

Running head: STRATEGIC MANAGEMENT- A CASE STUDY OF HOME
PHARMACEUTICALS

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Executive Summary

This Report discussed about the Malaysian Pharmaceutical Company named Home Pharmaceuticals. Detailed information about the industry condition as well as the present and the predicted future of the industry has been highlighted. The present situation of the Malaysian pharmaceutical industry is highlighted that clearly represents the industry's and how the industry have secured growth factors through internal development and immense support from the government. Similarly, the Malaysian residents will increase their overall expenditure rate for taking precautionary measures in order to stay healthy. Similarly increasing health concerns from life threatening diseases and obesity still prevail and lack of self-concern among the residents is the main reason behind the threat.

Analyzing the industry through effective tools like PESTEL analysis, PORTER'S five forces and Key Success factors have been made to gather an appropriate idea about the industry position as well as for the highlighted company. Calculation of "return of Assets" has been projected for the period 2014- 2017 with brief precautionary prediction for the company managers. The conclusion shows the findings of the detailed study made in the report. Forecasting the return on assets shows that the Malaysian pharmaceutical industry will continue its present form and pattern of growth.

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Introduction

Pharmaceutical industry holds a significant position in the society because of its helpful nature and its involvement in development of humanity by providing life saving medicines and life support services through nursing home, personal care services. With increase in population, the demand for healthcare services has been growing up at a rapid pace. Similarly, the Malaysian pharmaceutical industry successfully fulfills the requirement well supported by the Malaysian Government (Tan and Al-Odaini 2014). After analyzing the Malaysian pharmaceutical industry, it is noticed that the external and the internal environmental factors are well aligned and regulated for serving the residents of the country as well as patients from other Asian countries. The key success factors are properly identified and are directed towards growth pattern.

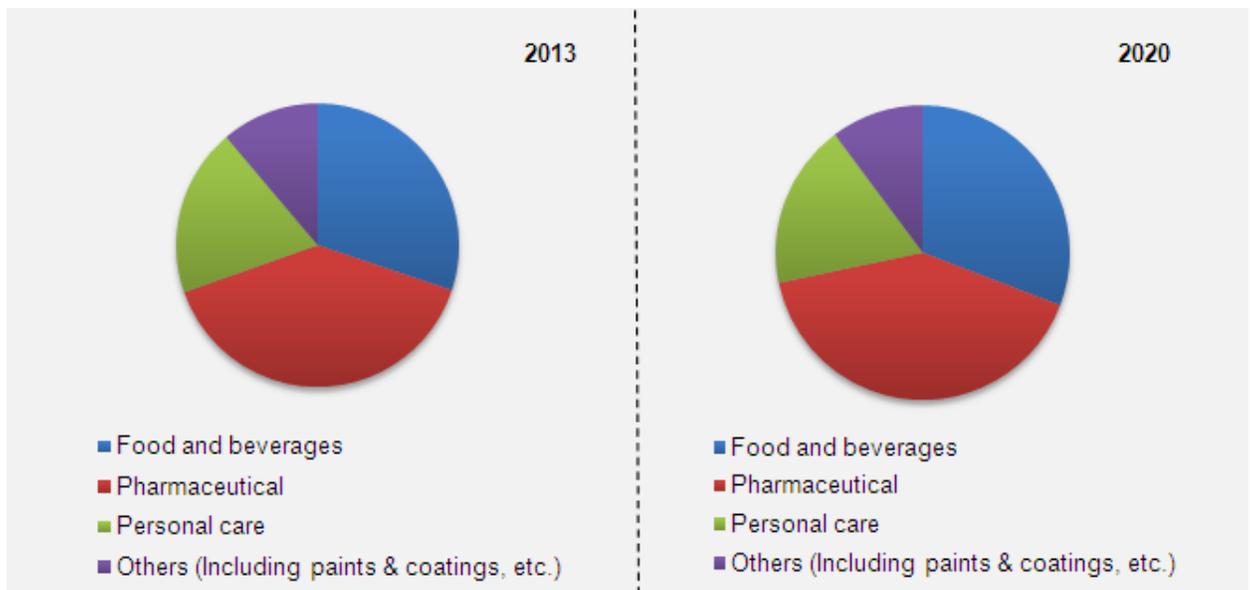
This report will cover a summary of the industry and gather market information about the Pharmaceutical industry of Malaysia and analysis of Home Pharmaceuticals. Analysis of the industry by using PESTEL, PORTERS 5 Forces and Key Success Factors of the industry aligning the concerned company of the case study. Calculation of Return on Assets will be presented to find out the rate of return the company might receive from the assets that in possession.

