Richard Ivey School of Business
The University of Western Ontario

IVEY

9B10A027

# BIRZEIT PHARMACEUTICAL COMPANY: MARKETING FROM PALESTINE



Talal Nasereldin sat in his office in the West Bank of Palestine on January 2010, reflecting on the progress of his company. Despite locational disadvantages and a harsh business environment, Birzeit Pharmaceutical Company (BPC) had grown not only locally but also internationally; however, the company was now at a crossroads. It needed to decide on which markets to enter and how to grow further. BPC's growth expanded to new markets and to a diversity of product lines, as explained below.

> Birzeit Pharmaceutical Company (BPC) is Palestine's leading manufacturer of generic medicines. With more than 300 products distributed among 10 production lines and covering different therapeutic ranges. BPC targets all types of customers in the local Palestinian market including Ministry of Health, local health care organizations, international health care organizations and programs, end users (through pharmacies and physicians). BPC market is not limited to the Palestinian Territory, the company has a well established presence in different export markets — mainly Algeria and East Europe.[1]

BPC had successfully completed several development phases to become not only Palestine's first pharmaceutical company but also the leading manufacturing company in the Palestinian territories and an example of what business entrepreneurs could achieve despite obstacles related to the political and security situation in the West Bank and Gaza. The company had recently completed its most recent development phase in late 2009, by investing in new machinery and expanding its manufacturing facility in Ramallah. In 2008, the company had obtained a Current Good Manufacturing Practices (cGMP) certificate, the result of two decades' hard work and commitment, in addition to generous investments by the company's owners.[2]

BPC realized that the significance of the Palestinian pharmaceutical industry extended far beyond the size of the revenues. Its vision was to be the backbone of the health care security system in Palestine and the

---

[1] *Birzeit Pharmaceutical Company, "About BPC," www.bpc.ps/index.php?page=about_bpc, accessed March 5, 2010.*
[2] *Birzeit Pharmaceutical Company Business Plan 2009, compiled by Dimensions Consulting Company, Ramallah, Palestine, accessed March 2010, pp. 5-65.*

region and to offer superior-quality products.[3] Export and import restrictions in Palestine limited the growth of the company. To develop external markets for its products and escape the highly volatile environment of Palestine, the company needed to investigate new markets. In 2006, BPC invested in an Algerian company with the aim of expanding its export markets and potentially using the site as an external headquarters to serve new markets.

## BIRZEIT PHARMACEUTICAL COMPANY (BPC)

In 1973, Talal Nasereldin graduated from the American University of Beirut with an master's degree in chemistry. Upon his return to Palestine, his family invested in a partnership with Subhi Khoury, who, in 1974, with a total investment of $150,000, had established BPC, a private shareholding company. The small size of the company allowed multifunctional roles for all its employees. Nasereldin, though a chemist, worked in various areas of the company, including packing, management and marketing. He also acted as a representative to promote products to doctors and pharmacists, visiting every community, socializing with the stakeholders and focusing on personalizing all his relationships.

In 1984, Nasereldin became the general manager, which enabled him to work toward growing the company, which he believed held much potential. Under Nasereldin's guidance, BPC witnessed the growth he had envisioned. Growing the product lines was Nasereldin's first goal, which he accomplished first by merging BPC in 1992 with the third-largest pharmaceutical company in Palestine, Palestine Medical Company, and then by acquiring Eastern Chemical Company in 2002. By acquiring these two former competitors, BPC's market share grew substantially.

Nasereldin's second goal was to diversify the business, which was achieved in 1996, when BPC established the Medix Company for Beauty and Care, through which BPC offered international cosmetics and body care products.

In 2005, the company was listed on the Palestine Security Exchange, and, in 2006, BPC partnered with an Algerian pharmaceutical packaging company, Petrapharm, with the goal of expanding its international markets and introducing new technologies to the pharmaceutical manufacturing business.

BPC was in a position of aggressive competition, characterized by its many internal strengths and external opportunities. Such a competitive position allowed the company to gradually follow different business strategies as per below:

- Concentrate growth: Manufacture more of the current products for distribution in the current markets.
- Market development: Offer current products in new markets or through new channels.
- Product development: Modify existing products or offer new related products to current customers.
- Innovation: Introduce new products on an ongoing basis.

