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## **Pfizer in Ukraine**

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## **Abstract**

This proposal looks at Ukraine as a prospective market for Pfizer's products and possible Foreign Direct Investment (FDI) opportunity. It will closely examine both the company and the prospective market for possible investment. It will also give an overview of the company, the target country, and health-care business in the home country. Exports might be the easiest and less risky form of entering the Ukrainian market; however, this proposal will focus on more aggressive forms of foreign investment and will examine the different possibilities such as licensing, partnerships, and Greenfield investments; furthermore, it will provide useful information as to the status of the market in the target country, advantages and barriers that could be encountered, and resources available to overcome them. After analyzing the possible investment avenues, a recommendation will be formed based on its findings.

## **Pfizer in Ukraine**

### **Healthcare Overview**

According to "America in 2020: Healthcare Nation", an article found in *The Atlantic* magazine, the health care business is one of the biggest in the United States, with 16 percent of our economy composed of medical care and a growing labor force with over five million jobs added just in the last decade. The American government is investing a great deal of time and resources to bring down the cost of health care and increase the availability to its 300 million inhabitants. This great industry is getting increasingly expensive, creating much controversy in the government and the private sector. With virtually endless amount of customers and a growing demand for accessibility and affordability, health care is finding ways to become more, which will probably come from international investment and production (Thompson, 2010). Pfizer is one of the largest American companies, providing pharmaceuticals and biotechnology to the American market, but there are other top companies that compete for market control. These competitors include, but are not limited to, the following: Hikma Pharmaceuticals from England, Aventis Pharma from India, and Bayer from Germany. The market is saturated with companies competing on top of each other. It is important to seek expansion into other developing markets and to exploit their potential productivity. Because of the cost involved with research and development, many emerging markets are deficient in health-care. Countries in South America, Southeast Asia, and Eastern Europe represent a rich source of customers and profits.

### **Analysis of the Company**

Pfizer is a major pharmaceutical company incorporated in New York, NY. It produces several products ranging in all directions within the health-care field. The products range from elevated cholesterol medication like Lipitor, Celebrex for osteoarthritis, rheumatoid arthritis and acute pain, parasiticides, vaccines, and consumer health care products including a wide range of supplements. The market impact of this company is very large, serving doctors, hospitals, pharmacies, veterinarians, and the

general public. Its industry is valued at \$173.56 billion and its annual revenue is \$67.8 billion (Yahoo Finance Network). An article by Herman Saftlas of *Business Week* magazine considers the global drug market a business of over \$600 billion and Pfizer as the proxy for the overall pharmaceutical group. They are confident that the company will continue to attract investors due to the state of the economy, particularly due to the company's status as a defensive investment. Pfizer is ranked in this article as the top tier among peers, as well as among all major U.S. industrial companies. (Saftlas, 2006).

### **Strengths of Pfizer**

Pfizer enjoys a rating of A+ according to the Better Business Bureau, based on several factors that include length of operation, conflict resolution, customer service, government actions, advertising reviews, revocation, and others (Better Business Bureau [BBB], 2011). Positively affecting over 150 million people worldwide, Pfizer has helped combat several of the world's most common and challenging diseases. The company is a proven and long standing business whose products enjoy brand name recognition and are widely used in the market (Pfizer Pharmaceuticals, 2011).

Pfizer enjoys a wide and specialized range on products in its commercial portfolio, and it is a recognizable and differentiated brand in comparison with its competitors. This is due to the strong efficacy that the company displays in quality assurance (QA) and research and development (R&D) of all their products (Saftlas, 2006).

When it comes to R&D, Pfizer has a large amount of products that includes over 235 different projects, with 152 new products and 83 enhancements to current products. Its R&D division is what really makes the company great at the production of pharmaceuticals. This division is involved in some 2000 research collaborations around the world, with about 25 percent of new discoveries and developments coming from abroad. This makes it an attractive, if not the most attractive, investment partner for any smaller pharmaceutical or biotechnology company (Saftlas, 2006).

### **Weaknesses of Pfizer**

Pfizer is faced with expiring patents for many of its products (Saftlas, 2006). This event will expose the company's products to the competition, which will see many generic and other copied products emerge in the market, reducing the market share of the company's products. According to *BusinessWeek* magazine, Pfizer will loss over \$12 billion, or 30 percent, in sales because of the impending patent expirations (Saftlas, 2006).

