

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, İSTANBUL

PAGE

FOR REFERENCE

NOT TO BE TAKEN FROM THIS ROOM

PROBLEMS OF MARKETING PHARMACEUTICALS IN THE
TURKISH PHARMACEUTICAL INDUSTRY

Bilsen H. ARAT

Submitted in partial fulfillment of the requirements for the
Degree of Master of Arts in the Faculty of the School of
Business Administration and Economics

Robert College
1966

Bogazici University Library



39001100540973

14

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, İSTANBUL

PAGE ii

ACKNOWLEDGEMENT

I wish to express my sincere gratitude and appreciation to Mr. Nezh Ulagay, owner and Sales Manager of İbrahim Ethem Kimya Evi T.A.Ş., Mr. Kemal Atabay, owner and Director Manager of Atabay Laboratuvarı, Professor Ahmet N. Koç, professor of Marketing, and Professor Rodney W. Eldridge, professor of Economics at Robert College for their valuable encouragement and assistance in the preparation of this thesis.

124001



THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, İSTANBUL

PAGE iii

TABLE OF CONTENTS

<u>Chapter</u>	<u>Page</u>
I. <u>Introduction</u>	
The Significance of the Problem of Marketing Pharmaceuticals in the Turkish Pharmaceutical Industry ... A Brief History of the Turkish Pharmaceutical Industry.....	
II. <u>The Structure of the Pharmaceutical Industry in Turkey</u>	
The Pharmaceutical Companies Owned by Foreign Capital The Pharmaceutical Companies Owned by Turkish Capital .. The Public Sector	
III. <u>The Trends in the Pharmaceutical Industry and the Problems Faced in the Marketing of Drugs</u>	
The Trends in the Industry Special Problems in the Marketing of Drugs..... Necessity of Sales Promotion Selection and Training of Salesmen Price Determination and Profit Margins Special Problems of Wholesalers and Retailer .. Pharmacies	
IV. <u>The Structure of the Channels of Distribution of Pharmaceuti- cals and the Analysis of the Policy Decisions of the Manufacturers of Pharmaceuticals</u>	
The Current Patterns of the Distribution Channels in the Pharmaceutical Industry Trends in Such Policy Decisions	
V. <u>Conclusion</u>	
<u>Appendix I - VI</u>	
<u>Bibliography</u>	

CHAPTER I

INTRODUCTION

The Significance of the Problem of Marketing Pharmaceuticals
in the Turkish Pharmaceutical Industry

Marketing, in general, is concerned with the movement of goods and the title to them from the producers to the consumers. In an economic sense it involves the creation of time, place, and possession utilities. Marketing also involves planning of production, marketing research, and servicing after the products reach the consumers.

Marketing of pharmaceuticals is studied within this framework like any commodity or groups of commodities; yet the marketing of pharmaceuticals has some distinctive requirements. Pharmaceutical products are distinguishable from industrial or other consumers' products by the purpose for which they are consumed and the methods by which they are marketed, since human life is precious and marketing of pharmaceuticals involves human life. It is the purpose of this research to analyse and evaluate marketing problems in the pharmaceutical industry in Turkey. The industry is viewed as an organic whole made up of various economic structures, namely, the manufacturers, wholesalers, and the retailers, emphasis being placed on the manufacturers.

The significance of the problem of marketing pharmaceuticals in the Turkish pharmaceutical industry can be demonstrated by the following factors:

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 2

1. pharmaceutical industry in Turkey is changing and developing fast, and it occupies an important place in the national economy; 1965 sales estimates show 500 million TL. of sales; 2. there is keen competition (at the manufacturers' level, wholesalers' level, and the retailers' level) in this sector of the industry; 3. the projects of socialization of medicine and the enforcement of the Social Insurance Law together with the growing GNP and population of Turkey contribute to an increasing potential demand for pharmaceutical products.

Methodology and Limitations

There are 142 manufacturing firms and laboratories which are producing drugs in the Turkish pharmaceutical industry. Out of the 142 producers only 11 are situated outside of Istanbul. The material for this paper has been collected through interviews held with the executives and/or owners of the firms and laboratories established in Istanbul. The 131 firms in Istanbul supply 90 percent of the total pharmaceutical production in Turkey and comprise three groups: 1. firms owned totally by foreigners, 2. firms owned by Turkish citizens producing drugs with Turkish patents and/or foreign patents, 3. and small laboratories. On the basis of size, sales, organization, administration, and growth, the author has divided the manufacturers of pharmaceuticals into groups of large, medium, and small; and out of this classification fifteen representative manufacturers have been interviewed.

The eleven manufacturing firms established by foreign capital are classi-

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 3

fied as large producers and of this group seven were interviewed. From the domestic producers, four of the large firms, two of the medium firms, and two of the small firms were interviewed. The selection of the particular firms to be interviewed depended on their being a representative of the classification of their groups and on the ease of accessibility to executives for interviews. The choice of interviewing seven firms from the total of eleven foreign establishments and eight firms from a group of 120 domestic firms was not an arbitrary decision. The sales of foreign manufacturers make up 50 percent of total sales. The seven foreign firms interviewed cover 90 percent of the sales of the producers established with foreign capital. The sales of the four large domestic firms together with the two medium and two small producers make up 90 percent of the total sales of the Turkish manufacturers. Thus eleven foreign firms together with the five largest Turkish firms account for 75 percent of total sales; the rest of the large domestic manufacturers together with the medium and small laboratories produce and sell 20 percent of total sales; and the very small laboratories account for the rest of the total sales. Thus the sample selected and interviewed represents 90 percent of the total national sales of pharmaceuticals.

So far there has been undertaken no study that covered the Turkish Pharmaceutical Industry in all respects and in detail. The government Planning Office conducted some studies on this sector of industry, and the results were published in the Five Year Plan and its Programs.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, İSTANBUL

PAGE 4

There are individual studies conducted by the manufacturers themselves, and while interviewing the executives, the author has had access to such information. She has found out that these studies have usually covered only particular segments of the industry and special problems concerning individual firms. But it has also been observed by the author that studies, which can be called industry-wide, have been undertaken by İbrahim Ethem Ulagay Laboratories. These studies are industry-wide researches on capacities, sizes, sales estimates, and needs of manufacturing firms. Data on sales estimates are included in Appendix I to this paper after making some revisions, and the classification of the manufacturers as large, medium, and small is based partly on the data on capacities, sizes, sales estimates, and partly on the observations of the author while interviewing the manufacturers as to the availability of organization charts, the concepts of scientific management and growth potential.

Interviews with the owners of two leading wholesalers in Istanbul have also been held. Furthermore the Secretary General of the Turkish Pharmaceutical Industry Employers' Syndicate and the legal consultant of this syndicate have been interviewed for information on the industry in general and on the legal aspects of the industry. Interviews with the rest of the wholesalers and the pharmacists have not been done. The main reason for this is the time limit, as the 77 wholesalers and 1500 pharmacies are spread all over Turkey. Second, the subject of the thesis puts emphasis on the manufacturers of pharmaceuticals and studies the role of the wholesalers and retailers not as

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 5

problems in themselves but in relation with the marketing problems of the manufacturing firms.

A. Brief History of the Turkish Pharmaceutical Industry

The history of the drug industry in Turkey starts with the establishment of the Republic. At the early years of the Republic there were no drug industrialists to speak of in the meaning we understand to-day, except small laboratories preparing simple drugs on small scale. The needs of the country were met through imports of ready made drugs, and such import covered 95 per-cent of total drug consumption. The imports of drugs were undertaken by drug importers who were also the wholesalers. The main activities of these drug importing wholesalers were to import drugs, raw materials for the chemists and pharmacists preparing simple drugs in their laboratories on small scale, and selling manufactured drugs to the pharmacies. A law was passed as early as March 2, 1927¹ defining the establishment and activities of these drug wholesaling firms. According to the law, pharmacists or anybody as long as they appoint a responsible pharmacist, can start a drug importing and wholesaling firm. These drug wholesalers can undertake sales as wholesalers or retailers only to the drugstores and cannot sell drugs and chemicals to the public. On April 15, 1934 a regulation in connection with the above law was issued. In this regulation it was stated that the wholesalers must have an invested capital at least as much as the total invested capital of five drugstores; in other

¹The law was issued and announced in the Official Newspaper on March 12, 1927, No. 575. Law No. 984.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, İSTANBUL

PAGE 6

words, an invested capital of 15-25 thousand TL.

With the coming of the Democratic Party to power in 1950 the pharmaceutical industry entered a new phase. By 1950, 80 percent of the total drug consumption was imported and the remaining was supplied by local manufacturers. In 1954 the Law of Foreign Capital Encouragement was passed, and as a result of this law, foreign capital started to flow into the pharmaceutical industry. The foreigners could bring in their investments in the form and amount they wished, could import their needs and raw materials from their parent companies, and could transfer their earnings out of the country. At the time, the domestic manufacturers were not strong enough to offer serious competition; the industry itself did not require heavy capital investments since all the raw materials were imported and only the packaging material and some minor pharmaceuticals were supplied by the domestic market; and the country offered possibilities of high sales and profit margins. Thus the foreign companies continued to come into the business of pharmaceuticals and rapidly their share of the domestic market grew.

Within the inflationary period of 1954-1958, the numbers of the drug manufacturers increased from 65 in 1949 to 69 in 1950, to 113 in 1955, and to 133 in 1960. The liberal policy followed in Turkey in the early 1950's led to the expansion of manufacturing activities, imports, and trade. In due time this expansionist policy led to foreign exchange shortages, increases in domestic prices, and costs. In 1956 the National Protection Law was passed and the government adopted the stabilization policy in 1958. Drug imports were

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 7

stopped, raw material imports were tied to quota systems, prices and profits were controlled, and credits squeezed. The foreign drug companies could import their raw materials, supplies, and necessary equipment from the parent companies as gifts or under easier terms and could obtain their credits from special arrangements made by the parent nation with the Turkish Republic. Thus it was mainly the developing domestic drug manufacturers which suffered from the unfavorable conditions during this period. The domestic sector had to fight also against the competition coming from the foreign producers which were operating on the basis of scientific management, better know-how, technique and efficiency in addition to the unfavorable economic conditions. The foreign companies had well established trade marks and the confidence of the consumers was high in their products. Yet the domestic sector continued to develop and grew stronger over time and is continuing to gain confidence for its products in the minds of the public.

The role of the wholesalers began to change in response to the general economic conditions and the business environment. With the increase in the establishment and production of drugs by the pharmaceutical firms and laboratories, the needs for importing drugs and pharmaceuticals to be sold and processed by the drugstores diminished. Thus, the wholesalers slowly abandoned the business of importing drugs and pharmaceuticals and assumed the roles of middlemen for the manufacturers and the marketing of drugs. The group of wholesalers which existed then were financially stronger; and the drug wholesaling firms were in the hands of more competent businessmen. Eventhough at the time some of the newly established domestic manufacturers complained

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 8

of being under the control of such strong wholesalers, the general business conditions in the wholesaling market were safer and more stable than the conditions during the period of inflation. The inflationary period attracted some speculators and adventurers who happened to have 15-25 thousand TL. to take advantage of the weaknesses of the wholesalers law and open up offices where they conducted wholesaling of drugs.

The enactment of the National Protection Law (Millî Korunma Kanunu) prohibited the accumulation of two profit margins in one person; this meant that the manufacturers could not sell directly to the drugstores and absorb the wholesalers' profits. The manufacturers were assigned sales quotas for each wholesaler and had to fulfill these quotas. As a result of such measures, the number of wholesalers increased from 50 in 1956 to 80 in 1960.

Parallel to the developments in the manufacturing and wholesaling of pharmaceuticals, the drugstores also increased in number. In 1953 a law¹ was passed which regulated the establishment and operations of the drugstores. Before this date the numbers of new drugstores to be opened in each district were limited to one per 10,000 people. With the new law this limitation was repealed, and the number of pharmacies increased from 500 in 1953 to 1200 in 1960.

¹Law Concerning the Pharmacists and the Pharmacies. Law No. 6197.
Date of acceptance: December 18, 1953.

CHAPTER II

THE STRUCTURE OF THE PHARMACEUTICAL
INDUSTRY IN TURKEY

The Pharmaceutical Companies Owned by Foreign Capital

There are now 142 firms¹ and laboratories in Turkey manufacturing drugs and registered in the Chambers of Industry and Commerce. Of the 142 manufacturers, 11 firms belong to foreigners and have been established totally with foreign capital. These firms supply 50 percent of the products sold in the Turkish market. They are large firms producing drugs, the sales volume of which ranges between 6-70 million TL. Their complete lines of products are large compared with those of the medium and small firms owned by Turkish capital and vary between 50-200 products. The foreign firms are well organized and administered; they have management policies and organization charts where the lines of authority and responsibility are well defined, and where coordination, cooperation, and supervision among the various departments are well established.² They try to operate and function in Turkey at the most up-to-date levels of technique, efficiency, and know-how which are being practised in their parent companies; and their products bear all the fruit of the research expenditures incurred by the research departments of

¹For statistics see Appendix I.

²For an example see Appendix II.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 10

their parent companies.¹ One of the foreign companies here in Turkey goes through the following steps before it ventures on production and promotion of a new product on large scale:

(1) The company prepares an analysis and a research of the product as to its: a) form, b) dosage, c) package size, d) price, e) program to be implemented, f) presentation, g) promotion, h) total market for the like product or products, i) estimated share of the market for the new product, j) sales and credit policy.

(2) This study, after its completion, goes to the Product Screening Committee which is composed of the General Manager, Plant Manager, Sales Manager, and Professional Manager.

(3) After the acceptance of the product by the Committee, the necessary documents for the registration of the product are prepared and sent to the Ministry of Health for acceptance.

(4) When the product is registered with the Ministry of Health, orders are sent for raw material purchases² and packaging material. At this step the application of the Critical Path Method starts.

(5) Then, pilot production is undertaken and the first three batches are under the control of the Parent Company.

¹One of the American company's research expenditures in U.S. for 1965 were 500 million dollars.

²Basic pharmaceuticals are not manufactured in Turkey; 99 percent of all raw materials are imported. Raw material imports each year amount to 30 percent of total sales or 75 million TL. (in manufacturers' sales prices, assuming sales volume to be 500 million TL.).

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, İSTANBUL

PAGE 11

(6) Next phase is the introduction of the product to the market. The first introduction is to the wholesalers; then the product is introduced to the doctors.