The company invested in growing its standards and procedures to prepare for its market growth and expansion. The company's business plan stated,

> BPC combines many factors in order to maintain its success. These factors include: obtaining the latest quality standards certificates such as cGMP (Current Good Manufacturing Practices) and ISO quality systems, strong financial position of the

[3] *Birzeit Pharmaceutical Company Business Plan 2009, compiled by Dimensions Consulting Company, Ramallah, Palestine, April 2009, pp. 5–65.*

> company, highly educated and well trained staff members distributed among the different departments, management team with long experience and high credibility, many strategic investments and alliances; local and international, ongoing product development and market development initiatives, state of the art facilities with a total area of 15,000 square meters, modern production lines operating according to the latest technology in this industry, and best suppliers of raw and packaging materials.[4]

In 2006, BPC initiated an expansion plan to: 1) respond to the continuous increase in demand for its pharmaceutical products in the local market; 2) respond to the increased sales in export markets and especially Algeria; and 3) comply with the cGMP and other quality and regulatory requirements. The company invested more than JD 2 million[5] in new machinery bought from 2006 to 2008. BPC's expansion plan was expected to achieve many positive indicators by the end of the projection period (2015). By 2011, Palestine was still the dominant market for BPC, representing approximately 80 per cent of total sales.[6]

## BPC's Competitive Advantage

Given the different levels of competition that BPC faced, it needed to analyse its competitive advantage from different angles. From the perspective of competition with Palestinian manufacturers in the local market, BPC's competitive position stemmed from the following:

- A modern and state-of-the-art production facility equipped with high-tech machinery and production lines
- A well-trained and committed team
- A well-established presence in all selling locations (mainly pharmacies) in the West Bank and Gaza
- A strong financial position that enabled the company to provide the highest credit terms to its customers, provided the company with high flexibility in managing its inventory levels in responding to the changes in Israeli policies and procedures on borders, and demonstrated the credibility that was being provided to the company's stakeholders
- The introduction of new products in demand that were not manufactured by any other Palestinian manufacturer
- Strategic relationships with local health care institutions and donors in addition to investments and business relationships with many key business institutions in Palestine[7]

From another angle, BPC competed with Israeli and foreign products in the local market on a product level. BPC was competing with agents, traders, distributors and drug stores but not necessarily with manufacturers directly. Accordingly, also on the product level, were its three competitive advantages:

1. *The affordable prices of the products.* The affordability of BPC's products reflected the company's cost advantage, which had improved between 2002 and 2007. The company continued to work to improve its cost advantage through the acquisition of modern machinery and equipment and through continuous training and investments in building the skills and capacity of its staff.



---

[4] *Birzeit Pharmaceutical Company Business Plan 2009, compiled by Dimensions Consulting Company, Ramallah, Palestine, April 2009, pp. 5–65.*
[5] *JD stands for Jordanian dinar; JD0.71 equals US$1.*
[6] *Birzeit Pharmaceutical Company Business Plan 2009, compiled by Dimensions Consulting Company, Ramallah, Palestine, April 2009, pp. 5–65.*
[7] *Ibid.*

2. *The high drug efficacy*. BPC imported its raw materials from the top sources in the world that abided by international standards and best practices. To comply with the requirements of cGMP certification, the machinery and equipment were the most modern in terms of technology and accuracy.

3. *The availability in every retail location in the West Bank and Gaza*. BPC used a detailed distribution map and conducted regular sales analyses by area and by selling location. As a result, BPC could quickly respond to customers' needs in any geographical location in the Palestinian territories. BPC could also respond quickly to emergency needs by providing medicines to geographically dispersed communities and maintained good relations with the Ministry of Health and with local communities through its frequent donations of medicines in response to need and urgency.

BPC also benefited from competitive advantages in terms of competition in export markets:

- Quality, which was supported by the company's ISO and cGMP certifications and by its continuous audits, in addition to other specifications and standards that enabled the company to respond to the requirements of entering any export market
- A strong financial position, which enabled the company to provide any working capital and infrastructure investments required to establish a presence in the export markets
- Strong strategic alliances and relationships with key players in the targeted export markets



## Market Positioning

BPC positioned itself as the leader of the manufacturing and marketing of generic drugs in the Palestinian territories. The company was seen in the local market as a pioneer in the pharmaceutical industry in terms of its production facilities, machinery and equipment, technology, know-how, financial position, social development role and product development.

BPC's products were positioned in the local market as high-quality products sold at affordable prices. In the export market, BPC's products were seen as high-quality products that were sold at reasonable prices and were available in select selling locations.

## BPC Marketing Mix[8]

BPC set its plans and managed them according to the market situation where the company operated. The main features of BPC's plans in managing its marketing mix are summarized below.

### Product

- BPC manufactured and marketed generic drugs.
- BPC manufactured 273 products, which covered different therapeutic ranges and were available in approximately 70 different packaging and dosage formats to meet the needs of various customers with respect to distinct export markets, languages and laws.
- BPC focused on achieving a competitive advantage in its products through the raw materials it sourced from around the world. As an example, BPC had a special contract with a Korean company that

[8] *Firas Nasiruddin, Marketing Manager at BPC, personal communication, March 14, 2010.*

provided BPC with competitive prices and consistent quality for potassium clavulanate as a raw material material.

- The company's products were cGMP- and ISO-certified.
- BPC invested in human resources, cutting-edge facilities, modern machinery and equipment, and the latest technology.
- BPC planned to introduce new products not manufactured by other local Palestinian pharmaceutical companies, which would provide the company exclusivity in the local market. The company planned to address the demand for unique products, which would raise the company's profits and reduce its competition or limit competition for foreign products. An example of such products would be the third generation cefalosporins in vial form (sterile powder). This line of production had been monopolized by Israeli and international companies in the past.