1.0 Summarizing the Industry and Market Information

Pharmaceutical Industry has been undertaking the responsibility of developing, producing and undertaking marketing responsibilities of medicines or drugs including generic and brand medicines as well as medicinal devices (Othman *et al.* 2015). This particular industry needs to follow different laws, rules and regulations governed with *testing, efficacy, safety* and marketing the drugs to respective wholesaler, individual medicine shop as well as certified medical service units.

With every single day, this particular industry is getting dependent on technology to develop and manufacture new products especially products like *hearing aids, or health foods supplements*. The components, i.e. the majority of the Pharmacy companies are broken down in the multiple *Strategic Business Units* that operates under the supervision of the technical experts and medical supervisors to assure the quality of the medicine (Hassali *et al.* 2013). Shedding light on the global pharmacy industry, it is observed that majority of the market growth is highly

dependent on over the counter medicines along with product development and innovation. The development of the global pharmacy industry is expected to grow at the rate of **7.5% during the period 2014 to 2019** (Siang *et al.* 2014). The distribution of the growth rate has been presented at **9.7 % in Europe, 7.3% in America, 4.9% in the Asia pacific region, 6.8% in Western Europe and 8.6% in Middle East** (Fatokun *et al.* 2013). With the projected growth rate, this industry has been considered as the industry supposed to enjoy the highest growth rate.



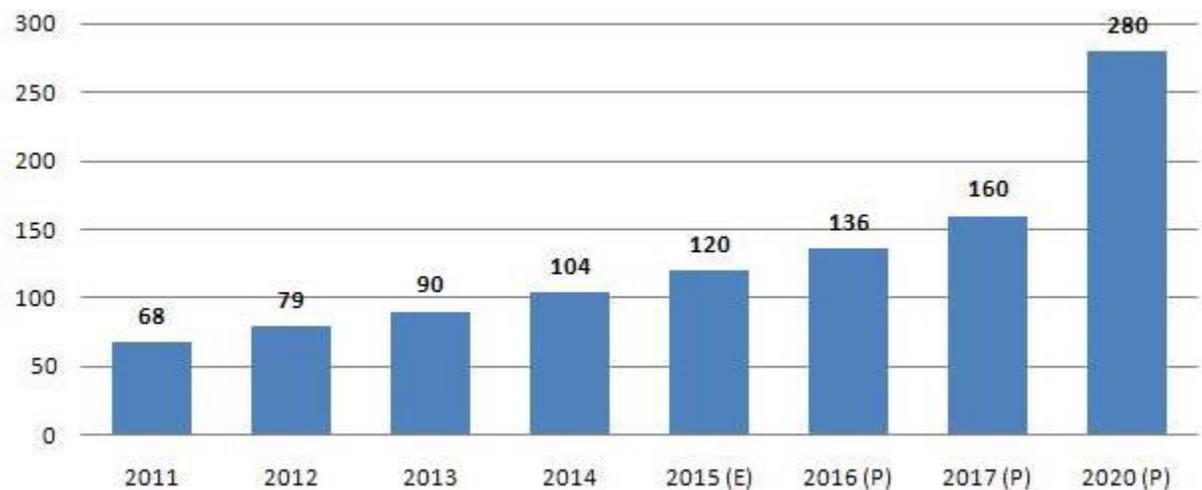
Graph 1: Estimated Expenditure in Pharmaceutical products by 2020

