

**STRATEGIC RESPONSES BY PHARMACEUTICAL
MULTINATIONAL CORPORATIONS TO CHALLENGES
POSED BY GENERIC DRUGS IN KENYA**

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NOVEMBER, 2012

DECLARATION

This Research Project is my original work and has not been presented for examination in any other university.

Signature

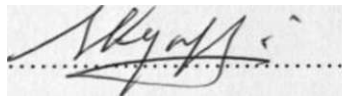
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I would like to appreciate the input of God without Whom the work of my hands will be in vain, he provided me with unmatched energy, good health and emotional strength that kept me going.

I will acknowledge my family: Becky, Shawn and Jakes for their understanding and support during this project whose time I shared to working on this project.

I would like to thank my supervisor Dr. John Yabs for his relentless effort in guiding me through this project, reading my project drafts even when he was exhausted, without his input the Project was not to be realized.

DEDICATION

This Research Project is dedicated to my loving wife and my two

ABSTRACT

Strategy relates a firm to its environment and it serves as a guide to the organization on what the organization is trying to do and achieve. Strategy provides an organization with a number of benefits as it provides an organization with better guidance, makes managers more alert to the winds of change, new opportunities and threatening developments.

Pharmaceutical Multinational Corporations (MNCs) have invested heavily in production and selling of quality products, they have spent valuable time and money to come up with differentiated products and they have challenges of recouping their investment by being profitable in the market. This has not been easy as they are facing steep competition from cheaper generic drugs, counterfeits and parallel imports. There is increasing threat from new generic entrants, threat of generic substitute products, bargaining power of generic suppliers/ distributors, bargaining power of cheaper generic brands as well as rivalry from generic industry members. Pharmaceutical MNCs have been able to withstand the test of times and are operating profitably.

The purpose of the study was to determine strategies employed by Pharmaceutical MNCs to fight challenges posed by competition from generic drugs. The study will be important to the Government as it will aid in informed future decision making as well as a more information data bank for investors, it will also avail information to Pharmaceutical MNCs to enable them make informed decisions, it will be useful to the generic pharmaceutical companies to enable them run competitively in the market place, it will enable pharmaceutical outlets (chemists) have more information on the general competitive strategy deployed in the pharmaceutical industry. The study is important to

the academia for a clearer insight of the pharmaceutical industry as well as propulsion for further research.

A sample survey design was used to ascertain various competitive strategies used by Pharmaceutical MNCs against the challenges posed by generic drugs. The research was designed to find competitive strategies Pharmaceutical MNCs have used against generic drugs in order to have a competitive edge in the market. The sampling units were Pharmaceutical MNCs retail outlets which were selected using systematic random sampling method. Primary data was collected through the use of a structured questionnaire.

The study shows that Pharmaceutical MNCs have employed various strategies to fight challenges posed by competition from generic drugs. Pharmaceutical MNCs have employed strategies against Michael Porters' five forces influencing competition in an industry, namely; threat of new entrants, the threat of substitute products or services, the bargaining power of suppliers, the bargaining power of buyers, and the competitive rivalry between current members of the industry.

The study generalized strategies employed by pharmaceutical MNCs as a whole, it did not specify specific strategies for a specific pharmaceutical MNC, and therefore further research is recommended to be done on strategies employed by any specific Pharmaceutical MNC to fight challenges posed by competition from generic drugs. It is also recommended for research to be done on the strategies employed by generic industry members to challenges posed by competition from Pharmaceutical MNCs.

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LIST OF A CRONYMS

AIDS- Acquired Immune Deficiency Syndrome	KMA- Kenya Medical Association
AGOA- African Growth & Opportunity Act	KEMSA- Kenya Medical Suppliers Association
ATI- African Trade Insurance Agency	Ltd- Limited
COMESA- Common Market for Eastern and Southern Africa	MIGA- Multilateral Investment Guarantee Agency
EAC- East African Community	MNCs- Multi National Corporations
EPZ- Export Processing Zones	MoH- Ministry of Health
EU- European Union	MUB- Manufacturing under Bond
FIPA- Foreign Investment Protection Act	NCBD- Nairobi Central Business district
GDP- Gross Domestic Product	NHIF- National Health Insurance Fund
HIV- Human Immunodeficiency Virus	NHSSP- National Health Sector Strategic Plan
ICSID- International Council for Settlement of Investment Disputes	PSK- Pharmaceutical Society of Kenya
IPC- Investment Promotion Centre	TM- Traditional Medicine
KAM- Kenya Association of Manufacturers	TREO- Tax Remission for Export Office
KEBS- Kenya Bureau of Standards	UN- United Nations
KEFRI- Kenya Forestry Research Institute	US\$- United States of America Dollar
	WIPO- World Intellectual Property Organization

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Drugs are part of modern medicine as they serve as complements to medical procedures, substitutes for surgery and other medical procedures, and new treatments where there previously were none. Some of the major advances in public health like the near eradication of polio and measles and the decline in infectious diseases are largely the result of vaccines and antibiotics. Traditional medicine (TM) refers to health practices, approaches, knowledge and beliefs incorporating plant, animal and mineral based medicines, spiritual therapies, manual techniques and exercises, applied singularly or in combination to treat, diagnose and prevent illnesses or maintain well-being. The roles of traditional and herbal forms of healthcare are important and cannot be underestimated in Kenya's healthcare system.

Drugs are important to the human race especially to the elderly and people with disabilities who are particularly reliant on prescription drugs. Not only do they experience greater health problems, but these problems tend to include conditions that respond to drug therapy. Some examples of common conditions include Osteoporosis, Hypertension, Myocardial Infarction, Adult-Onset Diabetes, and Depression. It is therefore evident that drugs are important to us and it is worthwhile to study the competitive strategies employed by Multinational Corporations against generic drugs in the NCBD retail outlets. According to Thompson, Strickland & Gamble (2007), Managers have to develop business strategies for each industry (with as many multinational variations as conditions in that market in each country's market dictate).

They add that they (managers) have to pursue and manage opportunities for cross business and cross- country collaboration and strategic coordination in ways calculated to result in competitive advantage and enhanced profitability. Pharmaceutical companies have the responsibility of researching, developing, manufacturing, as well as distributing directly or indirectly to retail stores (Chemists) which dispense to retail customers.

