

A Sample Study of two Identical Pharma Companies in Pakistan and India to determine variance in share of expenses and difference in Marketing Strategy

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The Research and Publications Directorate carried out a brief sample study of two identical pharmaceutical companies in Pakistan and India to determine the variance in share of expenses and also to assess any difference in their marketing strategy. The two pharma companies selected for this sample study are GSK Pakistan & GSK India and Abbott Pakistan & Abbott India. The Profit and Loss Accounts of these companies along with the relevant notes to financial statements were carefully analyzed and on their basis, comparative charts have been developed to compare the following costs and expenses:

1. Share of Material Cost in Cost of Sales (COS)
2. Share of Labour Cost in Cost of Sales (COS)
3. Share of Advertising & Publicity Expense (APE) in Selling, Marketing & Distribution (SMD) Expenses
4. Share of Travelling & Entertainment Expense (TEE) in Selling, Marketing & Distribution (SMD) Expenses
5. Share of Tax Expense (TE) in Profit Before Tax (PBT)

We now look at each of the above comparisons separately. It may be noted here that the value of Pakistani companies are in thousand Pak Rupees whereas the value of Indian companies are in Lakhs Indian Rupees. Since we are calculating the share of individual costs or expenses to COS or SMD expenses, hence the values were not converted to equivalent amount as the result in percentage would remain the same.

1. Share of Material Cost in COS

It appears that the material cost of pharma companies in Pakistan is higher as compared to India, due mainly to the

Share of Material Cost in Cost of Sales (COS)				
	GSK Pakistan (Pak Rupees in thousands)		GSK India (Indian Rupees in Lakhs)	
	2015	2014	2015	2014
Cost of Sales (COS)	17,397,755	16,996,459	268574.54	204395.03
Material Cost (MC)	10,823,187	10,782,525	72673.46	53856.74
Share of MC to COS	62.21%	63.44%	27.06%	26.35%
	Abbott Pakistan (Pak Rupees in thousands)		Abbott India (Indian Rupees in Lakhs)	
	2015	2014	2015	2014
Cost of Sales (COS)	12,943,213	12,142,212	199183.28	203063.73
Material Cost (MC)	7,566,213	6,414,133	30543.38	31396.49
Share of MC to COS	58.46%	52.83%	15.33%	15.46%

Share of Labour Cost in Cost of Sales (COS)

	GSK Pakistan (Pak Rupees in thousands)		GSK India (Indian Rupees in Lakhs)	
	2015	2014	2015	2014
Cost of Sales (COS)	17,397,755	16,996,459	268574.54	204395.03
Labor Cost (LC)	3,284,402	2,960,961	49302.23	36204.85
Share of LC to COS	18.88%	17.42%	18.36%	17.71%
	Abbott Pakistan (Pak Rupees in thousands)		Abbott India (Indian Rupees in Lakhs)	
	2015	2014	2015	2014
Cost of Sales (COS)	12,943,213	12,142,212	199183.28	203063.73
Labor Cost (LC)	2,583,746	2,510,670	30540.18	29973.88
Share of LC to COS	19.96%	20.68%	15.33%	14.76%

fact that majority of raw materials in Pakistan are imported, whereas in India these are indigenously available. This indicates that there is wide scope for investment in the production of basic raw materials for pharma industry in Pakistan so that increased reliance on imports could be reduced.

GSK Pakistan has material cost share in COS of 62.21% in 2015 and Abbott Pakistan has share of 58.46% during same year. The GSK and Abbott India's shares in 2015 are 27% and 15.33% respectively.

2. Share of Labour Cost in COS

The labour costs of both companies are almost at par, as can be seen from the table below, which lends credence to the fact that skilled and non-skilled workers in both Pakistan and India are much cheaper as compared to workers in advanced countries, like UK, USA and Europe.

GSK Pakistan and GSK India have equivalent level of share of labour cost in the COS i.e. in range of 17% to 18% whereas some difference can be witnessed in the labour of Abbott Pakistan and Abbott India. The labour cost of Abbott Pakistan is almost 20% whereas Abbott India has labour cost share of around 15 percent. This shows that Abbott Company is relatively in a better position than GSK in the Indian market to avail much cheaper labour for its production, selling and distribution operations.

3. Share of Advertising & Publicity in SMD Expenses

From the below comparative table, it is obvious that in both Pakistan and India, the pharma companies are spending 20% or more of their

Selling, Marketing & Distribution (SMD) expenses on 'advertising and publicity'. This also seems to be a general policy of pharma companies and our study finds that at initial stage of launching a new product, the pharma companies even spend 50% or more on advertising and publicity which declines as the new product is well recognized and accepted in the market.