(Source: Hassali *et al.* 2013)

Presently, the worth of the Pharmacy market is \$3.2 billion and has growth perspectives of 11% on yearly basis. The total expenditure of the people of Malaysia spends about \$400 on annual basis on which & 85 is devoted to the pharmaceuticals industry (Chong and Chan, 2014). With gradual increase in the per capita income, the expenditure of Pharmaceuticals products has taken the upward trend. Malaysian drug and medicine industry is relied on imports for **high - end** drugs on the condition that the drugs must be distributed through the local distributors, if the foreign companies like Eli-Lilly, Pfizer, Novartis, GlaxoSmithKline and other companies are

unable to manufacture these drugs in Malaysia (Mehralian *et al.* 2012). The Malaysian Drug Control Authority registered nearly 250 drug-manufacturing companies that are indulged in manufacturing painkillers, antibiotics, health supplements, injections etc.

This particular industry has been identified as one of the key economic areas by the Malaysian government in 2010. This particular industry has been predicted with a growth possibilities amounting nearly to \$ 14 billion by the end of 2020 and that are the reason behind attracting millions of investment to in this particular sector (Ciriminna *et al.* 2014). Presently, there are nearly 350 hospitals in the entire country, among which 135 hospitals are public. The Malaysian Ministry of Health has already planned to construct eight to ten additional hospitals, new health clinics and induced clinical research in the country (Cole, 2015). For transforming the plans into reality, additional investment of \$ 12 million has been and formed communities for regulating the changes accordingly (Narayana *et al.* 2014). Facilitating the changes and advancement in the medical industry, training facility and streamlining regulatory process has been facilitated.



Graph 2: Expected Growth of Pharmaceutical Industry (2011-2020)

(Source: Hassali *et al.* 2013)

2.0 Industry Analysis I

This particular segment will demonstrate a detailed discussion about the industry along with discussing the environmental analysis of the entire industry by using PESTLE Analysis,

PORTERS 5 Forces and identifying the Key Success factors of the entire industry. With the help of these analysis, the strengths, weaknesses, opportunities and threats of the industry will be highlighted that will assist the company to bring certain changes in the operational process to have a competitive advantage in future (Bhunia and Sarkar, 2011).

2.1 PESTEL Analysis

PESTEL Analysis demonstrated as the framework that is used by the marketers or the companies in order to monitor or analyze the macro environmental factors that is creating an impact on the organization. The PESTLE Analysis of the Malaysian Pharmaceutical Industry has been demonstrated as follows:

Political factor-

- The political environment appears to be supportive for the pharmaceutical industry and widely supports introduction of new medicines as well as foreign MNC s for the well being of the residents
- Proper pricing of the medicines as these are completely necessary products and the prices might not put burden on the purchasing power of the individuals
- Effective positive harmonization of the health care services and systems
- Inclusion of wider range of services so that people of the country are provided with better medical treatment and obtain greater mortality rate
- No particular or consistent pricing policy is implemented by the government
- The price control has been stringent (Syazwan *et al.* 2014)

Economic factor-

- Reduce disposable income of the individuals have direct impact on a country like Malaysia as the people of the country generally use health insurance models as the model requires part payment
- Decreased economic pressures have increased the rate of people induced in strategic buying that direct creates an impact on the price of the products (medicines)

- Pressure from the shareholders created consolidation in the entire industry and as a result, numerous mergers and acquisitions might take place within the industry (Zarafshani *et al.* 2015)
- Possibilities of increase in debt to equity with possibility of negative return on investment
- Over the counter stores have been generating the highest rate of revenue for Home pharmaceuticals, but the SBU's have been providing only 5% of total revenue still it needs to be continues to stay alive in the competitive scenario
- With increase in prices of hearing aids, still the development of the pharmaceutical industry highly depends on the development of the hearing aids