Competitive Strategy propelled the concept of industry environment into the foreground of strategic thought and business planning (Pearce and Robinson. 1999). A well defined analytical framework can help managers to link remote factors to their effects on an industry's operating environment. Pharmaceutical Multinational Corporations have not been left behind in aligning their capabilities to utilize the external opportunities and counter the threats they face in the industry's environment.

1.1.1 Concept of Strategy

Strategy is a set of decision-making rules for guidance of organizational behavior (Ansoff and McDonnell. 1990). Hax and Majluf (1996) define strategy as a multi dimensional concept that embraces all the critical activities of the firm. It provides it with a sense of unity, direction and purpose as well as facilitating the necessary changes induced by its environment. It is meant to provide guidance to the organization so that it can achieve its objectives while responding to the opportunities and threats in the environment.

Strategy formulation must be based on highly aggregated, incomplete and uncertain information about classes of alternatives. Strategy needs to be developed at

organizational level if an organization is to have a vision of its shape and role in the future. Failure to address organizational strategy in a coherent and structured manner can result in 'strategic Drift' leaving an organization unable to respond to the expectations of some or all of its stakeholders (Johnson and Scholes, 2002).

Environments can change, new organizations enter and exit, and the supply of resources become more or less scarce (Porter, 1980). Therefore to survive and become effective organizations must be capable of making adaptations to the changing situations. Cole (1996) contends that it is due to these continuous changes that organizations need more powerful management process like strategic management to cope successfully. Porter (1985) asserts that organizations that do not adapt to change to keep pace with dynamic environment are likely to suffer and become irrelevant. They will lose their reason for existence. According to Kotler (2002), the magnitude of today's environmental, competitive, and global market change is unprecedented and that it is very interesting and exciting world, but it is also volatile and chaotic.

To cope with unpredictable world one must build an enormous amount of flexibility into organizations (Grant 1998). He argues that while one cannot predict the future, one can get a handle on trends, which is a way to take advantage of the change and convert risks into opportunities. Not only must managers be aware of environmental forces and environmental change, they must also manage organizations' resources to take advantage of opportunities and counter threats (Thompson, 1997). (Pearce and Robinson, 1999) arguing on the same line state that a host of external factors influence a firm's choice of

direction and strategy, and ultimately its organizational structure and internal processes. The essence of marketing strategy is relating an organization to its environment. As the horizons of marketers have expanded from domestic to global markets, so too have horizons of competitors. (Keegan 1998) says that the reality in industry after industry today is global competition. He adds that this "fact of life" puts an organization under increasing pressure to master techniques for conducting industry analysis, competitor analysis, and developing competitive advantage.

1.1.2 International Trade and the Pharmaceutical Industry

Today, every industrialized country provides a base for a considerable number of Multinationals, which collectively are becoming the dominant forms of organization responsible for the international exchange of goods and services (Wortzel, 1997). Globalization of world economies has resulted in high environmental volatility coming in unpredictable ways (Aaker, 1992). Environmental changes such as technological and innovation, competition, globalization, regulation and de-regulation and consumer behavior have affected many organizations in that organizations have been forced to enhance their business processes in order to survive in an environment which has become increasingly competitive (Ansoff, 1987). Pharmaceutical Multinational Corporations must enhance their business processes in order to survive in the global environment.

1.1.3 Pharmaceutical Industry Kenya

In Kenya, the pharmaceutical industry comprises of the Multinational companies manufacturing both locally as well as direct imports from designated manufacturing sites,

the local pharmaceutical manufacturers of generics, or imports from generic companies majorly from India. Some pharmaceutical companies either supply their drugs directly to distributors who in turn supply the retail outlets, hospitals or other institutions e.g. government or they give importation rights to some distributor(s) who import on their behalf and equally distribute to retail outlets, hospitals or other institutions.

The key players in the industry include MNCs like Pfizer, GlaxoSmithKline, Boots Pharmaceuticals, Bayer, Sanofi Aventis, Novartis, Astra Zeneca, Eli Lilly, Roche, and local establishments like Dawa Pharmaceutical Ltd and Cosmos Pharmaceuticals among others. Institutions and collaborating agencies are the Pharmaceutical Society of Kenya (PSK), Kenya Medical Association (KMA), Kenya Medical Suppliers Association (KEMSA), Kenya Association of Manufacturers (KAM), Ministry of Health (MoH), Kenya Bureau of Standards (KEBS), Kenya Forestry Research Institute (KEFRI), and the National Health Insurance Fund (NHIF).

According to Kenya Pharmaceutical Industry (2005), Kenya spends about 8% of its GDP on health. Per capita expenditure per person stood at about US\$ 11 per person in 2003. Out of this, US\$6 came from budgetary resources, which also included donor contributions and the balance of about US\$5 came mainly from out-of-pocket expenditure. This expenditure fell far below the WHO's recommended US\$34 per capita. Out-of-pocket expenditure thus accounted for 53% of the total cost of healthcare, with the remainder being Government contributions from general taxation (25%), Social Health Insurance (15%), private prepaid health plans (5%) and non-profit institutions

expenditure at 2%. The above scenario means the current healthcare financing system depends mainly on out-of-pocket expenditure and therefore 75% privately financed.

1.2 Research Problem

Pharmaceutical Multinational Corporations have invested heavily in production and selling of quality products, they have spent valuable time and money to come up with differentiated products and they have challenges of recouping their investment by being profitable in the Market. This has not been easy as they are facing steep competition from cheaper generic drugs, counterfeits and parallel imports. There is increasing threat from new generic entrants, threat of generic substitute products, bargaining power of generic suppliers/ distributors, bargaining power of cheaper generic brands as well as rivalry from generic industry members. MNCs have been able to withstand the test of times and are operating profitably. Which competitive strategies have they been able to employ at retail level against cheaper generic drugs in order for them to still stay profitable and command a significant market share?

According to Opiyo (2006), previous research has focused on marketing practices in the industry and he references Ndiho (2001), Viyanak (2001), Naikuni (2001), Ronoh (2003), and Misumi (2003). Ngeera (2003) researched on competitive strategies applied by the retail sector of the pharmaceutical industry in Nairobi, Opiyo (2006) researched on the responses of pharmaceutical importers to the challenge of illegal trade in pharmaceuticals. None of the past research has been able to address the strategic

responses by pharmaceutical multinational Corporations to challenges posed by competition from cheaper generic drugs.

1J Research Objective

To determine strategies employed by Pharmaceutical MNCs to fight challenges posed by competition from generic drugs.

