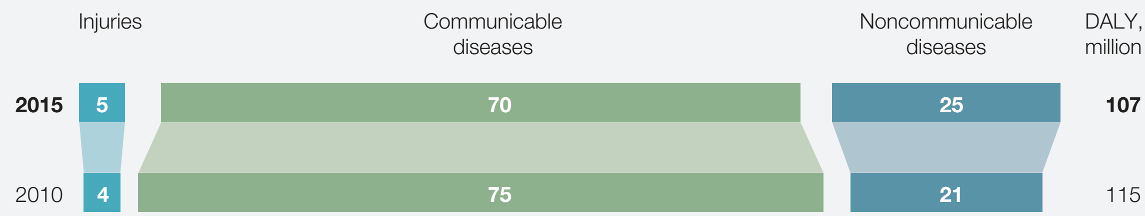
In July 2016, the International Monetary Fund cut Nigeria's GDP growth forecast to –1.8 percent, the lowest since 1987, and a sharp fall from the 6 percent growth recorded between 2000 and 2014. Among the causes of this decline were the global economic slowdown, the drop in crude oil prices, the dwindling of capital inflows, and the devaluation of the Nigerian naira.

Yet despite the economic outlook, the prospects for the pharma market remain sound, in our view. With a population of over 180 million people, Nigeria is Africa's largest consumer market. As more people join the ranks of the middle and upper classes, household consumption is expected to grow by $94 billion over the next ten years, rising from $360 billion in 2015 to $454 billion in 2025.[1] Most healthcare expenditure in Nigeria is funded out of pocket, so growth in household consumption can be expected to translate into growth in healthcare spending.

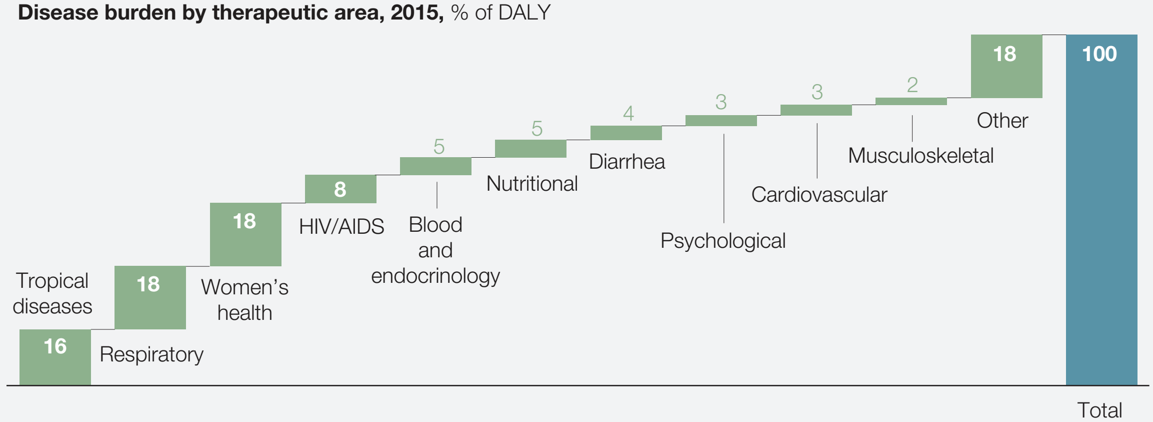
Another source of opportunity for pharma companies can be found in the shift in the burden of disease and the consequent growth in unmet patient needs (Exhibit 1). Although drugs for

Exhibit 1 **Noncommunicable diseases are rising rapidly in Nigeria.**

Evolution of disease burden, 2010–15, % of disease-adjusted life years (DALY)