Social factors- The social factors are:

- The number of ageing people are increasing at a higher rate, therefore the opportunities and threats are increasing
- People have become more demanding in the recent years, therefore, patients are demanding excessive care and better quality medicines that creates immediate effects on the individuals
- Health risks of the Malaysian people have increased up to a greater extent due to excessive increase in the rate of obesity (Srivastava, 2012)
- With availability of people from different cultures, Malaysia offers a wide variety of workforce to ease the flow of work in the pharmaceutical companies

The **Technological factors** are-

- With advance in technology, the prospect of the business has been increased through introduction of different therapeutic systems as well as provisions of services The company has been using the medium of internet to advertise the products and treatment process directly to the patients as well as induce direct communication with the patients and the family members of the patients
- Modernized treatment process especially in case of live threatening diseases like cancer, heart diseases or treatment process of tumors and ulcers (Nagaretham *et al.* 2012)
- With higher flow of capital in the industry, the technological innovation becomes possible for developing new medicines and other medical instruments

- **Wireless, Bluetooth and FM technologies have been introduced by the company in order to communicate with the aged people suffering from hearing impairments**

The **legal factors** are-

- There must be changes in the laws regarding advertisement of the drug manufacturing or selling companies
- Enhanced rate of litigation has negatively affected the industry along with the company to a greater extent
- Inconsistency in the global factors have created hindrances among the companies, and there has been legal withhold regarding selling of different drugs
- Laws of Malaysia suggests that foreign pharmacy companies might operate through the local dealers, that might reduce the chances of investment of these renowned countries that might affect the common people as specific life saving drugs might not reach people during emergency (Ahn and York, 2011)

The **Environmental factors** are:

- With growth in the environmental agenda with growing awareness among the stakeholders with expectations that the companies should be proactive
- The environmental opportunities of the companies are to be identified while promoting the products as well as expectations regarding incorporations of the companies to enter into Corporate social responsibilities (Hasibuan and Dantes, 2012)
- **Preparation of medicines involves usage of certain chemicals that creates risks of creating negative effect on the environment, especially on insects and plants**