1.4 Value of the Study

The study will benefit various stakeholders in the industry. It will be important to the Government as it will have finer information on pharmaceutical industry practice at the retail level to aid in informed future decision making as well as a more information data bank for investors. The study will also avail information to Pharmaceutical Multinational Corporations to enable them align their capabilities to the environment and have a competitive edge in the market place. The study could also be useful to the generic pharmaceutical companies to enable them run competitively in the market place.

The study will be enable pharmaceutical outlets (chemists) will have more information on the general competitive strategy deployed in the pharmaceutical industry and they will be able to position themselves in the market place by copying the best practices to be spelled out in the research. Lastly, it will be of importance to the academia for a clearer insight of the pharmaceutical industry as well as propulsion for further research. The study could have bridged the research gap that exists and avail secondary data for easier desk research and form a basis for future primary research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Strategy relates a firm to its environment. Strategy serves as a guide to the organization on what the organization is trying to do and achieve. Strategy provides an organization with a number of benefits as it provides an organization with better guidance, makes managers more alert to the winds of change, new opportunities and threatening developments (Thompson and Strickland, 1996).

2.2 Concept of Strategy in the Pharmaceutical Industry Environment

According to Mintzberg, Lampel, Quinn, and Goshal (2002), there are five P's of strategy: strategy as a plan, ploy, pattern, position and perspective with some of their interrelationships being considered. A strategy reflects a company's awareness of how, when, and where it should compete; against whom it should compete; and for what purposes it should compete (Pearce and Robinson 1991). Environments can change, new organizations enter and exit, and the supply of resources becomes more or less scarce (Porter, 1980). Therefore to survive and become effective organizations must be capable of making adaptations to the changing situations. Cole (1996) contends that it is due to these continuous changes that organizations need more powerful management processes like strategic management to cope successfully. Porter (1985) asserts that organizations that do not adapt to change to keep pace with dynamic environment are likely to suffer and become irrelevant. They will lose their reason for existence. According to Kotler (2002), the magnitude of today's environmental, competitive, and global market change

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Pharmaceutical companies are investing in the industry since Kenya is one of the most stable democracies in Africa. Kenya's competitive advantage for the health and pharmaceutical sector investment is supported by various investor friendly factors that include Trademark and patent protection since Kenya is a member of most major international and regional intellectual property conventions like the World Intellectual

Property Organization (WIPO), the African Regional Industrial Property Organization (ARIPO), the Paris Convention on the Protection of Industrial Property, and the Berne Convention on the Protection of Literary and Artistic Works. Kenya enjoys preferential access to the regional market under a number of special access and duty reduction programmes related to the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA) among others. The value of Kenyan medicinal and pharmaceutical products exported increased from KShs. 1.6 billion in 1999 to 2.1 billion in 2003 (Doing business in Kenya, 2005).

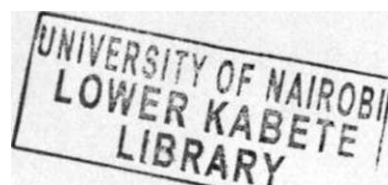
In the industry's Legal & regulatory framework, there are Policies governing the pharmaceuticals in Kenya. Patent laws have been revised from the traditional British based format to the ARIPO system, which was created by the Lusaka agreement in 1976. Additionally, the Kenyan government passed the Kenya Industrial Property Bill in 2001. This bill allows Kenya to import and to produce more affordable medicines for HIV/AIDS and other diseases (Doing business in Kenya, 2005).

Pharmaceutical Society of Kenya (PSK) issues licenses to pharmacists, as well as ensuring the drug store managers are members of the PSK and have sworn allegiance to the pharmacy practitioners' professional oath. PSK ensures standards, which include Monitoring and advising its members on new disease control programmes, Promotes increased quality training of pharmacy personnel, and ensure proper distribution of pharmaceutical and non-pharmaceutical products (Doing business in Kenya, 2005).

The pharmaceutical sector in Kenya is also engaged in assembling capsules, disposable syringes, Paracetamol, and surgical gauze amongst others. Kenya has minimal raw materials for pharmaceutical products and relies a lot on imported sources. According to Pharmaceutical Industry (2005). the industry imports over 95% of the raw materials. The availability of raw materials locally is limited to only about 5% of the total industrial requirements. The locally sourced raw materials include, Maize starch. Refined sugar, Glucose syrup. Rectified spirit and ethanol, Sodium chloride, Packaging materials. Efforts are being made in the area of research and development in the field of pharmaceutical and healthcare development in Kenya. Research institutions undertaking or supporting medical research in Kenya include Kenya Medical Research Institute (KEMRI), Kenya Industrial Research and Development Institute (KIRDI), African Medical Research Foundation (AMREF) and academic institutions like Moi University's School of Medicine, the Medical faculty of the University of Nairobi among others (Kenya's Pharmaceutical Industry, 2005).

2.3 Competition in the Pharmaceutical Industry

A useful way of gaining insight into competitors is through industry analysis. An industry can be defined as a group of firms that produce products that are close substitutes for each other (Keegan and Green 2008). In any industry, competition works to drive down the rate of return on invested capital toward the rate that would be earned in the economists "perfectly competitive" industry. (Keegan and Green 2008) add that the rates of return that are greater than this so-called competitive rate will stimulate an inflow of capital either from new entrants or from existing competitors making additional



investment. Rates of return below this competitive rate will result in withdrawal from the industry and a decline in the levels of activity and competition.

Pharmaceutical Industry in Kenya is highly competitive with various pharmaceutical Multinational Corporations (MNCs) manufacturing both original and generic drugs. According to Melissa (2009), original branded drugs are more expensive than generic counterparts as well as the counterfeits and parallel brands. Both Original and generic brands have coexisted hand in hand and still remained profitable. MNCs manufacturing original drugs could be having a hard task to survive in the price sensitive market, serving all social classes in the society. Nonetheless, they seemingly dominate in Nairobi CBD pharmaceutical industry. At the retail outlets, competition is even more intense since they stock all sorts of medicine ranging from very cheap ones to very expensive ones. It will be interesting to unfold how both players have coexisted with each other both with a seemingly comfortable market share.