(7) If the first introduction of the product is promising, plans for the product on large scale production are undertaken. Financial planning is very important since the introduction of a new product is very costly.

(8) Production planning and inventory control are undertaken.

(9) Production of the product is continued and an aggressive policy is pursued.

The Pharmaceutical Companies Owned by Turkish Capital

The application of modern western methods in product planning, sales and promotion policies are new to the Turkish companies; yet the large Turkish companies are aware of the benefits of modern methods of planning, organization, administration, and operations. The owners and executives of these companies show enthusiasm towards the adoption of modern methods of scientific management and control and have been eager to apply these methods and attitudes in their companies. Out of four of the large domestic manufacturers interviewed, three firms have charts of organization which have been prepared and defined according to the concept and standards of modern scientific management and control. Two of these companies have started on the application of the new system, and the operations, functioning, and control of the

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, İSTANBUL

PAGE 13

plants are conducted on the basis of these new modern concepts and the modern system. The other firm has the plans of reorganization defined but has not yet put them into execution; and the fourth company is working on its plans for modernization and reorganization.

The Turkish pharmaceutical firms are closely held family corporations, and thus even in the most modern managed companies, the owner executives play the dominant roles. The growth, development, and the futures of especially the medium and the small firms heavily depend on the policies, eagerness, aggression, and mentalities of these owners. The medium firms are family partnerships and the small firms are usually sole-ownerships. Yet in most of the cases both the medium and the small firms are one-man companies. It is usually the one strong man, mostly the man who was the first to establish the firm, who is the final authority on all matters.

The Turkish firms manufacturing drugs in the market show wide range of differences among themselves as to organization, operations, sizes, sales volumes, and the number of products produced. Of the 11 foreign firms 8 firms' sales for 1965 were above 10 million TL., and the number of products manufactured by the different firms varied between 50-200. Of the 131 Turkish firms only 6 firms had sales above 10 million TL. for 1965;¹ and upon looking at the list of products manufactured by the different firms, it is seen that among the Turkish firms there are laboratories which produce only one

¹For statistics see Appendix I.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 13

or two products side by side with the big manufacturers producing 150 complete lines of products. Some of the products of these large manufacturers and the medium producers have got themselves established in the market and can favorably compete with the foreign brands. Yet, still the domestic manufacturers lack the large budgets and technique and know-how which the foreigners can utilize for research on new products and the development of their existing products and the benefits of which accrue to their subsidiaries operating in Turkey.¹

The Public Sector

The pharmaceutical industry in Turkey as has been mentioned in the preceding paragraphs is a competitive industry and production is in the hands of the private sector. Only 1 - 2 percent of the total production is supplied by the public sector; and 5 percent of the total supply of drugs is imported. These imports are comprised of drugs which cannot be manufactured in Turkey, are vital in medicine, and for which there are no substitutes. Drugs manufactured in the public sector are supplied by the following institutions: 1. Ministry of Defence has its own factory where drugs are manufactured and distributed to the army hospitals. Even though the authorities at the Ministry of Defence claim that these are minor products and constitute various tablets, pomades, powders, and dressing materials for wounds etc., the businessmen believe that their aim is to manufacture for all or most of the needs of the army.

¹No extensive research projects on product development or on new products are undertaken by the domestic firms.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 14

(2) Ministry of Health has undertaken investments in the manufacturing of serums and vaccines the production of which have not been undertaken by the private sector. Production of serums and vaccines take place at the Institute of Refik Saydam in Ankara, and they are distributed through the Red Crescent. Drugs for malaria and syphilis are also distributed through the Red Crescent and are imported. (3) The Office of Soil Products (TMO) is another institution which undertakes the imports of certain raw materials and drugs that are habit forming. The names of these products are established by the World Health Association and these products (Codeine, Dionine, Morphine, Dolantin, and others) can be distributed only by TMO through the manufacturers, wholesalers, and pharmacies upon special permission from the Ministry of Health.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 15

CHAPTER III

THE TRENDS IN THE PHARMACEUTICAL INDUSTRY AND THE PROBLEMS FACED IN THE MARKETING OF DRUGS

The Trends in the Industry

As has been explained in the previous chapter, the pharmaceutical industry in Turkey is a fast developing industry, and to-day 95 percent of the total drug consumption is supplied by the manufacturers operating in Turkey. There is almost no capacity, however, in the basic pharmaceutical, chemical manufacturing.¹ The establishment of this industry necessitates large investments, and even though the domestic firms may have the capital, still it would probably be better for the foreigners to undertake these investments since it is they who have the necessary know-how, technical equipment, capital, and research facilities. The two leading giants in this sector of industry in the world are the U.S. and Germany.

Besides the developments expected in the basic pharmaceuticals' manufacturing, hopes for exports of drugs from Turkey are also among the expected developments for this industry. The Under Secretary of the Ministry of Health has been having conferences with the top executives and general managers of the manufacturers of drugs, trying both to explore export possibilities and persuade these manufacturers to create such possibilities.

¹Only 1 - 2 percent of the needs of the industry is supplied by the manufacturers operating in Turkey.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 16

Through the interviews with the manufacturers, the author had the chance to make explorations on this topic. The manufacturers which the author interviewed are pessimistic on the whole on this subject. Their arguments run in the following manner: (1) Even though the prices of the pharmaceutical products are low in Turkey compared with the prices outside, the Turkish manufacturers cannot compete with the giants of the pharmaceutical industry in the world markets. (2) Costs of marketing, promotion, distribution, and the commissions to be given to the representative agencies would be high. (3) There is an established order of prices in the importing countries, and the parent companies would not like to see this order being upset by the competing products of their subsidiaries.

Among the manufacturers interviewed, only one was optimistic on this issue. He explained that as soon as an opportunity for exports arises his company will be exporting, and that the mother company does not object to this policy even though the products of the subsidiary will be competing in the export markets with certain products of the mother company. This general manager feels that other companies which think this to be an impossible scheme are being conservative in their outlooks. At this point it is the author's belief that opportunities for exports can be created at least through the bilateral trade agreements, even though the issue of drugs have not been included in these arrangements so far. If such arrangements can be made, then exports of drugs to Arab and Iron Curtain countries might be possible.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, İSTANBUL

PAGE 17

The general feeling among the manufacturers about the industry is the existence of an excess capacity. According to a study on capacities of the different manufacturers of pharmaceuticals the figures reflect this result.¹ This study has been made industry wide, and it is a kind of input - output analysis. The common denominator for the outputs is the sales figures and for the inputs it is the man-hours of work. Yet to study the industry on these bases reflects oversimplified results. The industry is manufacturing different lines of products and to convert these different products into T.L. figures and base the judgement solely on this is not correct: First, the industry is producing various kinds of products, like, pomades, powders, capsules, tablets, injectible drugs etc.; it is difficult to ascertain how much of the inputs have been used in producing these different products, and it is equally difficult to convert these products into a measurable common unit, like, klgms., ltrs., cm³, etc. Second, it is also possible to divide the product into product groups, like, antibiotics, steroids, tranquilizers, analgesics, etc., and they do not all show an under capacity in their production. Third, as a result of research and development in medicine, drugs become outmoded very quickly and new drugs are substituted, and thus the investments are likely to have high amortization rates, and it is difficult to determine these rates accurately. Fourth, drugs are not like other consumers' products. There

¹Sales in retailers prices reflect 500,000,000 TL.; and the industry can manufacture 900,000,000 TL. worth of products with the existing capacity. The main reason given is insufficient demand, and thus the main aim of the manufacturers appears to be: to do everything to increase sales and thus absorb this idle capacity.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 18

are certain products which have to be manufactured even though the demand for these products is limited and their production is costly, since these drugs are vital in medicine, and their costs/unit cannot be decreased through increased production; at best such costs can be spread over other high volume selling products. Thus, it would be a mistake to talk about an excess capacity for the industry as a whole, since while there is under capacity for certain products, there may be over capacity for certain products, and sufficient capacity for other products.

Special Problems in the Marketing of Drugs

Final consumers of drugs are separated from the manufacturers of drugs by the pharmacists and the doctors. In marketing of medicine, the gap between the producers and the ultimate consumers cannot be covered through the advertising media or door to door selling; law¹ and ethics in medical marketing prevent this. Thus the salesmen have to address themselves to the pharmacists and the doctors if the medicine is sold without a doctor's prescription or with a doctor's prescription respectively. In those cases where the medicine has to be sold with a doctor's prescription, it is the doctor's job to decide the right kind, quality, and quantity of the medicine, and the salesman has to address himself directly to the doctor. Then, it is the doctor who acts as the final intermediary between the manufacturer of medicine and the final consumer.

¹Article 13, Law No. 4348. Issued on January 1, 1943.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 19

Necessity of Sales Promotion

Sales promotion, in general, involves the object of inducing the selected customers to buy the company's products; in the case of a drug company it involves the object of making the doctor prescribe the drugs of the company and the pharmacist to buy the medicine of the company. Since these customers have the opportunity of buying or prescribing the medicines of other drug companies, this company must present sales appeals to persuade the customers to purchase or to prescribe the company's products; yet, the law and tradition in medicine have put restrictions in this respect. Sales appeals freely used by manufacturers in other industries cannot be used by the drug manufacturers.¹

For promotional purposes one of the American companies has divided its products into three main groups: (1) promotional items, (2) the rest of line items, (3) injectible antibiotics. Products in the first category are new products; they are not yet established and are continuously promoted. An

¹On this subject the law reads as follows: "In the way of praising drugs it is forbidden to augment the existing or non-existing therapeutic influences of the drug by way of fixed or moving pictures, illuminated or non-illuminated advertisements, radio or any other media. It is permitted to advertise in the newspapers and the prospectuses provided that it writes only '... has been helpful in... illnesses.' It is forbidden to advertise the drugs which cannot be sold without a doctor's prescription anywhere except in medical journals. Samples for advertisement must be first accepted by the Ministry of Health.

Movies prepared on the scientific attributes of drugs can be shown at the places defined by the Ministry of Health through the Ministry."

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 20

increase in sales volume is expected on this line; thus, the sales quotas receive 12 - 15 percent increases each year. The rest of line items are established products and they are expected to carry on at the same speed as before. Then these products gradually slow down, and if there appears hope pointing to increased sales, they are promoted again. If the products are no longer in vogue and the medical point of view is changing, they are discontinued. Injectable antibiotics which comprise the third group are not promoted since they are homogenous products, and the sales efforts on these products concentrate on offers of sales discounts, volume rebates, extra samples, free goods offers, easier credit terms.

For purposes of illustration, activities launched to promote a particular tranquilizer are reported. The sales department of the aforesaid American company noted a decline in X tranquilizer sales in the world markets after the introduction of Y tranquilizer of a Swiss company. A meeting was held in U.S. where all the American company's Sales Managers from different parts of the world were present, and the following steps in the promotional campaign of X tranquilizer in Turkey were agreed upon: a) Monthly promotional circulars are to be published and in these circulars information on "X" is to be given. b) The company advertises in medical journals; "X" is to be continuously advertised in medical journals. c) Sample preparations are to be made and

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 21

sent to the various outlets; samples of "X" were prepared and sent. d) Film shows are to be prepared to advertise certain drugs or give information etc. In film shows on "X" the effective results of "X" treated patients are to be shown. e) Drug exhibits are held; "X" is to be featured in such exhibits. f) Mailings are sent to hospitals, clinics, wholesalers, pharmacies, and doctors. Mailings on "X" are to be sent regularly.

In this way the doctors and institutions were kept under constant bombardment of "X" advertisement. The promotional campaign proved to be a big success and "X" sales started to climb. Now "X" is not promoted any longer and the sales are still climbing.

Selection and Training of Salesmen

Since law and medical tradition prevent advertisement of drugs through the advertising media, the manufacturers of drugs place importance on the selection and training of their salesmen. The sales outlets are covered by the salesmen; it is their job to promote, sell, and collect the bills. The market in Turkey is divided into various sales territories and of the fifteen manufacturers interviewed the number of sales zones varies from four to twenty. The aim of all these manufacturers is an intensive coverage of the market; to reach all the outlets, even the remotest pharmacies in the country. Thus, the number of salesmen in the industry working full time varies between twenty and fifty per manufacturer.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 22

The division of market into sales zones, the assignment of sales quotas to each zone, the organizational pattern of the sales territories, the selection, training, and functions of salesmen, and the system of follow up are all a part of the sales policies of the individual firms. Since each firm has its own sales policy best suited for its own particular purposes, there is no distinguishable pattern among the foreign and domestic firms or the large and the small manufacturers as to the number of salesmen utilized and the number of sales zones. Two of the large firms have 45 and 35 salesmen respectively, and the first firm has divided the market into 17 sales zones and the other has 4 zones, while a small firm has 40 salesmen and has divided the market into 5 zones. Yet when studied at a closer range it is seen that these firms differ in their methods of selection, training, coverage of the market, and tasks of their salesmen.

One of the large foreign firms uses the following system with regard to the above points. The main task of the salesmen of this company is to promote and sell the products of the company. The salesmen are called detailmen and their selection and training are considered very important. The initial selection of the detailmen is done by the supervisors, and each supervisor selects the candidates from his respective zone. Then they are sent to the company Sales Manager for interviewing.

The candidates are required to have at least Lycée education and those who have some medical background are given priority. Candidates with some

THE S I S

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 23

training and education in medicine, pharmacology, and veterinary practices are preferred to those who do not have such backgrounds. Candidates who have worked previously in other drug companies as salesmen are not acceptable. The sales department of this company feels that such candidates are headaches as salesmen because it takes a lot of time and energy to make them unlearn what they have acquired in the other companies. The Sales Manager of this firm feels that such candidates come usually with the wrong kind of training and skills in salesmanship. Besides their general educational background, the actual work experience of the candidates, their references, personalities, characters, personal appearances, and general behavior are also considered. Then they are accepted as candidates for the position of detailmen and subjected to training both in the field and in the company.

Under the supervision of the supervisor, the candidates are subjected to a two weeks' adventure in the field where they are rotated among the different sales territories and get their "feet wet." They do not sell yet but go together with the detailmen to the different institutions, hospitals, clinics, wholesalers, pharmacies, and doctors to get a feeling of the job. In the evenings they sit with the supervisor and give account of their daily adventures and discuss the problems. Further training of the candidates takes place in the company where they learn about the company history, rules, policies, and traditions; thus a knowledge of the company is built in. Then the medical advisor takes them over, where they are exposed to basic medical knowledge and learn about

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 24

pharmacology, bacteriology, anatomy, and physiology. Then they are exposed to the complete line of the company products and acquire complete knowledge of them; they know where the company is superior and who the competitors are. Then they are taken over by the Sales Manager and the supervisors, where they are trained in salesmanship and selling techniques; the character and reflexes of salesmanship are included in this training.