### **Opportunities of Pfizer**

Pfizer enjoys the position of being already an accomplished and respected multinational with excellent products that are available to millions of people worldwide. It also has the advantage of being a good and profitable target for investors, which translates to it being able to raise capital quickly and in quantity. The strongest segment

of the company is the R&D division, which has countless projects for innovation and improvement of products. Consequently, the company can enter virtually any market in different ways, considering the resources and benefits of the target market.

### **Threats for Pfizer**

As for any company that produces innovative products according to PLC (product life cycle) theory, Pfizer is threatened by patent and trademark infringements. As we explained above, the company experienced losses in profits and market share from expired patents. To consider the possibility of entering a new foreign market, Pfizer has to carefully evaluate the laws protecting its potential investment and the political enforcement of those laws. It would also have to take precautions to prevent being overrun by those competitors with first mover advantages in the new market.

### **Ukraine as an Emerging Market**

From a management point of view, some of the conditions in Ukraine are very important to any business interested in investing in the country. Conditions such as transportation cost and accessibility, taking into account infrastructure like seaports, railways, and airports, are important to examine the financial and political climate, as well as private sector debt and competition. We now look at some important facts about Ukraine.

Ukraine, a former USSR state is a country located in Eastern Europe with over 45 million people, rich in land and resources. Currently, the population is in decline, according to data found in the CIA world fact book website, with an annual growth rate of -0.619% due to deaths and emigration. Ukraine possesses a favorable environment for business; the population is literate and it has the infrastructure capabilities to promote any industry (Central Intelligence Agency [CIA], 2011). The country's current inflation rate, according to an article in *Bloomberg*, is 7.2 %, a decline from a 9.8% for 2010 and 15.9% for 2009. The country currently enjoys a downward trend in inflation, but attention must be paid to the past years when, from 1993 to 1995, there was hyperinflation; furthermore, there has been a volatile inflation rate in the recent past. Authorities in the country aim to keep the inflation rate controlled below 10 percent for the second year in a row (Krasnolutska and Choursina, 2011).

The country enjoys fertile plains, temperate climate, and more than 2,000 miles of coastline in the Black Sea. Ukraine also has several seaports and airports, and more than 13,000 miles of railways that provide easy access to Europe and Asia. Ukraine's location could be a favorable strategic location for a foreign base of operations for both the European market and Asian countries (CIA, 2011).

Ukraine has come a long way since its Soviet era; communism is over and the government is making every possible effort to grow from the hard lessons the country learned from decades of communist rule. Just recently, a press release from the United States-Ukraine Strategic Partnership Commission emphasizes the important roll of

democracy and public order. As was discussed in the third session of this commission, “Both parties reaffirmed their commitment to enhance cooperation aimed at strengthening democracy, the rule of law, developing political pluralism, and promoting judicial reform, and combating corruption” (U. S. Department of State [DOS], 2011). This effort made by the Ukrainian government is a positive feature for prospective investors going into that country, knowing that the country is strengthening its political and judicial support gives confidence to any company seeking ground base operations there.

Following its independence, Ukraine’s economy turned to a free market economy, at least in theory. There has been considerable backtracking from parts of the government, but an effort for privatization is present; in recent years, the country’s participation in the WTO and the IMF has removed most of the tax and customs privileges that made it more difficult for companies to enter that market (CIA, 2011). The influence of international organizations has opened Ukraine’s economy to major development in FDI by foreign sources. Nevertheless, change is coming slowly, but as more businesses take advantage of this developing market, the economic growth of this nation will speed up rapidly.

### **What Conditions Exist in Ukraine that could Benefit from Pfizer’s Products?**

Ukraine’s 45 million inhabitants provide a market of over \$160 billion; that alone is a huge market for any company to take advantage of. Focusing more on health-care, Ukraine needs a wide range of medicine and medical equipment that companies like Pfizer would be at a loss to ignore. A list of the best products in Ukraine found in *Doing Business in Ukraine: 2010 Country Commercial Guide for U.S. Companies* states:

- Analgesics & antibiotics
- Cough & cold preparations
- Cholagogue-hepatics
- Phycolectics
- Anti-cancer
- Vasotherapeutics

Pfizer has a line of products in each of the aforementioned categories; this is a great advantage for the company to start selling already proven and marked brands that have an international reputation of quality and reliability.

