

Why should a  
company go  
international?



## **Abstract**

Sumy pharmaceutical is a private limited pharmaceutical manufacturing company. That has been manufacturing medicine for about six years from now. The company wants to be one of the leading pharmaceutical companies in Nepal. But in order to do so they have to grow and increase their sales and market share, but how? However if the management/ company do decide to expand their business, want to grow their business internally or externally, or they want to go international, which one of these solutions or other solution would be the best growth option for Sumy Pharmaceutical. Therefore, the aim or the objective of this essay is to answer the question. “ Would going international be the best growth option for Sumy pharmaceutical?

In this report, I have written both the ways of expanding their business and other ways of growing their business. Going through the companies SWOT and PEST analysis with the growth option and other forms of expanding to.

### Methodology:

In the assessing the growth option of the company, sales reports and the income statement of the Sumy pharmaceutical. These reports shows exactly whether going international is the best solution to expand the business. Similarly, it also shows all the types of growth solution in order to expand or growth the business.

By comparing all these data together, this paper will examine exactly to what should be the best growth factor/option for Sumy pharmaceutical. A significant increase in the growth indicates the success of great profit

The use of income statements also assesses the growth strategies by comparing the income statements by any decrease in the cost of products sold suggests successful use of economics of scale. Sales report also determines the effectiveness of growth.

## Introduction

In Nepal, there are about 42 industries producing allopathic medicine and out of the 42, 16 of them has already been awarded the World Health Organization Good Manufacturing Practice certificate and Sumy pharmaceutical private limited is one World Health Organization Good Manufacturing Practice certificate holding manufacturing company. This company has added an impetus in the development of the pharmaceuticals industries in the nation. The company has been producing allopathic medicines for the last 6 year covering wide ranges of Tablets, capsules, liquids, ointments, eye/ ear drops. The company has latest GMP (Good manufacturing practice) INFRASTRUCE. The company has adopted the most advanced, sophisticated modern technology in all departments. The company has updated legal status and the duty renewed every year to be concerned authorities. The company has been manufacturing medicine ever since it was established. The company has well thought-out its pharmaceutical quality system sufficient. In addition, it has been following the effective pharmaceutical quality system to enhance the quality and availability of medicine within the different public health sector. The company has been manufacturing numerous varieties of allopathic medicine in a wide range comprising Tablets, Capsules, Liquid, Ointment, and Eye/Ear Drop. The company is committed to the production quality medicines

through the implementation of quality environmental and safety management with a high production capability. Following are the annual production capacity

Tablets: 70 millions

Capsules: 25 millions

Inject able: 100 kiloliters

Liquid: 520kiloliters

Ointment: 1. 5 millions tube

Dry syrup : 10 million bottles.

In addition, the company has been selling their product in the domestic market throughout Nepal. The company main focuses in the domestic market and it has wide geographical coverage in the domestic market place. Distribution to the consumer is being done through a network of intermediaries' like distributors, wholesalers and retailers throughout Nepal similarly company also participates in institutional supply like army supply, police supply, government supply through tender.

Apart from manufacturing medicine, The Company is committed to making a positive contribution to the community. The company has been sponsoring two students for education every year to complete their studies. The company has also been doing many social works like giving free medical checkup, free medicine distribution for needy people. The company has also been distributing juice and water to the public in Buddha jayanti every.

<https://assignbuster.com/why-should-a-company-go-international/>

Sumy pharmaceutical main objective is to produce the best qualitative medicine in Nepal so that everyone can live a happy life. The management of the Sumy pharmaceutical has concern about how to increase their sales, want to grow their business internally or externally, or they want to go international, and continue to grow and how to reach their customers. Their purpose is to increase market shares and they want to know whether they should try to go international or grow/ expand their business. This paper therefore aims to investigate the type of growth the company should use in order to expand their business, hence question is, “ Would going international be the best growth option for Sumy pharmaceutical?”

Why go international?

There are many type of growth option according to our course book and each growth option is divided into two groups, externally growth and internally growth. Other growth option for the company might be going international. However, my research is about whether the company should go international or go for other growth option and stay national. However, if you ask why going international might be the best growth option? Then here is your answer, as we all know that many company/ firms want to go international and the reasons that provoke them to go international is broadly due to the pull factors and the push factors.

The pull factors, mostly are proactive reasons, are those forces of attraction, which pull the business to the foreign market in other word many companies are motivated to internationalize because of the attractiveness of the foreign

market. Moreover, such attractiveness involves broadly the comparative profitability and the growth prospects.