<u>Pricing</u>

- BPC's domestic products were priced lower than Israeli and foreign drugs, yet were in the same price range as other local manufacturers.
- BPC's products in export markets were moderately priced compared its competitors.
- BPC followed a penetration strategy when pricing in some export markets. For example, BPC sold a product that was used to treat rashes and other dermal infections at 65 percent off the innovator price. By planning and managing its pricing strategies, BPC benefited from its achieved cost advantage.

<u>Promotion</u>

- BPC used mostly direct selling as a key promotional tool.
- BPC focused its promotional activities on all parties participating in or affected by buying decisions, including pharmacists, physicians and end users, through implementing continuous surveys to study customer's satisfaction, swot analysis and product positioning in the market.
- BPC had made substantial investments, both in building the capacity of its sales and promotion team and in obtaining a crew of well-trained sales and promotion personnel covering all targets in the West Bank and Gaza. Policies were implemented throughout the teams and best practices in customer relationship management strategy development were enhanced.
- BPC benefited from strong relationships with the Ministry of Health, health care donor projects and international donors in promoting bulk sales. As a strategy, BPC studied the nationally recognized WHO essential drug list and chose products that were demanded yet not produced locally.
- BPC relied on the long experience and extended networks of its management team in export markets (mainly Algeria) for promoting export sales.
- Public relations and corporate social responsibility (CSR) were valued by BPC's senior management team and board of directors, as reflected through their continuous participation in community activities and events on the national level. BPC sponsored many community activities and events throughout the West Bank and Gaza.

<u>Distribution</u>

- BPC distributed to a wide geographic area, including almost every pharmacy in the West Bank and Gaza.

- BPC kept in contact with all active physicians and pharmacists in the West Bank and Gaza through continuous field visits, getting direct feedback on its products and its market positioning.
- BPC's well-experienced team managed its distribution activities in the export markets.
- BPC outsourced its distribution activities as needed, which reduced costs and contributed to the achievement of its cost advantage.

## BUSINESS ENVIRONMENT

### Political Overview

The Palestinian Minister of National Economy described Palestine, "The geographical location of Palestine was excellent, forming an economic and cultural platform and point of contact between three continents: Europe, Asia and Africa. The combined area of the West Bank and Gaza was 6,020 square kilometres."[9]

In 2009, the total population of the Palestinian territories was approximately 3.9 million: 2.4 million in the West Bank and 1.5 million in Gaza. Most of the Palestinian population was young, with approximately 57 per cent younger than age of 20.

The Palestinian National Authority was declared after the Gaza-Jericho Agreement, which was signed in Cairo on May 4, 1994. This agreement created a Palestinian nation governed under the Palestinian National Authority, which was in control of the nation, albeit with restrictions on borders and resources. As a result, the Palestinian National Authority was affected by the Israeli restrictions on borders, which controlled the movement of people and goods in and out of the country, in addition to controlling the resources, imports, exports and even the marketing of the products manufactured in the Palestinian territories, which were not allowed to be marketed in the Israeli neighboring market.

### Economic Background

The Palestinian economy had witnessed many ups and downs, mainly due to the general political situation. Gross domestic product (GDP) growth had averaged more than 10 per cent per year between 1994 and 1999, but had slumped following the outbreak of violence in 2000, and the Palestinian economy experienced one of its worst recessions in modern history. However, the GDP rebounded, increasing to 8.5 per cent in 2003 and six per cent in 2005, the same level as in 1999.[10]

As a result of the political situation in Palestine, local companies faced severe export restrictions, not only from international markets (which considered Palestinian products to be below standards), and not only from the Israeli restrictions on borders (aimed at weakening the overall Palestinian economy, by enforcing harsh restrictions and regulations on the export of Palestinian goods) but also from the Arab countries that included Palestinian products in the list of Israeli products they boycotted.

Furthermore, the unemployment rate in the West Bank had increased from 15.9 per cent in the second quarter of 2009 to 17.8 per cent in the third quarter of 2009; in Gaza the increase was from 36 per cent in the second quarter of 2009 to 42.3 per cent in the third quarter of 2009.

---

*[9] Muhammad Hassouneh and Hasan Abu Libdeh, Palestine Investment Conference, p: 21, www.scribd.com/doc/25577574/Palestine-Investment-Conference-Bethlehem-28, accessed March 26, 2010.*
*[10] Muhammad Hassouneh and Hasan Abu Libdeh, Palestine Investment Conference, www.scribd.com/doc/25577574/Palestine-Investment-Conference-Bethlehem-28, accessed March 26, 2010.*

### Social Background

Because of continuous political instability, the Palestinian market was dependent on foreign products. Consumers had a negative perception of the quality of locally manufactured products and lacked awareness of the various investments that had been made into upgrading the quality of local products and the local industry, leading to a continued weak positioning of local products within the Palestinian market.

