

The global pharmaceutical industry assignment



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The pharmaceutical industry According to (Johnson et al, 2008: 56) the pharmaceutical industry can be traced to the late nineteenth century. It develops, produces drugs for use as medications. The pharmaceutical companies are allowed to deal in generic and or brand medications and medical devices. According to the Wikipedia the industry is are subject to a variety of laws and regulations regarding the patenting, testing and ensuring safety and efficacy and marketing of drugs.

This industry has made huge contribution to human well-being. The industry has seen significant changes in the recent years with the introduction of many regulations to regulate the industry in part to protect the users and in part to control the rising cost which the industry was synonymous for which resulted in the industry lacking the public and the political support to fight off the many regulation that were coming its way (Johnson et al, 2008: 56).

Wikipedia also stated that the pharmaceutical industry is very risky because to develop a drug it requires huge investments and out of the thousands discovered compounds, only one might become an approved drug for sale with the failure rate very high and very difficult to get return on investment.

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Question 1 PESTEL framework According to Morrison & Daniels (2011)

PESTLE analysis is often used as a generic 'orientation' tool to find out where an organisation or product is, in the context of what is happening outside that will at some point affect what is happening inside an organisation.

They added that PESTLE analysis is in effect an audit of an organization's environmental influences with the purpose of using this information to guide strategic decision-making because to help make decisions and to plan for future events, organisation need to understand the wider economic environments in which they operate so that they can conducting a strategic analysis and take advantage to maximize the opportunities and minimize the threats to the organisation or the industry.

The assumption is that if the organisation is able to audit its current environment and assess potential changes, it will be better placed than its competitors to respond to changes (Morrison & Daniels, 2011). According to Johnson et al (2008: 55) pestel stands for political, economical, social, technological, environmental and legal. POLITICAL Pestel highlights the role of governments (Johnson, Scholes & Whittington, 2008: 55). There is now growing political focus and pressure on healthcare authorities across the world. This means that governments will be looking for savings across the board.

Some of the questions the industry should ask are: What pressures will be put on pricing? What services will be cut? Will the same selection of drugs be available to everyone? (Shaw January - 19 - 2011) ECONOMICAL It refers to

the macro-economic factors such as the exchange rates, business cycles and differential economic growth rates around the world (Johnson, Scholes & Whittington, 2008: 55). SOCIAL Include changing cultures and demographics, e. g. ageing populations in many western countries (Johnson, Scholes & Whittington, 2008: 55) TECHNOLOGICAL

Refers to International technological breakthroughs, new technologies create new products and new processes, innovation such as the internet, nanotechnology or the rise of composite materials (Johnson, Scholes & Whittington, 2008: 55) ENVIRONMENTAL It stands for green issues, such as pollution and waste (Johnson, Scholes & Whittington 2008: 55). There is also an opportunity to incorporate it within their Corporate Social Responsibility programmes. Marketing and new product development should identify eco opportunities to promote as well. (Shaw, January - 19 - 2011). LEGAL

It embraces legislative constraints or changes such as health and safety legislation International agreements on PoliticalEconomic Changes to the health care funding Introduction of stringent price controls Lack of public and political support for the industry (Johnson, Scholes & Whittington, 2008: 610). Introduction of price or reimbursement controls The reduction in consumer disposable income. Increased pressure from shareholders has caused a consolidation of the industry: more mergers and acquisitions will take place over the coming years. Shaw (2011). Switching to generics to save costs

SocialTechnological The increasing aging population creates pressure to the health care funding system. Patients are becoming more informed. Shaw

(2011). Payers are establishing generic drugs as a first-line treatment option, with a patented drug used if generic fail. (Johnson, Scholes & Whittington, 2008: 610) Payers use variety of methods to control pharmaceutical spending Complex and costly clinical trials Decline R productivity with lengthening development times (Johnson, Scholes & Whittington, 2008: 614) Increase of the biopharmaceuticals Growth in the generic market EnvironmentalLegal

A move to become health information providers offering value Publishing misleading scientific results Putting profits before patient safety Supplying drugs and vaccines with costs beyond the means of those that need them (Johnson, Scholes & Whittington, 2008: 616)Government price control Safety data collection requirements Strict Prescribing controls (Johnson, Scholes & Whittington, 2008: 616) Tighter regulatory controls on clinical trials. Fixed periods on patent protection Question 2 Johnson et al (2008: 56) describes Key drivers for change as environmental factors that are likely to have impact on the success or failure of strategy.