The push factors, mostly refers to the compulsions of the domestic market, like saturation of the market, which prompt companies to internationalize.

Most of the push factors are likely reactive reasons.

In addition, here are some other reasons for why Sumy pharmaceutical should go international like

Profit advantage

Growth opportunities

Domestic market constraints

Profit advantage:

As we know that in an international business profit is one of the main reason for company to go international to earn more money/ profit than they do as a company does in a domestics market. Like in some cases where 100 per cent of the total profit of a company is made in the foreign market. So if Sumy pharmaceutical decide to go international than they might be getting more profit than what they get by selling their product in the domestic market. In addition, even when the international business is less profitable than the domestic is it could increase the total profit.

Growth opportunities:

Another important reason for going international is to take the advantage of the business opportunities in other countries. Multinational companies (MNCs) are getting increasingly interested in a number of developing countries as the income and population are rapidly rising in these countries. At this point, many companies could achieve the growth they realized only because of the foreign markets.

Foreign markets, in both developed country and developing country, provide gargantuan growth opportunities to both the firms. Like example in recent year, a number of Indian pharmaceutical firms have achieved a much faster growth of their foreign business than that of the domestic market.

Therefore, if the company decides to go international they company could have the developing opportunities' for both the internationals and the domestic market.

Domestic market constraints:

Due to Domestic, demand constraints many companies have driven towards expanding the market beyond the national border. There is numerous numbers of product in the market that seems to saturated or decline in the advance countries. This is often due to the market potential which has been almost fully been trapped. The technology advances have increased the size of operation substantially in many industries making it necessary to have foreign market, in addition to the domestic market, to take advantage of the scale economies. It is the thrust given to export that enabled certain countries like South Korea to set up economic size plant

This is the SWOT and PEST analysis of the company if the company decides to go international.

### S. W. O. T analysis

The S. W. O. T stands for Strengths, weakness, opportunities, and Threats

#### Strengths

Team work

Economy

Proper documentation , management rules and reporting system

Access too many banks and finances

Sound technology, infrastructure and technical Manpower

Fair geographical market coverage

High production capacity installed.

Cheap labor/more man power

#### Weaknesses

Over investment

Inadequate market share

Under capacity utilization

Recovery of sales collection



Competitor's/rival company

Political situation

Bands/curfew/strike

Scarcity of light

Opportunities

Government positive policies

Feasibility of expansion of its new product is highly potential

Larger potential market

New market (go international)

Work experience

Threats

Unfair competition in the market

Non conducive government policy

New government policy

New compatriots

New trend/new customers

Due to the company's highly effective technical, physical and production capacity, and manufacturing quality assurance are one main advantage of

<https://assignbuster.com/why-should-a-company-go-international/>

the company and cheap plus more labor that mean there will be an increase employment ratio. This will not only be beneficial for the company but also for the economics of the country.

## **P. E. S. T**

Stands for Political, Economic, Social and Technology

Political:

The current political status of Nepal is very unstable after the elimination of monarchy in 2008. There is no stability with the current government because the government still has not formed properly and there is a lot of struggle for power. The constitution has yet to draft and there is no consensus with the major political parties. This may cause stick/curfew in the country which will slow the production or stop the production for a while which will eventually effect the production which mean late delivery of supply. In addition, due to poor/less recognition Nepal has not yet given the authorities or the certificate to sell their product outside the country by the government itself. Moreover, even if the company manages to get the certificate or the authorities to sell their product outside the country they might not be able to pay up the registration fee to the authorities due to poor economic of our country.

Economic:

Economically Nepal is gradually growing as we can see but very slowly but satisfactory development in the country's GDP. According to the surveys and statistics in 2006, the country's GDP (US \$ Bn.) (current prices) (c) was 9. 0

while currently it is at 15. 1 approximately. This statistics shows that there is a slow rise in people's purchasing power. This would benefit the business. Sumy pharmaceutical's medicines aims at people all across the country with various medicines that helps them cure different diseases, with the economic growth, people's disposable income would increase and investing on a medicines would be possible. As economic status of the country develops, it helps in the development cost of new drug and period of clinical trial can be reduced because a clinical trial needs less subjects, it also helps in the replacement of the new drug on the market earlier because the development period can be shortened.

