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Big Pharma Facing

Study confirms that sales of questionable drugs in illicit online pharmacies and B2B exchange sites continue to rise, putting supply chains and consumers at risk

■ **By Frederick Felman, Chief Marketing Officer, MarkMonitor**

The online pharmaceutical market offers enormous potential to make big money and – as a result – has attracted droves of con artists who hijack well-known brands for their own profit and thrive by selling illicit drugs, endangering consumers' health and well-being. According to The Center for Medicine in the Public Interest (CMPI), the counterfeit medicine business will reach \$75 billion in sales globally by 2010. Due to the cross-border nature of pharmaceutical brandjacking, this trend will continue even with the passage of higher targeted laws like the Ryan Haight Online Pharmacy Consumer Protection Act of 2008, which was recently signed into law by U.S. President Bush.

In the summer of 2007, MarkMonitor®, an enterprise brand protection company, conducted a benchmarking study to measure the size and scope of online pharmaceutical abuse and how pervasive these online attacks have become. The report – the Summer 2007 Brandjacking Index™ – used six leading prescription drugs* in order to identify online pharmacies and estimated a conservative market of \$4 billion in sales through questionable online pharmacies. Only four of the 3,160 online pharmacies studied were accredited by the VIPPS program from the National Association of Boards of Pharmacy and 10 percent of the pharmacies clearly stated that no prescription was required to purchase the drugs. The Brandjacking Index tracked millions of e-mails and billions of Web pages, including listings on online auctions and popular B2B exchanges.

One year later we revisited this research, finding compelling metrics and evidence that the problem is growing and continues to be profitable for con artists. The marketing techniques used by these fraudsters include investing significant dollars on promoting their sites, a technique that is driving traffic threefold. The data also shows an increasing number

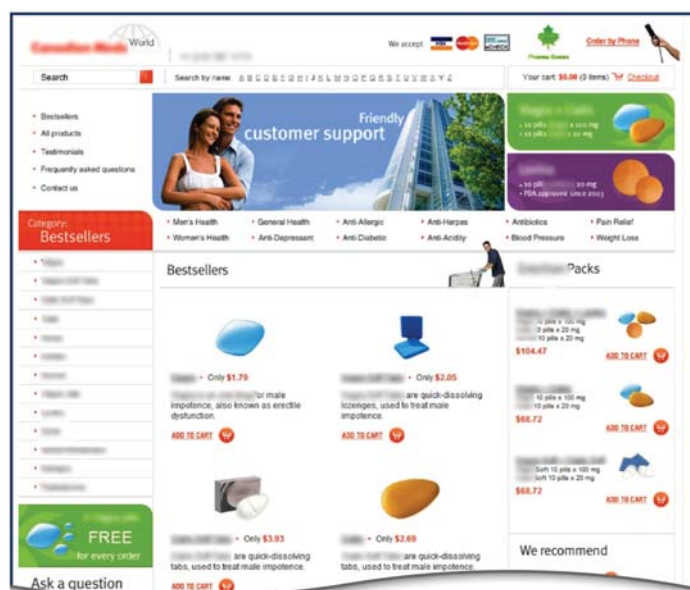


Figure 1 - Example of a "Canadian" online pharmacy that is hosted in the Russian Federation.

of small manufacturers using the B2B exchanges to draw attention to their operations – putting pharmaceutical brands and consumers' health at risk as illicit drugs and active ingredients find their way to customers.

Complete findings of the research are included in the MarkMonitor Summer 2008 Brandjacking Index (available for download at www.markmonitor.com), which analyzes these trends and compares them to the 2007 benchmark report. Following

are select highlights from the study which are of interest to the pharmaceutical manufacturing community.

BRANDJACKING – AN INDUSTRY THAT IS NOT GOING AWAY

Buying drugs online continues to be fraught with fraudsters and, sadly, is even more popular than in 2007. There is more traffic to online pharmacy sites that are doing more business, and a 36 percent growth in the availability of drugs in the online supply chain. Moreover, online pharmacy sites are getting more sophisticated at attracting their audience by investing in search advertising words to drive more traffic to their storefronts.

