

Marketing in Central and Eastern Europe

Achieving success in complex markets

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PREFACE

'Marketing in Central & Eastern Europe' forms part of a series of reports published by FT Retail & Consumer on marketing in developing countries.

In general the emphasis of this report, and of the whole series, is on the consumer market. The early analysis of each national study focuses on the psychology of consumers in central and eastern Europe (CEE) and best practice in market research. The middle sections analyse trends and present key data on the most utilised media channels while the final sections deal with critical aspects of retail marketing.

Business-to-business marketing, therefore, is not the main focus, although the report does cover developments in direct marketing including database management and telemarketing, key components of business-to-business marketing. The report also presents over 20 case studies describing how leading companies are marketing to other businesses. The activities of Commercial League in Bulgaria and Microsoft in Romania are two such examples.

There are two areas of marketing that deserve in-depth reports in their own right; these are marketing through the Internet and e-commerce, and the forthcoming explosion in cable and digital television services. With respect to the Internet, most countries in central and eastern Europe lag far behind the West, and indeed many parts of Asia. However, rapid developments are occurring in central Europe and in order to address this opportunity, a more detailed review of the use of the Internet for advertising and marketing in the Czech Republic is provided. This may help to anticipate Internet developments elsewhere in the region. The cable and digital television sector is monitored and analysed monthly by *TV East Europe*, also published by Financial Times Business.

...Case study 2.2: Commercial League - a leading pharmaceutical distributor in eastern Europe

Founded in 1991, Commercial League Co Ltd is by far the leading private pharmaceuticals distributor in Bulgaria. Its founder, Mr. Tihomir Kamenov, then aged 30, is a Doctor of International Commercial Law, and has conducted studies and research in western European universities and the United States.

Since its formation Commercial League has established its own regional branch structure and its own small transport units. With over 200 transport units in operation, the company can deliver to any point in Bulgaria within three hours. Commercial League supplies over 2,900 pharmacies and 300 food stores, 120 hospitals and health centres and services over 4,000 orders daily. There are over 650 staff and the company claims a 42% market share.

In order to succeed in a market where there existed over 550 pharmaceutical distributors, Commercial League adopted a primary and secondary marketing strategy. Their 'Customer focus' strategy is oriented towards continuous research and monitoring of client needs. Their secondary strategy involves collaboration with their suppliers, in order to improve selling skills and to share information and relevant technology, as well as with pharmacy chains in order to facilitate distribution and influence drug consumption.

Marketing environment and strategy

In 1998 the pharmaceutical market in Bulgaria was growing steadily but ineffective licensing procedures and lack of regulatory control brought about a series of price wars between 130 full-line and 320 short-line wholesalers. In addition the Bulgarian pharmaceutical industry is affected by a procrastinated five year privatisation programme and the local industry which has failed to establish modern marketing and promotion units which inevitably has resulted in loss of confidence in the quality of domestic products.

In response to this challenging environment Commercial League has invested in computerisation and automation, offers more value-added services to clients (upgraded information technology, computerised orders, merchandising and financing) and suppliers (market information, product substitution services). In addition, the company enjoys the status of a full-line wholesaler. These facts predetermine its marketing strategy. Until recently, its main goal was to fully meet client needs while not attempting to shape them. However, this is changing since in order to succeed as an importer and distributor of pharmaceuticals it is necessary to have a more pro-active marketing strategy. This includes systematic attempts to work closely and interactively with the Bulgarian reformist government.

There are four main market segments:

- hospitals including all types of health service institutions, usually subsidised by the State or municipalities
- private pharmacies, including four major chains of pharmacies
- community (municipal) pharmacies, most of which are now under privatisation
- subdistributors; other wholesalers, usually small local entrepreneurs with limited territorial reach

Owing to the price control regime, market growth of Commercial League must be achieved by higher volume sales. Accordingly, at the end of 1998 the company took the strategic decision to diversify its product range and set up four main business divisions:

- pharmaceuticals including OTC, medical and surgical disposables and materials such as X-ray films, and high-tech diagnostic equipment
- nutritionals
- cosmetic products and hygiene supplies
- dental materials and equipment

The new divisions required new approaches to the major customer groups which are:

- infant nutrition stores
- supermarkets
- beauty shops and centres
- dental clinics and private dentists

The essence of Commercial League's marketing strategy is best illustrated by the Personal Sales Program, which is about:

- detailed study and knowledge of the respective market segment, including clients with changing attitudes and butterfly customers
- the territorial division of each segment; between the regional branches and subsequent allocation among telephone dealers. Hence, each dealer from the Sales Departments has a definite number of clients, whose potential and needs he must be fully acquainted with and able to satisfy. The focus is on exhausting the market potential by building the trust and long-lasting loyalty of the client
- each dealer works with a personal file of clients, categorised according to a number of basic criteria: percentage of market share, loyalty rate, activity level, development phase. This personal file measures and records each dealer's work and professional progress and weaknesses

Competitive pricing policies are the main marketing strategy adapted for the hospital and subdistributor segments. This includes sufficiently low prices coupled with attractive commercial terms. For the pharmacy segments, both private and public, the marketing mix combines pricing policy promotion and image building initiatives, advertising campaigns as well as loyalty schemes. The staff of Commercial League regard themselves as the engine of the wholesale industry's development.