There exists a research gap since little work has been done on the competitive strategies employed by the Pharmaceutical MNCs at the retail level chain of distribution. It is even important to know how pharmaceutical MNCs manage in the erratic environment now in fluxed with the counterfeits masquerading as genuine drugs, complicated with substandard generics (Gathunju, 2008). Therefore, it will be worthy studying the pharmaceutical MNCs outlets in NCBD. challenges facing them, competitive strategies used in response to its environment, with the intention of carrying chemists/pharmacies face to face interviews with help of questionnaires, study doctor Prescription patterns and

enable us to make a conclusion on what key competitive strategies used by the Pharmaceutical MNCs in their competitive strategic positioning and response in their environment.

Since the introduction of liberalization in Kenya (Government of Kenya, 1986), firms in almost all the sectors in the economy are faced with competition. Michael Porter says that the nature and degree of competition in an industry hinge on five forces: the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products or services and the Jockeying among current contestants. Keegan (1998) suggests that a useful way of gaining insight into competitors is through

industry analysis. An industry can be defined as a group of firms that produce products that are close substitutes for each other. In any industry, competition works to drive down the rate of return on invested capital toward the rate that would be earned in the economists "perfectly competitive" industry. Rates of return that are greater than this so-called competitive rate will stimulate an inflow of capital either from new entrants or from existing competitors making additional investment. Keegan (1998) adds that rates of return below this competitive rate will result in withdrawal from the industry and a decline in the levels of activity and competition.

The pharmaceutical industry consists of three segments namely the manufacturers, distributors and retailers. According to Kenya's Pharmaceutical Industry (2005), the pharmaceutical sector consists of about 30 licensed concerns include local manufacturing companies and large Multi National Corporations (MNCs), subsidiaries or joint ventures.

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Most are located within Nairobi and its environs. These firms collectively employ over 2,000 people, about 65% of who work in direct production.

In distribution, The Kenya Medical Suppliers Agency (KEMSA), a division of the Ministry of Health largely carries out the distribution of pharmaceutical products in Kenya. It distributes drugs to government public health facilities and private health facilities. KEMSA is a semi-autonomous unit in the Ministry of Health. It is the largest purchaser of drugs in the country, through an open-tender system and distributes them to public medical institutions. The medical supplies comprise both proprietary and generic pharmaceutical products. Others are privately owned wholesalers, amongst them are Omaera, Transchem, Njimia, Nila, Transwide, Rangechem, and Highchem (Kenya Medical Directory, 2011).

According to Kotler and Keller (2006), retailing includes all the activities involved in the selling goods or services directly to final consumers for personal consumption or household use. Retail business plays a role in bridging the manufacturer-consumer gap and provides the goods or services needed, thus it cuts across all industries. The retail sector of the industry consists of chemists/ pharmacies that stock drugs and dispense either through prescription or Over the Counter (OTC). These outlets are all over the country especially in commercial centers including NCBD. The sale of medicine in Kenya is regulated by the Ministry of Health through the Pharmacy and Poisons act, Chapter 244 of the Laws of Kenya, (Government of Kenya. 1989). In recent years, the pharmaceutical society of Kenya (PSK) has emphasized the issue of ethics through the

use of green Cross. This is an outward sign on those pharmacies that are certified by the society as being ethically ran (Ngeera, 2003; Muraah. 2001; Murichu, 1999).

According to the Kenya Health Policy Framework (1994) sets out the policy agenda for the health sector up to the year 2010. To operationalize this framework paper, the National Health Sector Strategic Plan (NHSSP, 1999-2004) was developed in 1994. The tasks specified in the plan include the strengthening of the central public policy role of the Ministry of Health, adoption of an explicit strategy to reduce the burden of disease, definition of an essential cost effective health care package, emphasis on decentralization of health care delivery through redistribution of health services to rural areas, special focus on essential key priority packages based on the burden of disease and the required support systems to deliver these services to Kenyan. Pharmaceutical products in Kenya are channeled through pharmacies, chemists, health facilities and shops. By the Year 2001, there were 3500 registered pharmacies in Kenya (Ngeera 2003). Wholesale and retail outlets are manned by registered pharmacists and pharmaceutical technologists. The drugs on sale in Kenya are sold according to the outlet categorization, which can be described as free-sales/OTC, pharmacy technologist dispensable, or pharmacist dispensable/prescription only.

2.4 Porter's Competitive Strategy and Forces Influencing Competition

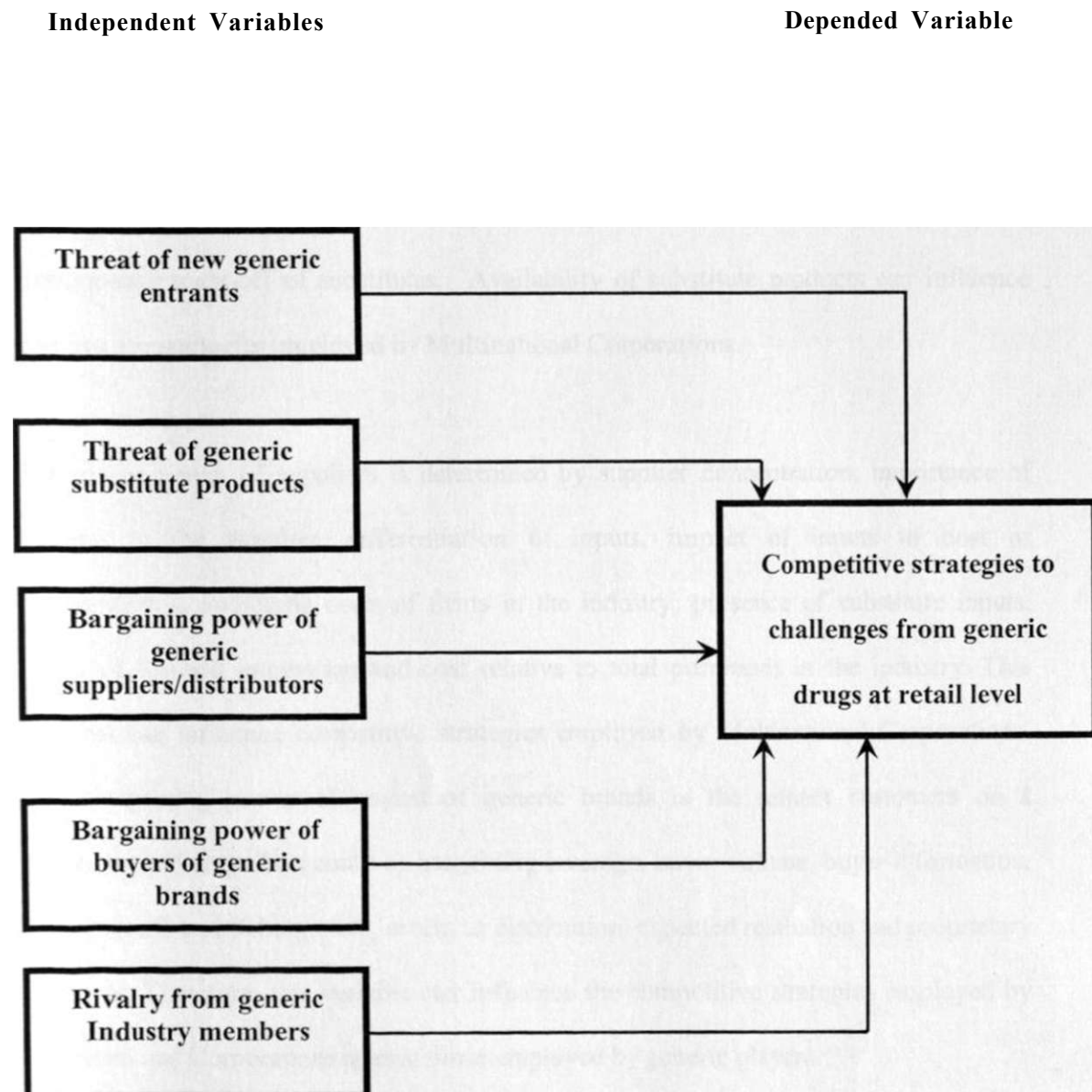
According to Porter (1980), strategies allow organizations to gain competitive advantage based generic strategies which are cost leadership, differentiation, and focus. Cost leadership strategies emphasize producing standardized products at very low per-unit cost