The detailmen of this company visit about eight doctors in the afternoons and cover the hospitals, clinics, wholesalers, and pharmacies in the mornings. There are 5 - 9 detailmen working in each zone, and each detailman has about 200 doctors on his visit lists. It is the supervisor who is responsible for the sales achievements of these detailmen, and each supervisor has a sales quota assigned to his zone. It is his responsibility to see to it that the detailmen fulfill these quotas. The supervisor holds fortnightly meetings, sometimes more frequently, where typical cases are demonstrated, problems discussed, and full report of sales delivered. Thus, in this company there is a very strict field follow up. Assignment of sales quotas necessitate statistics on the outlets, present and previous sales volumes, and forecasts involving both the outlets and sales volumes. The decisions on the assignment of sales quotas are made by the Sales Manager, but they are flexible and the supervisor can adjust the quotas when he feels there is a need for it.

The yearly sales of this company amount to 30-35 million TL. and it manufactures 70 different products. The market where it sells is divided into

five sales zones and the total number of detailmen working on the different sales territories is 40. From what has been described above, it is clear that the company takes time and energy to select and train its detailmen. The detailmen trained by this company have a wide market and most of the time they are stolen by other companies, and to prevent this the company offers to its salesmen fringe benefits, bonuses, salesmen's cars, contests, etc. Thus, the selection, training, and compensations of the salesmen amount to quite a sum, approximately 150,000 TL./salesman/year; which is obviously a costly undertaking.

The system and methods utilized in this company are not standard practices of the industry as a whole, but the practices of the industry are not very different either; they are variations of this system, and these variations depend on the policies of the management of the individual firms.

Price Determination and Profit Margins

The managers of the drug companies do not have an active role in the determination of their pricing policies as in their policies of sales promotion. As far as costs and prices of the products are concerned, they are fixed by the Ministry of Health.¹ In arriving at the final cost and price calculations, the manufacturers of drugs have to use these prefixed lists of percentages of wastage allowed and amount to be added to the final cost thus determined before arriving at the final price of the product, before the addition of the pro-

¹See Appendix III.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 26

fit margin. To explain this more clearly an actual example has to be worked out: On the price list given in Appendix III, the price of Multifungin, a product of a German firm, is 622 krş. before allowance for the manufacturer's profit, and in arriving at this cost price three steps have been covered. In the first step the cost of raw materials that go into making the contents of a 30 gr. bottle of Multifungin is calculated. The cost of such material is found to be 331 krş., and to this an allowance of 10 percent for wastage is added. This 10 percent of allowance for wastage is obtained from the list of "Allowed Manufacturing Wastes for Different Kinds of Product Forms". The first part of this list gives the percentage of wastes allowed for different product forms, and here it is written that the percentage of waste allowed for drops and solutions is 10 percent. In the second step the cost of packaging materials has been worked out, adding at each step the allowed percentage as waste in packaging materials. The percentages of wastes allowed for packing are given in the second part of the list under the heading "Allowed Wastes for Packaging Materials". The cost price of the solution at this stage is 429 krş. In the third step the final amount to be added as a general expense allowance of manufacturing is found from the list of "General Expense Allowance for Laboratories". On this list the general manufacturing expense allowance for solutions is 45 percent when the raw material and packaging costs of the product is within the range of 401-500 krş. Thus, the amount to be added in the third step is found to be 45 percent since the cost of Multifungin is 429 krş. Thus

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 27

the final cost price of this product is 622 krş., and through the addition of 25 percdnt profits for manufacturers, 10 percent profits for wholesalers, and 25 percent for pharmacies, the final sales prices are calculated. The price list thus prepared is then sent for the acceptance of the Ministry, where it is reviewed by a committee and rechecked. It is only after the acceptance of the price list that the company can start marketing its product.

This system of price control by the Ministry can be criticized at two levels; namely, the estimates prepared by the government do not reflect true costs and the profit margins based on these unrealistic cost estimates do not show the true profits accruing to the manufacturers, wholesalers, and drug-stores.

The manufacturers complain that the government, in preparing the lists for costs, does not follow a scientific approach and does not consult with the businessmen. Thus they claim that the standard cost estimates enforced by the Ministry are fictitious. The manufacturers have a point in their complaints, and it is true that the prefixed percentage mark-ups are incorrect. However one can go beyond these arguments and state that any such price controls are bound to create complaints and will lead to unrealistic price settlements. This is especially serious for the pharmaceutical industry which has certain peculiar characteristics. First, the research expenditures are very high in this industry. Such expenditures for research on new drugs and on the development of existing drugs cannot be cut back since the medical

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 28

point of view is changing fast and the development and discovery of new drugs are necessary. Second, the achievement of better quality should be the aim for each case since drugs are used for therapeutic reasons, and the quality of the medicine plays the important role in the therapeutic efficiency of the drug. The achievement of better quality cannot be obtained without costly expenditures on research, strict quality controls, and trained personnel on the medical and pharmaceutical staff. Third, due to fast changes in medical opinions and developments in biology and chemistry, there is a parallel change in the methods of production and thus investments in capital have high amortization rates; processed and semi processed pharmaceuticals and certain raw materials used in processing the drugs rapidly become obsolete, and the necessary restocking of raw materials and the undertaking of new investments are costly endeavours. Fourth, due to the above stated reasons, costly undertakings of the production of new drugs and development of existing drugs are necessary, and yet their sales volumes and the length of their life cycles are difficult to predict; which all mean that business risks are high in this industry. Fifth, expenditures on promotion of the products occupy an important place on the list of general expenses.¹ Such high promotional expenditures are the result of selection, training, and compensations of salesmen, free samples distributed to the doctors, pharmacists, clinics, and hospitals, the publications of cir-

¹The range of expenditures on promotion of drugs varies between 10-25 percent of the yearly gross sales of the manufacturers interviewed.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 29

culars, and explanatory literature, and the preparation of exhibits and film shows. Any unwise curtailment on promotional expenses would be at the expense of lower sales volumes. The particular drug newly produced or developed can be very effective, yet it would be very naive to assume that this quality of the drug would be readily recognised by the doctors. It is true that the circulars, pamphlets, and articles in medical journals constantly give information on the new medicines, but the doctors cannot always follow such literature systematically. Medical meetings and congresses are also not always very effective ways of publicity for the same reason. Thus the manufacturer, besides publishing advertisements in medical journals and circulars etc., and undertaking publicity in medical meetings, has to use direct methods of approaching the doctors by their salesmen; and such direct methods of sales promotion are always very costly.¹

The price lists prepared by the manufacturers according to the prefixed percentage mark-ups and sent to the Ministry for acceptance do not take into consideration such high costs of research, quality control, obsolescence, business risks, and sales promotion. The last percentage mark-up allowed for general laboratory expenditures is not clearly defined. Even if there has been a clear definition of such expenses as direct or indirect or fixed and variable, still equal application of such fixed allowance to manufacturing firms of different sizes, capacities, organizations, and administrations would be

¹Costs of direct sales promotion through salesmen vary between 15,000-200,000 TL. per salesman per year for the manufacturers of drugs interviewed.

THE S I S

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 30

incorrect. The same arguments would be true also for the application of pre-fixed allowances for wastage, spoilage, and mishandling. Thus even if the Ministry tried its best in preparing the percentage mark-ups, still it would be unrealistic to settle for standard allowances which would apply equally to all the different manufacturing units within the industry; while there would be some operating below such averages, there would be some operating above them.

When the situation for price settlements is as described, then the 25 percent profit margins based on such final cost estimates are also fictitious. Even though the validity of the complaints of the manufacturers that on the whole they never get their full shares of 25 percent profits is not so obvious to the author, one thing is obvious and that is that if any manufacturer would ever earn exactly 25 percent profits on any line of its products, it would be by pure chance. Most of the time, while he would be earning profits below this line for certain products, he would be earning profits above this margin on other products. Whether or not he would come up with an over all 25 percent margin of profits, would depend on the kinds of products he is producing and their sales volumes and his over all policies of management.

Special Problems of Wholesalers and Retailer Pharmacies

The main complaints of the wholesalers and retailer druggists are the same as the manufacturers, namely, that they are not receiving their full margins of profits. The arguments of the wholesalers can be

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 31

summarized under two points. First, the manufacturers in their policies of distribution of their products do not always follow the normal sequence of manufacturers-wholesalers-retailers. They sometimes skip the wholesalers and sell directly to the retailers; and thus they take away the wholesalers profits. Second, the 10 percent profit margins as established by the Ministry are low since their operating expenditures are as high as 6-8 percent of net profits. The answers given by the manufacturers to the first argument of the wholesalers are the following:

First, the wholesalers do not fulfill their wholesaling functions properly and efficiently:

a) They do not always maintain adequate stocks of all the different lines of products of the company's products.

b) Whenever the desired quality and quantity of the drugs of the particular company are not available in their stocks, then in substitution they send the products of other laboratories.

c) Their personnel and transportation systems are not adequate; sometimes the merchandise cannot be shipped in the right quantities and on time.

Second, the wholesalers are financially weak organizations:

a) They cannot properly perform their functions of credit extension to the drugstores and assume such risks; it is the manufacturer who extends credits to the wholesalers.

b) They often cannot satisfactorily meet their obligations to the manu-

THE S I S

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 32

facturer and cases of bankruptcy are frequent among them.

The wholesaling organizations in the drug markets are commercial enterprises set up with the aim of making profits through marketing of pharmaceuticals. In theory, their main functions are: (1) Storing different lines of products of different companies in large amounts and building right product assortments for the convenience of retailers; (2) assuming credit risks through extension of credits to the many drugstores and collecting such bills; (3) assuming costs of transportation, insurance, and repackaging for manufacturers and retailers; (4) distributing the products all over Turkey, to the remotest outlets, in the right quantity, quality, and promptly.

Thus the wholesaler druggists are servicing middle-men and have important roles in the marketing of drugs. Yet due to dissatisfactions of the manufacturers with the services performed by these wholesalers, the wholesalers are sometimes by-passed and the manufacturers sell their products directly to the retailers. With the repealing of the National Protection Law in 1960, the legal enforcement of using the wholesalers channels is lifted, thus the manufacturers do not have any legal obligation to use always such channels of distribution when they feel that direct sales are more convenient for some of their products and that such direct sales outlets are available through which larger and more efficient sales are possible. Also, the suspicions of manufacturers that some of these wholesalers are incompetent, inexperienced, lack business ethics, and are financially unstable organizations discourage

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 33

them from marketing all their products through the wholesaler's channels.¹ On the other hand, how much validity there is to the claim of the wholesalers that their 10 percent profit margins are low because of high operating costs is not known; even though a figure of 6-8 percent operating costs has been supplied by the wholesalers as an average figure for the group. Even if this figure were a typical percentage representative of the operating expenses of all wholesalers, the wholesalers can try to cut-back such high costs of operation through improving their operating efficiency. Instead they run in a circle and argue that their operating costs are responsible for their operating inefficiency.

As a result of weaknesses in the wholesalers' law No. 984, persons who are not pharmacists but with enough capital can establish a drug wholesaling organization after appointing a responsible pharmacist. Usually such businessmen are not competent and experienced in the handling of drugs and do not possess the feelings of business ethics in marketing of medicine. If the necessary changes in the law and regulations can be brought about, then the elimination of such adventurers who are motivated solely by making quick profits would be possible, and the business of drug wholesaling could be placed in competent and responsible hands. It is a fact that modern and efficient methods of organization, administration, operation, and control are lacking even among the oldest and well established wholesalers. They do not seem to be aware of the

¹The manufacturers keep detailed files of the wholesalers with which they do business; most of such information are gathered through the companies' salesmen, banks, and personal contacts.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 34

changing business conditions and the ever-growing demands of the markets; and unless they do not themselves take measures for improving their efficiency, manufacturers will be marketing some of their products through direct sales; and unless they do not consciously strive to better their financial conditions, they will continue to be chronically short of operating capital.

The main complaints of retailer druggists can be also summarized under two main arguments. First, with the repealing of law No. 964 and the passing of law No. 6197 in 1953, the restriction on the number of new drugstores to be opened was lifted. Thus, since then the number of pharmacies rapidly increased and now there is an inflation of drugstores. As a result the drugstores cannot receive their full margins of profits because there is not enough room in the market for everybody. Second, while the cost of living indices have been increasing, their operating expenses have also been rising, yet the government insists on 25 percent gross profit margins which is not sufficient under the circumstances. In addition to these unfavorable conditions, the Ministry has been declaring reductions in the prices of drugs even though the prices of drugs are low in Turkey when compared with the prices in other countries.

It is true that with the repealing of law No. 964 and the issuance of the new law No. 6197 in 1953, since that date there has been an increase in the number of pharmacies from 500 to 1500 in 1966, a 300 percent increase. Yet when the situation is studied from a closer angle the following facts are re-

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 35

vealed:¹ (1) In 1952 when the law restricting the number of drugstores to 1 to 10,000 persons was in force, due to local conditions of health the Ministry permitted drugstores to operate where there were less people than 10,000 per drugstore: In 1952 there was one drugstore for every 5000 people in Istanbul, 6500 people in İzmit, 8500 people in Adana, 8000 people in Ankara, 7500 people in Trabzon, 6500 people in Samsun, 7000 people in Balıkesir, 6000 people in Aydın, 6000 people in Adapazarı, and 7000 people in Kocaeli. (2) To argue that there is an inflation of drugstores in Turkey, accepting one drugstore per 10,000 people as the standard, the number of people per drugstore should be below the accepted standard all over Turkey. But the number of cities and towns where this is the case is only 14 and this is only 2.2 percent of all the towns in Turkey.² (3) In Turkey in three of the vilayets there are no drugstores, and in thirteen of the vilayets (districts) there are drugstores only in the capital cities. Out of 630 towns (kaza) in Turkey only 390 have drugstores (60.7 percent). It can be argued that in those vilayets and towns where there are no drugstores the main reasons for this are bad climatic conditions, long and cold winters, no roads or insufficient roads, low and poor population densities. Yet among such towns and vilayets where there are no drugstores are some which have high population densities, which are situated in the

¹A report on drugstores in Turkey prepared by Doçent Dr. Mekin Tan-ker and Ecz. Ekrem Sezik has been used as the source for the statistics on drugstores in this section.