Disease burden by therapeutic area, 2015, % of DALY

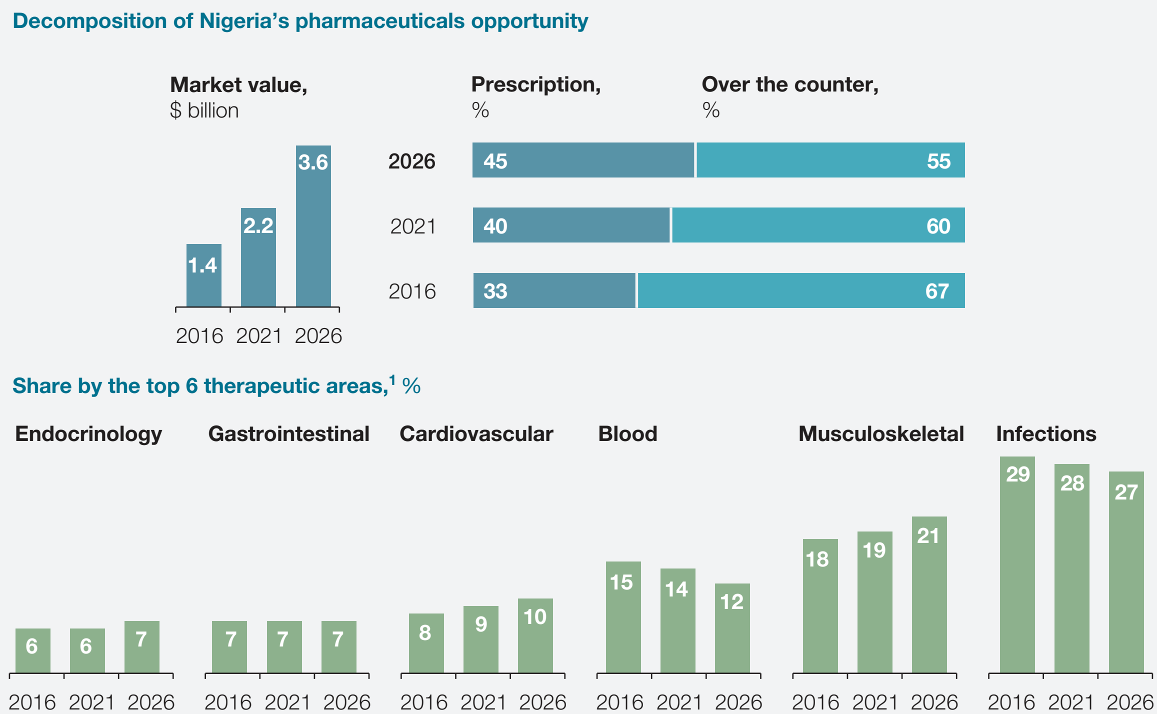


Source: Institute for Health Metrics and Evaluation, Global Burden of Disease Compare data visualization, 2017

communicable diseases continue to command the lion's share of the market, the demand for medicines for noncommunicable diseases such as diabetes and heart disease is expected to grow significantly over the next ten years. The increasing prevalence of these diseases presents a huge challenge for Nigeria, as its healthcare system, like many others in Africa, is not geared toward dealing with them. In addition, most of the financial and technical support that Nigeria receives from international development partners is dedicated to communicable rather than noncommunicable diseases.

Given this gap, pharma companies have a great opportunity to step up and become long-term partners to the government by providing much-needed access to medicines for diseases that have not yet become a priority for the healthcare system. Our analysis indicates that the value of the Nigerian pharma market, currently estimated at $1.4 billion, could rise by as much as 9 percent per year over the next ten years, to reach $3.6 billion by 2026 (Exhibit 2). Such a trajectory would make the Nigerian pharma market as large as those of Malaysia, Saudi Arabia, and South Africa. Over the same ten-year period, Nigeria is expected to

Exhibit 2 **The top six therapeutic areas could deliver more than 80 percent of market value in 2026.**



[1]"Other" not shown.

Source: Imperial Logistics; Worldwide Commercial Ventures; McKinsey analysis

contribute between $1.9 billion and $2.2 billion to pharma sales growth, with 55 percent coming from prescription drugs. As noncommunicable diseases become increasingly important, new opportunities will open up for pharma companies with the foresight to develop "beyond the pill" solutions and introduce radically new business models.

However, Nigeria is a complex market, and success will require a deep understanding of the many forces at play. Companies will need to work to address short-term economic setbacks and deep-rooted structural challenges to take advantage of favorable growth in the medium to long term, and to help patients.

Diagnosing healthcare in Nigeria: Persistent symptoms to address

Pharma companies seeking to capture opportunities in Nigeria will need to develop locally tailored solutions to address three obstacles to gaining market access for their products:

Healthcare infrastructure is not fully developed

Nigeria's healthcare infrastructure varies considerably between cities and rural areas, and between public and private provision. Overall, though, the country does not have the medical facilities, equipment, and capabilities it needs to combat the considerable healthcare challenges it faces.

