

Global pharmaceutical industry

[Business](#), [Industries](#)



INTRODUCTION According to Hunter s. Thomas " you can turn your back on person, but never turn your back on a drug, especially when it's waving a razor sharp hunting. " The global pharmaceutical industry had done tremendous contribution to mankind, but now pharmaceutical companies are facing tough time in a decade. The case is broken in to different parts which is emphasized on how internal and external factors affecting the industry firstly, the main environmental forces currently affecting the industry through PEST analysis.

Secondly, the implications of the changes in business environment that is internal factors through porter's five force theory. Finally, the use and limitations of the tools applied to solve case are discussed. ORIGIN AND EVOLUTION The present pharmaceutical industries are non-assembled and more of competitive but it had emerged in early 19th century in the Rhine valley near Basel Switzerland where dyestuffs were found to have antiseptic properties.

Companies like Hoffman-la rochy, Sandoz, Novartis are all started as Rhine based family dyestuff and chemical companies, which are still doing tremendous business even to day. Slowly these chemical companies started making pharmaceuticals and synthetic chemicals and evolved as global players. In early 1940's the industry showed drastic changes such as introduction of penicillin and other drugs. In 1960's industry growing rapidly with the setting up of R&D not only this economies prospered by the spending on healthcare in same period.

In 1970's industry showed major development but a strong regulatory controls also came into existence with this development, and this regulatory

<https://assignbuster.com/global-pharmaceutical-industry/>

controls had removed the rule of permanent patent to some fixed period which resulted in birth of branded generics. ENVIRONMENTAL FORCES EFFECTING PHARMACEUTICAL INDUSTRY The scan of external macro environment in which the firm operates can be expressed in terms P-POLITICAL E-ECONOMICAL S-SOCIAL T-TECHNOLOGY POLITICAL FACTORS AFFECTING THE SECTOR

Political factors includes government regulations and legal issues defines both formal and informal rules under which firm operates some example like tax policy, trade restrictions and tariffs, political stability. Political arena has huge influence up on the regulations of business and the spending power of consumers and other business. Over many years the pharmaceuticals industry has increased political attentions because of increase in recognitions of the economic important of healthcare as a component of social welfare .

It takes 10-15 years on average to experiment drug to travel from lab to patient consumption, as patent protection is fixed that is only 20 years but companies has to spend 15 years on experiments by the time it reaches to the market the patent will be almost comes to expired and which will result in birth of generic medicines which has exactly same ingredients as of branded drugs but shows huge difference in price, because the generic brand does not spend on clinical trials so the entry of generic are the major impact on pharmacy industry because of the legal policy set by political forces example in us 84% of sales had been dropped in 12 weeks by Allegra hay fever treatment because of expiry of patent in 2006. Another major problem affecting the industry in many countries are monophony which

means only one powerful purchaser who are government. Since 1980 government around the world attracting pharmaceuticals as a politically easy target in their effort to control I in increasing health care expenditure like price and reimbursement controls and also the industry loosed both public and political support to resist this change.

In 1990 the effect of economic recession had lead to fall in tax revenue, the government forever changing cost containment plans had become operations of the company unstable in European market which is highly fragmented, moreover the expansion of EU had provided many opportunities but it also raised new challenges from generics and low priced imports.

ECONOMIC FACTORS AFFECTING THE SECTOR Economic factors affect the purchasing power of potential customers and the firms cost of capital examples like economic growth, interest rates and exchange rates. The government price control is a major challenge to the industry in the form of parallel trade. Parallel trade is nothing but free movement of the product across the Europe with out any trade barriers which will affect the local manufacture because the distributor will buy drugs in low price markets and export them to high price markets example buying the product from manufacture in Poland and exporting them to Ireland.

The exchange rates and currency problem is also one of the major issue for example Canada has inflexible pricing and reimbursement criteria, where USA does not have price controls as a results the price drug in America is high compare to Canada which leads to damage of brand image in consumers mind for example price of Lipitor is 3. 20/pill in USA where in Canada which is 1. 89/pill for same drug. Not only this, the growth of

pharmaceutical market is aligned with GDP growth. As R&D productivity is declined and development times were lengthened, as clinical trials are becoming more complex and costly there was sharp rise in R&D expenditure.

SOCIAL CULTURAL FACTORS AFFECTING THE SECTOR

Social factors includes the demographic and cultural aspects of the external macro environment these factors effects customers needs and the size of potential markets, some social factors include health consciousness, population growth rate, age distribution, emphasis on safety and carrier attitudes. ageing populations are creating pressure on healthcare funding systems as over 65 consumes four times more than that of below 65 which leads to more expensive technology solutions and increase in patient expectations had created an unsustainable situation to the industry. Some countries cannot enjoy universal coverage system and latest treatments because they are not funded by the insurance companies like USA which can afford latest technology but cannot share the benefits because of increasing populations in different parts of the world.