As a result of this negative perception of local products, and due to the maturity of the Palestinian Ministry of National Economy, there was a call to improve the quality and standards of local production by monitoring the compliance of manufacturing processes to international standards. The Palestinian Authority developed its legal system to adapt to the need to trace the safety of the products that its local manufacturers supplied to Palestinian consumers.

Additionally, local companies began their own initiatives. They started to address their local image by participating in sponsorships and corporate social responsibility (CSR) projects aimed at spreading awareness about their companies and by positioning themselves within the local market. The company signed agreements with local manufacturers not to compete locally, building confidence and trust that agreements would be respected. This confidence allowed the companies to build strategies based on long-term visions and agreements, especially in the manufacturing of chronic disease products for diabetes and cardiac diseases. BPC was one of the leading companies in initiating unique and innovative CSR projects that focused on specified segments within the community, such as education, sports, health, environment and communal sustainable development, including investment in infrastructure. The projects were directed through well-studied plans focused on spreading awareness about companies, their status, products, investments, growth and quality. In fewer than five years, the company succeeded in building a solid image within the local market, which heightened Palestinian awareness and increased the number of people requesting to visit the facilities to acknowledge the quality of the facilities and the manufacturing process, and to gain assurance on the quality of the products provided. Increased demand for BPC's products specifically was noted by pharmacists and doctors across the country.

Furthermore, in a call to support local products, the Palestinian Ministry of National Economy initiated, in January 2010, a campaign that had both a sociopolitical dimension and an economic dimension. The campaign called for supporting Palestinian products by promoting them locally, in addition to the boycotting of all Israeli products that were manufactured in settlements established in the Palestinian territories. This campaign had been adopted by all government departments and by the public and was expected to boost the local economy. The launch of this campaign came in response to the Israeli restrictions imposed on Palestinians in general and slow economic development specifically. Statistics announced by the Palestinian Ministry of National Economy noted that Israeli settlements annually pumped more than half a billion U.S. dollars of goods and products into the Palestinian markets.



## LOCAL PHARMACEUTICAL MARKET AND INDUSTRY

The Palestinian pharmaceutical industry was unique in terms of development. The industry boomed after the events in 1967, which resulted in the closing of its borders with the Arab world. Prior to this time, pharmaceutical products had been imported from foreign companies via importers in Jordan. After 1967, however, imports from Jordan were stopped. The only products available were Israeli products and products imported through Israeli agents.[11]

[11] *Awad Abu Alia, general director at the Union of Palestinian Pharmaceutical Manufacturers, personal communication, March 14, 2010.*

The difficulty in obtaining medicine encouraged nine pharmacists in the West Bank to establish small laboratories to manufacture simple syrups and anti-diarrheal products in 1969. Political and economic instability soon threatened the viability of capital investment in the pharmaceutical industry, and indeed in all industries. In 1970, these nine laboratories merged into three larger companies — Jordan Chemicals in Beit Jala, Palestine Medical Company in Ramallah and Jerusalem Pharmaceutical in Al Bireh.[12]

A period of growth followed, new entrants came to the market, Balsam Company 1972, followed by Birzeit Pharmaceuticals Company in 1974. In 1979, Eastern Medical Company and Gama entered the market. In 1985, Pharmacare entered the West Bank market, while MASCO entered the Gaza market, to be lastly followed by Al Jaleel Pharmaceutical that entered the West Bank market in 2010. [13]

Later, the big pharmaceutical companies started merging with the smaller ones. In 1993, Birzeit Pharmaceutical Company merged with Palestine Medical Company and, in early 1995, Jerusalem Pharmaceutical Company merged with Balsam Pharmaceuticals Company. Also, in 2003, Birzeit Pharmaceutical Company took over Eastern Chemical Company. As noted by the Birzeit chief executive officer (CEO), "The aim of these mergers was to eliminate weak companies from the market and to raise the standards of the pharmaceutical industry by separating the production of antibiotics from the production of other therapeutics."[14]

By 2010, the Palestinian pharmaceutical industry consisted of six companies, four in Ramallah, one in Beit Jala and one in the Gaza Strip. The six companies covered more than half of local market demand, which positioned the pharmaceutical industry as one of the top Palestinian economic drivers.

The Palestinian pharmaceutical industry employed more than 1,000 employees, 70 per cent of whom held specialized university degrees. Since 2000, the industry had invested more than $US50 million in modernizing the production processes and in improving the industry's premises, leading the Palestinian pharmaceutical industry to increase its market share in the Palestinian market from 20 per cent to 55 per cent.[15] New machineries were acquired, and the manufacturing facilities were reconstructed to meet international manufacturing standards.

By 2009, Palestinian pharmaceutical companies had registered 856 generic products. These companies provided local customers with generic drugs at prices that were competitive with imported products. As a result, Palestinian pharmaceuticals constituted 55 per cent of the pharmaceutical market share.

