

Biotechnology industry analysis assignment

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Biotechnology?? industry Analysis BACKGROUND The health care industry Provides health products and service which involved the leading technology of life science. It is a fast-growing industry and will continue to grow in the future because of the increasing request to the advanced medical care. The Global Industry Analysis (GIA, 2009) predicted that the prescription drug market is value around \$897 billion in world economy in 2015, and Asia-Pacific region is expected to have highest growth in prescription drugs. The health care sector in Australia is one of the most advanced and sophisticated industry in the world.

Numerous world leading healthcare companies are located in Australia. According to the Government Department of Innovation, (2011) there are approximately 470 companies developing and selling biotechnology products in Australia and abroad. The healthcare industry contributed almost 10 percent to the Australia Gross Domestic Product (GS1 Australia, 2011). Meanwhile, in the ASX Health Care and Biotechnology Sector Profile, (2011) the number of ASX listing company in the healthcare and biotechnology industry is 151, and the market capitalisation in March is around 52 billion dollars.

This report will analysis the industry characteristics via value the chain, use Porter's five forces, and compare with the market. In addition, two notable and representative health care company, namely CSL (CSL)and Cochlear(COH) will be introduced to provide supplementary information for the health care industry analysis. ANALYSE 1 Value Chain Analysis In general, the primary sequence of producing in biotechnology industry can be divided in to the following sectors, research and discover the drug, test and <https://assignbuster.com/biotechnology-industry-analysis-assignment/>

get the approval from government regulators, design and produce the drug, delivery and sell of the drugs.

In the chain of the health care industry, the research of new drug requires a large amount of capital. On the basis of the common size of CSL and COH, the R expense is 8% and 15%, respectively, a lot of funds were spent in the discovery and research process. However, the huge investment on the R does not mean it can achieve a appreciable return easily. The government regulators such as TGA and FDA have a high standard of the therapeutic goods manufacture approval. Thus, there is a potential risk in the investment of new drug which can not reach the market because of the government regulation.

	COMMON	SIZE	SCL	COH	SCL	COH
Revenue	4, 187, 554	726, 010	100%	100%	R	325146
	108935	8%	15%	2 Porter's Five Forces *Buyer Power(HIGH to MEDIUM)		

Health care products are usually used as a treatment to a specific disease or an improvement to health condition. Patients have to consume the particular drugs to relieve their symptom or be completely cured. Consumers have not many choices while they have the demands to the product. Thus, buyers have low power to influence the price. The producer can set a high price to cover the huge R&D costs and gain high profits. The annual report of the two company showed that the EBITDA of CSL and COH are 1350. 3 million dollars and 236. 6 million dollars in June 2011.

However, the buy power can be a bit lower. According to the study of U. S. Department of Commerce International Trade Administration (2004), in the

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Organization for Economic Cooperation and Development (OECD) countries such as Australia, have the price control on the Pharmaceutical products in order to provide healthy benefits to all. Therefore, the companies in biotechnology industry have strong buyer power, and the price is acceptable to the consumers with the control from government. *Supplier Power(MEDIUM) Generally speaking, the supplier of biotechnology companies offer highly pecify products, such as the blood sample from clinic or cells. It is not difficult for biotechnology companies to gain these resource. On the other hand, the company have to get the approval to start the research from the government regulators. The healthcare companies need put more efforts on getting the permission. *Rivalry Among Existing Firms(LOW) Most biotechnology companies have their unique products. For example, the CSL's specialty is Vaccines & Plasma Products and COH is specializing in the Cochlear Implant Systems.

Once the drug is discovered or invented, it is hard for other competitors to imitate because majority drug companies used the patent system. (thusleem, 2008). Thus, there is less competitive in the market. *Threat of New Entrants(HIGH) It is not easy for any investors to entry the healthcare industry. Large capital in R and fully qualified and skilled scientists and researchers are in great demand. The research teams in biotechnology industry covered variety of fields, thus it is required great efforts and money to invest in this industry.

Moreover, the government regulators' manufacture and sales approval also need to consider when entry the industry. *Threat of Substitutes (Low) Medication is common choice that sick people need when they fall ill, and it <https://assignbuster.com/biotechnology-industry-analysis-assignment/>

is a not replacable need. Thus, there is low level of substitute in this industry.

3 Market perofrmance The healthcare industry were doing great and profitable in the Australia market. Based on the graph 1 from the Finanalysis(2011), compared with the ASX 300 in the six months period, the healthcare industry were fluctuated with the markets volatility and performed superior overall.

The Thomson Financial forecasted(GRAPH 2) that by the contrast to other industries, the healthcare industry have a smooth growth rate about 10% in the EPS, P/E ratio in the following two years. [pic] (Graph 1) [pic] (Graph2)
SOURCE: CONCLUSION The historical market performance were outstanding, and are expected to stay robust. The high demand of healthcare might lead to high return in sales. The investors can gain a huge profit because of the biotechnology companies have strong power to buyers, low threat of substitutes and the competition in this industry is not as intense as other industries.

Furthermore, the biotechnology company can also benefit from the R&D credit. Overall, healthcare industry is a preferred industry to investors.

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