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Product Entry in Pharmaceutical Markets

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Objectivos (Objectives):

The aim of this paper is to explain the choice between launching pharmaceutical products close to existing ones (concentration) and launching pharmaceutical products in completely new markets (diversification). In this process, firms make two sequential decisions: first, whether or not to launch new products; and second, if they enter in new markets or concentrate in markets in which they already sell products. We study how market, firm and regulation characteristics affect the composition of a portfolio.

Metodologia (Methodology):

We use the Brander and Eaton model as the theoretical framework. This model develops a sequential game of product entry decisions by multi-product firms: in the first stage, firms decide how many products they are going to launch ("the launch decision"); in the second stage, firms decide in which markets they launch the products ("the line decision"), and, finally, in the third stage, firms make "the output decisions". This model is particularly appropriate for pharmaceutical markets for the following reasons: 1) pharmaceutical firms are usually multi-product firms; 2) the pharmaceutical market can be divided in several almost independent sub-markets; 3) monopoly power and potential entry can be related with the existence of patents.

Using data from INFARMED, we construct a firm-month panel covering the period between January 1990 and October 2006 (202 months) and including 669 firms. We apply a selection model that enable us to simultaneously study both decisions ("the launch decision" and "the line decision") using explanatory variables that characterize the market, the firms and the regulatory framework.

Resultados (Results):

We find that market size has a positive effect on product launches. Also, we find empirical evidence that, as firms repeat the strategic game of launch and line decisions, the market structure tends to become interlaced. We show that portfolio dispersion has a positive effect on the probability of product launch. We show that firm heterogeneity is important to explain the final market structure: large firms disperse more than smaller ones; firms that are in less sub-markets, and firms that were not diversifying when deciding new launches, have higher probability of entering into new markets. Regulation concerning

entry and competition is important to explicate the "launch decision", but not to explicate the "line decision".

Conclusões (Conclusions):

This topic had not been subject to previous analysis within the pharmaceutical market literature. However, portfolio management is a key element to understand the availability of medicines in certain markets.

Methodologically, we conclude that firm characteristics, ignored by the Brander and Eaton model, are important to explain the "launch decision". Therefore, they should be included both in models and empirical studies.

Regulation affects the decision of launching new products, but not the decision of how much to differentiate from the existing products of the firm. Therefore, we may conclude that the regulation measures analyzed did not change the substitution pattern within the sub-markets and, consequently, did not change the incentives for concentration or diversification.