By way of example, Nigeria has 0.9 hospital beds per 1,000 people, compared with a global average of 2.3 beds. Moreover, it has only 120 intensive-care-unit (ICU) beds, equivalent to 0.07 ICU beds per 100,000 people, compared with Kenya's ratio of 0.3 ICU beds per 100,000 people. One of many consequences of the lack of infrastructure is that an estimated 5,000 patients a month travel abroad to seek healthcare, 60 percent of them needing treatment in cardiology, musculoskeletal, hematology, or oncology. Medical tourism—much of it to popular destinations such as India and South Africa—incurred costs totaling more than $1 billion in 2013.[2]

Healthcare financing is a barrier to market access

Healthcare spending in Nigeria is predominantly a private affair. Out of an estimated total health expenditure (THE) in 2015 of $15 billion, out-of-pocket spending accounted for approximately 70 percent, compared with just 7 percent in France and South Africa, for example. Private health insurance, mostly the preserve of senior staff in large corporations, accounted for about 5 percent of THE, compared with 14 percent in France and 45 percent in South Africa. The government's contribution to healthcare expenditure is estimated at 25 percent of THE, compared with the Organisation for Economic Co-operation and Development (OECD) average of 72 percent. More than 80 percent of this spending goes to the salaries of healthcare providers, leaving a limited budget for healthcare operations. As a result, patients face high out-of-pocket costs. Pharma companies pursuing a traditional approach that focuses on pills have few opportunities to gain market access for innovative treatments, since they are competing for funding with other government priorities as well as other pharma companies and disease areas.

The affordability of medicines is an issue for all but the most affluent segments of the population. McKinsey estimates that fewer than 5 percent of households can afford to pay for ethical drugs entirely through out-of-pocket spending or private health insurance. Distribution, wholesale, and retail markups can be extremely high: a drug's manufacturing price can double or triple by the time it reaches patients. To succeed, pharma companies must take care to design trade terms and affordability strategies that will help Nigeria manage its healthcare spending and develop its pharma market.

Counterfeits and parallel imports compete with registered drugs and place patients at risk

In Nigeria's predominantly informal distribution and retail networks, counterfeit and parallel medicines are often difficult to distinguish from the genuine article. Some experts believe that informal retail accounts for more than three-quarters of the value of the pharma market, while estimates suggest that parallel imports could account for up to half of all drugs sold in priority TAs, including infectious disease and cardiovascular. Several generics companies that have no commercial activities registered in Nigeria still have statin variants that are widely distributed and sold here, for instance. "The competition is beyond fierce and highly fragmented. You always have to be on your toes," one local pharma executive told us.

Pharma companies operating in Nigeria thus face challenges in healthcare infrastructure, financing arrangements, and drug distribution and sales. They need to take the time to understand pockets of opportunity in detail and build the capabilities, partnerships, and local leadership talent to raise their chances of success in this complex environment.

Five lessons for pharma companies pursuing opportunities in Nigeria

Drawing on our experience of supporting companies with market entry in this and other African markets, we have identified five lessons that should inform any pharma strategy in Nigeria:

Focus first on cities and then on commercially attractive districts within them

As their share of consumption increases, cities will become ever more important as sources of growth. Forty-five percent of consumption is concentrated in the top five cities: Abuja, Ibadan, Kaduna, Kano, and Lagos. Consumption spending in major cities can reach almost twice the national average: $6,300 per capita in Lagos, as opposed to $3,500 for the country as a whole, for example. McKinsey has identified 20 of the most promising cities in Nigeria, which include the major centers of Lagos, Port Harcourt, Ibadan, and Abuja as well as smaller cities (Exhibit 3).[3]

Cities are important for another reason too: as an engine for structural changes in Nigeria's health system. They have much better logistics, infrastructure, and healthcare capabilities than rural areas—for instance, most of Nigeria's intensive-care beds are located in just three city clusters—and city dwellers use healthcare services more than twice as much as their rural counterparts. With healthcare operations so centralized, it is within cities where new forms of local governance tend to emerge, to be followed by innovations in healthcare service delivery.

A targeted approach to the largest cities and urban districts is a condition for commercial success in Nigeria. That will involve developing a grassroots, local view of consumption potential using household purchasing power as the metric. For instance, Lagos has ten commercial centers and 20 local government areas (LGAs). Among these, attractive areas might include Eti-Osa, Ojo, and Surulere, which have the highest number of upper-class households earning an annual income in excess of $70,000, and Ajeromi-Ifelodun and Alimosho, which have the highest number of emerging-middle-class households earning above $7,500 (Exhibit 3).