for consumers who are price sensitive. Differentiation is a strategy aimed at producing products and services considered unique industrywide and directed at consumers who are relatively price-in-sensitive. Focus means producing products and services that fulfill the needs of small groups of consumers (David 1997).

According to Porter (1998), there are five forces influencing competition in an industry, namely; threat of new entrants, the threat of substitute products or services, the bargaining power of suppliers, the bargaining power of buyers, and the competitive rivalry between current members of the industry. In industries such as soft drinks, pharmaceuticals, and cosmetics, the favorable nature of the five forces has resulted in attractive returns for competitors, however, pressure from any of the forces can limit profitability. In the pharmaceutical industry, there is a constant influence of these forces between MNCs and generic drug Companies.

2.5 Conceptual Model

Figure 1: Independent variables for the study



2.6 Research Variables

The threat of new generic entrants is determined by absolute cost advantages, proprietary learning curve, access to inputs, government policy, economies of scale, capital requirements, brand identity, switching costs, access to distribution, expected retaliation and proprietary. The threat of new generic entrants can influence the competitive strategies employed by Multinational Corporations. When there is threat of substitute products or services consider switching costs, buyer inclination to substitutes and price performance trade-off of substitutes. Availability of substitute products can influence competitive strategies employed by Multinational Corporations.

Bargaining power of suppliers is determined by supplier concentration, importance of volume to the supplier, differentiation of inputs, impact of inputs to cost or differentiation, switching costs of firms in the industry, presence of substitute inputs, threat of forward integration and cost relative to total purchases in the industry. This variable can influence competitive strategies employed by Multinational Corporations. The Bargaining power of buyers of generic brands is the impact customers on a producing industry. This could be bargaining leverage, buyer volume, buyer information, brand identity, switching costs, access to distribution, expected retaliation and proprietary products. Therefore, this variable can influence the competitive strategies employed by Multinational Corporations against those employed by generic players.

Rivalry among industry members will include aspects such as exit barriers, industry concentration, fixed costs/ value added costs, industry growth as well as intermittent

capacity. This rivalry can influence the competitive strategies employed by Multinational Corporations.

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CHAPTER THREE: RESEARCH METHODOGY

3.1 Introduction

This chapter focuses on the research Methodology. It elaborates the research design, defines the population of study, shows the sample design and how data was collected.

3.2 Research Design

A sample survey design was used to ascertain various competitive strategies used by Multinational Coiporations against the challenges posed by generic drugs. According to Cooper and Schindler (2003), a survey method is often used to study the general condition of people and organizations as they investigate the attitudes, perceptions, expectations and opinion of people usually through questioning them. An elaborate questionnaire was distributed to respondents in order to gather both qualitative and quantitative data. This method is best suited where descriptive information is sought (Kotler and Armstrong 2001). The research was designed to find competitive strategies MNCs have used against generic drugs in order to have a competitive edge in the market.

3.3 Population of Study

The Population of the study involved all MNCs at the retail chemists in NCBD. According to the Kenya Pharmacy and Poison board (2007) and the Kenya Medical Directory (2006/2007), there are 104 retail pharmacies in NCBD.

3.4 Sample Design

The Sampling units were Pharmaceutical MNCs retail outlets (Pharmacy/Chemist) which were selected using systematic random sampling method. This method provided pharmaceutical MNCs in the retail pharmacies in the sampling frame a probability for inclusion in the study sample. This reduced subjectivity and bias thus the study had a more credible generalization for the study population. Only the person in charge of a pharmacy or his/her assistant in charge was interviewed.

3.5 Data Collection

Primary data was collected through the use of a structured questionnaire. Every Pharmaceutical retail outlet was sampled one questionnaire which was answered by the supervisor or person in charge of the outlet their assistants. The questionnaire contained both open ended and close ended questions. The questionnaire was administered through a drop and pick method but with regular follow ups to check on progress and clarify where it was not clear to the responded.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter focuses on the presentation of the findings where data collected was analyzed. This chapter discusses the main findings. The main objective of the study was to determine which strategies are employed by Pharmaceutical MNCs to fight challenges posed by competition from generic drugs.

4.2 Data Analysis, Results and Discussion

Data collected by a structured questionnaire was checked for accuracy, uniformity of responses, consistency and completeness. Data was coded and tabulated to facilitate its analysis. Data was analyzed in regard to collected qualitative as well as quantitative answers from the field. Descriptive statistics with tabulation of findings was used. Frequency distribution tables, mode, mean will be generated, and interpreted. Tests of significance of relationship between significant variables were presented. Visual representational tools such as charts and graphs backed up the narrative report.