The industry also invested in creating a presence in the regional and international markets. Jerusalem Pharmaceutical Company owned a pharmaceutical plant in Algeria and a pharmaceutical company in Jordan; BPC owned 50 per cent of Petraharm, a pharmaceutical plant in Algeria; Beit Jala Pharmaceutical Company had strategic relationships with pharmaceutical companies in Saudi Arabia and Jordan; and Pharmacare had a licensing contract with Grunenthal, a pharmaceutical company in Germany.

In March 2008, following decades of efforts and significant investments aimed at the development of resources and production lines, as well as the institution of ISO procedures and international and national

[12] *Birzeit Pharmaceutical Company Business Plan 2009, compiled by Dimensions Consulting Company, Ramallah, Palestine, April 2009, pp. 5–65.*
[13] *Ibid.*
[14] *T. Nasereldin, personal communication, March 16, 2010.*
[15] *Awad Abu Alia., "Toni Blair Meets with the Union of Palestinian Pharmaceutical Manufacturers," AlQuds (newspaper), March 10, 2010, http://web.alquds.com/docs/pdf-docs/2010/3/10/page24.pdf, p. 20.*

compliance audits, four Palestinian pharmaceutical companies were granted the World Health Organization certificate of Current Good Manufacturing Practices: Birzeit Pharmaceutical Company, Pharmacare, Jerusalem Pharmaceutical Company and Beit Jala Pharmaceutical Company. The award of this certification was a considerable achievement given the difficult working conditions faced by Palestinian companies as a result of the Israeli occupation and restrictions, including the blocking of borders and restrained interaction with the international community. The certification reflected the attainment of international standards in manufacturing practices in a critical industry, which assisted the pharmaceutical industry by strengthening its position in the local market and increasing its ability to penetrate foreign markets.

The Palestinian Ministry of Health played an active role in this achievement by enacting rules and regulations to assist the health sector in general, and the pharmaceuticals sector in particular. The Ministry of Health invested in the capacity of its personnel, who were able to participate in various national audits that confirmed the compliance of the four companies with international standards. Furthermore, with assistance from the World Health Organization, the Ministry instituted three guidelines for human, veterinary and cosmetic pharmaceuticals.

Palestinian pharmaceutical products were exported to more than 17 countries, mainly Eastern European countries (Russia and Ukraine), Central Asian countries (Uzbekistan, Georgia and Kazakhstan) and Middle Eastern and African countries (Algeria, Sudan, Yemen, Jordan and the United Arab Emirates).

## Competition

BPC faced different levels of competition, including 1) competition with Palestinian manufacturers in the local market; 2) competition with Israeli and foreign products; 3) competition with Palestinian pharmaceutical companies in export markets; and 4) competition with regional and international manufacturers.[16]

BPC's major competition came from five Palestinian manufacturers for the following reasons:

- The majority of BPC's current sales were in the local Palestinian market, which was the case for each of its local competitors.
- Some of the Palestinian manufacturers were competing with BPC in the same export market, which made those local companies not only local competitors but also international competitors in the export market. This was the case with three main companies, BPC, Jerusalem Pharmaceuticals and Pharma care.
- In many cases, the six Palestinian manufacturers worked as one body (through the Union of Palestinian Pharmaceutical Manufacturers, or UPPM) to jointly face competition from foreign products. Working as one body contributed to the rest of the companies through the strategies adopted by the local companies not to compete with themselves but with the foreign companies, and to try to cover as much as possible of the local market needs by diversifying the product lines.
- The competition from Israeli and foreign products was represented by numerous competitors, including manufacturers, agents, distributors and drug stores, which made analysis of this competition more difficult. Since 1967, the military authorities in the occupied territories relied on Israeli suppliers to fill the needs of the locals, a strategy that was followed until 1980. Local doctors built a positive perception about those products and accordingly affected the growth and positioning of the Palestinian pharmaceutical companies.



[16] *T. Nasereldin, personal communication, March 13, 2010.*

The five Palestinian pharmaceutical manufacturers in the West Bank and Gaza that competed directly with BPC were Pharmacare Ltd., Jerusalem Pharmaceutical Company (JePharm), Jordan Chemical Laboratory (JCL), Middle East Pharmaceutical and Cosmetics Laboratories Co. Ltd. (MEGAPHARM) and Gama Chemical Co. (GAMA).

### Market Segments in Palestine[17]

The Palestinian market was divided into three major segments:

1. Geographic and Demographic Segment: This key segmentation factor was related to the geographical and demographical distribution of the West Bank and Gaza market. Those segments divided by the geographic dimensions, affected the pharmaceutical industry through the political restrictions and difficulty of movement around cities which increased the cost on the industry to reach some markets.
2. Health Care Segment: Health care indicators directed the manufacturing strategy. The pharmaceutical industry used the available indicators to set its strategy on the production plan and the introduction of products as per those needs and indicators. As of the end of 2007, 86 non-governmental health organizations were located in the West Bank.
3. Pharmacies and Physicians Segment: Physicians significantly affected the consumption patterns of end users and were considered the pharmaceutical industry's channels for reaching the end users. Pharmacies affected the industry through more lenient terms offered by the pharmaceutical industry, with payment terms being better than those offered by the foreign companies.