²Ankara (city), 7200 people/drugstore; Balıkesir - Bandırma, 8100 people/drugstore; Istanbul - Adalar, 3100 people/drugstore; Beşiktaş, 5600

THE S I S

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, İSTANBUL

PAGE 36

western parts of Turkey and their standards of living, climatic conditions, and road systems are satisfactory.¹ In 310 of the towns out of 390 where there are no drugstores there are 1 - 3 medicine chests (ecza dolabı), and in three of the vilayets where there are no drugstores there are 4 - 13 medicine chests selling drugs. Thus the doctors can very well sell drugs and the medical chests survive in these vilayets and towns where the druggists claim otherwise. To conclude that there is an inflation of drugstores in Turkey would not be correct; Turkey is in need of drugstores and druggists. Overcrowding has taken place only in the three cities: Istanbul, Izmir, Ankara, and this is the result of pharmacists favoring such big centers and opening their stores in big cities rather than in towns.²

The retail druggists' claims that the 25 percent profit margins established by the Ministry is inadequate are supported by data on rising cost of living indices and actual gross profits reported to the various Chambers of

people/drugstore; Beykoz, 8200 people/drugstore; Beyoğlu, 3600 people / drugstore; Eminönü, 2400 people/drugstore; Fatih, 5000 people/drugstore; Kadıköy, 3300/people/drugstore; Kartal, 7600 people/drugstore; Sarıyer, 6000 people/drugstore; Şişli, 3600 people/drugstore; Üsküdar, 7100 people/drugstore; İzmir (city), 6000 people/drugstore.

¹Vilayets without any drugstores: Bingöl with a population of 146,000.

Hakkâri " " " " 74,000.

Tunceli " " " " 155,000.

Vilayets with drugstores only in their capital cities: Ağrı, Burdur, Diyarbakır, Elazığ, Erzincan, Erzurum, Kırşehir, Malatya, Mardin, Muş, Nevşehir, Trabzon, Uşak.

²The drugstores in Istanbul, Izmir and Ankara cities account for 45 percent of all the drugstores in Turkey.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, İSTANBUL

PAGE 37

Commerce and Industry in Turkey and have been studied in a report prepared by the Turkish Pharmaceutical Association for the Istanbul Chamber of Commerce. In this report¹ gross profits of drugstores appear to be varying between 16-18 percent in most parts of Turkey including Istanbul, Ankara, Izmir and in few cases attain a level of 20 percent. Yet it would be a mistake to conclude anything further on this data since there is no consistency among the names of vilayets and the figures and the years which they stand for; thus, it is not suited for purposes of comparison nor in revealing a trend. It is true that there has been decreases in the prices of high volume selling drugs,² and such decreases when coupled with the 3 percent waste, mishandling, and spoilage charges established for the drugstores by the Ministry may have caused the gross profit margins to shrink from their original 25 percent margins. The validity of increasing costs of living and thus the high 9 percent operating costs for the drugstores is not clear from the report; yet it may be true that the drugstores in Turkey do have high operating costs and that the increasing costs of living may also have been affecting these operating expenditures. On the other hand, it is a fact that the reasons for high operating costs and narrow net profit margins are the incompetence and inexperience of the retail druggists. Manufacturers of drugs which undertake direct sales to

¹Prepared by Ecz. Rıdvan Özerler, the Secretary General and Vice President of the Turkish Pharmaceutical Association. November 15, 1965.

²For a list of the names of high volume selling drugs, the price decreases in such drugs, and a comparison of drug prices in Turkey with other countries: See Appendix IV.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 38

drugstores keep detailed files on the drugstores. The main information on these drugstores is supplied by the travelling salesmen of the manufacturers, by wholesalers, by banks, and personal contacts. Through such files the information gathered while interviewing the manufacturers about the weaknesses of drugstores, the reasons for high operating costs and narrow profit margins and frequent business failures can be enumerated as follows: (1) They lack retailing experience and adequate capital; a new graduate from the school of pharmaceuticals opens a drugstore and depends on the wholesalers for financing. Such retail druggists are chronically short of operating capital and are devoid of any sound grasp of the retailing business. (2) The owner druggist is also the manager of the drugstore and usually is not aware of the difference between that part of his income which should accrue to him as his salary, and that part of his income which should cover the interest rate charges on his borrowed capital funds, and that part of his income which should be the rate of return on his invested capital. Usually he considers what is left over after meeting his operating expenses like wages for employees, rent, electricity, insurance, etc., as his net income. (3) The drugstores show lack of adoption of efficient accounting practices, and there is no system of consistent and systematic inventory controlling. (4) They lack efficient administration, specialization of jobs, and organization of the store layout and window displays. (5) They tend to choose their store locations poorly; they crowd all on one street or in one neighborhood or in one city. Thus, as long as the re-

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 39

tail druggists do not show any improvements on these short comings which are listed here, they shall continue to suffer from high operating costs, narrow net profit margins, and high rates of business failures.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 40

CHAPTER IV

THE STRUCTURE OF THE CHANNELS OF DISTRIBUTION OF PHARMACEUTICALS AND THE ANALYSIS OF THE POLICY DECISIONS OF THE MANUFACTURERS OF PHARMACEUTICALS

The Current Patterns of the Distribution Channels in the Pharmaceutical Industry

The marketing of drugs manufactured by the privately owned companies and laboratories takes place through four channels of distribution, and these four channels through which the pharmaceutical products move are the following:

- (1) Manufacturers - Wholesalers - Retailers
- (2) Manufacturers - Drugstores
- (3) Manufacturers - Public sector
- (4) Manufacturers - Private hospitals and clinics.

The sales through the wholesalers' channels and the direct sales of the manufacturers to the retail drugstores constitute the two main channels of distribution for pharmaceuticals. Fifty percent of the total pharmaceutical products manufactured in Turkey is marketed by the manufacturers through the wholesalers, 30 percent is marketed directly to the drugstores, 15 percent is marketed directly to the public sector, and 5 percent is marketed directly to the private hospitals and clinics. Thus, while 80 percent of the total products of the manufacturers are marketed by the manufacturers through the wholesalers and retailer druggists, only 20 percent of their total products are

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 41

marketed by the manufacturers through the public sector and the private hospitals and clinics; and while 50 percent of their products are marketed through indirect channels, 50 percent of their products are marketed through direct channels of distribution.

The wholesalers in marketing the products of the manufacturers use three channels:

- (1) Wholesalers - Drugstores
- (2) Wholesalers - Private hospitals and clinics
- (3) Wholesalers - Public sector.

They market 80 percent of their total sales volume directly to the drugstores, 10 percent to the private hospitals and clinics, and 10 percent to the public sector. Thus, as far as both the manufacturers and wholesalers are concerned, there are three main final outlets: drugstores, public sector, and private hospitals and clinics. (1) The drugstores carry 70 percent of the total products handled by these outlets and 40 percent of this is supplied by the wholesalers and 30 percent is bought directly from the manufacturers. (2) The public sector carries 20 percent of the total and while it buys 15 percent of this from the manufacturers directly, it buys only 5 percent from the wholesalers. The reason for this is the buying practices of the government economic enterprises, government hospitals and clinics, and the government institutions and organizations. They usually buy in large quantities and from the seller who offers the lowest price. Their purchases are announced before hand, and on the day when such transactions take place all those who are

THE S I S

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, İSTANBUL

PAGE 42

interested in getting the deal participate. The wholesalers usually cannot compete with the manufacturers in such deals and thus do not usually take active parts in such transactions. (3) The private hospitals and clinics act as final outlets for 10 percent of the total volume of pharmaceutical products, and 5 percent of this is supplied by the wholesalers and the other 5 percent is supplied directly by the manufacturers. Thus, it is the drugstores which play the main role in acting as final sales outlets for the manufacturers and the wholesalers, since the wholesalers cannot undertake direct sales to the final consumers. However as far as the drugstores are concerned, even though they are responsible for 70 percent of the total volume of drug sales to the final consumers, they are threatened in the socialization areas and in the regions where the Social Insurance hospitals are engaged in retail sales of drugs and by the practices of medicine chests.

Government has finished its plans on socialization of medicine and started on the execution of these projects in poor regions of Turkey and in pilot areas. The retail druggists practicing in such regions of Turkey complain of the practices of the health centers (sağlık ocakları) in the socialization areas¹ and the practices of the Social Insurance hospitals in the pilot regions.² They claim that the health centers and the Social Insurance pharmacies are stealing away their clients and that they can no more survive in these areas and are forced to migrate to other centers or close their shops. According to Article 123 of the

¹Kars, Sarıkamış, Ardahan, Van, Muş, Bitlis.

²Samsun, Ankara, Eskişehir, Aydın.

THE S I S

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 43

Social Insurance Law, the Social Insurance hospitals can open retail pharmacies only when the hospitals have beds. Hospitals or clinics or dispensaries without beds and facilities for patients to stay in such medical institutions cannot open pharmacies and sell drugs to their patients. However the retail druggists claim that the Social Insurance hospitals are violating the law and are continuing to open pharmacies and selling drugs to all of their patients. Drug consumption of socially insured patients is 70 TL./year on the average whereas this is only 15 TL./year for those who are not insured. There are 700,000 people who are insured in Turkey, thus last year's drug sales in this sector amounted to approximately 50 million TL. In addition to this, the government has started to insure the families of the formerly insured persons, and if it is assumed that a family is comprised of four persons then the number of social-insured would rise to 2,800,000 persons which means approximately 200 million TL. of sales. Thus, the retail pharmacies are right in watching such developments and shifts of potential customers to other sources with anxious eyes, since the Social Insurance institutions buy most of their medicine supplies directly from the manufacturers and some from the wholesalers.

The health centers are opened in the areas where the socialization of medicine is practiced and in those towns and villages where there are no pharmacies. Their numbers are limited to one for each town and village with a population of 5000. Government supplies them with operating capital with which they can purchase their supplies of medicine directly from the manufacturers. Doctors working in the socialization areas prepare the lists of drugs

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 44

to be purchased and send their lists to the offices of the clerks which are in charge of the working capital of the health centers (sağlık ocakları döner sermaye saymanlığı). Such lists of drugs to be purchased are put in order and classified in the offices according to their amounts and the names of the manufacturers. Then when the drugs arrive, they are distributed by these offices to the health centers from where they are sold to the patients by the sales clerks. Thus the offices serve as wholesalers and the health centers function as retail pharmacies; and the retail drugstores in the nearby centers are justified in being upset with the increasing numbers of such health centers, since most of the clients of these drugstores come from the nearby towns and villages where there are no drugstores.

Furthermore, doctors have undertaken the sales of drugs through medicine chests which are established under the control of the doctors where there are no drugstores. These medicine chests buy their supplies directly from the manufacturers or from the wholesalers. Taking into consideration the fact that there are 700 such medicine chests in Turkey, while this number means an increase in potential sales for manufacturers and wholesalers, it means further cuts in the supply of customers and thus drop in potential sales for the retail drugstores. The public sector which thus occupies the second most important place, after the retail drugstores, in the final sales of drugs to the consuming public is comprised of the following institutions and organizations: Social Insurance hospitals, clinics, dispensaries, and pharmacies; hospitals, clinics, dispensaries, and health centers in the socialization areas; medicine

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 45

chest; army and public hospitals, clinics, and dispensaries; government economic enterprises; government and municipal institutions and organizations.

The general structure of the distribution channels in the pharmaceutical industry so far described and analysed has been based on the interviews with the manufacturing firms and laboratories. Even though the pattern of the channels of distribution among the individual manufacturers interviewed coincides with the general pattern of four main types of distribution channels, namely:

- (1) Manufacturers - Wholesalers - Retailers
- (2) Manufacturers - Retailer pharmacies
- (3) Manufacturers - Public Sector
- (4) Manufacturers - Private hospitals and clinics

no one firm or laboratory has the general pattern of allocation of their sales volumes among the different channels since each firm gives different weight to its channels of distribution. The main reason for this is that each firm and laboratory has a different history and background and has different attitudes of management. Thus each firm has a different sales policy and naturally the degree of utilization of the different channels for each firm is different. Also, since the policies of management are living precepts, after having decided on the outlines of the sales policy for the long run, management keeps such policies flexible in the short run. Thus after deciding on the channels of distribution through which the firm's products will be marketed, management tends to make adjustments in the degrees of importance each channel receives

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 46

according to the current economic and business conditions and the current atmosphere in the channels of distribution.

Among the manufacturing firms interviewed: (1) three large and one medium sized company are comparatively new names in the market, are newly developing and growing firms, do not have established products, and they have got energetic and enthusiastic executives. The policies of this group reflect a common trend of pushing as hard as possible through all the channels of distribution available in the market and aggressively promoting all of their products. The degree of utilization of the available channels of distribution shows a tendency in favor of the direct distribution channels. The floor for the percentage of sales volume through the wholesalers for this group of manufacturers is 30 percent and the ceiling is 40 percent. The utilization of the direct channels to the retail drugstores does not go below 30 percent and the ceiling reaches sometimes 50 percent. (2) Seven companies in the group of fifteen firms interviewed are large establishments with high volumes of sales/year; they have established products and names of the companies in the market; they produce a wide variety of products; their lines of products vary between 70-200, and one of the firms is comprised of four other companies in the pharmaceutical business; they have enough sales force to cover and check the efficiency and financial status of the many outlets and follow up the results of sales promotion efforts. The reports given by the executives of these companies reflect a tendency in favor of sales through the wholesalers, and two of the general managers claimed that they market as high as 90 percent of their

THE S I S

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 47

sales through wholesaling channels, and one said they have 200 different products and the retailers cannot handle all of them while the other emphasized the risks inherent in the direct sales accounts. Thus the pattern for the channels of this group of seven reflects the following degree of utilization: The floor for indirect sales through the wholesalers never goes below 70 percent of total sales volume of the individual companies and the ceiling goes as high as 90 percent, whereas the floor for accounts with the retail drugstores is as low as 10 percent, and the ceiling never goes beyond 20 percent. (3) There are three companies manufacturing drugs in the industry which have been in this business for many years, but two of them are small and one is a medium sized firm. They are disorganized and one of the small firms has only four propagandists; the other one has forty and the medium sized company has thirty such propagandists. Yet these propagandists are not salesmen in the sense as understood; they are not well trained and their functions are limited to presenting the products of the company only to the doctors or to the wholesalers in the case of the medium sized firm and the small firm with only four propagandists respectively. Among the forty propagandists of the small firm only five make tours in their sales zones and promote the company's products to the doctors, drugstores, and wholesalers. Furthermore, the small companies lack any established products, while the medium sized firm has at least one line of products established in the market. The marketing policy of this group of three reflect a tendency rather in favor of the wholesalers; the floor for indirect sales is 50 percent of the individual company's sales volume and the ceiling

THE S I S

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 48

is 70 percent, and the floor for direct sales to the retail pharmacies is 20 percent and the ceiling is 30 percent. (4) There is one company which is a well organized rather new comer into the market whose management policy is very anti-nihilistic. The executives are very anxious not to spoil the relationships of the company with the wholesalers, and they claim that their policy is to follow the general and accepted practices of business prevalent in the market. This company claims to market 85 percent of all its sales through the wholesalers and 15 percent directly to the drugstores.