Failing to take a micromarket approach in Nigeria can carry heavy penalties. One multinational pharma company found it could penetrate only a small segment of the population. Its annual growth rate of 7 to 8 percent lagged the market by two to three percentage points, and it struggled to gain share. By contrast, one global brewer mapped territories to prioritize its market coverage and decided to focus on underpenetrated tier-two and tier-three cities instead of taking on market leaders in Lagos. The strategy paid off with a compound annual growth rate of 98 percent from 2010 to 2015, rapidly taking the company to a 7 percent share of the Nigerian beer market.

Create a granular view of the opportunity by TA and channel

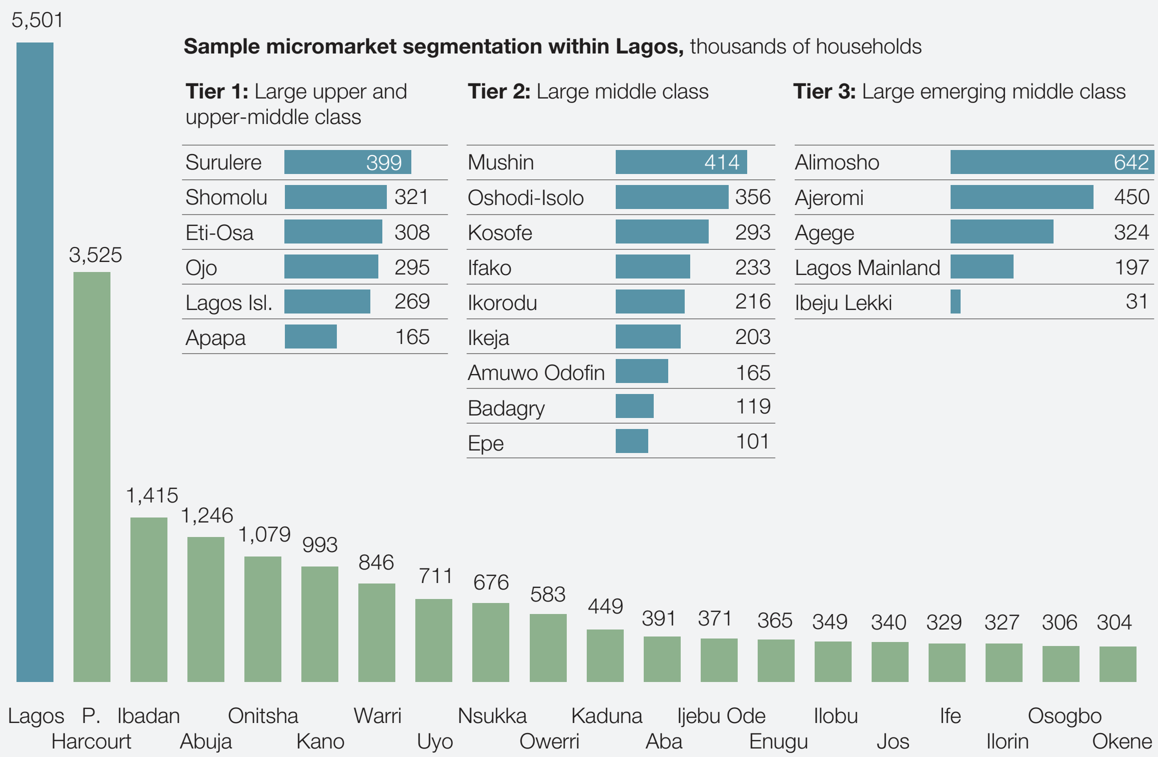
Drilling down into opportunities at the level of TAs and sales-and-marketing channels will enable a company to make smart choices about where to allocate resources and how to shape its value proposition. This will help it avoid three common pitfalls in Nigeria: a mismatch between products and local needs, an inability to cater to both high- and low-income groups, and a lack of insight into how to target different healthcare providers successfully.

Many multinationals have begun to realize that their traditional model—using a clinical sales force to serve hospitals and account managers to serve government tenders and large accounts—is

Exhibit 3

A successful commercial strategy depends on a micromarket approach to cities and districts.