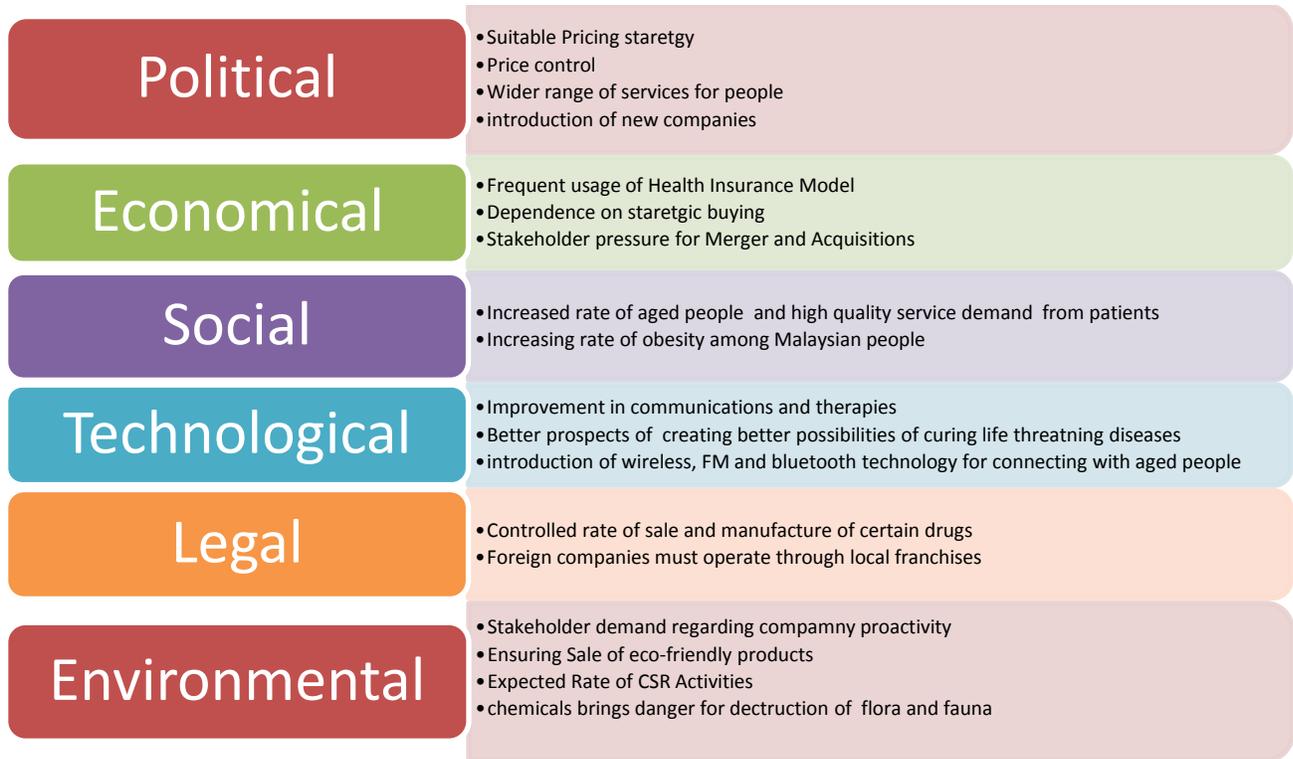


Figure 1: PESTLE Analysis

(Source: Tyagi *et al.* 2013)

2.2 Element Narrative

Political- The political environment of the country seems to be supportive for the individuals of the country and ensures that the companies must offer diversified range of services. The government has regulated strict pricing policies so that the pharmacy companies are unable to charge higher prices.

Economical- The economical factor suggests that despite of economic recession, the expenses made by the people of the country is higher. People of the country are more interested to facilitate strategic buying that force the companies to reduce the product prices (Shrank *et al.* 2011). Home pharmaceutical's revenue generation has been under threat because of the new market entrants from China charging upwards of US\$ 2,000 and new firms selling medicines at low prices

Social- These factors are quite critical because health risks such as obesity and other life taking diseases have increased. At the same time, the people of the country have become more demanding regarding the availability of services (Tan and Al-Odaini, 2014).

Technological- The technological advancement has been a critical factor contributing towards the development of the industry with positive results from the point of manufacturing better medicines as well as advertising the products through social media (Narayana *et al.* 2014).

Legal- Pharmaceutical industry is strongly dependent on different laws and regulations for conducting business. Laws of the country forbid sell and production of medicines. Moreover, without prior permission from the government and other legislative bodies, medicines are not allowed for sale in the entire country (Chong and Chan, 2014).

Environmental- The environment of the overall industry is quite influenced by stakeholder expectation as well as indulgence of the companies in CSR activities. Relating the case of Home Pharmaceuticals, factors like stakeholder expectation, highlighting the good effects of the medicine and participation in CSR Activities (Othman *et al.* 2015).

3.0 Industry Analysis II

This particular section will highlight the analysis of the Pharmaceutical industry of Malaysia, through the implication of Porter's Five Forces.

3.1 PORTERS Five Forces

The purpose of Porter's Five Forces is to analyze the competition among the firms within the industry, supplier power, customer power, threats of new market entrants as well as threats of substitution.

Industry competition- HIGH

- The major companies are always in competition with each other, and more or less every company manufacturing drugs with similar generic composition with difference in price

Buyer bargaining power- HIGH

- Medical care providers like hospitals purchase medicines in huge quantity so the companies are forced to keep the prices low
- Patients buying medicines for regular purpose fails to bargain due to increase in the cost of generic medicines
- Strategic buying groups have forced the companies to check the price of the medicines (Hassali *et al.* 2012).