Private labelling is another supportive strategy the company recently adopted. In 1999 Commercial League launched its own private brand of a wide range of cosmetics developed and produced to order in Switzerland. TURGOR, the brand, is designed and produced to satisfy Commercial League's customers with high quality at affordable prices.

Immediate support is also provided by the following marketing programmes: Information Service, Active Substitution, Urgent Deliveries. These were all set up in order to provide a flexible service, such as deliveries within one hour.

Commercial League was the first in the country to launch the Care for You Program based on the ideas of managed care and pharmacy benefit management. This resulted from the new health insurance system in Bulgaria and the advice provided by the Australian Health Insurance Commission. The programme involves the gradual

accumulation of patient data and building data processing capacity which is so badly needed. The first aim of the Care for You Program is the vertical integration of information among the five major healthcare providers in Bulgaria. With the support of Merck Co and Abbott, two groups of Commercial League managers studied the experience of Merck-Medco Managed Care and some privately managed insurance funds as well as the practice of the US based health organisations.

Advertising strategy

Advertising is regularly undertaken and its primary objective is to strengthen the image of Commercial League as a leading pharmaceuticals importer and distributor and remind the public of the company's value-added services.

Print advertising: Because of the particular goals of Commercial League's advertising campaign and the specific characteristics of the pharmaceutical market, print advertising (specialised journals, catalogues, brochures, leaflets, etc) takes precedence over other media. The company publishes a journal and catalogue of the products offered designed to reinforce its image as a customer-orientated supplier. The journal is published quarterly.

Promotion initiatives: The Active Substitution marketing program includes promotion and co-promotion of various products. A specialised unit of medical representatives has been formed to market and promote individual manufacturers and their products to doctors and dentists. To this end Commercial League launches new product and sales campaigns, organises numerous symposiums, as well as new product presentations.

Direct mailing: The main means of communication with target groups are letters, catalogues and monthly corporate publications. Since there are no reliable address providers in the country, the company has organised its own database of client addresses, physicians and dentists, comprising over 30,000 records. Mailings include information about products, new (seasonal) prices, commercial terms and recent company activities.

Media advertising: Due to the specific character of the market and the regulatory regime, the firm employs electronic and other media advertising on a small scale. Media advertising is utilised in PR campaigns carried out by Commercial League's senior management in cases such as the Kosovo Refugee Donation Campaign.

Successful marketing campaigns

Example 1: Thomapyrin

The introduction of Thomapyrin, a product of Boehringer Ingelheim, proved to be one of the best organised new product launches in Bulgaria and within three months had captured a 37% share of the soluble aspirin market and significantly affected sales of their major competitor, Upsarin. During these three months Commercial League combined television and mass media advertising campaigns with competitive low pricing, rebate schemes for sub-distributors as well as sales promotion programmes which provided bonuses for distributors who exceeded their sales targets. Models of expected retail demand and product substitution were provided to their network of dealers.

The success of Thomapyrin was recently cemented by the National Commission For Competition Protection which confirmed that such modern marketing practices are legal and publicly beneficial.

Example 2: Hipp baby foods

Commercial League recently acquired the distribution licence for the Hipp range of bio-nutritional (organic) baby foods. There are no fewer than ten competitors in this market but within a few months Hipp, a popular German brand of baby foods, had over-taken the traditional leader Nestlé, capturing a 22% share which Commercial League forecasts will rise to 33% by the end of 1999. The successful introduction of Hipp baby foods was the result of a four pronged marketing campaign targeted at mothers with infants under six months old, paediatricians, retailers and the wider public.

Mothers and paediatricians were both contacted directly. The mothers were reached via a promotional campaign while still in the maternity wards and again during their visits to the infant consultancy centres. Paediatricians were visited by the sales force at least twice monthly. In addition to these campaigns Commercial League offered retailers commercial discounts during the two month introductory period. To reach the wider public, advertisements were placed in specialist child care journals, women's magazines as well as in medical journals...