Top 20 cities in Nigeria by purchasing power, 2025, thousands of households



Source: Lagos State Government Household Survey; McKinsey Global Institute analysis; McKinsey analysis

not helping to overcome patient-access and infrastructure barriers. An approach geared to specific products, channels, and healthcare providers is likely to be more effective. Product portfolios, for instance, should be matched to Nigeria's disease burden, patient needs, and healthcare system. This can be challenging given the lack of transparency into the needs and workings of the public, private, donor, and informal pharma markets. One generics company tried to enter the market without an infectious-diseases portfolio or a retail sales force and failed to establish itself in a country where communicable diseases account for 65 percent of disability-adjusted life years (DALYs), and where retail commands a large proportion of pharma sales.

Another common hurdle is the stark difference in disease profiles between the top and the bottom of the income pyramid. High-income patients face a growing burden of noncommunicable illnesses such as heart disease, while poor patients are disproportionately affected by infectious diseases such as typhoid. To meet such disparate needs, companies need a differentiated product portfolio like that of GlaxoSmithKline. Its offerings include drugs for infectious disease that afflict poorer households and rural communities, such as hepatitis and tetanus; an R&D unit dedicated to neglected tropical diseases, including malaria and dengue; and products geared to the lives of affluent city dwellers, such as Seretide for asthma and the broad-spectrum antibiotic Augmentin.

Finally, few companies have tailored their market-entry strategies to the roles played by the three main healthcare providers in Nigeria. Hospitals and clinics typically purchase specialty-care products such as vaccines and infusions, as well as essential medicines and other standard products. Pharmacies consist of retail chains, independent retailers, proprietary and patent medicine vendors (PPMVs), unregistered outlets, and the informal open market. Other institutions include medical facilities and pharmacies operated by private companies and public institutions such as nongovernmental organizations, and typically purchase standard ethical and generic drugs under health-insurance plans.

In major TAs such as cardiovascular and musculoskeletal, some multinationals have overemphasized detailing in hospitals and paid insufficient attention to retailers, which represent more than 70 percent of the opportunity for patient care and pharma sales. To strike the right balance, companies need to base their value proposition on a detailed knowledge of the stakeholders and dynamics that shape the most attractive TAs across the private, public, and donor markets. As an example, Exhibit 4 outlines the key stakeholders and channels for each healthcare provider in women's reproductive health. Likely priorities in serving the private market include promotions, placement, and product availability; in the public market, they include pricing, second-line branding, and adjusting dosage and packaging specifications to match the requirements of the essential drugs lists.

Emzor, a Nigerian company producing pain, anti-inflammatory, and anti-infective medicines, successfully employed a granular approach to its local market by focusing on the value segment and offering its products at lower prices than competing branded Indian generics. Over the past 30 years, it has grown from a single chemist's shop to the country's largest homegrown pharma company, with sales of more than $40 million in 2015.

Understand the reality of patient journeys for priority TAs

The challenges to market access described above mean that traditional models for entering pharma markets may not be effective in Nigeria. Multinationals should instead build their knowledge of local patient journeys and develop bespoke solutions. Typical hurdles lie in awareness, access to primary healthcare, generics substitution by retail pharmacists, and product availability and affordability.

Consider the patient journey for hypertension in Lagos, for instance, in which the main challenges are limited awareness of the condition and gaps in the primary healthcare system (Exhibit 5). More than four-fifths of patients are unaware of their condition, and screening costs are high, at $7 to $10. Among patients who do know their diagnosis, fewer than half check their blood pressure regularly. The first port of call for two-thirds of patients is a retail pharmacist rather than a medical professional. Three-quarters of retail pharmacies and PPMVs in Lagos are unregistered, and many are staffed by technicians who lack the

Exhibit 4

An example highlights key stakeholders and channels of women's reproductive-health therapies per healthcare provider.

Example provider, stakeholder, and channel analysis for women's reproductive health

	Healthcare provider	Estimated market share, %	Key stakeholders	Priority channel
Public market	Government hospital	30	• Procurement committee • Chief medical officer	Key account managers
	Government health center	15	• National program committees • Chief medical officer	Key account managers or direct sales force
	Family planning clinic	15	• National program committees • Chief pharmacist	Indirect sales force
Private market	Proprietary and patent medicine vendor	15	• Wholesaler • Proprietor or technician	Indirect sales force or direct sales force
	Private hospital or clinic	10	• Procurement committee • Chief pharmacist	Direct sales force
	Retail pharmacy	5	• Head of finance, or proprietor • Pharmacist	Direct sales force
	Institution	5	• Chief medical officer	Key account managers
Informal market	Unregistered outlet	5	• Wholesaler	Indirect sales force or direct sales force

Source: Demographic Health Survey; McKinsey analysis

knowledge, skills, and tools to carry out effective screening and diagnosis. As a result, hypertension is often misdiagnosed as typhoid or malaria, with serious consequences for patients.