4.2.1 General information of Respondents

The respondents were asked to provide information on their level of education and their gender was noted. Both open and close ended questions were asked in the structured questionnaire. The questionnaire was answered by the supervisor or whoever is in charge of a chemist or his/her assistant. A total of 37 questionnaires given, 34 were completed giving a response rate of 92%. This was made possible with sufficient time to follow up on the respondents. Table 1 below shows the respondents' profile.

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Table 1: Respondents' profile

		Frequency	Percentage
Gender	Male	26	76
	Female	8	24
Level of Education	Degree	6	18
	Diploma	28	82

Source: Research Data, (2012)

4.2.2 Threat of new generic entrants into the market

The question regarding strategies employed by pharmaceutical MNCs due to new generic entrants inquired whether Pharmaceutical MNCs have employed any strategy in response to new Pharmaceutical generic drug(s) in part A and the response was as table 2 below.

Table 2: Response to strategy against threat of new generic entrants into the market

Respondents' Response	No. of Respondents	Percentage
Yes	31	91
No	3	9
Total	34	100

Source: Research Data, (2012)

Parts B of the question inquired for more explanation for the ones whose response was positive and were asked to explain briefly stating how Pharmaceutical Multinational Corporations have responded to the new pharmaceutical generic drug(s). They were allowed to mention a few examples. Respondents cited lowering Prices, giving good discounts, aggressively marketing their Products, using Posters, Standardizing their Prices of Brands, ensuring continued drug supply, availability of their drugs at outlets, meeting high quality standards, bonus on products sold, redesigning product packaging to

counter counterfeit, increasing medical representatives who visit customers, manufacturing own generics by original companies, increased of Pharmacy calls, increased Continuous Medical Education at pharmacy level, offering discounts, use of incentives, arranging for seminars, promotions for drugs, educating public on the advantages of using original products, improving same drugs with extra additives, extensive campaigns to all healthcare providers, engage PPB to identify sub standard generic drugs, media adverts for OTC drugs, distributing of drugs directly to retailers, made Prescribers insist on original brand is dispensed without substitution.

4.2.3 Threat of new generic substitute Products

The question regarding strategies employed by pharmaceutical MNCs due to new generic substitute products inquired whether Pharmaceutical MNCs have employed any strategy in response to any threat of generic substitute product(s) in part A and the response was as table 3 below.

Table 3: Response to strategy against threat of new generic substitute products

Respondents' Response	No. of Respondents	Percentage
Yes	27	79
No	7	21
Total	34	100

Source: Research Data, (2012)

Parts B of the question inquired for more explanation for the ones whose response was positive and were asked to explain briefly stating how Pharmaceutical MNCs have responded to new generic substitute products. They were allowed to mention a few

examples. The respondents cited Subsidized product prices in conjunction with the ministry of health, doctors send prescriptions with original brands with 'no substitution' warning, manufacturing of their own generics in addition to the brands, facilitated laws regulating importation of generics, Continuous Medical Education on importance of original brands, advertisements on the importance of using original drugs, products are of high quality compared to generics, revised dosage forms, more compliant dosing regimens, formulated brands that are hard to be replicated generics, packaged for easy storage and transportation, bonuses on bulk purchases, co promotions with distributors for brands, giving gimmicks to retailers, acquisition of some generic producing companies by pharmaceuticals Multinational Corporations, Partnered with standardizing regulatory bodies like PPB to ensure generics meet quality standards before registration and importation, patented brands for a specific period before entry of generics, educating healthcare providers on how to identify original brands from generics, discouraging substitutions, promotions, availability of drugs at outlets always, doctors specifying brand names rather than molecule names, having authorized dealers, packaging differently from generics for easy identification, price reductions, organized conferences, seminars and educative meetings, reporting substandard generics in the market that are not working, ensuring unlicensed drugs are not brought into the country, giving gimmicks to pharmacies for brand loyalty, poster adverts, introduction of more differentiated products.

4.2.4 Bargaining power of generic suppliers/ Distributors

The question regarding strategies employed by pharmaceutical MNCs due to Bargaining power of generic supplier(s)/distributor(s) inquired whether Pharmaceutical MNCs have

employed any strategy in response to any Bargaining power of generic supplier(s)/distributor(s) in part A and the response was as table 4 below.

Table 4: Response to strategy against Power of generic Suppliers/Distributors

Respondents' Response	No. of Respondents	Percentage
yes	24	71
No	10	29
Total	34	100

Source: Research Data, (2012)

Parts B of the question inquired for more explanation for the ones whose response was positive and were asked to explain briefly stating how Pharmaceutical MNCs have responded. They were allowed to mention a few examples.

The respondents cited Increased discounts, more discounts on bulk purchases, bonuses e.g. buy 10 get 1 free, reducing prices of branded products, maintaining high quality, safety and efficacy instilling distributor confidence, arranged educative seminars for distributors, giving incentives when distributor meets their agreed targets, availing generics by MNCs, aggressive marketing to generate demand for distributors for branded products, increased number of distributors countrywide, advertisements by Pharmaceutical MNCs, improved product packaging, ensured availability of their products in the market, availability of credit facilities by pharmaceutical MNCs, easy access to credit, proportional discounts to the amount of drugs purchased, controlled prices at distributor level

4.2.5 Bargaining Powers of Buyers of generic Brands

The question regarding strategies employed by pharmaceutical MNCs due Bargaining powers of buyers of generic brands inquired whether Pharmaceutical MNCs have

employed any strategy in response to Bargaining power of buyers of generic brands in part A and the response was as table 5 below.

Table 5: Response to strategy against bargaining power of buyers of generic brands

Respondents' Response	No. of Respondents	Percentage
yes	23	68
No	11	32
Total	34	100

Source: Research Data, (2012)

Parts B of the question inquired for more explanation for the ones whose response was positive and were asked to explain briefly stating how Pharmaceutical MNCs have responded. They were allowed to a few examples.

The respondents cited that Pharmaceutical MNCs manufactured their own generics, offering a standard discount to all buyers, educated the public through internet and magazines, reduction of prices, aggressive marketing giving generics a run for their money, constant surveys for them to improve, production of more palatable orals, more availability for brands, increased their discounts , better quality for brands creating awareness to the public on the advantages of the brands, supporting medical camps as a form of creating awareness, introduction of bonuses. Pharmaceutical MNCs have leveraged on quality, efficacy and safety, offered bonuses, surveys to identify various product pricing.