In reaching the general pattern of distribution of drugs for the industry from the patterns reported by the different manufacturers, no complex methods of weighing were used according to the numbers and sales volumes of the individual firms in each of the above groups. The general pattern of the channels of distribution and the different weights each type of distribution channel carried has been reached through directly asking the opinions of the executives on this subject and also the conclusions derived from a general feeling of the industry. The author has the feeling that the figures supplied by the manufacturers in the second group are inflated in favor of the wholesalers. The reason for this is that at the time the interviews were conducted with the manufacturers, the problem of direct sales to the retailer druggists was the hottest current issue, and the debates between the manufacturers and the wholesalers had come to a climax. Complaints and open wars on both sides had reached the echelons of the Ministry of Health, and the Ministry was threatening the manufacturers with a 10 percent drop in their final sales prices if they con-

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 49

tinued to use the retail pharmacies as their direct channels of distribution. The large and old companies manufacturing pharmaceuticals ever depend on the wholesalers for the marketing of their many different products for reasons of transportation, handling, warehousing, risk bearing, and collection costs and thus do not wish to strain their relationships with the wholesalers. Yet for competitive reasons and dissatisfaction with the services of the wholesalers, they do undertake direct sales to all the retail outlets. However, they would like to conduct such sales transactions as silently as possible, and believe that they cannot declare open war to the wholesalers as the new, growing companies with aggressive sales policies do, since they believe that they cannot put at stake the established goodwill of their companies. One of the sales managers of these large companies while complaining of the wholesalers that they cannot efficiently supply the retailers with the company's products the demands for which have been effectively created through the company's efforts of sales promotion, gave an 85 percent sales figure which he claimed was marketed through such channels. Two of the manufacturers were reticent enough to state a flat figure of 90 percent for indirect sales, though it is a fact that including these two companies all these companies in this group are manufacturers of antibiotics and in the sales volumes of most of them antibiotics occupy a large place. Considering the facts that antibiotics are comprised of lines of products which are highly competitive, since they are homogeneous drugs and it is difficult to establish brand images in this section of sales and that their costs of production are high/unit, and thus to achieve any economical-

THE S I S

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 50

ly satisfactory results they should be high volume selling products,¹ it is obvious that these manufacturers will try all the available channels to push their products. Also it is known to the author that one of the companies was boycotted by the wholesalers on the grounds that this company was selling directly to the retail drugstores; the wholesalers' boycott against the products of this company continued till negotiations with the wholesalers were settled and the company agreed not to undertake any such direct sales.

As far as the current practices of the individual firms in their extensions of credits, terms of sales, and discounts are concerned, there is no discernible common pattern in the industry. Each manufacturing organization has its own policies and methods which it considers to be the best suitable for its own purposes under the circumstances peculiar to the firm.

Sales in the pharmaceutical industry are conducted both through open accounts and promissory notes, and the extension of quantity and cash discounts is the general practice. Ready cash receipts of the full amounts of the receivables upon delivery of the products to the customers is rare; the general practices of the purchasers are to meet their obligations either in full at least one month after the possession of the merchandise is realised or pay a certain sum in cash and benefit from cash discounts and settle the rest of the

¹In Appendix IV the total sales figures for antibiotics in manufacturers' prices for the year 1965 is 90 mill. TL. Through adding to this figure 10 percent for wholesalers' profits and 25 percent for retailers' profits, a sales figure of approximately 125 mill. TL. is reached. Assuming total sales of pharmaceuticals to be 550 mill. TL., then it is seen that antibiotics occupy a very important place in the total sales of the pharmaceutical industry, almost 23 percent of the total sales of the industry.

THE S I S

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, İSTANBUL

PAGE 51

account again at least in one month period. Only sales to the public sector are on a cash basis, since the institutions in this sector have their budgets prepared and set aside beforehand for such purchases, and thus when they buy, they pay the total sum in cash or remit their cash payments on the installment basis. Thus when the manufacturers speak of cash sales (peşin satışlar) they mean sales accounts the collections of which shall be realised at the most in one month's period and/or they mean collection of such accounts on the dates prefixed which mature before the thirty days term and/or they mean receipt of a certain percentage of the total settlement in cash and the rest at the end of the one month period. For the last two accounts cash discounts are offered, and such discounts vary from 3-15 percent. The length of the period of credit extensions varies from 2 to 9 months; even though in theory sales to retail drugstores should be strictly cash due to their high risks of uncollectibility, there is no common agreement among the practices of the manufacturers except that the periods of the credit extensions to such accounts range between 1 to 4 months. However the manufacturers complain of frequent defaults and few prompt payments; and on this issue they claim that the under-capitalized middlemen and retailers who are chronically short of operating capital also lack responsibility and comprehension of business ethics.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 52

The Analysis of the Marketing Policy Decisions of the Manufacturers of Pharmaceuticals and the Trends in Such Policy Decisions

From the analysis of the patterns of distribution channels in the pharmaceutical industry one thing which is prominent is that to have any effective marketing policy, the manufacturer in determining the framework for such a policy should take into consideration his past experiences, the present general economic and business environment, factors peculiar to the industry and to his own company, and finally his future expectations. He should also keep his marketing policy flexible enough so that he can revise it whenever conditions in the general economic, business and industrial environment change. Of the fifteen manufacturing companies interviewed, only seven of the foreign firms and four of the large Turkish companies showed conscious efforts of such formal policy decisions, and claimed that they are actively conducting market research projects in collecting the necessary market information to support and guide their managerial decisions. The two medium sized firms are sole ownerships and the effectiveness of the managerial decisions depends on the energy and foresights of the owner-managers. The two small firms have been in the pharmaceutical industry for the last three decades and are older than most of the larger and more advanced companies. They lack any signs of organization; there is no clear-cut departmentalization, coordination, and cooperation among the different units within the firms; and all through these years they have not been able to create a strong image of the company nor establish any of their lines of products in the market. Thus the conclusion reached is

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 53

that. it is those companies which have carefully thought out and formulated flexible enough policies to carry out the day-to-day operations of the company that show progress and growth in the industry. The disorganized and poorly managed companies can no longer compete with such well planned and administered competitors; they either fail and go out of business or experience very slow and painful growth, constantly struggling with high operating costs and fighting against chronic capital shortages.

The large companies in the pharmaceutical industry which are administered according to modern management methods all possess formal marketing policies and within the general framework of such marketing policies they put emphasis on the following separate policies: (1) Merchandising or product development policy: a) In the pharmaceutical industry, under the product development policy one major point of emphasis is on the number of items or the extent of the line of products. Such decisions concern which products to carry, which products to drop, and which new products to add to the existing lines. On this subject an example of a new product planning methods and procedures actually practiced in a large foreign company were given in Chapter II. b) A second important policy in this category is concerned with the question of how to build a better product and company image in the minds of the doctors, pharmacists and the consuming public. The manufacturers of drugs through their sales promotion efforts try to achieve the establishment of strong brand and company images in the minds of their potential customers. The aims of such identification of products is to simplify the cost-

THE S I S

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 54

ly and complex sales promotion efforts, to achieve protection against substitution at the wholesalers' and retailers' levels, and to receive higher total profits through the rapid turnover and larger sales of such well-known products. Brands well accepted by the potential customers minimize price comparisons and continue their high sales whatever the changes in the prices of other comparative products are. As examples three well known and established products can be given: (1) Asprin-Bayer, (2) Vita-Kaps-Abbott, (3) Calcium-Sandoz. In Chapter II an example in the field of tranquilizers has been given where the promotional efforts of Squibb in trying to establish the brand image of Moditen-Squibb against Librium-Roche have been described. c) A third important policy is on the packaging of the products. Even though in connection with this issue the Ministry of Health has certain rules and prefixed allowances for wastes and packaging expenses which have been explained in the section on price determination, packaging policies are still important issues for the manufacturers as far as their roles in branding, labelling, handling, transportation, protection of the products are concerned. Packaging of pharmaceutical products is important also in making the drugs available in convenient amounts, sizes, and forms for the consumers. d) A fourth and last policy to be mentioned here is the proper management of inventories. Decisions on the practices of proper management and control of inventories depend on past experiences, present stocks, and future expectations. Such proper management and control of inventories is especially important in the pharmaceutical in-

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 55

dustry since 99 percent of the raw materials are imported; and frequent lags in the arrival of raw materials and frequent shortages of certain raw materials due to delays in shipments or import quota restrictions and foreign exchange shortages are common.

(2) A second major category of policies within the general framework of marketing policies of pharmaceuticals is the sales promotion policies of the manufacturers. Such policies include first, the set of policies on the selection, training, extent of use, and compensations of salesmen; second, advertising policies; third, branding policies; fourth, packaging policies; fifth, policies on the cooperation with middlemen. In Chapter III a specific example of the practices of an American company was given on this issue.

(3) Finally the policies regarding the channels of distribution and the degree of cooperation expected and established with the middlemen comprises the third set of policies. To such policies of the individual manufacturers in the pharmaceutical business reference has been made at the beginning of this chapter under the section on the current patterns of distribution channels in the industry. The manufacturers in reaching a formal framework for a general policy of selection of marketing channels and the cooperation to be established in each channel first decide on the types of outlets and the numbers of outlets they will utilize in marketing their products. The main considerations which play the dominant roles on such decisions of the manufacturers are the following: a) The nature of the pharmaceutical products which they are marketing, b) the nature and the extent of the market for drugs, c) the available channels

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 56

of distribution for drugs and the general policies and practices of the competitors, d) volume of sales and costs of marketing involved with the utilization of the different channels, e) short-run and long-run objectives connected with the market coverage and the total market shares. Thus, when the structure of the channels of distribution and the decisions leading to such choices for the patterns of marketing channels in the industry are analysed within this perspective the following considerations of the manufacturers and the arguments of the wholesalers gain meaning.

The structure of the marketing channels for the pharmaceutical products in Turkey reveals a pattern where more than one marketing channel is used in the distribution of drugs. Though the indirect type of, Manufacturers - Wholesalers - Retailers, channels are the major channels of distribution, manufacturers of pharmaceuticals find it advisable to use a combination of both the indirect and the direct, Manufacturers - Retailers, types of distribution channels. In analyzing the whys for using the wholesalers' channels as heavily as 50 percent of the total sales the following can be enumerated: (1) For the nature of the product which the manufacturers of drugs are marketing and also for competitive reasons the marketing policies of drug manufacturers demand intensive coverage of the market. This means a very high number of final outlets widely scattered all over Turkey; 1500 retail drugstores, 700 medicine chests, health centers, government institutions and organizations, Social Insurance hospitals, pharmacies, and clinics, government, army, and private hospitals and clinics. (2) There is not enough sales force to reach all these

THE S I S

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 57

final outlets to promote, sell, collect and follow up. Such an undertaking would be very costly; and one Sales Manager of a large company claimed that the yearly total cost of a full-time salesman amounts to 150,000 TL., which means 12,500 TL./month/salesman. This company has forty salesmen, and its yearly sales volume is 40 mill. TL., which means that only the cost of forty salesmen to this company is 15 percent of total sales. One Turkish company reported that their yearly costs per salesman is 18,000 TL., which means 1,500 TL./month. The company has twenty salesmen and the yearly sales of this company is 2 mill. TL. The total cost of twenty salesmen/year amounts to 360,000 TL., and this means a high percentage of, 18 percent of 20 mill. TL. gross yearly income. Thus when the small and medium sized companies favor direct sales, they must undergo such high costs of promotion since direct sales require a larger sales force. 3. The retail drugstores and the other final outlets like the medicine chests, health centers, hospitals, clinics, etc., buy in small lots and the costs of transportation, repackaging, handling, and insurance have to be borne by the manufacturers for such sales. Since such sales are on a small scale, the cost/unit tend to be high. Thus the manufacturers prefer to sell in larger sales volumes to decrease handling and part of transportation costs by indirect sales through the wholesalers' channels; then it is the wholesalers which undertake transportation, repacking, handling, and insurance charges after the goods' arrival in the warehouses of the wholesalers. 4. The financial standings of most of the small retailers are weak; and besides being costly, collection of these bills is

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 58

also risky. There is always the possibility that these accounts will never be collected. Thus the overall costs of collection, follow-up, and risks for these many and widely scattered accounts are high. (5) Furthermore, the manufacturers for the reasons enumerated so far and also for considerations of not losing potential customers in wholesalers, want to maintain good relationships with the wholesalers. They do not wish to strain their relationships with the wholesalers especially if they are new and weak organizations. It is more convenient to deal with 77 accounts¹ than with 1500 and over accounts.