Overall, 60 percent of the presumed fraudulent online pharmacies and B2B exchange sites we identified in 2007 are still operating. This is an industry that isn't just going away, but is getting better at conducting their illicit activities and preying on the public. Figure 1 is an example of one online pharmacy that is labeled as Canadian but hosted in the Russian Federation, according to its IP address. Last year, it listed a Los Angeles area code, but this year the company shows a Texas phone number. We made a purchase from this website and our credit card statement reflected an Israeli merchant account; when the drugs were finally delivered, they were shipped and

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manufactured in India. No matter where this 'pharmacy' is really located, it continues to display faked credentials, and when you telephone them, a heavily-accented Russian voice invites you to leave a message.

The total number of online pharmacies surveyed dropped slightly from 3,160 last year to 2,986 this year. Only two of the pharmacies that we identified were VIPPS-certified. As in the past, close to two-thirds of the pharmacies didn't use any encryption to protect customer data, adding the risk of identity theft to the shopping experience. Most notably, the number of daily visitors to these sites nearly tripled, thus exposing many more consumers to potential harm.

This dramatic increase in traffic drives a sizable increase in revenue, which we estimate at \$12 billion. To make that calculation, we used industry statistics for purchase rates of .05 percent of the traffic and average order size of \$70.

Our findings show price discounts of 85 percent from established and certified pharmacies, which is even more of a "bargain" than we found last year. These aggressive discounts are a strong indicator that the drugs being sold by non-certified pharmacies are suspect. To test this theory, we chose one drug brand and examined similar quantities and dosages across two groups of pharmacies. When examining pricing at 30 randomly selected, non-certified pharmacies, we found an average price of \$2.54. In contrast, prices for the same brand, quantity and dosage at four VIPPS-certified pharmacies revealed an average price of \$10.54. This wide discrepancy indicates that the drugs sold at these non-certified pharmacies are fake, stolen, alternates, expired, diluted or gray market versions and should be avoided by consumers.

Perhaps the most disturbing trend is the use of search engine advertising to draw in more unsuspecting marks to these misleading pharmacy sites. Using industry figures for cost per click (CPC), impressions volume and click through rates

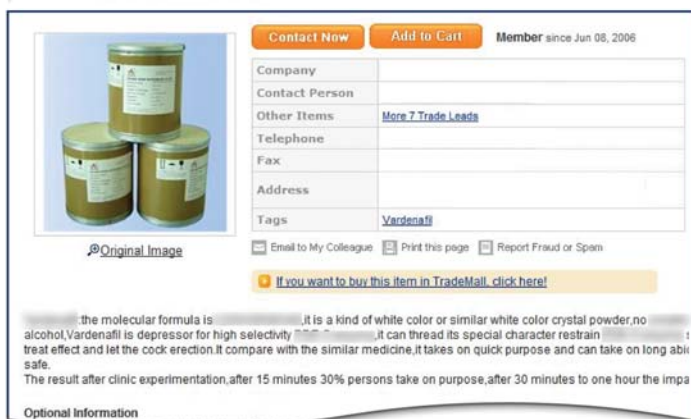
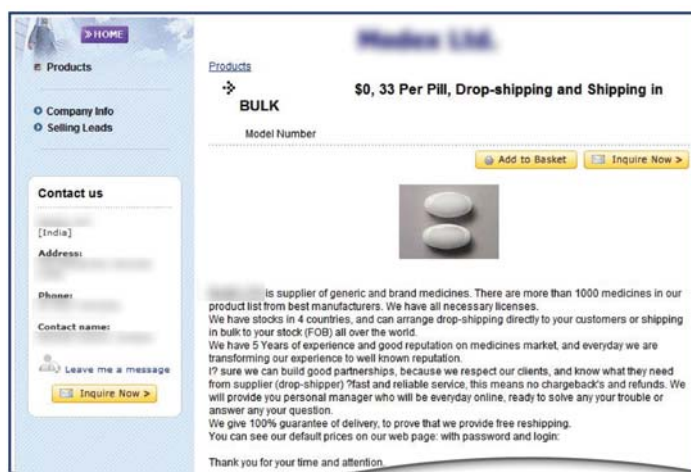


Figure 2 - Top: Pill exchange listing.
Figure 3 - Bottom: Bulk quantities of active pharmaceutical ingredients are available online, including patent-protected drugs.