In developed countries consumer are benefited by the insurance and can afford ethical drugs but the countries who cannot afford to ethical drugs are switching to generic to save coast which pressuring pharmacists to substitute generic drug as the first choice, patented drugs are only used if generic drug fails. The OTC(over the counter) comprise of 20% of market which may purchase without prescription specially OTC is more in developing countries and also for these the patented drug companies has introduce disease management initiatives to attack the challenges from generic. Some consumer does not want to use biopharmaceuticals because they genetically

done. **TECHNOLOGICAL FACTORS AFFECTING THE INDUSTRY** Technological factors can lower barriers to entry, reduce minimum efficient production levels and influence outsourcing decisions. Some of the technological factors includes R&D activity, technology incentivise and rate of technology change. he technology is an competitive advantage to the companies and success of R&D lays in team working, knowledge management and close relation with external flexible and some indicates lean and flexible operations and out sourcing is a gate way of success not only these there are many questions raised that the investment on R&D is could not sustain for example in 2005 there are nearly 650 cancers drugs in development. The utilization of technology is very expensive because it includes latest instruments which is possible only for developed countries to use technology because they are funded by insurance companies and product developed by this technology cannot afford in developing countries because of its huge investment.

THE IMPLICATIONS OF THE CHANGING BUSINESS ENVIRONMENT OF THE PHARMACEUTICAL INDUSTRY Porter's five force model " The porter's model is an outside in business unit strategy tool used to know value of industrial structure. The competitive force analysis is made by the identification of five fundamental competitive forces. "(12MANAGE: 2009) **POTENTIAL ENTRANCE** The threat of new entry is low in this sector because companies has to spend huge amount to produce a product, so investment for the capital is very huge and its as to follow many rules and regulations set up by the government and to maintain the standard which where set is very difficult for new companies which want to enter into market.

More over it is very risky business because it takes 10-15 years for new market to come into market and nobody is sure about the success of the products and patent time is also limited. **POTENTIAL SUPPLIER** Bargaining power of supplier is low because there are only few suppliers because the suppliers in this industry are different from other industries as ingredients used to make drugs are chemicals so the suppliers are chemical industries. It is very difficult for the suppliers to sustain in the market because if they increase their price the company may change supplier who supply raw materials comparatively low price compare to existing one and industry is not key customer group to the supplier. Brand image, role of quality, service of supplier is not considered by the industry. **POTENTIAL BUYERS**

Bargaining power of buyer is high because main buyers are generally government and the companies that is monopoly and companies cannot go against them and they can only sell the product to government the other side of the buyer are consumers who's buying power is also high because of substitute available in markets and brand loyalty is low in consumers.

POTENTIAL SUBSTITUTES Threat of substitutes is high in this industries, there are many substitute products in market like generics, branded generics, biopharmaceuticals as they are very cheap compare to the branded drugs as discussed earlier that branded drugs will consider only when generic drugs fails. And import of drugs from china and India which are produce very cheaply compare to local producers. **COMPETITIVE RIVALRY**

Competitive rivalry is high in this sector because advantage gained by the first mover advantages (patent). As market is getting saturating companies are going global which means world wide launches, global branding and

heavy investment in promotion as shorter product life cycle and to gain competitive advantage. In spite of taking care during launching the industry is still faces tough time from generic drugs and not only this merges and acquisitions as one of the major cause for competitive rivalry. SWOT ANALYSIS OF PHARMACEUTICALS " Swot analysis provide information that is helpful in matching firm resources and capabilities to the competitive environment in which it operates. "(QUICKMBA: 2007) S-STRENGTH W-WEAKNESS O-OPPORTUNITIES T-THREATS

The environmental factors internal are strength and weakness and external are threats and opportunities. STRENGTHS Patent is one of the major strength in this sector of industry which has strong brand names such as Pfizer, GlaxoSmithKline, Merck, Johnson and Johnson, Novartis. The above mentioned companies have good reputations among the consumers The sector have cost advantages from propriety know-how This sector company have exclusive access to high grade natural recourses The sector has favourable access to distribution networks WEAKNESS Patent is consider as strength of this sector but due to limited time for patent had become its weakness. The products from this sector have side effects.

The products take long time in development such as clinical trials which takes 10-15 years. It involves high cost structures such as investment on R; D, advertising. One of the major weaknesses is regulatory and legal issues by FDA. OPPORTUNIITIES Human needs are unfulfilled, so this unfulfilled needs are the opportunities for develop new products. The arrival of new technology as technology keeps on changing time by time. The removal of internal barrier like free movements of goods within EUROPEAN UNION. Due

to pressure from big branded companies as this sector contributes major share to economy due to there pressure loosening of regulations may be happen in future. THREATS

Generics are the major threat to this sector The shift in customers taste away from the firm's products, customer in this sector does not have particular brand. Availability of huge range of substitutes in markets Entry barriers to some countries Parallel trade is also one of the major threat to this industry. USES AND LIMITATIONS OF TOOLS PEST USE Pest analysis looks at the external environment and good tool to understand big picture of the environment in which business operates. And it will allow companies to take opportunities and reduces threat of a company which they are facing. Pest analysis provide further plan to a company to develop if strategic plan is done correctly.