4.2.6 Rivalry from Generic Industry members

The question regarding strategies employed by pharmaceutical MNCs due to Rivalry from Generic Industry members inquired whether Pharmaceutical MNCs employed any

strategy in response to Rivalry from Generic Industry members in part A and the response was as table 6 below.

Table 6: Response to strategy against Rivalry from generic industry members

Respondents' Response	No. of Respondents	Percentage
Yes	26	76
No	8	24
Total	34	100

Source: Research Data, (2012)

Parts B of the question inquired for more explanation for the ones whose response was positive and were asked to explain briefly stating how pharmaceutical MNCs have responded to rivalry from Generic Industry members. They were allowed to mention a few examples.

The respondents cited that have responded by Ensuring prescriptions are by brand names and not generic names, ensuring that generics are licensed before importation, discouraging sale of substandard drugs, more presentable packaging, maintaining high quality standards, products are more available, and more accessible, always in stock unlike generics, manufactured own generics, more aggressive marketing, arranged breakfast meetings with outlets, giving promotional materials to pharmacy members, having a wide product portfolio, ensured there is regulation in importation by generics, price reductions, brands invested more in marketing, staff from MNCs more qualified, arranged CMEs for pharmacy attendants, organized conferences, seminars and workshops to pharmacy attendants, establishment of distributions hubs in Nairobi, giving gimmicks to pharmacy attendants, more regulated prices, products re launch by

pharmaceutical MNCs, more prescriptions from branded products, better incentives, patenting brands for some years, educated consumers on benefits of brands, unique formulation which generics will find hard to reproduce.

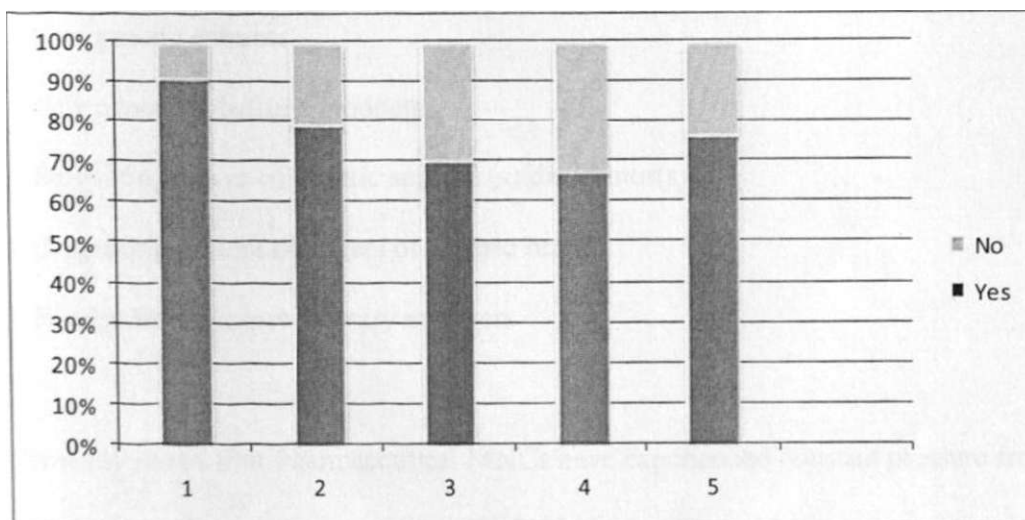
Figure 2 (a) and (2b) below shows percentages of various strategies employed by pharmaceutical MNCs in NCBD.

Figure 2 (a): Various Strategies employed by pharmaceutical MNCs

Respondents' Response	Strategies Employed by Pharmaceutical MNCs				
	1	2	3	4	5
Yes	31	27	24	23	26
No	3	7	10	11	8

Source: Research Data, (2012)

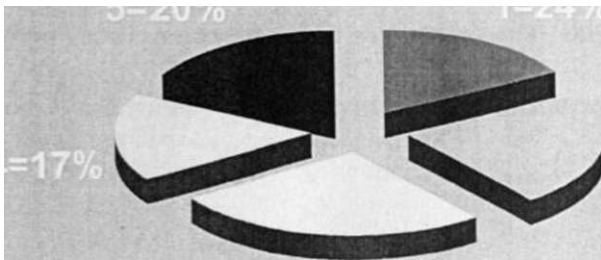
Figure (2b): Percentages of various strategies employed by pharmaceutical MNCs in NCBD



Source: Research Data, (2012)

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Figure 3: Percentage various strategies employed by pharmaceutical MNCs



Source: Research Data, (2012)

Key to figure 2 (a), (2b) and 3

1. New generic entrants
2. New generic substitute products
3. Bargaining power of generic supplier(s)/distributor(s)
4. Bargaining powers of buyers of generic brands
5. Rivalry from generic industry members

The study shows that Pharmaceutical MNCs have experienced constant pressure from the Five forces influencing competition in the industry. They however, must survive and become more effective and must be capable of making adaptation to the changing situations. Pharmaceutical MNCs are adapting to change to keep pace with the dynamic

environment and have built an enormous amount of flexibility. The pharmaceutical MNCs managers have been aware of the environmental forces and environmental change thereby managing the organizations' resources to take advantage of the opportunities and counter threats from new generic entrants, the new generic substitute products, the bargaining power of generic supplier(s)/distributor(s), the bargaining powers of buyers of generic brands and rivalry from generic industry members.

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CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the research findings, includes the conclusion and recommendations.

5.2 Summary of Findings

The research shows that Pharmaceutical MNCs have employed various strategies to fight challenges posed by competition from generic drugs. The study shows that pharmaceutical MNCs have employed strategies to curb new generic entrants in 91% of the retail outlets, to curb new generic substitution in 79% of the retail outlets, to handle the bargaining power of generic supplier(s)/distributor(s) in 71% of the retail outlets, to handle bargaining powers of buyers of generic brands in 68% of the retail outlets, and to curb rivalry from Generic Industry members in 76% of the pharmaceutical retail outlets.

Compared to other strategies employed, the one against new generic entrants has been employed most at 24%, followed by the strategy to curb, 21 % New generic substitute products at 21%, followed by the one to curb Rivalry from Generic Industry members at 20% followed by the one applied to take advantage of the Bargaining power of generic supplier(s)/distributor(s) at 18 %. The least strategy is against the Bargaining powers of buyers of generic brands at 17%.