It may be mentioned here that in Pakistan, the government in its Budget 2016-17 has made amendment in the Income tax ordinance, 2001 whereby restriction

has been imposed on pharmaceutical companies to avail as expenses on advertisement, publicity or sales promotion against tax liability in a tax year. This move as claimed by the government is to stop any misuse by pharma companies. However, the pharma industry has strongly reacted to this restriction and demanded to withdraw this amendment. Presently, any expenditure over and above 5 percent of turnover is being treated as admissible business expenditure.

4. Share of Travelling & Entertainment in SMD Expenses

The sample cases of GSK and Abbott shows that an average 10% to 11% of total SMD expenses are being spent in both India and Pakistan, on travelling and Entertainment, which apparently is higher than any other industry. This presumably is due to the fact that the pharma sales teams have to travel frequently in their jurisdictions for meeting doctors' community and visiting hospitals for introducing their products. They also have to provide sample medicines free of cost to doctors as part of their promotion campaign.

Share of Advertising & Publicity in SMD Expenses

	GSK Pakistan (Pak Rupees in thousands)		GSK India (Indian Rupees in Lakhs)	
	2015	2014	2015	2014
Total SMD Expenses	2,787,942	2,607,462	66212.90	50419.90
A & P Expense	531,374	617,120	13839.34	12018.32
Share of A&P in SMD	19.06%	23.67%	20.90%	23.84%
	Abbott Pakistan (Pak Rupees in thousands)		Abbott India (Indian Rupees in Lakhs)	
	2015	2014	2015	2014
Total SMD Expenses	2,876,407	2,965,120	35902.09	41147.70
A & P Expense	679,280	651,506	8333.06	2398.11
Share of A&P in SMD	23.62%	21.97%	23.21%	17.98%

Share of Travelling & Entertainment in SMD Expenses

	GSK Pakistan (Pak Rupees in thousands)		GSK India (Indian Rupees in Lakhs)	
	2015	2014	2015	2014
Total SMD Expenses	2,787,942	2,607,462	66212.90	50419.90
T & E Expense	265,742	249,627	7932.24	5805.22
Share of T&E in SMD	9.53%	9.57%	11.98%	11.51%
	Abbott Pakistan (Pak Rupees in thousands)		Abbott India (Indian Rupees in Lakhs)	
	2015	2014	2015	2014
Total SMD Expenses	2,876,407	2,965,120	35902.09	41147.70
T & E Expense	301,280	290,646	8355.20	10051.78
Share of T&E in SMD	10.47%	9.80%	23.27%	24.43%

There is exception case of Abbott India whose share of travelling & Entertainment in SMD expenses are over 23% in 2014 and 2015 respectively which is extremely high than the average share. This seems to be policy of the Abbott Company to allocate more money as part of their marketing policy.

5. Share of Tax Expense in Profit Before Tax (PBT)

Analyzing the tax expense of sample companies reveal that at an average over 30% is being contributed by each company in both jurisdictions towards the national exchequer. It rather appears from the comparison that both GSK and Abbott companies have made lesser taxes in Pakistan than in India.

Conclusion

It can be concluded that material cost for pharma industry is comparatively higher in Pakistan than in India which indicates that there is wide scope for investment in

developing this sector in Pakistan which could provide raw material input to the pharma industry and reduce its dependence on imports. The labor cost, however, is at the equal level, as both Pakistan and India are consider as cheap labour markets.

It is also evident from the analysis that in both Pakistan and India, the pharma companies are spending 20% and above of their Selling, Marketing and Distribution (SMD) expenses on advertisement and publicity. The share of travelling and entertainment of sample is in range of 10% to 11% in both India and Pakistan. The tax expenses of the two companies in both

countries are also an average 30 percent of Profit before tax. This shows that the pharma sector is one of the big tax contributing sector in any economy.

Share of Tax Expenses in Profit Before Tax (PBT)

	GSK Pakistan (Pak Rupees in thousands)		GSK India (Indian Rupees in Lakhs)	
	2015	2014	2015	2014
Profit Before Tax (PBT)	3,514,106	2,540,023	74862.29	72932.03
Tax Expenses (TE)	1,003,380	1,005,105	25859.27	22743.79
Share of TE to PBT	28.55%	39.57%	34.54%	31.81%
	Abbott Pakistan (Pak Rupees in thousands)		Abbott India (Indian Rupees in Lakhs)	
	2015	2014	2015	2014
Profit Before Tax (PBT)	5,006,477	4,318,567	34436.08	29455.35
Tax Expenses (TE)	1,419,741	1,502,255	11540.15	9610.28
Share of TE to PBT	28.36%	34.79%	33.51%	32.63%

References

1. Annual Report 2015 of GSK Pakistan
2. Annual Report 2015 of GSK India
3. Annual Report, 2015 of Abbott Pakistan
4. Annual Report, 2015 of Abbott India

