

ENVIRONMENTAL ANALYSIS AS A SOURCE OF NEW OPPORTUNITIES AND STRATEGIES IN THE PHARMACEUTICAL INDUSTRY

Al-Majmaie Firas Abbas (Iraq, Diyala), S.V. Zhadko (Ukraine, Kharkiv)
svzhadko@mail.ru

Increasing price and cost pressure, regulatory changes and expiring patents are leading to shrinking margins in the pharmaceutical industry. Almost three in four companies believe their industry is in a strategic crisis. For this reason, pharmaceutical companies must adjust their business models to fit the new market requirements. This includes focusing investments on the high-growth emerging markets, which will make up almost 40% of the global pharmaceutical market by 2016.

Research and development costs have risen by more than 80% worldwide over the past 10 years. On the other hand, the number of new product launches has dropped by 43%. Therefore, almost half of the companies surveyed believe that the Return on Investment (ROI) in the area of research and development is more or less negative. Greater efficiency in research and more collaboration with third-party providers will become increasingly important.

The global pharmaceutical industry is facing a major structural change. Even though global sales have risen in recent years, profit margins have dropped considerably. This means aligning business models to fit the various product/market constellations and their requirements is imperative for ensuring business success. The main objective of the study is to examine the process of strategic planning in the activity of pharmaceutical company.

The purpose of this paper is to analyse the global external environment of pharmaceutical companies and identify the new marketing opportunities.

Experts point out such challenges and opportunities for pharmaceutical industry in the new economic environment.

1. Economic shift: emerging markets are maturing. There are growing numbers of middle-class consumers in at least 16 countries with emerging economies. They are home to nearly 2 billion people who spend a total of \$6.9 trillion every year. In

the next 10 years, 80% of economic growth is expected to come from what is called “the emerging markets”. Today, more than half of the people in countries like China, South Korea, Brazil, India, Russia, Turkey, Mexico and Indonesia are middle class consumers. To remain competitive, European companies are offering differentiated, highest-quality products and services. This may be the best way for European companies to go to global markets.

2. Resource Demand. “Middle class” is a greater demand for sophisticated products, components, raw materials, shipping, travel and other services. Suppliers are having difficulty keeping up. Prices for all kinds of commodities are increasing. Three resources everyone needs: energy: more electricity and more fuel for vehicles will require significant investments in technology and infrastructure. Alternative sources will increase, but most generation will rely on traditional energy sources. Energy efficiency, green technology, and clean technology will stimulate innovation and economic development.

3. Technology development. Information and communication technology and other technologies have profoundly and rapidly changed the way we live and work. They have enabled great leaps in productivity, interactivity, connectivity, and transparency. Today there are 10 most important trends in technology: profiting from online communities; networked organizations; virtual collaboration; smart objects; big data crunching; sustainability ‘services instead of products; multi-sided business models; developing-world innovations, public good.

Investing in technological innovations is a profitable business strategy for a pharmaceutical business. One such strategy is using e-detailing, whereby a company communicates a product’s details on the Internet. Consumers are able to schedule appointments online and learn about products or have a company address their questions in real time. A pharmaceutical company can also use a phone application to have consumers check the risks and benefits of a product on their phones. A technology-based business development strategy boosts innovations of drug enhancements or production of new drugs.

4. New growth model. A new model for economic growth will emerge. Growth that was based on too much consumption and too much debt is not going to return.

Europe and other mature economies may focus on making high-value-added products and customized solutions. Success will come from clear product differentiation, using new management approaches and focusing on the customer. New growth models include sustainability, globalization, localization, innovation, and government policy.

One of the main targets of pharmaceutical companies from the 1990s was to enlarge company size. Only through this growth companies can afford considerable costs of development and distribution for new drugs. Within this approach, at least two main business models can be identified: the blockbuster model and diversification model. The blockbuster model implies research and development for a small number of innovative drugs, which have the potential to record substantial global sales (of at least 1 billion dollars per year). The success of this model highly depends on the ability of the company to obtain high revenues from a small number of drugs in order to be able to pay the high price of medical discovery and development process for a large number of potentially successful drugs. Diversification model uses a large number of drugs sold on niche markets. The advantage of this model is that success depends on a small number of drugs. Still, without an innovative product to cover (partially at least) the large costs of development, the model is advantageous only for small markets, where distribution costs are low.

Experts attribute the new marketing opportunities of pharmaceutical companies with business expansion in the directions of generic drugs, OTC-drugs and health nutrition, orphan drug and animal health. Also, researchers have identified four possible strategic approaches that can help the pharmaceutical industry to optimally position itself in various markets with a diverse range of solutions: new products in mature markets; established products in mature markets; new products in emerging markets; established products in emerging markets. According to experts, the positioning needed for pharmaceutical firms to succeed will evolve in ways that are still unknown. Some possibilities include: pharmaceuticals plus diagnostics; pharmaceuticals plus consumer; pure pharmaceuticals plus a focus on therapeutic areas.