Also with the increase in the corporate houses in Nepal, the sales of medicine to increase are predictable as the service delivers “ advanced functionalities and broad network and enables entrepreneurs and businesses alike to deliver results efficiently and effectively.” Nearly thirty-six commercial banks, sixty development banks, over seventy-two finance companies and several hundred cooperatives are establishing ahead full steam. Currently, there are 160 licensed deposit-taking institutions and at least twenty-four financial institutions including five A-class commercial banks coming in the market.

### **Social:**

Being an international company is of such an prestige and being an international company it might give the company a lot of opportunity. In Nepal, medicines are like drugs that reflects person's social status. Also, majority of the Nepalese is below the poverty line. With a National Poverty Rate of 42. 0%, almost half of the population is under poverty line. Socially, a <https://assignbuster.com/why-should-a-company-go-international/>

medicine would sell in the urban market but less quantity of medicines are sold in rural areas due to the lack of transportations, which constitutes only a small proportion. The company will have to pay tax to the government to that country as well as our at the same time. They will have to adapt their environment in order to sell their product.

### **Technology:**

To make good and standard medicine there is the need of high qualities machinery and technology . Which specializes the machine to give/provide non-defective medicine too their consumers. If they machine are in good condition then the product will also be of high quality and better technology better the products.

Nevertheless, if the company does want to go international it seems to be quite profitable. But in the other hand if the company want does want to international but just want to stay national and sell their product in the domestic market by just expanding their business. A firm can grow in two ways: either by merging with or acquiring other firms (external growth), or by Increasing its own assets or output through the reinvestment of its cash flows in existing businesses (Internal growth). Both types of growth strategies are regularly used simultaneously, and have Advantages and drawbacks. External growth creates synergies and market power, but it can also destroy value if the management reinvests the firm's resources or free cash flows in inefficient projects for their own personal interest. On the other hand, internal growth provides more corporate control, Encourages internal entrepreneurship, and protects organizational culture, but it often is a slower way of growth compared to M&A since it requires the development of new

<https://assignbuster.com/why-should-a-company-go-international/>

resources internally. Therefore, the managerial choice between those two types of growth will have a consequential impact on the Firm's operational and market performance.

### **Internally growth/strategy:**

When a business wants to expand, its existing operations without outside source of funding, growth are generated by the cash flows retained by the company. An internal growth strategy is one primarily designed to achieve growth in sales, assets, profits or a combination of all. A corporation can grow internally by expanding its operations both globally and domestically.

Labour/man power

New technology

### **Labour/man power:**

Employment skilled labour in comparison of more unskilled labour, because if there are skilled labour than the work would be easier and faster cause unskilled labour will be the need of training which will be very time consuming and there will be less work than.

### **New technology:**

Recruitment of new technology will not only help the company to finish their work on time but also increase their production in no time. And due to the new machineries there will be fewer work forces. Which will reduces internally coat.

**Externally growth/strategy:**

When a business grows by merger, takeover or joint ventures, rather than by growing organically through its own internal development is an external growth. Growth that is used by companies as it can offer greater speed in achieving its corporate objectives than internal development is known as external growth. Typically, firms can increase their market share by merging with or taking over competitor in the same field. Restructuring of combined operations can lead to cost savings by which a company may seek to gain greater control of its growth. An external growth strategy is one designed for the same purposes as internal growth but involves also acquiring market share, international recognition, and acquiring strengths to compete more effectively and eliminate its competitors through mergers, acquisitions and strategic alliances.

Types of external growth:

Mergers

Acquisitions

Takeover

Mergers:

When two or more firms combine voluntarily to form one business in an attempt to enhance their profitability, productivity or position in the market is called mergers.

Acquisitions:

When one-business gains control of part of another business then a company may be willing to sell off one part of its business which is no longer to keep or which is no longer to fit into the objective of the business in the future.

Takeover:

When one-business gains control of another business due to mergers then, takeover is to be considered. If controlling interests are bought without, the consent or blessing of the management of the business it is to be the subject of management.

Why do businesses tend to join together?

A business tend to combine to make saving as a result of its increase in size. Growing in size can be gained by merging. Moreover, joining mean more human resources and labour mean more innovative idea and fast decision making. Few companies have also managed to grow without the resources. Like An American company (Microsoft) has grown by the unbelievable success of this product. However, this is very much the exception rather than the rule. The main reason why a company merges is to get the benefits from economies of scale.

Economies of scale

Economics of scale refers to the cost advantages that a business obtains due to expansion. Factors that cause a producer's average cost per unit to fall as the scale of output is increased. Economic of scale is a long run concept and refers to reduction in unit cost as the size of a facility and the usage levels of other inputs increase.