(CTR), we estimated illicit advertisers are spending \$26 million annually on the six drug brands that we studied. We identified 11,836 search ads; none of the ads that we analyzed were from legitimate brandholders. More than two-thirds of the ads showed trademark abuses. All of these ads led visitors to misleading sites that were selling these

drugs. None of the sites were VIPPS-certified.

Almost half the pharmacies that we identified in the study were hosted in the U.S., decreasing from almost 60 percent in 2007. The United Kingdom exhibited a small decline in the number of online pharmacies hosted, at 12 percent vs. 14 percent in 2007. Germany and the Netherlands displayed the greatest increases, hosting 9 percent and 7 percent of the total, respectively.

There is a ray of good news. We found that there are significant price variations on the sales of drugs from legitimate VIPPS-certified online pharmacies, too. Consumers can find deals if they shop around online at VIPPS-certified pharmacies and be assured of buying with confidence.

We also examined the role of B2B exchanges in the online pharmaceutical market, as we did in last year's study to understand the supply chain impacts of the online pharmaceutical brandjacking. The number of exchange listings for bulk quantities of the six drugs studied increased to 530 from 390 in 2007, while the number of sellers decreased to 185 from 238 in 2007. This could indicate an

increasing specialization or consolidation in this market segment. The decreased volume of pills on offer indicates that an increasing number of small manufacturers may be using the B2B exchanges to promote their businesses.

Interestingly, we found that far fewer exchange listings indicated a country of origin for pharmaceuticals. While 44 percent of the listings in 2007 listed a country of origin, only 19 percent did so in 2008. We surmise that the wave of negative publicity around foreign pharmaceuticals in the past year has prompted many of these manufacturers to cloak their national origins.

Figure 2 is an example of a B2B exchange listing, selling loose pills at a 93 percent discount over their retail price, from a site that is hosted in India but with Russian contact information. The significant discount indicates that the site is selling fake, diluted, alternative, stolen, gray market or expired medicines.

Some of the manufacturers on the exchanges are also selling bulk quantities of the active ingredients for drugs, including patent-protected drugs. (Figure 3) These

huge quantities could supply thousands of doses. This practice is not just questionable, but points to violations of patents and intellectual property statutes as well.

CONCLUSION

The threat presented by illegitimate online pharmacies and listings on B2B exchanges is real as many retail and wholesale sites claim to sell branded goods that may be, in reality, fake. While some are copies or innocuous placebos, these drugs can be life-threatening. As the number of people looking to save money by buying pharmaceuticals over the Web grows rapidly, and scammers more aggressively exploit loose controls over online sales of drugs, brandholders must ensure these customers are not faced with the potentially life-threatening risk of buying fake or sub-standard medications.

Pharmaceutical brands have a responsibility to patrol their brands to protect their customers and their companies. It is necessary to monitor digital distribution channels



– just as they do with physical ones – to help keep questionable, outdated or dangerous drugs from entering the supply chain. By identifying potential abuse early and proactively watching the use of their brands

on the Internet, pharmaceutical companies can limit the negative effects of this activity, maintain the value of their established brands and – most importantly – protect the safety of the consumer. ■

** The six brands studied were identified from examining Drug.com's top-selling brands for the respective year and the most-searched drug brands online. All the drugs require a prescription.*

Portions of this article were reprinted from MarkMonitor's Summer 2008 Brandjacking Index report, which may be downloaded at www.markmonitor.com.

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