A vast majority of Ukraine’s health-care system is owned by the state, except for a minor percentage found mostly in large cities. The system is proven to be inefficient and costly for the inhabitants. With the population declining at a rate of about 300,000 people per year, the government needs to make an effort to provide good and affordable health-care for the population (American Chamber of Commerce in Ukraine [ACC], 2011). Pfizer has to take advantage of the situation as others have already done. Germany, India, and France are already taking advantage of the market, being the top importers into the country. Imports of products, especially pharmaceuticals, can be a difficult and slow process. A long-standing reputation of Ukraine’s hard customs regulation and tariffs makes it very troublesome for a firm to export to Ukraine. Only those who have first

mover advantages are efficient at importing the products. Being a latecomer into the market, Pfizer has to invest in establishing ground operations in the country to be able to gain market share rapidly.

### **Investment Opportunities**

As was mentioned previously, imports of products dominate the Ukrainian pharmaceutical market and, given the conditions and complicated process for importing drugs, it is the recommendation of this research to find an alternative to import/export as a way for Pfizer to enter the Ukrainian market.

Ukraine is a developing market; as such, it offers an opportunity for multinationals to invest and gain access to great wealth generation by doing business in that country. Nevertheless, Ukraine is still lacking several instruments that facilitate and promote trade, such as intellectual property protection, and the existence of tariffs, and quotas. The WTO is working closely with the government of Ukraine to minimize these barriers and to promote the protection of intellectual property; however, this remains a process that needs some time to improve and evolve.

In the meantime, companies are facing difficulties licensing and certifying their products in the country (U. S. Department of Commerce [DOC], 2010). The lack of previous experience on behalf of law enforcement and the judicial system makes it a long and difficult process to enforce intellectual property rights violations (ACC, 2011). Without stable protections for companies seeking licensing agreements in the Ukraine, it is a considerable risk to expose valuable information to the licensee. Companies like Pfizer that have an established reputation and recognizable products will have to be very cautious of giving out company secrets to the licensee. Most of the medicines sold in the Ukraine are generic medicines produced locally and the more specialized medicines are imported. This could indicate the risk of licensing a local company to produce a branded product.

### **Different ways to enter the Ukrainian Market**

According to the International Trade Administration of the U.S. Department of Commerce, U.S. companies entering the Ukraine should have a long-term interest in the market and be willing to invest in on-the-ground facilities in the country. They also explain that the way of conducting business in Ukraine is by forming good relationships with local businesses and government offices. By establishing a good network of relations, the flow of business will grow and prosper more rapidly. In the forming of partnerships, they advise caution and familiarization with the Foreign Corrupt Practices Act to prevent any violation of laws or regulations regarding the use of bribes and the so-called grease payments. Since corruption in the Ukraine is very common, government officials can be easily corrupted given the circumstances. As we discussed at the beginning of this proposal, the U.S.-Ukraine Strategic Partnership Commission and several international organizations, such as the WTO, are diligently working to reduce the corruption levels in the country. Furthermore, companies investing in this country should be open minded and tolerable to uncertainty.

There are a couple of different options for Pfizer to enter the Ukraine successfully. Ruling out exports because of its difficulties and already saturated environment and licensing because of the risk of infringement and potential misuse of products and trademarks, the best options are:

### **1. Creating a partnership with a local company.**

The U. S. Chamber of Commerce in Ukraine facilitates several of the steps for finding a suitable partner with a legitimate interest in doing business with a U. S. company. It can also facilitate access to government publications, consulting and legal services. It is crucial for Pfizer to become a member of this institution for the sake of its investment and for the prosperity of its products in the local market. The U.S. Department of Commerce, commercial guide for U.S. companies doing business abroad, recommends that companies pursuing this option should set up as an offshore business organization, so that international law applies. While having a local partner gives Pfizer the know-how of the local business practices and easy access to distributors and suppliers, it is fundamental that this partner should have the proven knowledge and capability of providing those services.

### **2. Establishing a wholly owned subsidiary.**

Establishing a base of operations alone can be a scary endeavor for any company and be not only expensive, but also risky. Ukraine is a hard market for firms that have no experience in foreign investment; nevertheless, a multinational like Pfizer has the resources available to successfully accomplish this task. The same resources provided by the American Chamber of Commerce in Ukraine apply for subsidiaries and should be exploited to the fullest extent. Additionally, a firm considering establishing a base in Ukraine can look at other cities besides Kyiv for a possible base of operations. The Healthcare Technologies Resource Guide, a publication of the U.S. Department of Commerce, recommends looking at the following cities: Dnipropetrovs'k, Donetsk, Lviv, Odessa, Zaporizhzhya, and Kharkiv. These cities are considered important industrial hubs and are densely populated.

