

Pharmaceutical industry in india economics essay



**ASSIGN
BUSTER**

India pharmaceutical industry is one of the world's largest and it has been ranked 4th in the world in terms of production volume and 13th in domestic consumption value. The worth of India's pharmaceutical industry is \$4.5 billion and it has been growing at the rate of 8% to 9% annually. Over the last 30 years india pharmaceutical industry has evolved from almost nonexistent to a world leader in the production of high quality generic drugs. There are 20,000 registered units so, this show that indian pharmaceutical industry is highly fragmented. 70% of the pharmaceutical market has been controlled by the leading 250 companies. The government has control over the price and there is severe price competition. 70% of the country's demand has been met by the pharmaceutical industry.

1. PORTERS 5 FORCE MODEL

Indian pharmaceutical business environment is extremely competitive and where perfect competition exists, the profits of the firms operating in that industry will become zero, but however this is not possible because, firstly no company is a price taker this means that no company will operate where the profit is zero every company needs some profit to sustain themselves in the market. Secondly they strive to create a competitive advantage to thrive in the competitive scenario.

Here, we apply this model for the Indian pharmaceutical industry.

Industry competition

Indian pharmaceutical industry is highly competitive with as many as 10,000 different players fights within themselves. The rivalry in the industry can be judged from the fact that the top players in the industry has roughly around

<https://assignbuster.com/pharmaceutical-industry-in-india-economics-essay/>

6% market share and the top players in the market has roughly around 18% market share this shows that the market is highly competitive. The industry is very attractive for new players to enter, so the growth prospects is quit high. Another factor that adds to the industry rivalry is the fact that the entry barriers to the industry are very low this factor also attracts new players in the market. Product differentiation also differentiate the company's product and gives a competitive advantage to the firm in the industry. Companies like Pfizer and glaxo have emerged as a big company over the years, which act as a product differentiation tools. So as product patents have come into play from 2005, product differentiation will enhance over the long time.

Bargaining power of buyers

The end user of the product is different from the influencer in pharmaceutical industry and that's the doctor. What ever the doctor say the consumer has to buy that only the consumer has no option but to buy what the doctor says. But when we look at the buyer's power, we look at the influence they have on the products price. The buyer in this situation does not have much power in the pricing of the products price. But the government through its policies plays an important role in regulating the price through NPPA (National Pharmaceutical Pricing Authority).

Bargaining Power Of Suppliers

The pharmaceutical industry depends upon many organic factors. Then again the chemical industry is very competitive and fragmented. The chemicals that are used in pharmaceutical industry are mainly a commodity. The bargaining power of the suppliers is very low and a company can switch suppliers without incurring a very high cost. But however, suppliers can go <https://assignbuster.com/pharmaceutical-industry-in-india-economics-essay/>

forward integration to become a pharmaceutical company. Company's like orchid chemicals and sashun chemicals were basically a chemical companies which later become into pharmaceutical company's.

Barriers To Entry

Indian pharmaceutical industry is one of the most easily accessible industry in the country. It requires very low capital and the point of sale is restricted, as regional distribution network can be created easily. However the key for long term survival is the company has create brand awareness and franchisee amongst doctor. In establishing new manufacturing operations, there might be some problem due to quality regulations by the government. Going forward the impending new patents regime will raise the barriers to entry. But market for generics is huge, so it won't discourage new entrance.

Threat Of Substitutes

Pharmaceutical industry has an infinite future. This is one of the greatest advantage of pharmaceutical industry. This is also one of the reason for high competition in the industry. The biggest advantage is that whatever happens the demand for pharmaceutical products would always be there.

PESTEL ANALYSIS

Political Factors

The Government is controlling the price of the pharmaceutical goods through NPPA , that too on the basis of approved costs.

From January 2005, there was Patent Act imposed in India. The patented drug is now manufactured using the same chemical route and is manufactured by the inventor or licentiates by using the chemicals in same
<https://assignbuster.com/pharmaceutical-industry-in-india-economics-essay/>

specifications. So there is no difference in purity or impurities among all the brands having same active ingredient. The competition among different brands is now based on input-related innovations like packaging, colour etc. This is the biggest change that environment has imposed on the industry. The marketing effort is now more focused on innovation, operations, logistics and communications.

After January 2005, the finished pharmaceutical goods became more expensive as the government started charging Excise Duty on the MRP instead of the cost of manufacturing. Due to which many a life savings drugs have become unaffordable to the poor.

The minister in charge of the pharmaceutical industry in India is threatening to impose strict price control. Due to which many investment plans are going stagnant

Economic Factors

A very small portion of the GDP is spent on healthcare. This has stunted the demand.

The expenditure on healthcare is a very low priority because per capita income of an average Indian is very low. When there is an emergency then only an Indian would visit a doctor. Due to which many unqualified doctors have started to come up and non-standardized medication have started to spread.

In India there are lot of taxes. There is excise duty (State and Central), Custom Duty, Profession Tax, Service Tax, Income Tax, Royalty, License

Fees, Hazardous Substance handling and other charges to be paid. This amounts to not less than 40-45% of the costs.

The availability of pharmaceuticals is affected as there are few registered medical practitioners.