He further added that the reduction in consumer disposable income will have an impact on consumers. Changing customer, decision making structure and expectation results in users who are more informed, more vocal, and demanding. These consumers are choosing to use generic products so that they can reduce the cost of medication, even going the route of buying on the internet to save costs as well as to get access to effective and better-tolerated therapies Political changes, Government price control, changes in funding structures and policies will have a big effect on the industry.

Price and innovation pressures legislative will also change the way the pharmaceutical industries operates (Johnson et al, 2008: 611) Shift from mature markets to emerging markets: The further growth in the market and profitability will come from tapping into the BRICS countries growth potential. Almost all companies have launched projects and structures designed to help shape their emerging healthcare markets and securing a promising market position (Berger. July 7 2008).

Payers are establishing generic drugs as a first-line treatment option, with a patented drug used if generic fail. This is as users are becoming more informed and are demanding more (Johnson et al, 2008: 610) Question 3

Five forces analysis on the global pharmaceutical industry Porter's five forces framework was originally developed as a way of assessing the attractiveness (profit potential) of different industries. It provides a useful starting point for strategic analysis even where profit criteria may not apply.

It also assess the attractiveness of an industry or sector, as well as setting an agenda for action on the various ' pinch-points' identified (Johnson, Scholes & Whittington, 2008: 60) Porter explains that there are five forces that determine industry attractiveness and long-run industry profitability. These five " competitive forces" are (Johnson et al, 2008: 61) The threat to entry According to Johnson at al (2008: 61) the ease of entry to the market influences competition.

He added that threats to entry depend on the extent and height of barriers to entry, which are factors that new entrants to the industry need to overcome to compete successfully. High barriers are good for existing

competitors as it protect them from new competition from new entrance.

Typical barriers are: Scale and experience The research cost in pharmaceuticals, conducting very large and complex clinical trials and managing surveillance programmes as well as specialised skills required in manufacturing create serious entry barriers to new comers.

The experience also gives the existing competitors cost advantage because they learnt how to do things more efficient than new inexperienced entrant.

Access to supply or distribution channel In many industry manufacturers have had controls over supply and distribution channels. In the pharmaceutical industry, the main players have since controlled the distribution of the medicine, with little say from the governments, patients and care providers. Expected retaliation The existing pharmaceutical companies have made it very costly to enter the industry. As a new entrant it will very difficult to negotiate with national overnment and major care providers as well as supply product in the price range that the other existing companies can. Legislation or government action Legal restraints in the pharmaceutical industry on new entry are by means of patents protection, and regulations for the market. Setting up of fixes periods on patent protection removing the permanent patent protection leave existing companies vulnerable to new entrants. Issues of generics which after the expiry of the patent, the patented product looses market share very fast to a generic product. Differentiation

Providing a product that has a perceived higher value than the competitor is very important in the pharmaceutical industry, the blockbusters as they call them which achieve rapid, deep market penetration and determines the

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fortunes superiority of the company The threat of substitutes Substitution are products or services that offers a similar benefit to an industry's product or services, by a different process e. g. generics have exactly the same active ingredients as the original brand and offers the same benefits to users and it compete on pricing with the original brand.

Even if generics are more expensive if they add better value for users they will substitute the original brand. The rise of the biopharmaceuticals offers substitution with products that are considered safer. The power of buyers Buyers (the organisation's immediate customers) can have high bargaining powers that their suppliers are hard pressed to make any profits at all. Buyer power is likely to be high when one of the following conditions prevails:

Concentrated buyers Where a few large customers account for the majority of sales, buyer power is increased.