It is required for any business to have all product labels and ingredients in the Ukrainian language. Additionally, advertising and marketing of those products need to be in the local language and culturally knowledgeable. Although advertising and trade promotion spending in neighboring countries is higher, Ukraine has one of the highest growth rates in Europe (DOC, 2010), which shows that Westernization is growing; consequentially, the population is responding to the media and buying those products. It is important when considering a Greenfield investment to consider such things as labor cost, taxation, and pricing of the products based on the purchasing power of the locals and the market for those particular products. Economic indicators such as the GDP, Purchasing Power Parity (PPP), and the Big Mac index should be looked at to have an idea of the purchasing power of the local population and adjust pricing accordingly. Ukraine's GDP (PPP) is \$306.3 billion. This puts Ukraine in the 40<sup>th</sup> place in the world according to the CIA world fact book, and the Big Mac index is \$1.43 compared to the

U.S. \$3.15 (NationMaster.com, 2010). Pricing of products according to the market conditions and purchasing power of the population is crucial for the efficient collection of revenue. It is important for Pfizer to consider the distribution of wealth in the country and the sectors of the population that have access to the highest wages in the country. The country has clear wealth differences not only on the social aspect but also on the geographic aspect of the population, where wealth is concentrated mainly in the major hubs of population (U. S. Department of Commerce [DOC], 2010).

Labor costs in Ukraine are below the western standards, which could mean cheaper labor for companies seeking manufacturing in that country. An interesting fact is that there is a great abundance of skilled labor, with a population literacy rate of almost 100 percent. Pfizer has two real options when it comes to establishing a foreign base of operations. The two strengths of the company as were mentioned earlier are the R&D division and the consumer products. The company could establish an R&D facility in Ukraine and take advantage of the low cost labor force. Furthermore, Ukraine has 35 percent of the population below the poverty rate and an unemployment rate of 8.4%, so establishing a manufacturing facility will benefit both the country, because of the labor force required, and the company who will enjoy low wage labor (CIA, 2010). In general, the Ukrainian labor force has a tendency to work following orders, but a slow westernization and individualization of the work force are appearing and the younger generation is adopting a more independent (productive) attitude (DOC, 2010). As far as taxation, Ukraine has a complex tax system and companies are often victims of corrupt practices and random tax collections. The Ukrainian government is trying to standardize the system, and several foreign and international sources are advising them on consolidating the tax code into a more efficient system. It is of paramount importance for any company to secure competent consultants and advisors that can provide assistance if there is an eventuality (DOC, 2010).

### **Conclusion**

Pfizer has a profitable investment opportunity in Ukraine. The country has excommunicated communist ideals and has embraced democracy and market economy. In spite of its slow evolution and constant backtracks from government disarray, Ukraine is emerging in the world market as a profitable investment site. Especially for Pfizer, Ukraine presents a unique opportunity because of the needs that the country has to stabilize, such as its declining population and health situation; furthermore, Ukraine has the need for those products that Pfizer has in the market already, which are proven to perform with quality and have good reputation in the market.

Ukraine presents a fairly safe investment site for Pfizer to establish a base of operations. The country has institutions that welcome investors and provide them with the safeguards and resources to succeed in their endeavors. Ukraine has countless international and regional treaties that promote free trade with the former Soviet block, the European Union, and the United States, including the Trade and Investment Cooperation Agreement (TICA). The TICA agreement addresses a wide range of issues that involve trade and investment and strives to facilitate the free flow of goods to

promote foreign investment (DOC, 2010). Pfizer has to act quickly to gain market share in Ukraine; its competitors, especially from Germany, have already a strong presence in the country. Although their main focus is imports, Pfizer has to have an aggressive market strategy to compete with those first movers.

Following this analysis, it is the recommendation of this investigation that Pfizer pursue FDI in Ukraine. The method of FDI should be one of the two suggested in this proposal, with consideration to all the possible consequences mentioned. Pursuing a partnership has a lower investment cost and has been shown to be an easy way of entry into a foreign market. Nevertheless, the condition of the market and the possible risk of infringement from the local partner make it a less suitable avenue of entry for Pfizer. Given the resources that the company has and those found in the country in the form of labor, raw materials, cost, and need of the product, Pfizer should pursue a Greenfield investment to gain market share in the Ukraine.

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