<https://assignbuster.com/why-should-a-company-go-international/>

If Sumy pharmaceutical chooses, any one of the above option there is no need of the company to go international. As some of the options are quite good and it might help, the company not only grows internally but also externally, the company will also tend to enjoy the economics of scale. In addition, the company will tend to grow big and have a great market value.

Existing medicine situation of Nepal :

In Nepal about 250 foreign pharmacy industries mostly Indian are taking major market share nearly 61% of total market share . Nepali industries can supply only 39% of domestic market. Annual growth of these industries is 16%. The production of modern medicine started by a private sector by Chemi drug industries. Decade later the government owned Enterprise, royal drugs limited appeared in the field around in BS 2029. There has been a lot of progression have so far been made in the drug and pharmaceutical sector after the enactment of drug act 1979 followed by the establishment of department of drug administration. Within a framework of Primary Health Care (PHC) and Health Promotion (HP), the focus of this paper is on integrating traditional and modern health care in the remote area of Bashkharka, Nepal.

Several companies have been set up in Nepal in order to improve the health of the country and for the growth of the economy. In addition, one of these companies is the Sumy pharmaceutical.

The existing market structure of pharmaceutical product in Nepal is generally divided into public and private sector. The private sector is the most significant from the industrial point of view. Pharmacy industry is not

<https://assignbuster.com/why-should-a-company-go-international/>



free from threats. The problem of unethical promotion of medicine acts as a major deterrent to the growth of these industries as the investment is not up to the mark. The competition not only within Nepal but also with international companies. Nepalese industries need support of government support as in India, Bangladesh, and Vietnam. These countries do not accept medicine from foreign countries which they can produce by own. That why this is also one of the main reason why these country are doing so well in comparison to Nepal. Even thou the country has not yet meet the standard in comparison of other country but still there has an rapid expansion of health services all over the country which mean the country has installed, more and more health services which of course means that there will be a demand/need of lots of medicine. Therefore, there is a serious need of establishing new pharmaceutical industry in Nepal but not only to support the services program but also to substitute import from foreign country and increase our economic. Now day's health has become one of the most important needs of our life and Nepal has been trying very hard to provide these facilities to the people but still it is beyond limitation to some common people of the country. Even though modern medicine has been practices for a long time and the history of modern, medicine is not so far for Nepal as well. The country has already started organizing modern service and was first established in 1890 A. D. (Bir hospital) to serve the people with modern medicines. The demands for medicines are usually imported from India and oversea.

This is the SWOT and the PEST analysis of the company if they decide to stay domestic.

## S. W. O. T analysis

The S. W. O. T stands for Strengths, weakness, opportunities, and Threats

### Strengths

Team work

Economy

Proper documentation , management rules and reporting system

Access too many banks and finances

Sound technology, infrastructure and technical Manpower

Fair geographical market coverage

High production capacity installed.

### Weaknesses

Over investment

Inadequate market share

Under capacity utilization

Recovery of sales collection

Competitor's/rival company

### Opportunities

Government positive policies

Feasibility of expansion of its new product is highly potential

Larger potential market

New market

Threats

Unfair competition in the market

Non conducive government policy

By the merges together then there will be the requirement of land and as the company grows there will be the huge demands of employees that will help the economic growth of the country. This will be benefit of the company as well as the economic status of the country. The company's can provide good qualitative medicines to the consumers. If the company wins the trust of the consumers, that will be the benefit for the country because the consumers will continue to buy the product from the company and will it eventually stop buying foreign medicine, which will help the country economy grow.

## **P. E. S. T**

Stands for Political, Economic, Social and Technology

Political:

Economic:

Social:

### Technology:

To make good and standard medicine there is the need of high qualities machinery and technology . Which specializes the machine to give/provide non-defective medicine too their consumers. If they machine are in good condition then the product will also be of high quality and better technology better the products.

### Conclusion:

Analyzing the company's SWOT and PEST of the company for both the situation I think the company should stay domestic for a while till the time they came grow bigger by adapting other sources of expanding or using other growth option as the SWOT of the company going international is good but their PEST has lots of negative impact. One of the main negative impacts is that the government does not allow or does not have the authority to sell their product outside the country because Nepal has not been certified to spread their business all over the world. The company's SWOT and PEST for staying domestic and grow their business positive impact on it

[http://www.easilyinteractive.com/blog/uploaded\\_images/ansoff-779433.jpg](http://www.easilyinteractive.com/blog/uploaded_images/ansoff-779433.jpg)