CHAPTER III

ENVIROMENTAL AND COMPETITIVE ANALYSIS

This chapter examines the macro environment in which the pharmaceutical manufacturing industry operates at present and the challenges and opportunities that can be exploited. A competitive analysis using the model by Michael E. Porter i.e. Porter's Five Forces will be used to gauge the attractiveness of the industry.

THE MACRO ENVIRONMENT

The increasing complexity of business today is evidenced by more countries developing the capacity and will to compete aggressively in world markets Businesses are willing to learn, adapt, innovate and invent to compete successfully in the market place.

An external analysis is performed to identify a list of opportunities that could benefit the firm and threats that could be avoided. It identifies key variables that offer actionable response. The response should be offensive or defensive by formulating strategies that take advantage of external opportunities and minimise the impact of potential threats.

The external forces assessed to obtain the opportunities and threats were

1. Political / Legal / Regulatory
2. Economic

3. Social, Cultural, Demographic and Environmental

4. Technological

OPPORTUNITIES

There is a political will to help the industry to upgrade and grow. The government has ear marked the manufacture of pharmaceuticals to be developed as envisioned in the Second Industrial Master Plan. And the government has taken a step in the right direction to help this industry by establishing the Malaysian Industry Government High Technology (MIGHT) in which pharmaceutical manufacturers have been incorporated .

The economy is buoyant growing at a rate of 8% from 1985 to 1996 The economy of the Asean region is also buoyant , inflation level is also low and with AFTA implemented in 2003 economies of scale in production can be obtained. The stock markets are performing well. The value of the Ringgit is quite stable and all this is translated into an opportunity to be exploited. The local pharmaceutical industry caters for only 30% of the domestic market and still has the balance of 70% which it can try to capture partly.

The consumer being more affluent and earning a higher per capital income with higher life expectancy, more concerned with their health than those a decade ago and leading a healthier life style augment the industry.

The pace of new technology change is an opportunity in the sense that they make possible better quality products. better service to the customers and more efficient production process. If exploited effectively, it would create a new competitive advantage to the manufacturers.

THREATS

The advent of WTO, AFTA and so on will create additional burden to the local manufacturers as once implemented competition would easily creep in and compete an equal footing. The problem would be from the giant multinational companies which have better technology, experience and own Research and Development, and the economy of scale as they have better market access.

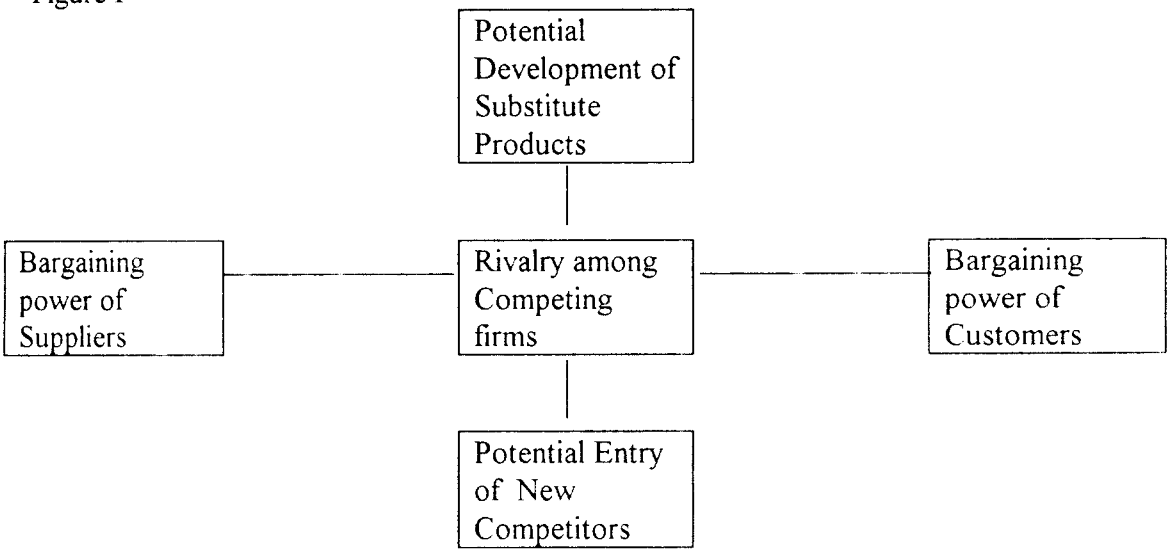
Economical threats are not a major issue as the country is enjoying an unprecedented growth. The social, demographic and cultural factors are not a threat to the industry. Technology could be a threat as to acquire it would be costly and could wipe some away due to the dynamic growth in new products in the pharmaceutical business. The best way to avoid this pit fall would be to acquire new technology i.e. biotech and move with the trends.

COMPETITIVE ANALYSIS

This analysis is done on an industrial basis using Michael E Porter's five forces model. According to Porter the nature of competitiveness in a given industry can be viewed as a composite of five forces.

1. Rivalry among competing firms.
2. Potential entry new competitions.
3. Potential development of substitute products.
4. Bargaining power of suppliers.
5. Bargaining power of consumers.

Figure I



The Five Forces Model Of Competition

Rivalry among competing firms is great as most of them offer similar products and services. Each trying to capture part of the others market share leading to extreme competition. Any change in strategy by any one of them usually lead to retaliatory countermoves such as lowering prices (via special offer prices and bonus for bulk buy) enhancing quality, providing services, warranties and increasing promotion. Competition is greater among competitors of equal size and capacity. When competition increases profits are bound to decline, making it unattractive. The best way to avoid this scenario is for competitors to co-operate by ironing out their differences, follow an established industry ethical code so as to avoid destructive competition. They could agree to have standardised prices so that no undercutting of prices will occur.

At present barrier to entry by new competitors is great due to stringent regulatory requirements of the Drug Control Authority of the Health Ministry. It is estimated for a medium size pharmaceutical factory manufacturing a moderately wide range of non sterile dosage forms, a minimum investment of RM10 million will be required. To include sterile dosage forms a further RM 5 M to RM 10 M will be required and a minimum gestation period of 3 years before production . Resulting in an industry that is capital intensive and with a high entrance barrier for new entrants. But this barrier may not be forever as the WTO and especially AFTA which is to be implemented in 2003 is close and would open the market to more stronger competitors with better resources moving in.

We would always have to keep in mind that this is a research and development intensive industry. It is also a very dynamic industry with new drug entities better production process and innovative or novel drug delivery system appearing in the market regularly displacing older drugs and treatment regimes. With the changes the old products or process may no more be valid or useful and have no market as such the industry always have the feel of the pulse of the future trends so as not to be wiped out of business.

The bargaining power of the suppliers is tilted in the favour of the suppliers. As the raw material i.e. the active ingredients, excipients that are used in manufacture of dosage forms are all imported and the prices are not controlled and for some products not many suppliers are available. Even for packaging material most are not easily sourceable in the country and have to be imported. They giving rise to price variability. And as the present batch of products manufactured are small and usually small quantities of them are ordered to avoid waste due to the expiry date considering the chemical entities, the industry is not able to obtain the best prices.

Bargaining power of consumer is also great as there are variety of choices for the same product with a multitude of suppliers offering a similar products and services. The consumer of today are more knowledgeable and demand the best.