The distribution of medicines is also affected as there are few medical shops. As a result the distribution costs also increases.

The interest rate is high in India. As a result the cost of funds is double than that in America. This adds to the cost of goods.

There is lack of storage and transportation facilities for special drugs. The quality of the drugs administered is affected and this adds to the costs.

The network of transport (road and rail) is poor. So it takes longer time to transport. As a result the inventory carrying costs are higher and the delivery time is also very long. But now good quality highways have been constructed.

Social Factors

The eradicated and preventable diseases like Malaria, chicken pox and TB still prevail in India due to poverty and malnutrition.

Around 1 million children under the age of 5 die each year in India due to poor sanitation n health care.

People prefer using household treatments for common ailments. This tradition has been handed down for generations.

The increase in pollution is also causing lot of health problems in India.

Due to early child bearing the health standards of women and children are affected.

Technological Factors

There are being discovery for newer medications, molecules and active ingredients.

Lot of advancement have been made in Stem-cell research and Bio-technology. As a result, India has moved ahead.

Efficiency has also increased with computerization and advanced automated machines, increasing the output and reducing the cost factor.

Ayurveda has become a well recognized science and it is providing the industry an extra competitive advantage.

AIDS drugs, Insulin and Hepatitis vaccines have given the industry a pioneer status.

Development of Over the Counter Drugs and Outsourcing(Pharmaceutical Industry).

Environmental Factors

India is still ill equipped to deal with spread of Air-Borne and Water-Borne Diseases like Swine Flu, chicken gonina due to which many people is infected and many people have died.

Proper treatment and disposal of bio-wastes like syringes.

Proper treatment and disposal of chemical wastes produced during the manufacturing of drugs and pharmaceuticals.

Pollution and hygienic conditions like poor sanitation causes diseases.

Legal Factors

In March 2005, a new Patent Law was passed. According to that India's pharmaceutical sector is no longer protected by the patent law. Hence the companies have started focusing on innovation rather than imitation.

The government controls the pricing of the drugs through NPPA.

Key Drivers For Change

1. Growing Population And Improving Income-: the earning capacity of people have increased in the past couple of years and the proportion of middleclass in india population has also increased. As the earning capacity of people has increased there is a greater demand for medical facilities and pharmaceutical products.
2. Changing Life Style-: Rise in income and as more and more people are getting educated this has resulted in change in life style. Changing life style however is leading to a change in disease profile especially in urban areas.
3. Research And Development-: Indian companies are largely focused on chemical synthesis of molecules and their cost effective production thereof. As medical science has improve with the help of new technology Indian scientists have develop a high degree of chemical synthesis skills. This skills has help Indian company to provide quality products not only to domestic market but also has helped them to go abroad.

4. Insurance Sector Giving A Lift-: Indian insurance sector has also been one of the reason in the change in the attitude of the people towards health care. As large section of Indian population are covered by health insurance schemes people are more willing to spend on their health.

Industry Life Cycle

The various stages of industry life cycle are :

The Indian pharmaceutical industry is in the growing stage with lot of promising increase due to the increased economic presence of Indian economy. The Indian economy is expected to grow at the rate of 7-8% per annum and the pharmaceutical industry is also expected to grow at the 14-15% per annum. Foreign companies are also now finding Indian pharmaceutical industry as a very good and profitable investment. The government of india has also been promoting and helping the pharmaceutical industry to grow in many ways.

Future Scenarios

One of the scenario can be as india is one of the most populated country in the world the demand for health care products and pharmaceutical products will never come down. India is the second largest populated country in the world with a large number of patients and the fourth largest pool of medical professionals in the world. As Indian economic is also improving the earning capacity of a person has also increased in couple of years this has also increased the demand for quality health care products and pharmaceutical products. With the help of rapidly improving technology and support industries such as labs and hospitals and with the help of IT industries with is

supporting the R&D process and clinical trials are further advantage. Big pharma companies are also been attracted because of the population of the country and the fact that the country offers 700, 000 specialty hospitals, 221 medical college and skilled English speaking medical personnel

Another scenario can be that india can produce better quality health care products and pharmaceutical products at lesser price as compare to other country. A number of foreign companies are trying to set up there R&D centers in india. From the last couple of years around 25 contract research organization and almost all the multinational companies have started there research full fledged this shows that india can become one of the largest producer of health care products and pharmaceutical products in the coming years. Reputed institutions has also been established over the last decade to train physicians in ICH-GCP guidelines. In india, big companies are spend more in india as compare to other country in the FY year 2003-04 companies have spend round about USD 59. 4 where as in the previous year companies have spend only USD 29. 16 million a growth of 104% when we compare it with the previous year and it is projected to grow 8-10 times every year at this rate india can become one of the largest producer of health care products and pharmaceutical products.

Another scenario can be as india is a developing country there is more opportunity for the pharmaceutical industry to grow this is also one of the factor that is attracting new investors to invest in pharmaceutical industry. As India is a developing country there are less competitors in the market and the demand for the product is very high as compared to developed nations and as compared to other develop nations the margin level is also very high

<https://assignbuster.com/pharmaceutical-industry-in-india-economics-essay/>

because the cost of production in india is very low. Company can create a good brand image about their product in the minds of the customer as there are only some competitors in the market.