Supplier bargaining power- HIGH

- Few large player have kept the sales of medicines and other pharmacy products concentrated, and that is the reason behind the decreased bargaining power of suppliers (Cole, 2015)

Threats of new entrants- LOW

- The competition in this industry is less, as there are higher barriers of entry due to involvement of higher costs
- Presence of regulatory constraints discourages new entrants and presence of government regulations on the foreign companies to operate through local suppliers is another constraint (Cole, 2015).

Choice of substitute products- HIGH

- Higher chances of product substitution is possible in this industry due to competition between companies manufacturing brand name drugs and generic drugs
- Companies manufacturing generic drugs keeps the prices down, as a result people can change their preference from brand name drugs (

Industry complementary force in this industry suggests that the complementary forces of the Malaysian pharmaceutical industry are aligned with each other as these industry components sell similar products, hence creating effect on the competitive factor of the industry (Hassali *et al.* 2012)

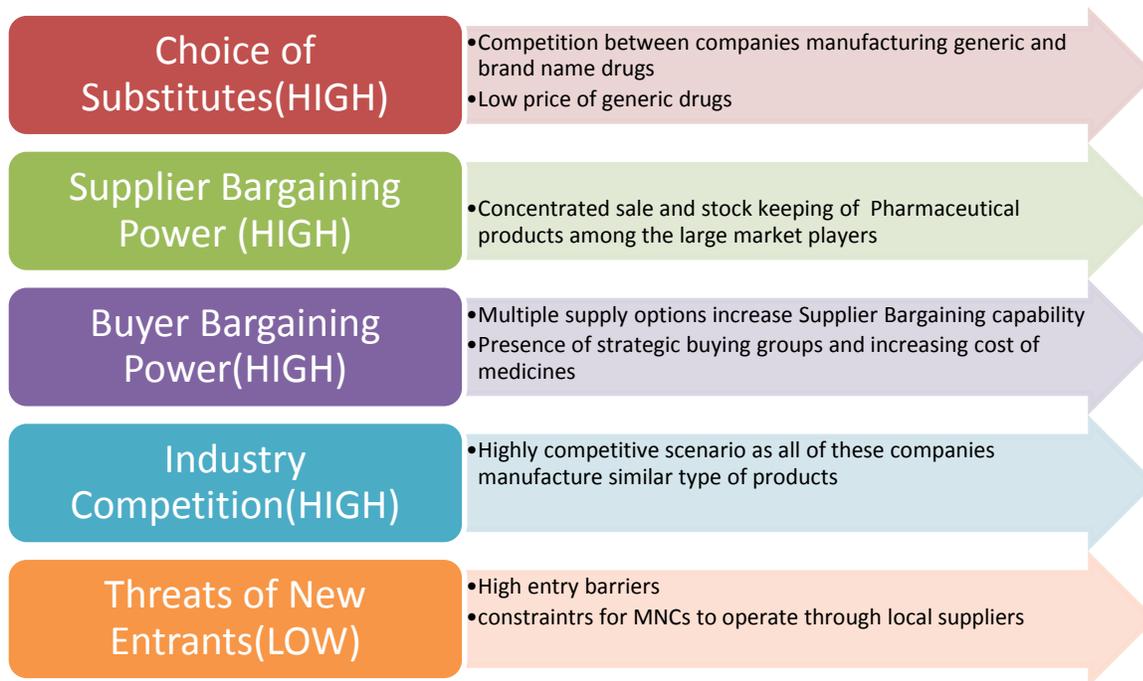


Figure 2: PORTER'S five forces

(Source: Srivastava, 2012)

3.2 Element narrative

Relating the present market condition of the Malaysian Pharmaceutical Industry, it can be stated that *rate of competition* among the companies are quite higher despite of *high barriers* of entry in the market, due to strict government rules. The reason behind this competitiveness is the availability of similar type of medicines, with more or less similar pricing. The difference in pricing is in the categorization of medicines- brand and generic, *creating higher possibilities of substitution*. The *bargaining power of buyers and suppliers are higher* due to economic recession and strategic positioning of the companies in fear of substitution (Narayana *et al.* 2014).