The reasons, on the other hand, for using the retailers' and thus undertaking such costly and risky direct sales can be summarized thus: (1) The nature of the product demands that there must be at least a few of each certain type of medicine present on the shelves of the retailers. These are vital drugs for certain cases and there are no substitutes. Also for competitive reasons, the manufacturers want to maintain on the racks of all the retailers at least a few of each line of their products, since there are substitutes available for such products. Thus the maintenance of the right product-mix on the shelves of the retailers is of vital concern for the manufacturers. Yet, the manufacturers claim that they are dissatisfied with the services of the wholesalers in this respect. They accuse the wholesalers of being inefficient in supplying all the retailers with the desired amounts of goods, of the desired brands, and promptly. They claim that there is favoritism and substitution of

¹For a list of the names of wholesalers: See Appendix V.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 59

other brands on the wholesalers' levels or the wholesalers due to ill managed inventory accounts and insufficient transportation systems cannot meet the demands of the retailers promptly. One of the larger Turkish companies has conducted a market research study in the Izmir region and the results supported such claims of the manufacturers: With the promotional efforts concentrated on this region there was no proportional increase in sales volume for the products of this company. The company was using wholesalers for marketing its products in this region, and the survey results revealed that the wholesalers were promoting the other well known brands instead of the company's products. The reasons for this were summarized thus: a) The wholesalers had received high quantity and cash discounts and bought on large scale the products of other companies, and thus wanted to sell them as quickly as possible. b) The price range of the products of this company belonged to the medium and low category and thus the 10 percent wholesalers' margin on such sales amounted in total to less than they earned in total on the sales of higher priced drugs. Thus the company stopped using the wholesalers for marketing its products in this region and undertook direct sales to the retailers. The results showed increases in sales volume for the products of the company in proportion to their sales promotion efforts in this region.

2. The manufacturers also undertake direct sales to the retailers for pure competitive reasons and such practices of the manufacturers can be studied under three points: a) There are manufacturers who are new and have aggressive sales policies, yet such manufacturers usually lack established

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 60

products. Thus to sell their products such manufacturers directly approach the retailers, offer them high volume and cash discounts and easier terms of payment, and thus sell their products. b) They offer the retailers gifts, free samples, and other incentives to persuade them to buy their products. c)

There are some manufacturers who produce only a few lines of products and have some close friends among the retailers. Such manufacturers directly approach these retailers and persuade them to buy and sell their products.

3. A last point which persuades the manufacturers to sell some of their products directly to the retailers is that they think that not all of the wholesalers are financially strong organizations. One of the companies claim that sometimes it prefers to sell directly to the retailers, since usually such sales are on a small scale and if such ventures fail the losses which accrue to the manufacturer are also small. Yet, the company sells on a large scale to the wholesalers, and when such an organization goes bankrupt or does not pay, the losses accruing to the manufacturer are heavy.

To such complaints of the manufacturers the wholesalers answer in the following ways: a) The wholesalers claim that the manufacturers use the wholesalers as a means of building distribution and then undertake direct sales to the retailers, thus forcing the wholesalers to buy from the manufacturers at high discounts and sell to the retailers at discounts higher than the offers of other manufacturers; thus while making no profits on some part of their sales, they can make some profits on other parts. b) Furthermore, the manufacturers sell to the larger and best accounts and leave the smaller and

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 61

poor accounts to the wholesalers. c) Finally, the wholesalers complain that the manufacturers expect too much from the 10 percent profit margins of the wholesalers. The manufacturers seem to overlook the fact that promotion or favoritism by the wholesalers are not permitted, and the wholesalers do not undertake such practices. They have a wide assortment of products to sell and sometimes encounter difficulties in their attempts to push all the different lines of products.

Such arguments and conflicts of interests are very common in the pharmaceutical market. During the time while the interviews were conducted with the manufacturers and the wholesalers, the debates between the manufacturers and the wholesalers were at their climax. A group of wholesalers was working with a group of manufacturers at the Syndicate of Employers in the Pharmaceutical Industry on a protocol. The contents of the protocol appear in Appendix VI as translated from the Turkish original copy. After the preparation for writing of this protocol was finished, the delegates offered the protocol for the general consensus of the wholesalers and the manufacturers. At the present, all the manufacturers registered at the Syndicate of Turkish Pharmaceutical Industry Employers have signed the contract and thereby agreed to comply with the rules of the contract. The contract has also been signed by the wholesalers, and thereby they also formally agreed to comply with the rules set forth in the contract.

The aims of the protocol are to put an end to the bitter complaints of the wholesalers and manufacturers, and give shape to the chaotic business

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 62

relationships and maintain order in the marketing of drugs. According to the terms of the contract, the manufacturers stopped direct sales to the retail drugstores and to the medicine chests by the end of 1965. After this date they did not undertake direct sales to such outlets; and the wholesalers stopped acting as intermediaries (kanal depolar) for such sales. Furthermore, the manufacturers cannot extend more than 7 percent cash discounts nor offer credits for longer than a four-months period. In return, the wholesalers cannot undertake to offer prices lower than the manufacturers' sales prices, and formally agree to be impartial towards the products of all the manufacturers. The sanction against the manufacturers who do not comply with the rules of the contract is that the wholesalers will not market the products of such companies; and the sanction against violating wholesalers is that the companies will sell to them only for cash and without any discounts.

The fifteen companies and the two wholesalers interviewed have signed the contract, and they reported that they are strictly complying with the rules of the contract. However, when the personal opinions of the executives of the manufacturing companies were asked on the length of the life of the contract, it was unanimously pessimistic; and they expressed their opinions in the following manner: a) The contract is not going to operate successfully. There will soon be parties who will break away from the binding terms of the contract. b) Even though most of such actions of breaking away will not be open, there will be parties who will secretly continue their old practices. c) There have been in the past many such contracts and agreements between

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 63

the wholesalers and the manufacturers. They all had short lives. d) The manufacturers have signed the contract because they do not wish to appear as opposing parties to the terms of the contract. They do not wish to openly strain their relationships with the wholesalers.

On the other hand, the Ministry of Health is supporting the contract and threatens the manufacturers with a 10 percent drop in the retail prices of drugs. This attitude of the Ministry is due to the fact that the Ministry wants to have the distribution channels of the drugs under control. Drugs are not mere commercial products, nor is the drug industry a mere commercial enterprise. Both the drug industry and the marketing of drugs have vital functions in maintaining the general conditions of health of the consuming public. Cases occur where some of the drugstores sell drugs of unidentified origin in the containers of some well known companies. Such practices are detrimental both for the reputation of the manufacturers and for the health of the consumers. Furthermore, cases occur where some manufacturers undertake the sales of drugs not properly registered by the Ministry of Health, or decrease the contents of such drugs without making the proper allowances in their prices or notifying the authorities.

So far the contract between the wholesalers and the manufacturers has been working; yet it is too early to make any future projections. Both the manufacturers and the wholesalers feel that from the point of view of bringing order and peace to the pharmaceutical market the contract has been successful. On the other hand, how long this will continue is difficult to predict. Now,

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 64

everybody is waiting; it is a transitory period and one very critical. If one company breaks away and starts underselling the others through higher discounts and easier terms and also undertakes direct sales, the others claim that they will follow. The manufacturers are expecting such actions to come especially from the manufacturers of antibiotics the sales volume of which is approximately 23 percent of the whole market. Once such actions start for one line of products, they will soon spread to all the lines of products, and the conditions will go back to the former chaos.

CHAPTER V

CONCLUSION

Manufacturing of pharmaceuticals and their marketing are not solely commercial phenomena. Manufacturing and marketing of drugs are vitally important from the point of view of the general health of the public. Thus, order, peace, and efficiency in this sector of industry are major considerations which should be achieved by those who are manufacturing and marketing drugs. If such developments and improvements do not come from the manufacturing and marketing organizations, the government will have proper reasons for interference and will establish regulatory controls and sanctions. Such interference of the government is not favored either by the manufacturers or by the marketing middlemen. To prevent such outside interference and to fulfill properly and efficiently their functions of production and distribution, the manufacturers, wholesalers, and retailers should constantly and consciously strive to better themselves within the light of the changing economic, social, and business conditions.

The manufacturers of pharmaceuticals in their operations and marketing policies need improvements on the following points:

- (1) The domestic manufacturers need modern organizational set-ups: the establishment of modern concepts of management, planning, administration, and follow-up.
- (2) Research on new drugs or on the development of existing lines is

THE S I S
ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 66

lacking which leads to over-production of highly substitutive products. Thus research on new drugs and on the development of existing drugs should be undertaken.

(3) Market studies and more research on industry-wide problems should be carried out.

(4) With the starting of the execution of socialization projects and the enforcement of the Social Insurance Law potential demand for drugs is growing. Thus the manufacturers of pharmaceuticals should concentrate on efforts that will increase sales to this sector, and also start taking precautions against probable problems to come from such disorganized and poorly managed outlets like health centers (sağlık ocakları), medicine chests, and pharmacies.

(5) The domestic producers need to have well planned, organized, and formally defined marketing policies the ultimate aims of which should be the efficient and orderly marketing of drugs throughout Turkey.

(6) They should be more critical in selecting their outlets and more careful in extending credits to such outlets; the correct information on such outlets can be supplied by the travelling salesmen, banks, and personal visits, and systematic files should be kept on such accounts.

(7) The manufacturers should refrain from overstocking the wholesalers and retailers with products which cannot be efficiently marketed by these outlets.

(8) The manufacturers should be careful in planning and executing their policies on the selection, training, and functions of their salesmen.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 67

(9) They should closely follow the developments in their marketing channels and try to provide the middlemen with the necessary assistance for improving their marketing methods.

The wholesalers of pharmaceuticals should undertake the following measures to improve their operating efficiency and servicing functions:

(1) The wholesalers should build closer communications and cooperation with the manufacturers and the retailers to achieve better business relationships and to improve confidence on both sides, and thus to find better solutions to mutual problems.

(2) They should try to achieve balance in their assortments and should not let the manufacturers persuade them into overstocking their shelves through grants of higher discounts, bonuses, etc.

(3) They should improve their financial positions and take measures to correct their deficiencies in medium and long term capital needs.

(4) They should be more critical in their policies of granting credits and more efficient in their collection methods.

(5) To improve their operating efficiency the wholesalers need better methods of selection and training of personnel, modernized and mechanized warehousing systems, modern time and cost studies, and better accounting and inventory control systems.

Finally, the retail pharmacies which carry 70 percent of the total burden of final distribution of drugs should take steps to improve their functions as retail outlets.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 68

(1) To establish better distribution of drugs throughout Turkey and to achieve intensive coverage of the market through the retail outlets of pharmacies and also for competitive reasons concerning the retail pharmacies, pharmacies should stop crowding into the capital cities and big centers.

(2) Since the aim of retail pharmacies is to achieve balance in their assortments and provide the public with the needed medicine in the needed quality, quantity, and time, they should critically consider their anticipated sales and supplies of drugs from the manufacturers and wholesalers.

(3) It should be only the licensed pharmacists to open drugstores, and the retailers of pharmaceuticals should stop their practices of opening up pharmacies without a licensed pharmacist (muvazaalı eczane).

(4) To improve their operating efficiency and their financial situations, the retail pharmacies should correct their deficiencies of operating and long term capital needs; they should improve their store layouts and window displays to attract customers; and they should improve their accounting and inventory control systems.

Such precautions, revisions, and corrective measures are necessary on the part of the manufacturers and middlemen functioning in the pharmaceutical industry, since the whole system of production and distribution of drugs like any other production and distribution system is a living whole. And as a living organization the system is constantly changing under the influences of both internal and external forces. Any lags and deficiencies in any part or parts of the system is going to affect the efficient functioning and operating of the whole.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 69

Thus, in studying the marketing problems of the pharmaceutical industry, even though emphasis has been placed on the marketing problems of the manufacturers, the totality of the system has always been kept in mind, and the changing characters of the internal and external forces and their implications on production and marketing of pharmaceuticals have not been overlooked.

As concluding remarks on the future of the industry the following points can be enumerated:

(1) Since the establishment of the Republic the pharmaceutical industry has been passing through the phases of growth and development and now has reached 550 million TL. total sales volume, approximately half of which is supplied by the domestic manufacturers and the other half is supplied by the companies owned by foreign capital. There is enough space in the market for both the domestic and the foreign manufacturers in this expanding industry. Expansion of sales will be coming mainly from the increasing consumption powers of the socially insured families and from the socialization areas. Future sales increases will be due also to increasing GNP and percapita incomes and the increasing numbers of doctors, pharmacists, and the increasing level of education of the consumers. Growth in percapita incomes and population are not enough factors to create effective demand on the side of the consumers; the consumers should be educated and the doctors and pharmacists should be able to persuade the masses of peasants and villagers to buy medicine.

(2) Both through the coercion coming from the government echelons and

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 70

the possibilities of bilateral trade arrangements, exports of drugs to the foreign markets from Turkey are among the future potential markets for the Turkish pharmaceutical industry. Thus, together with the expected growth in domestic sales the expected new foreign markets for the products of the Turkish manufacturers will further help the expansion and growth of the pharmaceutical industry.

(3) Finally, the possibilities of the establishment of the basic pharmaceutical and chemical industries in Turkey will be another group of major factors contributing to the future development and growth of the pharmaceutical industry. Since it is the foreign firms which are already equipped in their countries with the necessary capital investments, technique, and know-how in this sector of the industry, it is more likely that the foreign companies will be the pioneers in this field. If total sales of drugs are assumed to be 550 mill. TL., then through the establishment of basic pharmaceutical and chemical industries savings in foreign exchange amount to 84 million TL. can be expected, since raw material imports account for 30 percent of total manufacturing costs.

Thus, the development and expansion of the drug manufacturing industry look promising not only in being able to meet all the future demands of the Turkish consuming public, but also look promising in providing for foreign exchange savings and earnings through the establishment of basic pharmaceutical production and through the future exports of drugs.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, İSTANBUL

PAGE 71

APPENDIX I

I. Drug Manufacturers; Foreign Firms; American Capital

1964 Sales Estimates, Million TL.

1. Pfizer İlaçları A.Ş.	45
2. ER. Squibb Sons İlaçları	30
3. Abbott Laboratuvarı A.Ş.	20
4. Wyeth Laboratuvarı A.Ş.	3,5

German Capital

5. Birleşik Alman İlaç Fabrikası	45
6. Türk Hoechst Sanayii ve Tic. A.Ş.	14

Swiss Capital

7. Roche Müst. Sanayii Ltd. Şti.	24
8. Dr. Wander - Ciba İlaç Fabrikası	15
9. Mirel Ltd. İlaç ve Kimya Madde Fabrikası	12

Italian Capital

10. Carlo Erba İlaç Fabrikası Ltd. Şti.	7
	215,500,000 TL.

II. Large Sized Firms; Turkish Capital:

1964 Sales Estimates, Million TL.

1. Eczacıbaşı	55 (Drugs)
	15 (Cosmetics)
2. İE Kimya Evi T.A.Ş.	18
3. Mustafa Nevzat İlaç Sanayii A.Ş.	14
4. Deva Sanayii ve Ticaret A.Ş.	14
5. Santa Farma İlaç Fabrikası	10
6. Tek İlaç Sanayii Ltd. Şti.	8
7. Abdi İbrahim Barut	7
8. Biofarma Lab. Ltd. Şti.	6
9. Uni-Şimi Kimya ve İlaç Fabrikası	6
10. Kemal Atabay	5
11. İlsa İlaç Sanayii Ltd. Şti.	5
12. Dinçel Laboratuvarı Ltd. Şti.	5
13. Liba Laboratuvarı	5
14. Sile Laboratuvarı	5

183,500,000 TL.