## BUSINESS IN ALGERIA

BPC started exporting to Algeria in early 2004. Exports were limited to bulk solid-dosage formats, which included tablets and capsules. The final step of blister packaging was done by the Algerian company Petrapharm, which operated in two areas, packaging and management. Petrapharm had approximately 25 employees and its main sales were in Algeria.

After the 2006 investment in Petrapharm, Nasereldin initiated a strategy that consisted of two phases. The first phase called for marketing BPC's existing products in the new market. The Algerian partner chose 20 products from BPC's list that were noted to be of high demand in the Algerian market. In Palestine, registering new pharmaceutical products took three years, and a further two years was required to register the product in Algeria, for a total of five years. BPC management chose to wait out two years for its already existing products to be registered in Algeria while it worked on registering new products, first in Palestine and later in Algeria. The latter process was the second phase that BPC realized would further grow its profit. In other words, BPC chose to follow a strategy of promoting existing products for new markets, and, as a second step, introducing new products to the new Algerian market and to the new export markets.

In early October 2008, the Algerian Ministry of Health asked all manufacturing companies to meet the local pharmaceutical demand and, hence, disallowed any importation of foreign products that were available locally, including goods manufactured and/or packed in Algeria. This decision would tremendously increase BPC's sales to Petrapharm during the coming years. BPC's pending orders to Petrapharm in 2009 totaled US$1.9 million, resulting in a doubling of Petrapharm's sales, nearing a target

[17] *Birzeit Pharmaceutical Company Business Plan 2009, compiled by Dimensions Consulting Company, Ramallah, Palestine, April 2009, pp. 5-65.*

of US$5 million.[18] In 2010, BPC's exports to Algeria accounted for 15 per cent of its products, whereas its exports to Eastern Europe accounted for five per cent.

### Algerian Pharmaceutical Market

The key characteristics of the Algerian pharmaceutical market were its relatively large size, its potential for growth and its high dependence on imported drugs.

> Algeria remained a key market in Africa, despite dropping to 12th place alongside Nigeria. It was the second-largest African country by territory, and was modernizing its health care system through oil and gas revenues, which had risen considerably in recent years. Despite this increase in revenues, the standard of health care provision across the country was uneven.[19]

The main attractions of the Algerian market were its relatively large and young population (a total population of more than 34 million out of which 24 percent were less than 15 years of age[20]),[21] its high dependence on imported medicines and its steady forecasted growth.[22] However, primitive Algerian investment funds and policies were the major reasons for the slow growth of this market.

BPC hired an external business development consulting firm to forecast the value of the investment in Algeria. The results of the study forecasted the following:

> The value of the Algerian market would rise to US$5 billion within five years. Generics would continue to represent the bulk of consumption in terms of volume. This was especially likely since the Ministry of Health and Population had implemented measures that meant that as a condition of receiving an import license, medicine importers had to pledge that 45 per cent of their imports would be generics. However, with aims for World Trade Organization (WTO) accession, it was likely that conditions for multinationals would improve and gradually result in the further erosion of generics' market share by patented drugs.[23]

Pharmaceutical market growth between 2005 and 2010 would be stimulated by the continuation of the US$2 billion health care modernization program, which envisaged the building of numerous hospitals and clinics. Authorities were aiming to improve health care access.

## PURSUING NEW MARKETS

Since 2002, BPC had realized that, to grow its business and to overcome the challenges facing its growth in Palestine, it needed to invest in an international facility. Thus, BPC followed a strategy of first pursuing



---

[18] *T. Nasereldin, personal communication, March 13, 2010.*
[19] *Algerian population, www.piribo.com/publications/country/africa/algeria_pharmaceuticals_healthcare_report_q4_2008.html, accessed March, 2010.*
[20] *http://world.bymap.org/YoungPopulation.html, accessed February 4, 2011.*
[21] *World Bank, "Algeria," Algerian demographics, http://data.worldbank.org/country/algeria, accessed December 16, 2010.*
[22] *Bharat Book Bureau, "Middle East and Africa Pharma Sector Forecast to 2010," www.articlesnatch.com/Article/Middle-East-And-Africa-Pharma-Sector-Forecast-To-2012/1790203, accessed December 16, 2010.*
[23] *Birzeit Pharmaceutical Company Business Plan 2009, compiled by Dimensions Consulting Company, Ramallah, Palestine, April 2009, pp. 5-65.*

the right market to which it would provide the stipulated products and, next, using the pursued market to diversify its products, as appropriate for the newly acquired export markets.