4.0 Industry Analysis III

This particular segment highlights the key success factors of the Malaysian pharmaceutical industry, including the most important factors that are creating growth opportunities and scope for development in recent times.

4.1 KSF Table

Industry	External Forces/Needs	Current Key Success Factors in Industry & Response to External Forces/Needs	Key Success Factors going forward?
Pharmaceuticals	<ul style="list-style-type: none"> • Increased rate of health hazards • Strict pricing norms from the government • High competitive market • Entry restrictions among the foreign MNC Pharmaceutical companies • Research and Development • High care facilities demanded by people • Choice option between Generic and Brand Name drugs 	<ul style="list-style-type: none"> • Market Position • Operations management • Distribution and marketing channel • Better financial planning • Alternative care providing process • Availability of effective and appropriate medicines for life threatening diseases • More OTC medicine stores across the country 	<ul style="list-style-type: none"> • Yes • Yes • Yes • Yes • Yes • Yes

Table 1: Key Success Factor of Home Pharmaceuticals

(Source: Hasibuan and Dantes, 2012)

4.2 Element Narrative

With the external factors of the industry, it has been observed that increased rate of health hazards, strict pricing and highly competitive market has been the traits of the present industry. As per the analysis, the Key success factors are market position that tends to increase with increased demand of pharmaceutical products. To survive in the competitive environment, the company has been maintaining effective operations management through manufacturing of superior quality drugs, and ensuring availability of drugs in the market (Siang *et al.* 2015). The distribution channel has been effective with fixed distributors and retailers provided with the

responsibility of supplying the products through OTC stores to public. Bulk quantities are supplied to the hospitals and health care units that strengthen the financial position of the company.

Effective management of financial risks is another KSF of the industry as well as for Home Pharmaceuticals. The company has been maintaining better capital structure through minute examination of the company's present, projected and historical leverage. The cash outflows are controlled and debt-servicing rate has been reduced (Gagne *et al.* 2015). The Malaysian Pharmaceutical industry will receive more benefits, if the Government of Malaysia approves the entry of foreign pharmaceutical companies. This will be beneficial, as people will have appropriate access to better quality medicines and pharmaceutical products especially for diseases like obesity, lung and liver diseases and cancer (Ahn and York, 2011).

Sales of generic medicines will be helpful for the people belonging to low financial background. Availability of Over the Counter (OTC) stores will facilitate better growth of the industry and the companies belonging to the sector at a large basis (Narayana *et al.* 2014).

5.0 Forecasting Return on Assets

	2014	2015	2016	2017
“Formula of Return on Assets”= “Net Sales/ Assets”	109,800,000/ 156,750,000 = 0.700 = 70%	110,270,000/ 152,040,000 = 0.725 = 72.5%	112,220,000/ 143,245,000 = 0.783= 78.3%	114,180,000/ 147,950,000 = 0.761= 76.1%

Table 2: Return on Asset Calculation for the year 2014-2017

(Source: Created by Author)

Projections: After calculation the ROA of Home Pharmaceuticals for the period 2014 to 2017, it has been observed that the return on Assets is gradually increasing in 2015 and 2016. With a fall of nearly 2.2 % in 2017, the company needs to convert liquid assets effective as profit seems to be declining (Shrank *et al.* 2011). The managers of the company need to manage the assets and

ensure effective sales to prevent the situation at the same time, 2016 might witness a huge increase in profit of nearly 6% as if it is in 2015 (Bhunja and Sarkar, 2011).

Conclusion

After completing the detailed study, it can be concluded that the environmental analysis of the Malaysian Pharmaceutical industry has all the possibilities to deliver positive results. Likewise, Home Pharmaceuticals will also be able to generate higher profit because of the positive market conditions as well as due to effective asset management.

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