Medium Sized Firms; Turkish Capital

1964 Sales Estimates, Million TL.

1. Haver Laboratuvarı	4
2. Doğu İlaç Fabrikası Koll. Şti.	4
3. Kirkor Harmancıyan	4
4. Embil Lab. Ltd. Şti.	3.5
5. Derman Lab. Hüsnü Bayer	3.5
6. Yeni Lab. Necdet ve Hulki Gökner	3
7. Envertisman Sanayii A.Ş.	3
8. Mükerrerrem Berksoy Berk Lab.	2.5
9. Hüsnü Arsan Lab. Aliye Arsan	2.5
10. Galinos İlaç Sanayii Ltd. Şti.	2.5
11. Sağlık Lab. Albert Major	2
12. Cemil Akar	2
13. Diler Laboratuvarı	1.5
14. Merkez Laboratuvarı, Emin Akman	1.5
15. Drifen Lab.	1.5

41,000,000 TL.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, İSTANBUL

PAGE 73

1965 Estimated Sales for Some Major Turkish Firms

Eczacıbaşı (including Ipana and Oralet)	65,000,000
İE Kimya Evi	22,500,000
Deva	18,000,000
Gripin	15,000,000
Faco	12,000,000
Santa Farma	10,000,000
Atabay	8,000,000
Doğu	8,000,000
Abdi İbrahim	7,000,000
Dinçel	7,000,000
İlsa	6,000,000
Embil	6,000,000
Biofarma	6,000,000
Liba	5,000,000
İltaş	5,000,000
Lokman	4,000,000
Doğu Farma	3,000,000
Mayer	3,000,000
Nobel	3,000,000
Filiz	3,000,000
Derman	3,000,000
Sağlık Mazon	2,500,000
Aksu	2,500,000
Berk	2,500,000
Yeni Lab.	2,500,000

229,500,000 Mill. TL.

THE S I S
ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 74

1965 Sales Estimates for 11 Foreign Firms

Bifa	70,000,000
Pfizer	45,000,000
Sqibb	32,000,000
Roche	25,000,000
Abbott	22,000,000
Hoechst	20,000,000
Sandoz	20,000,000
Wyeth	12,000,000
Carlo Erba	7,000,000
Ciba	7,000,000
Wander	6,000,000
	<hr/>
	266,000,000 TL.

Foreign Firms which Shall Be Established (Sales Estimates)

Lepetit	8,000,000
Farmitalya	7,000,000
Organon	6,000,000
	<hr/>
	21,000,000 TL.

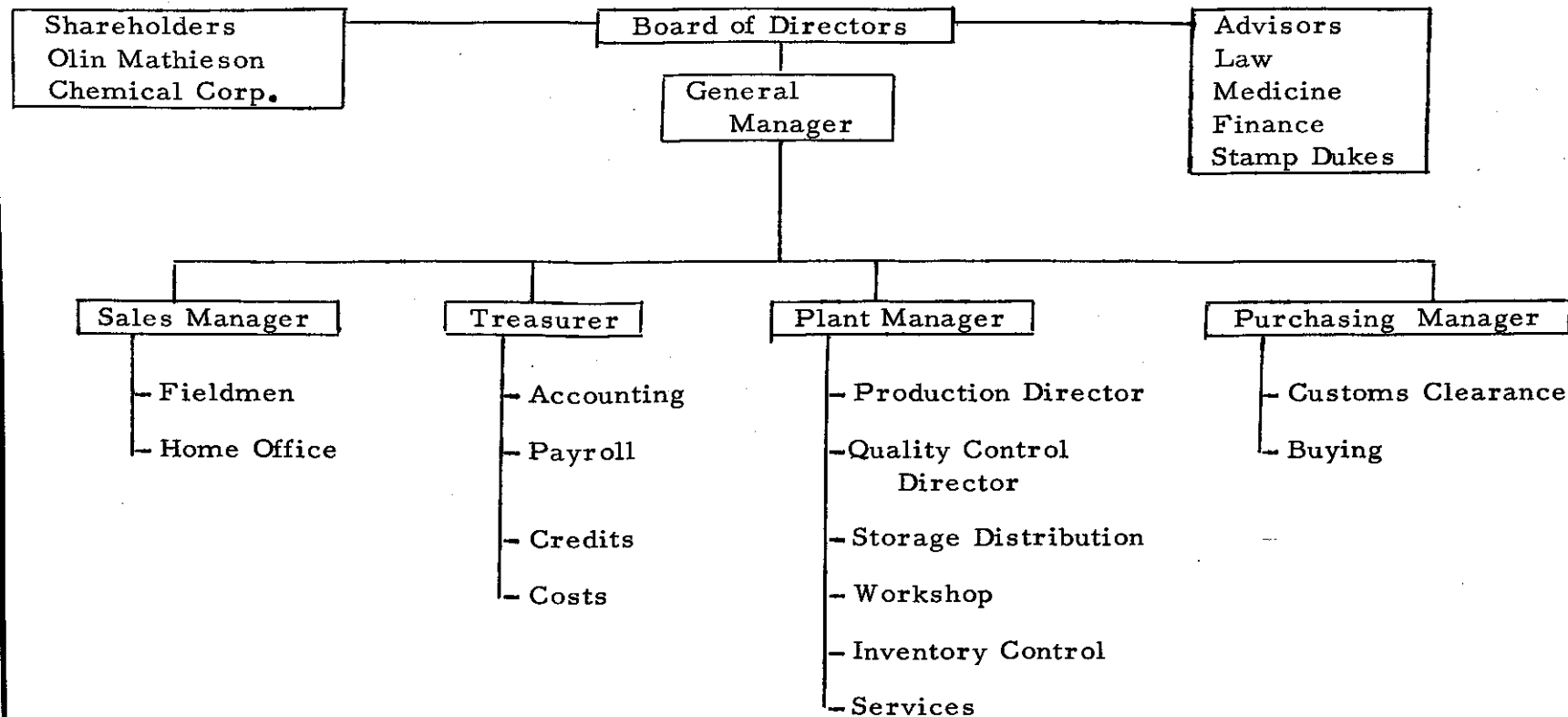
TOTALS:

Turkish Firms	245,000,000
Firms owned by Foreigners	266,000,000
Foreign Firms to be established	21,000,000
	<hr/>
	532,000,000 TL.

Source: The data has been collected through interviews with the executives in the drug manufacturing firms.

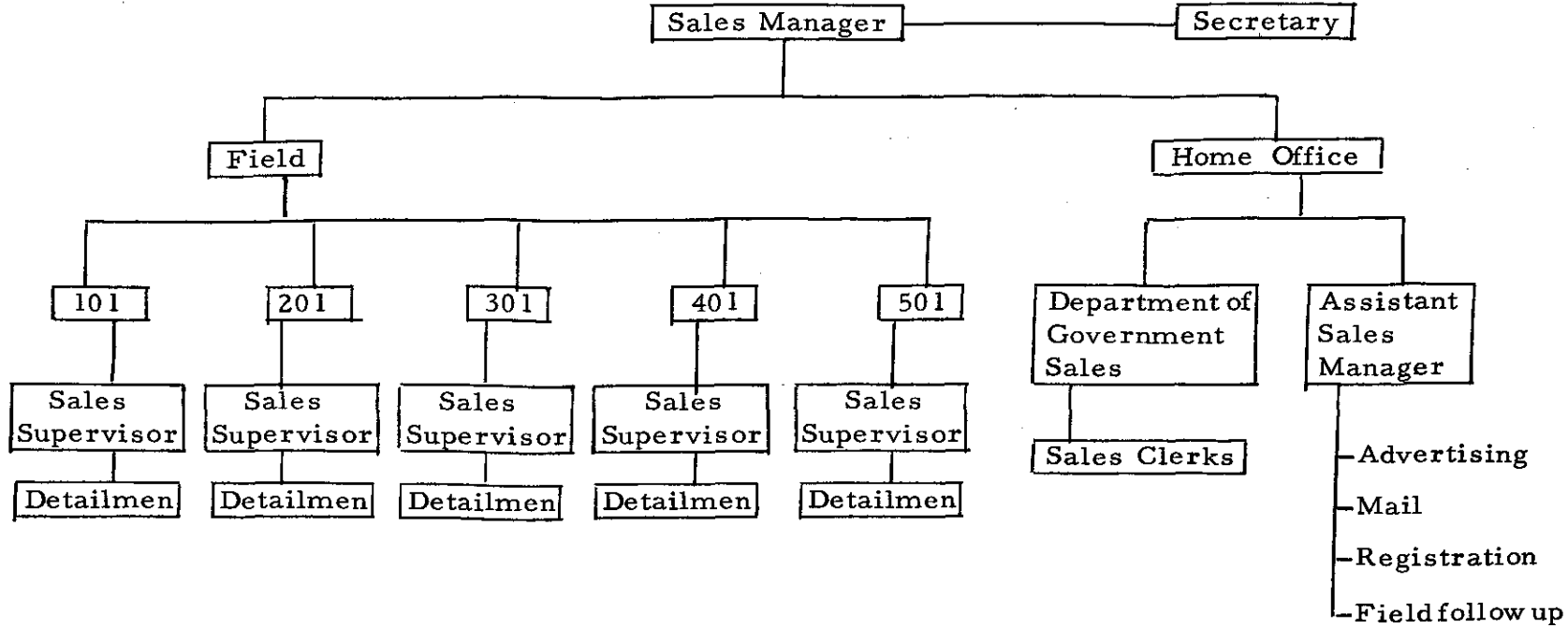
APPENDIX II

THE ORGANIZATION CHART OF SQUIBB



Source: ER. Squibb Sons İlaçları Anonim Şirketi.

SALES DEPARTMENT



Source: E.R. Squibb Sons İlaçları Anonim Şirketi

T H E S I S

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 77

APPENDIX III

Price List for Domestic Products

Name of the Product: Multifungin
Original Packaging: Bottle: 30 gr.
The Manufacturer: Birleşik Alman İlaç Fabrikaları Türk Ltd. Şti.
Product Form: Solution
Address of the Lab.: Topkapı-Davutpaşa Cad. 36, Istanbul

The Formula

The raw materials within the original packaging and the packaging material	Amount			Price per Unit		Total	
	Gramme	Centigram.	Unit	Lira	Krş.	Krş.	Centime
Raw Materials:							
5-Bromsalicile-4'-chloranilide	0.	60		3740.	94	224.	46
Soventole-lactate	0.	30		1466.	00	43.	98
Natriumhydroxide pure	0.	06		15.	00	0.	09
Methylethyleketon	3.	00		29.	29	8.	79
Cremophore EL	3.	00		39.	68	11.	90
Solcetale	8.	10		41.	64	33.	73
Isopropilealcohol	12.	00		7.	20	8.	64
Aqua dest.	2.	94		0.	30	0.	09
						331.	68
Waste 10 %						33.	17
						364.	85
Packaging Materials:							
Colored bottle, 30 gr. - 10 % waste			1	0.	20	22.	00
Pilfer-proof lid - 10 % waste			1	0.	11	11.	55
Plastic brush - 5 % waste			1	0.	10	10.	50
Prospectus - 10 % waste			1	0.	03	3.	30
Cardboard box - 5 % waste			1	0.	16	16.	80
						429.	00
Amount to be added 45 %						193.	05
						622.	05

Source: Birleşik Alman İlaç Fabrikası Türk Ltd. Şti. Has been translated from the original copy.

THE S I S

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, İSTANBUL

PAGE 78

GENERAL EXPENSE ALLOWANCES FOR LABORATORIES

Product Form	The Sum of Raw Material and Packing Materi- al (Krs.)	Percentage To Be Added
All injectable products other than injectable antibiotics, catgut, sterilized silk threads, all kinds of ophthalmic products, sweetened or un- sweetened dragées, biscuits, products in the form of chocolates, bujis, balls ovules, suppositories, suppositories, soft gelatin capsules, pastilles with gum, effervescent granules and similar.	0 - 75	100
	76 - 100	95
	101 - 125	90
	126 - 175	80
	176 - 250	70
	251 - 400	60
	401 - 500	50
	501 - 750	40
	751 - 1000	35
	1001 - 1500	30
Other granules, hard capsules, cachets, sachets, comprimés, patilles, powders, emulsions, suspensions, all kinds of ointments, pastes and similar.	1501 - 2500	25
	2501 and over	20
	0 - 50	90
	51 - 75	85
	76 - 100	80
	101 - 125	70
	126 - 175	65
	176 - 250	55
	251 - 400	50
	401 - 500	45
Wine bases, syrup, elixir and similar.	501 - 750	40
	751 - 1000	35
	1001 - 1500	30
	1501 - 2000	25
	2001 and over	20
	0 - 100	70
	101 - 125	65
	126 - 175	60
	176 - 250	55
	251 - 400	50

T H E S I S

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 79

GENERAL EXPENSE ALLOWANCES - Continued

Product Form	The Sum of Raw Material and Packing Material (Krs.)	Percentage To Be Added
	401 - 500	45
	501 - 750	40
	751 - 1000	35
	1001 - 1500	25
	1501 and over	20
Medicated plaster with licenses, oiled silk, cottons, gases, regardless of their product forms all externally used liquid products other than ophtalmic ones.	0 - 50	85
	51 - 75	80
	76 - 100	70
	101 - 125	65
	126 - 175	60
	176 - 250	55
	251 - 400	50
	401 - 500	45
	501 - 750	40
	751 - 1000	30
	1001 - 1500	25
	1501 and over	20
All pharmaceutical products marketed in large packings	0 - 400 (ampules)	60
	0 - 400 (others)	50
	401 - 500 (ampules)	50
	401 - 500 (others)	45
	501 - 750	40
	751 - 1000	35
	1001 - 1500	30
	1501 and over	25
Injectable antibiotics	0 - 30	50
	31 - 50	40
	51 - 100	30
	101 and over	25

Source: Has been translated from the original copy.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 80

Allowed Manufacturing Wastes for Different Kinds of Product Forms

<u>Product Form</u>	<u>Percentage of waste allowed</u>
Antibiotics	10
Vitamin overdosage allowance	10
Ampoules	25
Tablets	7
Dragées	10
Syrups	10
Wine bases and elixirs	10
Powders	7
Effervescent granules	18
Effervescent powders	18
Ointments	10
Suppositories and ovules	10
Capsules (hard)	15
Capsules (soft)	20
Cachets	15
Drops and solutions	10
Tooth pastes	10
Lotions and emulsions	10
Pastilles	15
Biscuits	15
Simple granules	7
Suspensions	10

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 81

Allowed Wastes for Packaging Materials

<u>Kind of Packing</u>	<u>Percentage of waste allowed</u>
Bottle	10
Glass tube	6
Bacalite tube	3
Aluminum tube	5
Aluminum lid	3
Cork	4
Metal boxes	2
Plastic boxes	2
Carboard boxes	5
Tags and specifications	10
Spoon	3
Dropper	7
Plastic lid	5
Plastic container	5
Cellophane (when used)	10
Aluminum foil	2

Note (Important): The Ministry decides the kind of packing according to the product form.