So what could a multinational company do to capture the opportunity in hypertension in Lagos, and Nigeria more broadly? A good place to start would be to carry out focused detailing with retail pharmacists, work with chemical technicians to improve their skills, and help increase the diagnosis rate by providing blood-pressure kits, training staff in diagnostic methods, and hosting screening sessions in priority LGAs. Pharma companies could also train retailers to raise patients' awareness of new technologies such as "smart bottles" or "mobile-enabled services" to remind patients to refill their prescriptions, thus helping to drive repeat purchases among the more than 90 percent of patients who do not fully adhere

Exhibit 5 **The journey for a hypertension patient is time consuming, with multiple barriers to access for most people living in Lagos.**

Example patient journey; experience varies across income segments and public/private sector

Awareness — **Patient experiences symptoms**

- Only 1 of 5 patients is aware he or she has hypertension
- Even those that are aware do not regularly check blood pressure

Access — **Patient enters screening process**

- >60% of patients encounter pharmacist as first point of contact
- At primary healthcare or clinic, hypertension often misdiagnosed as typhoid or malaria
- Patient may then be referred to private or public hospital

Diagnosis — **Patient is diagnosed**

- May take 2–3 visits to general practitioner before being referred to cardiologist
- May need to wait up to 12 weeks to see specialist
- Cost of screening is ~$7

Treatment — **Patient visits hospital**

- Typically prescribed 2–3 drug therapies
- Costs are covered fully or partially out of pocket

Adherence — **Patient visits retail dispenser**

- 40–60% of patients switch to generic treatment
- <10% fully control blood pressure

Source: Demographic Health Survey; McKinsey analysis

to their treatment. As the default gatekeepers of healthcare in Nigeria, retailers set the tone for patients' attitudes toward therapeutic compliance.

Improve ability to handle sales-and-distribution networks

One of the hurdles multinationals face in penetrating Nigeria's retail pharmacy and hospital networks is their limited insight into and influence over sales and distribution, which partly stems from their reliance on distributors and other third parties to drive their commercial operations. Multinationals import and distribute their products through two main distributors, which are licensed to sell only to registered pharmacies, hospitals, and institutions. However, only 4,500 out of 80,000 retail outlets are registered pharmacies. More than 70 percent of the total revenue potential lies in unregistered and informal customer segments that are served mainly by 200 wholesalers with which pharma companies have no direct relationships.

Nimble companies may be able to capture a first-mover opportunity by helping to organize wholesaler networks and professionalize them.

They should identify the wholesalers with the largest distribution shares in their target territories, partner with them, and establish trade terms that include stringent metrics for compliance and performance; well-defined priorities for markets, TAs, channels, and customers; attractive financial and nonfinancial incentives; and adequate marketing resources to support sales activities. In particular, wholesalers will need to adapt to new standards and distribution requirements as regulators introduce stricter trade compliance measures. These steps will help companies increase their reach and product supply in underserved cities, LGAs, TAs, and customer segments, and perhaps even begin to curb parallel imports and counterfeit drugs.

The main lesson for pharma companies is to get closer to retail pharmacies and hospitals to drive brand awareness, product availability, and price control. To achieve scalable control over sales and distribution, they will need to address all key stakeholders across the value chain.

Build a strong local leadership team

To succeed in Nigeria takes a strong leadership team, and as one executive told us, “It will require more investment than usual.” The local country head will need deep knowledge of both the pharma industry and the Nigerian context. Novartis and Sanofi have hired seasoned African country leads with extensive local experience to head their Nigeria operations. An effective leader will mobilize the team by developing their sense of ownership and belonging, and generating purposeful excitement about the company’s strategy.

Moreover, any company seeking rapid growth should extend local empowerment beyond the country head to lower levels of management. One leader admitted, “We learned the hard way that weekly catch-up sessions and remote mentorship do not work. What works is having dedicated leaders who are guiding, role modeling, motivating, and problem solving with their teams in person every single day.”