The African markets were the company's major interest. The Ivory Coast was the first market BPC investigated, but due to the lack of strong relations, an element that is essential in the Middle Eastern business mindset where personal relations support or push business deals forward, BPC sought markets elsewhere. Next, it considered Tunisia, where, despite massive efforts into making the project work, the lack of an entrepreneurial interest by the Tunisians led BPC to seek a new market. Yemen, Ukraine and Romania were additional markets that BPC approached, but BPC believed that, for this investment to succeed, the company needed to have a strong infrastructure and the right contacts. "Invest in people and relations," said Nasereldin. In 2006, he found the right contact, an Algerian partner that was looking into packaging and marketing pharmaceutical products, and in whom BPC saw a potential partner that could, once the infrastructure and people were in place, turn the business from a packaging and marketing one into a manufacturing one. BPC's vision was to grow its market by finding new markets for its products.

Having decided that the Algerian market presented the best opportunity, the company decided to take this new investment slowly and to execute it in phases. The first phase was to export finished products manufactured in Palestine and to package and market them in Algeria. This phase represented BPC's biggest investment, and the company wanted to execute it with minimal risk. As a result, BPC decided to test the market by first exporting some existing products. The second phase involved transforming the packaging company in Algeria into a manufacturing company that produced the pharmaceutical products that were in highest demand in the Algerian market. As a later phase, the manufacturing company in Algeria would ideally grow to function as an export hub to the rest of the world.

The reasons for BPC's strategy dated back to 2006. At that time, BPC realized it needed a new strategy to deal with the small market size in Palestine and the political instability, restrictions and the duplication of products. The situation was not changing, despite the company's efforts and agreements with local manufacturers on decreasing the level of duplication in an effort to limit the local competition. The company thus sought to expand its export market, believing that the local market was already saturated and that the company's growth would be achieved from the export market by introducing new niche products and/or joint ventures or licensing contracts through which the company could introduce competitive products to both local and export markets.

BPC was required to introduce substantial documentation to prove the competitive quality of the products it offered, as a result of the political situation in Palestine, including the exporting restrictions imposed by Israeli policies and Palestine's negative perception by the export market because it was not yet registered under the WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement. The situation was worsened by the lack of intellectual property rights in Palestine, which made the Palestinian market, companies and products less attractive and less competitive, thereby limiting the company's opportunities in penetrating new markets.

As he sat in his office envisioning the future of BPC, Nasereldin knew he needed to set BPC's priorities in terms of its strategy in Algeria and the local market by marketing in Algeria products that already existed or that were manufactured in Palestine, or by introducing new products to Algeria other than those already manufactured in Palestine and marketing these products to both countries. But when would it be time to shift to the second phase of the strategy, where the company moved from promoting existing products to introducing new products to the new market, and then diversifying its markets? Additionally, internally in its local market, should BPC continue to sell products produced by competitors or should it focus on new products for the existing market?

## Exhibit 1

### BALANCE SHEET AND INCOME STATEMENT, 2008–2009
### CONSOLIDATED STATEMENT OF FINANCIAL POSITION
### as of December 31 (in Jordan Dinar)

| | 2009 | 2008 |
|---|---|---|
| **Assets** | | |
| ***Current assets:*** | | |
| Cash and deposits with banks | 3,120,602 | 2,115,925 |
| Accounts receivable, net | 9,978,002 | 9,648,884 |
| Inventory | 4,528,376 | 4,530,475 |
| Trading securities | 1,157,471 | 1,107,881 |
| Other assets | 77,584 | 77,697 |
| **Total current assets** | **18,862,035** | **17,480,862** |
| ***Non Current assets:*** | | |
| Deferred tax asset | 159,005 | 135,025 |
| Available for sale securities | 796,161 | 1,708,977 |
| Investment in subsidiaries and associated companies | 2,863,520 | 2,169,918 |
| Properties investments | 1,219,350 | 1,219,350 |
| Property, plant and equipment, net | 10,829,435 | 10,397,547 |
| **Total non-current assets** | **15,867,471** | **15,630,817** |
| **Total assets** | **34,729,506** | **33,111,679** |
| | | |
| **Liabilities and shareholders' equity** | | |
| ***Current liabilities:*** | | |
| Accounts payable and accruals | 3,296,649 | 2,927,966 |
| Income tax payable | 303,392 | 1,549,139 |
| **Total current liabilities** | **3,600,041** | **4,477,105** |
| Reserve for severance pay | 2,301,533 | 1,907,192 |
| **Total liabilities** | **5,901,574** | **6,384,297** |
| **Shareholders' equity:** | | |
| Capital - authorized ten million shares; fully issued and paid, at JD 1 par value | 12,100,000 | 12,100,000 |
| Compulsory reserve | 2,459,481 | 2,106,271 |
| Optional reserve | 1,592,781 | 1,592,781 |
| General reserve | 9,768,731 | 7,064,352 |
| Retained earnings | 2,958,530 | 3,694,024 |
| Translation difference, subsidiaries | (47,728) | 240,311 |
| Minority interest | 200,260 | 137,064 |
| Cumulative change in the fair market value of investments | (204,123) | (207,421) |
| **Total shareholders' equity** | **28,827,932** | **26,727,382** |
| | | |
| **Total liabilities and shareholders' equity** | **34,729,506** | **33,111,679** |