In the pharmaceutical industry the largest customers are the governments providing health care to their people, care providers and user. The governments have buyer power and can negotiate better prices. They can also force the companies to provide products at reasonable prices as was done by the South African government with the AIDS drugs. Low switching costs The cost of switching from the original product to generic is not high as most generics provide the same benefits for a fraction of the cost. This force the original product manufactures to lower their prices so that they can get sales.

The fact that computers can print prescription in generics rather than branded form, makes switching very easy. Buyer competition threats The

threat of emerging markets developing original products as well as generic products that their governments can afford, with India as a good example, is a big threat to the large pharmaceutical companies as this will take a huge chunk of their sales and market share

The power of suppliers According to Johnson et al (2008: 63) suppliers supply the organisation with the requirements to produce product and services, including labour and sources of finance.

The supplier power is likely to be high when:

- Concentrated suppliers The pharmaceutical industry is highly concentrated with a few global players accounting for 85% of the market which gives them more power over buyers.
- High switching costs It is expensive and disruptive to move from one supplier to another, leaving buyers dependent on suppliers, a government that supplies a particular product to its people will find it difficult to change from one drug to another.

Supplier competition threats

Johnson et al (2008: 63) describe this as when suppliers have increase power and there they are able to cut out the middleman. Not using the wholesalers and agents to sell their products but Pharmaceutical companies selling directly to users e. g. over the internet.

Competitive rivalry Competitive rivalries are organisations with similar products and services aimed at the same customer group. All the company in the pharmaceutical industry are all aimed at the same customer group (Johnson et al, 2008: 64)

Competitor balance

There is intense competition in the pharmaceutical industry because the companies are roughly the same size and they are all fighting to dominate

the industry. The niche areas are crowded and they are all now just copying each other strategies Industry growth rate The growth in the pharmaceutical industry is low which is resulting in more mergers and acquisition, with companies buying each other hoping to increase market share. This has also resulted in price competition and low profitability. High fixed costs

The pharmaceutical industry is highly rivalrous because of the initial research requirements and the threat of the generic that can make money without investing in the discovery. High exit barriers Exit barriers are high because of the investment in research that the companies in the industry invest in. Low differentiation In this industry rivalry is increased because after the patent expires, there is little to stop customers switching from branded products to generic products with the only way being to compete on price. Question 4

The three most important threats to a big pharmaceutical company Expiring patents and the lack of new development are a threat to large pharmaceutical companies who for a long time have relied heavily on patented blockbusters to maximise their profits. While blockbusters have made immense contribution to company fortunes, they are few and far between which exposes an already high-stakes industry to even greater levels of risk. Depending on blockbusters is a danger because many patents are expiring leaving easy entry for generic drugs.

The lengthening time of development, with the average number of trials and a number of patients for each new drug application increasing has reduced R&D productivity. Most companies after the patent has been made public

they concentrate on improving the patented product rather than developing new product (Johnson et al, 2008: 614) Low switching costs from branded products to generic products. The cost of switching from the original product to generic by user and pharmacists is not high as most generics provide the same benefits for a fraction of the cost.

The fact that computers can print prescription in generics rather than branded form, makes switching even easier (Johnson et al, 2008: 63).

Government price controls create another threat for the industry in the form of parallel trade. The principles of free movement or free trade has allowed distributors to extract a large chunk from the value chain buying drugs from low cost suppliers all over the country and selling them in high end markets for high prices. Product approval, pricing/reimbursement and promotions are subject to increasingly onerous regulation (Johnson et al, 2008: 611).

Conclusion

The global pharmaceutical industry is seeing a lot of changes form increasing pressures from the governments and users. The ageing populations which is crating health care provision challenges for governments have seen governments responding by controlling pharmaceuticals spending Most global players are relying on mergers and acquisition with companies that are strategically well placed to satisfy their needs or have established markets or licences in developing countries so that this large companies so gain a bit more market share. The pharmaceutical industry is now just copying each other strategies.

They have tried by all means to block entry of new players into the industry but emerging markets are becoming dominant in global manufacturing and attracting increasing R&D investments. Exciting opportunities still exist, with scientific advances, more educated consumers, large emerging markets and the huge unmet medical need

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