Conversely, companies with a remote leadership and coverage model are unlikely to build sustainable operations and management systems in Nigeria. Without strong, committed leaders present on the spot, they will lack the resources and capabilities to succeed. Ensuring that the country head lives up to expectations is one of the biggest challenges. To be effective, these leaders need a dedicated investment budget, autonomy over routine day-to-day decisions, and local support for critical functions such as marketing and finance.

Local talent is available, but demand is high. For broad middle-management skills in HR, finance, and the like, pharma companies will find themselves competing for talent against other rising sectors such as telecommunications. Battles are often waged over a handful of candidates, with each bidding round pushing salaries higher. Escaping from this spiral calls for a creative approach to recruitment and a compelling people proposition.

Needless to say, employees with specialist skills in regulatory, pharmacy, medical, and commercial are harder to find. Multinationals should research global and local talent markets in depth and use their local networks to target less obvious yet still suitable candidates who may cost less to hire but will need extensive training and development.

Leading multinationals are taking action on three fronts to make themselves more attractive to local talent. First, they are promoting a meritocratic culture with global career tracks to dispel any perception of a glass ceiling for locals. Second, they are investing in diversity and building trusting relationships with homegrown talent. A leading example is the Novartis Africa University, which seeks to instill the company's culture, values, and ways of doing business in new hires and build clinical competence among scientists and technicians to create a pool of top pharma talent in Africa. Third, leading multinationals offer globally competitive financial packages. Nigeria's top business executives come from the world's best universities and expect a level of compensation commensurate with their cosmopolitan experience and aspirations.

Companies that learn from these five lessons will have a head start in capturing the opportunities available in Nigeria's pharma market. GlaxoSmithKline offers an example of a time-honored commitment to Nigeria's pharma market and demonstrates many of the lessons we've highlighted. Underpinned by global R&D capabilities, the company has built a robust asset portfolio and pipeline reflecting infectious diseases, vaccines, and noncommunicable diseases that is geared to address Nigeria's disease burden. Its flagship broad-spectrum antibiotic, Augmentin, for instance, is well distributed across Nigeria's fragmented retail landscape because of a firmly networked and professionalized local sales-and-marketing infrastructure in the country. By leveraging a strong brand reputation in retail pharma, coupled with a historical legacy in infectious-disease therapies within leading hospitals, GlaxoSmithKline has established strategic partnerships with Nigeria's public sector and the global health community to collectively champion initiatives to broaden market access for patients.

What to do next: Developing a successful commercial model

As leaders revisit their commercial models and devise innovative entry strategies for Nigeria, they can ensure they cover all the bases by addressing ten questions:

- *Aspiration setting.* What is our ambition, given our global priorities and the conditions in Nigeria?
- *Geographic focus.* Which cities and districts should we prioritize?
- *Health providers.* Who are the key buyers, and how much value do they drive?
- *Product portfolio.* Which TAs are the most attractive to target, given our products and pipeline?
- *Patient journey.* How can we address the pain points that limit patient access to healthcare and medicines in each disease area?
- *Route to market.* What sales-and-distribution model would best open up our path to the patient?
- *Innovative partnerships*. What are the big ideas and stakeholder partnerships that will drive step-change growth?
- *Business case.* What sales growth and returns can we expect from our investment?
- *Organization and talent.* What organization and skill gaps exist, and how can we fill them rapidly?
- *Road map.* What tactical levers can we pull to capture quick wins, and what key performance indicators, targets, and milestones should we use to measure success?

Nigeria continues to offer exciting long-term opportunities for multinational pharma companies, but short-term success is by no means assured.

To gain market share, companies need a clear grasp of city and LGA potential, government context, distributor and wholesaler landscape, and healthcare providers and roles, among other factors. Multinationals that master local dynamics and devise bespoke solutions will be best placed to develop winning strategies—and with support from corporate headquarters, they can extend them to other emerging markets in Africa and beyond, and improve access to healthcare. ■

[1] For more, see "Lions on the move II: Realizing the potential of Africa's economies," McKinsey Global Institute, September 2016, on McKinsey.com.

[2] *Nigerian health sector: Market study report*, Pharma Access Foundation, March 2015, rvo.nl.

[3] The cities identified as promising have populations of at least 750,000 people and at least 300,000 households with annual income of more than $7,500.

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