Source : www.thehindu.com Date : 2022-09-15

EXAMINING THE DOLO SCANDAL

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The office of Dolo-650 maker Micro Labs in Bengaluru. | Photo Credit: PTI

Recently, a controversy bubbled up regarding the marketing strategies of Micro Labs, a Bengaluru-based pharmaceutical company. Micro Labs, the maker of Dolo-650, was charged of having bribed medical doctors with freebies worth 1,000 crore in one year to promote Dolo-650.

Dolo is an analgesic and antipyretic — a non-steroidal anti-inflammatory medication to help with fever and mild pain. It can be purchased from a chemist without a medical prescription. It is actually plain paracetamol, which is a particularly crowded market and fairly competitive too, in a manner of speaking. The Drugs (Prices Control) Order (DPCO) has established ceiling prices for over 850 medicines, including of brands of paracetamol. The ceiling price for a single 650 mg paracetamol tablet is 1.83 and for a single 500 mg tablet, it is 0.91. It is naturally more profitable for 650 mg to be sold. But how profitable, exactly? Do the incentives work out for the firm? In particular, does the economics work out in terms of giving away 1,000 crore of freebies?

The paracetamol API is mostly imported from China. There has been significant upward pricing pressure, mostly because of the difficulty of ensuring regular supply from China. But given the price ceiling and the level of competition, investing in the level of ‘freebies’ reported is unlikely. We are not suggesting that the problem of ‘freebies’ doesn’t exist. But the supply chain for freebies is much easier to manage for specialty drugs such as chemotherapy drugs, or when products such as stents and knee and hip implants are directly sold to hospitals. For paracetamol, given the price ceiling and the number of competitors, tracking prescriptions and rewarding doctors is challenging.

You might argue that Micro Labs may have been willing to take a hit on their margins in order to bump up sales. Perhaps the freebies could be justified if there are other benefits? Well, higher sales at lower margins to the selling company might make sense, but this is a strategy usually employed to beef up the financials, in order to make the valuation look better. The truth comes out eventually. Or you may argue that this was a brand-building exercise in anticipation of higher over-the-counter sales, to help push through a sale of the brand to a pharmaceutical major. Without these angles, the story stands on shaky legs.

Yet, thinking about this scandal is still instructive, for it lays bare the extent of the problem, beyond the paracetamol segment, let alone the specific product (Dolo). The Uniform Code of Pharmaceuticals Marketing Practices explicitly prohibits gifts, payments and hospitality benefits to doctors on the part of medical representatives. Pharmaceutical firms have been declaring their compliance with, and adherence to, this code since 2015, if not earlier. The kicker? This code has been fully voluntary since 2015. There is also no enforcement mechanism. The Indian Pharmaceutical Alliance, which is meant to “enforce” the code, has promptly given Micro Labs a ‘clean chit’.

That being said, there are provisions that detract pharmaceutical firms from offering incentives. And they come from a somewhat unexpected source: the Income Tax Act, 1961. The Act explicitly disallows deductions for payments to doctors. Moreover, tax deducted at source (TDS) is applicable for all payments made to doctors. Workarounds are possible, but this acts as a huge financial disincentive for pharmaceutical companies.

There’s more. Para 1.5 of the Indian Medical Council (Professional Conduct, Etiquette and

Ethics) Regulations, 2002 states that every physician should, as far as possible, prescribe drugs with generic names. It also states that there is both a rational prescription and use of pharmaceutical drugs. This is, of course, rarely done and there is no enforcement. This regulation also prohibits the disbursement of gifts. In this case, there is potential for enforcement — a reprimand, at the least — and even for cancellation of license, though this happens very rarely.

The solution is two-fold. First, a move to prescriptions without brand names should be the default practice. Doctors will then have no incentive to promote particular brands and pharmaceutical companies will have no incentive to give freebies to doctors. But even if doctors are not able to recommend a certain brand, pharmacists are. And their incentive is to recommend brands that give them the highest trade margins, which are based on the maximum retail price (MRP). We can remove this incentive by introducing a flat dispensing fee, regardless of MRP. This will restore agency to the patient.

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