## Exhibit 1 (continued)

### CONSOLIDATED STATEMENT OF INCOME, 2008–2009
### as of December 31 (in Jordan Dinar)

| | 2009 | 2008 |
|---|---|---|
| **Sales** | **15,754,980** | **14,471,736** |
| **Cost of goods sold** | **(8,628,230)** | **(7,748,917)** |
| **Gross profit on sales** | **7,126,750** | **6,722,819** |
| Selling expenses | (865,222) | (783,073) |
| Advertising and position expenses | (787,409) | (780,141) |
| General and administrative expenses | (1,040,919) | (1,035,171) |
| ***Net income before other revenues and income tax*** | **4,433,200** | **4,124,434** |
| Profit (loss) from investments in securities and affiliates | 498,118 | (1,995,738) |
| Financing (expenses) revenues | (370,130) | 195,520 |
| Unrealized profits from revaluations properties investments | - | 1,126,650 |
| Other revenues | 27,859 | 36,470 |
| **Net income before income tax** | **4,589,047** | **3,487,336** |
| Minority interest | (63,196) | (48,457) |
| Income tax for previous years | (541,050) | **-** |
| Income tax for the current year | (365,686) | (350,000) |
| Deferred tax benefit | 23,980 | 28,745 |
| **Net income for the year after income tax** | **3,643,095** | **3,117,624** |
| Board of directors remuneration | (111,000) | (91,000) |
| **Net income** | **3,532,095** | **3,026,624** |
| **Earnings per share** | **0.292** | **0.250** |
| **Comprehensive income** | | |
| Net income | 3,532,095 | 3,026,624 |
| Cumulative change in the fair value of investments | 3,298 | (6,145) |
| **Net comprehensive income** | **3,535,393** | **3,020,479** |

## Exhibit 1 (continued)

### CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, 2008–2009
### as of December 31 (in Jordan Dinar)

| | Capital | Compulsory Legal Reserve | Optional Reserve | General Reserve | Retained Earnings | Reserve for investment Revaluation |
|---|---|---|---|---|---|---|
| **Balances as at January 1, 2008** | **11,000,000** | **1,765,983** | **1,592,781** | **7,064,352** | **3,373,043** | **(201,276)** |
| Prior years adjustments | - | - | - | - | (165,355) | - |
| **Total comprehensive income** | - | - | - | - | **3,026,624** | **(6,145)** |
| Net income for the year | - | - | - | - | 3,026,624 | - |
| Revaluation of available for sale securities | - | - | - | - | - | (6,145) |
| Dividends | 1,100,000 | - | - | - | (2,200,000) | - |
| Appropriation of profits to reserves | - | 340,288 | - | - | (340,288) | - |
| **Balances as at December 31, 2008** | **12,100,000** | **2,106,271** | **1,592,781** | **7,064,352** | **3,694,024** | **(207,421)** |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **3,532,095** | **3,298** |
| Profit for the year | - | - | - | - | 3,532,095 | - |
| Revaluation of available for sale securities | - | - | - | - | - | 3,298 |
| Dividends | - | - | - | - | (1,210,000) | |
| Appropriation of profits to reserves | - | 353,210 | - | 2,704,379 | (3,057,589) | |
| **Balances as at December 31, 2009** | **12,100,000** | **2,459,481** | **1,592,781** | **9,768,731** | **2,958,530** | **(204,123)** |

### CONSOLIDATED STATEMENT OF CASH FLOWS, 2008–2009
### as of December 31, 2009 (in Jordan Dinar)

| | 2009 | 2008 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Profit for the year before tax | 4,478,047 | 3,396,336 |
| ***Non cash transactions:*** | | |
| Depreciation | 973,035 | 897,922 |
| Loss (profit) from trading securities | 191,777 | 2,317,969 |
| Provision for severance pay | 460,641 | 413,670 |
| Unrealized profit from revaluation of properties investment | - | (1,126,650) |
| Net decrease (increase) in other current assets | (326,906) | (1,237,628) |
| Net increase in other current liabilities | 368,683 | 332,554 |
| Income tax payments | (2,218,217) | (218,730) |
| Severance benefits paid | (66,300) | (53,920) |
| **Net cash flows from operating activities** | **3,860,760** | **4,721,523** |
| **Cash flows from investing activities:** | | |
| Increase in investments portfolio | (241,160) | (571,286) |
| Procurement of fixed assets and projects in progress | (1,404,923) | (1,928,306) |
| | **(1,646,083)** | **(2,499,592)** |
| **Cash flows from financing activities:** | | |
| Loan payable | - | (1,095,856) |
| Dividends paid | (1,210,000) | (1,100,000) |
| | **(1,210,000)** | **(2,195,856)** |
| **Increase in cash and banks for the year** | **1,004,677** | **26,075** |
| Cash and banks at beginning of year | 2,115,925 | 2,089,850 |
| **Cash and banks at end of year** | **3,120,602** | **2,115,925** |