Source: Has been translated from the original copy.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 82

APPENDIX IV

High Volume Selling Drugs Expressed in Manufacturers' Selling Prices, 1965 Estimates

1. Narrow Spectrum Antibiotics	60 Mill. TL.
2. Steroids	40 "
3. Tranquilizers and sedatives	35 "
4. Analgesics	30 "
5. Broad Spectrum Antibiotics	30 "
6. Cough Preparations	25 "
7. Vitamins and Tonics	25 "
8. Hematinics	1 "
<hr/>	
246 Mill. TL.	

Source: Data gathered through interviews with the drug manuturers.

Comparison of Drug Prices in the World Markets with the General Drug Price Level Taken as 100

Turkey	50
France	100
Italy	111
England	129
Switzerland	141
Belgium	160
Germany	167

Source: From a report prepared by Ecz. Rıdvan Özerler, The Secretary General and Vice President of the Turkish Pharmaceutical Association. November 15, 1965.

T H E S I S

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, İSTANBUL

PAGE 83

Price Decrease in Different Groups of Drugs in Retailers Prices

Hormons	Year	Manufactur- er (TL.)	Wholesaler (TL.)	Retailer (TL.)	Percentage of Price Decrease
Östroluton Ampule	1951	3.77	4.15	5.20	
	1959	2.54	2.80	3.50	32.69
Corluton 5 mgr Ampule	1946	4.75	5.23	6.54	
	1959	1.81	2.--	2.50	61.77
Corluton 10 mgr "	1946	8.93	9.83	12.28	
	1959	2.18	2.40	3.00	75.57
Testisan 25 mgr "	1949	7.75	8.52	10.65	
	1959	3.38	3.72	4.65	56.34
Antibiotics					
Penimycine Forte	1955	1.60	1.76	2.20	
	1965	1.23	1.36	1.70	22.73
Penimycine Faible	1955	1.20	1.32	1.65	
	1965	0.94	1.04	1.30	21.21
Iecilline 400 000	1955	0.69	0.76	0.95	
	1965	0.69	0.76	0.95	-
Iecilline 800 000	1955	1.16	1.28	1.60	
	1965	0.80	0.88	1.10	31.25
Stroptomycine 1 gr	1955	0.87	0.96	1.20	
	1965	1.01	1.12	1.40	16.67
Steroids					
Codelcortone 5 mg.10 tab.	1960	7.98	8.87	11.00	
	1965	4.36	4.80	6.60	45.45
Codelcortone 5 mg.20 tab.	1960	14.76	16.23	20.30	
	1965	7.81	8.60	10.75	47.04
Decadron 0.50 10 tab.	1959	16.76	17.95	22.25	
	1965	4.25	4.68	5.85	73.71
Decadron 0.50 20 tab.	1959	29.31	32.25	40.30	
	1965	7.30	8.04	10.05	75.06
Decadron 0.75 10 tab.	1960	11.63	12.80	16.10	
	1965	5.34	5.88	7.35	54.06
Decadron 0.75 20 tab.	1960	21.81	24.00	30.00	
	1965	9.23	10.16	12.70	57.67

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 84

Price Decrease in Different Groups of Drugs in Retailers Prices - Continued

Vitamins	Year	Manufactur- er (TL.)	Wholesaler (TL.)	Retailer (TL.)	Percentage of Price Decrease
Vitobiol B12 1000 mgr	1958	18.26	20.08	25.10	71.71
	1965	5.16	5.68	7.10	

Source: From a report prepared by the Turkish Pharmaceutical Association
for the Ministry of Health. December 15, 1965.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, İSTANBUL

PAGE 85

APPENDIX V

The List of the Names of Wholesalers in Turkey

Istanbul

Kansuk Ecza Deposu

Betin " "
Abant " "
Gür " "
Uygun " "
İkbal " "
Kudret " "
Can " "
Apak " "
Pekçay " "
Ümit " "
Lokman " "
Işık " "
Bozkurt " "
Atakan " "
Uğur " "
Üçel " "
Sebat " "
Kimya " "

Güneş Ecza Deposu

Savaş " "
Hayat " "
Kısmet " "
Şeref " "
Öziş " "

Şark-merkez Ecza Deposu

Yafet Ecza Deposu

Zaman " "

Türk Eczacılar Ecza Deposu

Anadolu Ecza Deposu

Dermancı " "

Toros " "

Yeni " "

Hak " "

Birlik " "

Emel " "

Diril " "

Şehremini Ecza Deposu

Ankara

Ankara Ecza Deposu

Yeni Ankara Ecza Deposu

Başkent Ecza Deposu

Örnek İş Ecza Deposu

Nevzat Ecza Deposu

İzmir

Mekin Kutucular İzmir Ecza Deposu

Türk Ecza Deposu

Sıhhat Ecza Deposu

Yeni Krom Ecza Deposu

Adana

Seyhan Ecza Deposu

Çukurova " "

Temel Ecza Deposu

Adana " "

The List of the Names of Wholesalers in Turkey - Continued

Samsun

Samsun Ecza Deposu
Canik " "

Karadeniz Ecza Deposu

Trabzon

Doğu Trabzon Ecza Deposu

Bursa

Yenal Ecza Deposu
Nilüfer " "

Bursa Ecza Deposu

Malatya

Başak Ecza Deposu

Elazığ

Baraj Ecza Deposu

Urfa

11 Nisan Ecza Deposu

Antep

Güney Ecza Deposu

Akyol Ecza Deposu

Eskişehir

Eskişehir Ecza Deposu

APPENDIX VI

THE SYNDICATE OF TURKISH PHARMACEUTICAL
INDUSTRY EMPLOYEES

Protocol

Introduction:

This protocol has been prepared with the aim to give order to the drug and pharmaceutical market, to maintain cooperation in the cash and term sales, to correct the existing disorder through preventing direct sales to drug stores.

Context:

The protocol thus summarized under the following articles, after having been signed by the interested parties, will be submitted through a collective agreement prepared in detail, to the acceptance of the signing parties.

Article 1.:

After the preparation and signature of the contract by the laboratories and drug manufacturers who have signed this protocol, there will be no direct sales to the drugstores or medicine chests, neither through the wholesalers (kanal depo) nor through direct sales to the drugstores, and the wholesalers will not act as intermediaries for laboratories for such purposes.

Article 2.:

Sales to wholesalers and amounts due at the end of each month:

a) When purchases are made on cash basis, there will be a cash discount, but the discount will not exceed seven percent under any circumstances. Cash purchases should be paid in cash at the latest till the twentieth of the following month.

b) When purchases are covered with notes, the terms of the notes will not exceed 121 days. The 121 days' term starts from the last day of the month when the purchase is made, and the notes have to be turned in to the laboratories within 15-20 days. Those wholesalers (depolar) which work with their own promissory notes will turn in their notes within one week; upon submission of protested notes, the endorsing wholesaler will make immediate payment in cash.

Article 3.: Incentive Premiums:

Laboratories cannot give premiums to the wholesalers outside of the below stated ways:

a) Either at the end of a year or within stated periods of time, the total amount of premiums to be given by the laboratories to the wholesalers cannot exceed three percent of their endorsements.

b) Also, laboratories that want to pay their transportation and packaging expenses are free to do so.

Article 4.: Price Determination:

The wholesalers, after the establishment of a rate by the wholesalers' association and notification of the committee, can pass on to the drugstores that part of the cash discount received from the laboratories. But outside of this rate, neither can they extend premiums to the drugstores nor can they sell pharmaceuticals at prices below their profit margins established by the Ministry of Health nor can they change selling prices in any other way.

Article 5.: Executive Committee:

An executive committee shall be established to provide for the execution of the agreement in the spirit of the protocol, to control the results, and to punish those who do not comply with the agreement, in accordance with the articles of the contract.

The organization, membership, authorities and responsibilities, operations and sanctions of the committee will be shown in the collective agreement.

Article 6.:

The distribution of those products which, for one reason or another, are not produced in sufficient quantities to meet the market demand, will be undertaken according to the schedule of sales quotas given to the Executive Committee by the Turkish Pharmaceutical Wholesalers Association. Only, those wholesalers which do not buy their assigned shares of the quotas during the given time period, will lose their buying rights and the laboratories can sell the products to whom they wish.

Article 7.:

The wholesalers are obliged to be impartial towards the products of the different laboratories; they must surrender the drugs exactly as ordered by the

THE S I S

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 89

drugstores and institutions, they cannot change their amounts, nor can they substitute. They must also behave in similar way towards the products of the laboratories which they own and for which they are partners of. Otherwise they will be considered as violating the terms of the contract. Also the wholesalers are obliged to have stocks and to maintain certain amounts of the products of the laboratories.

Article 8.:

Without obtaining clear permission of the manufacturers and laboratories, the wholesalers cannot offer prices lower than the manufacturers' sales prices and sell to the outlets other than the drugstores and medicine chests. Equal discounts on mixed lists are outside of this rule and the resulting losses are to be borne by the wholesalers.

Article 9.:

Under the circumstances where special orders are to be placed by the wholesalers or when the purchases of the wholesalers are above their usual monthly amounts, the wholesalers are obliged to receive consent from the laboratories.

Article 10.: New Credits:

Laboratories will sell to the newly opened wholesalers for one year on cash terms. Yet, through the decision of the Executive Committee the necessary change can be made in the application of this article.

Also, after the signing of this agreement, the notes of the protested customers (customers of the wholesalers) are without recourse (to the laboratories). Each month a list of the protested drugstores shall be sent to the Committee by the Turkish Wholesalers Association. Also, the laboratories will notify the Committee of the notes of their protested customers.

Article 11.: Protective Measures:

In summary, the sanctions of this protocol are the following:

The wholesalers will not act as intermediaries for the products of those laboratories and drug manufacturers which have not signed this protocol and thus the collective agreement; in the same manner, the laboratories will sell only on cash terms and without any discounts to the wholesalers which have not entered into the agreement. The exact operations of this rule shall be set out in Article 5 of the contract.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 90

Article 12.:

The above article will also apply to those wholesalers which act as re-tailers as well, and when their action is proved and confirmed by the Executive Committee.

Article 13.:

Those wholesalers which have signed this agreement can sell to the drug-stores which buy also from those wholesalers and laboratories which have not signed the agreement, only on cash terms and without any discounts.

Article 14.:

The rules and regulations written in this agreement are prepared to set ceilings in all respects; the laboratories will always be free in their actions below the ceilings.

Article 15.:

Providing that the parties are acting within the spirit of the agreement and assisting the achievement of the main principles there set out, they will support each other in taking precautions within their systems which they think are necessary.

Article 16.:

The time of validity will be determined in the contract.

Source: Has been translated from the original copy.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, ISTANBUL

PAGE 91

BIBLIOGRAPHY

Interviews:

1. Secretary General of the Syndicate of Turkish Pharmaceutical Industry Employers.
2. Legal Consultant of the Syndicate of Turkish Pharmaceutical Industry Employers.
3. Owner-Manager of Şark-Merkez Ecza Deposu.
4. Owner-Manager of Öziş Ecza Deposu.
5. Owner-Manager of İbrahim Etem Ulagay Kimya Evi T.A.Ş.
6. Owner-Manager of Mustafa Nevzat İlaç Sanayii A.Ş.
7. Owner-Manager of Santa Farma İlaç Fabrikası
8. Owner-Managers of Tek İlaç Sanayii Ltd. Şti.
9. Owner-Manager of Atabay Laboratuvarı
10. Owner-Manager of Fako İlaç Sanayii Koll. Şti.
11. Owner-Managers of Aksu Tıbbi Müstahzarat Laboratuvarı
12. Owner-Manager of Drifen Laboratuvarı
13. General Manager of Abbott Laboratories - Turkish Branch.
14. General Manager of Pfizer İlaçları A.Şti.
15. Sales Manager of E.R. Squibb Sons İlaçları A. Şti.
16. General Manager of Wyeth Laboratories A. Şti.
17. General Manager of Sandoz A. Şti.
18. Sales Manager of Carlo Erba İlaç Fab. Ltd. Şti.
19. General Manager of Birleşik Alman İlaç Fabrikaları Ltd. Şti.

THESIS

ROBERT COLLEGE GRADUATE SCHOOL
BEBEK, İSTANBUL

PAGE 92

Books and Special Reports:

Yavuzalp, Avni. İlaç İthalâtçısının, İlaç Sanayicisinin, Laboratuarcının, Ecza Depocusunun ve Eczanın El Kitabı. Istanbul: Hüsnütabiat Matbaası, 1959.

_____. Türkiye İlaç Kataloğu. 1962 - 1964. Istanbul: Istanbul Matbaası, 1963.

Ecz. Özerler, Rıdvan. Eczane Kâr Hadleri. A report on the profit margins of retail pharmacies prepared by the Secretary General and Vice President of the Turkish Pharmaceutical Association. November 15, 1965.

Doç. Dr. Tanker, Mekin ve Ecz. Sezik, Ekrem. Türkiyedeki Eczanaların, Nüfusa Göre, Bugünkü Durumu. A report on drugstores in Turkey. January 15, 1966.

A Report on the Retail Prices of Drugs in Turkey. Prepared by the Turkish Pharmaceutical Association for the Ministry of Health. December 15, 1965.

Reports prepared by the individual companies.