With the pest analysis companies can see longer horizontal time and able to differentiate opportunities and threats and also help companies to look outside environment and what are the potential forces which going to affect. Pest is a mnemonic standing for political, economic, social and technology which are use to brain storm the characteristics of a industry and can draw conclusion as the significant forces of change operating with in it. More over it is useful to avoid taking actions which results infailure, it is very useful especially in starting new products because it will avoid assumptions and make to adopt quickly the reality of the new environment, it is straightforward and easy to adopt, broad categories covering major environmental factors and will provide more data about influence.

LIMITATIONS

<https://assignbuster.com/global-pharmaceutical-industry/>

It is not a set of rigid compartment to store ideas more over pest analysis does not analyse all the details in the external environments like markets, share holder, creditors, supra-national bodies, pressure groups and labour markets. PORTER'S FIVE FORCE USE Porter's five forces theory is valuable contribution to study competition it give important information in three aspects. STATICAL ANALYSIS: It determine industrial attractiveness and gives an over view of profitability, this model helps in entry and exit questioning a market segment and used to compare influence of competitor forces and influence of competitors . DYNAMICAL ANALYSIS: It helps to understand potential future attractiveness of the industry. ANALYSIS OF OPTIONS:

The knowledge and power of five forces help company to develop options to improve position of the company which results in new strategic direction like new differentiation for competitive products of strategic partnerships. Moreover, porter's five force models gives systematic and structured analysis of market structure and competitive situation, this model is applicable universal such as particular company, market segment and industries. LIMITATIONS Care should be taken while using this model such as never under estimate the important of current strength of the company. The model design for analyzing individual business strategies and it will not support the interdependence and synergy with portfolio of larger corporate.

If we look from the theoretical side the model does not show possibility that an industry could be attractive because some companies in it. More over some times it may be possible to create complete new markets instead of selecting from existing one and also some people argued that environments which are characterized by rapid, systemic and quick changes require more

flexible, dynamic approach for strategy formations. SWOT ANALYSIS USE The name it self say it is used to identify company's strengths, weakness, opportunities and threats. And use to formulate strategies the analysis usefulness of SWOT is not limited to profit seeking organizations.

It is used in decision making situation when a desired end -state has been defined, and it is used in pre crisis planning and prevention and also used to in creating a recommendation during a viability study LIMITATIONS It has ability to over simplify the situation by dividing the firms environmental factors into categories in which they may not fit. The classifications of some factors as strength or weakness, or as opportunities or threats is some what peculiar CONCLUSION The pharmaceutical industry made tremendous contribution to man kind but, the industry is facing tough time in this decade. Yet it is targeted by government, media in spite of huge investment on R&D and the product life is getting shorter. Free trade, parallel trade and exchange rate are oreover the birth of generics, creating major problems to the industry. Niche areas getting crowded creating price pressure, but the presence of global expertise firms like Pfizer, Merck will stand as global opportunities. The industry more than ever needs to get a handle on the slippery business of scientific creativity and provided it critics with indisputable evidence of its value. BIBLIOGRAPHY Johnson et. al (2007). Exploring corporate strategy. 8th ed. England: PearsonEducation. 915 Quickmba. (2007). Swot analysis. Available: <http://www.quickmba.com/strategy/swot/>. Last accessed 30 Oct 2009. Answers corporations. (2009). Swot analysis.

Available: <http://www.answers.com/topic/swot-analysis>. Last accessed 30 Oct 2009.

12 manage. (2009). Five Competitive Forces. Available: http://www.12manage.com/methods_porter_five_forces.html. Last accessed 30 Oct 2009.

12 manage. (2009). Five Competitive Forces. Available: http://www.12manage.com/methods_porter_five_forces.html. Last accessed 30 Oct 2009.

Olivia Hunt. (2008). Evaluation of five force theory. Available: <http://www.articlesbase.com/education-articles/evaluation-of-the-five-forces-theory-176854.html>. Last accessed 01 Nov 2009.

Olivia Hunt. (2007). Study of Porter's Five Forces Theory. Available: http://www.articlealley.com/article_185592_15.html. Last accessed 01 Nov 2009.

Netmba. (2007). PEST ANALYSIS. Available: <http://www.netmba.com/strategy/pest/>. Last accessed 01 Nov 2009.

Quickmba. (2007). PEST ANALYSIS. Available: <http://www.quickmba.com/strategy/pest/>. Last accessed 02 Nov 2009.

Verbigena. (2008). History and analysis of pharmaceutical industry. Available: www.verbigena.com/case_studies/history_analysis.pdf. Last accessed 10 Nov 2009

Papers4u. (2009). what is pest analysis. Available: <http://www.coursework4you.co.uk/essays-and-dissertations/pest-analysis.php>. Last accessed 10 Nov 2009

G. A. Cole (2005). Strategic Management. 2nd ed. London: person. 506 Read