53 Conclusion

Pharmaceutical MNCs have employed strategies against Michael Porters' five forces influencing competition in an industry, namely; threat of new entrants, the threat of substitute products or services, the bargaining power of suppliers, the bargaining power of buyers, and the competitive rivalry between current members of the industry. Pharmaceutical MNCs have employed Michael Porters generic strategies to allow them gain competitive advantage. They have employed cost leadership, differentiation, and focus at retail level against cheaper generic drugs in order for them to still stay profitable and command a significant market share.

5.4 Limitation of the Study

The respondents did not have a complete business concept, the five forces were confusing and they needed constant clarification. Pharmaceutical retail outlets (chemists/Pharmacies) are busy places, respondents took a lot of time to finish filling a questionnaire, and they required constant visits to check of progress and clarification.

5.5 Recommendations

The study generalized strategies employed by pharmaceutical MNCs as a whole, it did not specify specific strategies for a specific pharmaceutical MNC, and further research can be done on strategies employed by any specific Pharmaceutical MNC to fight challenges posed by competition from generic drugs. Research can also be done on the strategies employed by generic industry members to challenges posed by competition from Pharmaceutical MNCs.

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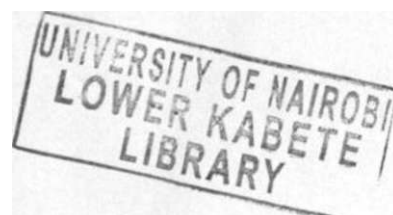
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APPENDICES

Appendix I : Letter of introduction



UNIVERSITY OF NAIROBI

SCHOOL OF BUSINESS

MBA PROGRAMME

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TO WHOM IT MAY CONCERN

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The resutte of the report will be us<l soleV for academic purposes wd <j copy of the vi ->e nil be aval'ed to the interviewed orflaniiaflons on -equest.

Thank you. .

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PR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM

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Appendix 11: Questionnaire

SECTION A: Personal information

1. What is your gender? Male [] Female []
2. What is your level of education? Tick where appropriate
 - a) O -Level []
 - b) Diploma []
 - c) Degree []
 - d) Other(s) - Specify_

SECTION B

Please tick appropriately where:

Yes [2]

No [1]

1. Threat of new generic entrants

- a) Have Pharmaceutical Multinational Corporations employed any strategy in response to new Pharmaceutical generic drug(s)?

Yes [2] No [1]

- b) If your answer is yes please **explain** briefly stating how Pharmaceutical Multinational Corporations have responded to these new pharmaceutical generic drug(s). You can mention a few examples.

2. Threat of generic substitute products

a) Have Pharmaceutical Multinational Corporations employed any strategy in response to any threat of generic substitute product(s)?

Yes [2] No [1]

b) If your answer is **yes** please **explain** briefly stating how these Pharmaceutical Multinational Corporations have responded. You can mention a few examples.

3. Bargaining power of generic suppliers/distributors

a) Have Pharmaceutical Multinational Corporations employed any strategy in response to any Bargaining power of generic supplier(s)/distributor(s)?

Yes [2] No [1]

b) If your answer is **yes** please **explain** briefly stating how Pharmaceutical Multinational Corporations have responded. You can mention a few examples.

. Bargaining power of buyers of generic brands

- a) Have Pharmaceutical Multinational Corporations employed any strategy in response to Bargaining power of buyers of generic brands?

Yes [2] No [1]

- b) If your answer is yes please **explain** briefly stating how these Pharmaceutical Multinational Corporations have responded. You can mention a few examples.

5. Rivalry from generic Industry members

- a) Have Pharmaceutical Multinational Corporations employed any strategy in response to Rivalry from Generic Industry members?

Yes [2] No [1]

b) If your answer is yes please **explain** briefly stating how these Multinational Corporations have responded. You can mention a few examples.

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THANK YOU

**Appendix III: List of MNCs Outlets in the Nairobi Central Business District
according to the Kenya Medical Directory, 2006/2007 and the Pharmacy and
Poisons Board, April 2007.**

- | | |
|----------------------------------|---|
| 1. Afya Center Pharmacy | 27. Global Med Pharmaceuticals
Ltd |
| 2. Aga Khan Walk Chemists | 28. Haripharm Pharmaceuticals
Ltd. |
| 3. Annunciation Pharmacy | 29. Healthlife Pharmaceuticals
Ltd |
| 4. Anpi Phannacy | 30. Highfields Pharmacy Ltd. |
| 5. Athi Pharmacy Ltd | 31. Hollywood Pharmacy |
| 6. Belea Pharmacy Ltd | 32. Inkamed Pharmacy |
| 7. Bells Phannacy | 33. I.P.A Laboratories ltd. |
| 8. Benmed Pharmaceuticals Ltd | 34. Jacaranda Pharmacy |
| 9. Bilova Pharmacy Ltd | 35. Jaga Pharmacy |
| 10. Bureau Pharmacy | 36. Jey's Pharmacy ltd |
| 11. Cedar Pharmacy | 37. KAM Pharmacy- (Cargen
House) |
| 12. Centinel Healthcare Chemists | 38. KAM Pharmacy-(IPS
Building) |
| 13. Centur Pharmaceuticals ltd | 39. Karuri Stores (K) ltd |
| 14. Chemitex Ltd | 40. Kavakava Pharmacy |
| 15. Citizen Pharmaceuticals Ltd | 41. Kilimanjaro Pharmacy |
| 16. City Square Pharmacy | 42. La Belle Pharmacy |
| 17. Continental Pharmacy | 43. Lake Chemists |
| 18. Crescent Medical Aid Kenya | 44. Laser Phannacy Ltd |
| 19. Cross roads Pharmacy | 45. Latema Road Healthcare |
| 20. Damco Pharmacy | 46. Leki Phannacy |
| 21. Danchem Phannacy | 47. Lemuma Phannacy
(Mfangano Street.) |
| 22. Darol Pharmacy | |
| 23. Dove Pharmacy Ltd | |
| 24. Edwan Phannacy | |
| 25. Elton Pharmacy | |
| 26. Flame Pharmacy | |

48. Lemuma Pharmacy (Tom-Mboya Street.)
49. Lemuma Pharmacy (Moi Avenue)
50. Lens Pharmacy
51. Lyntons Pharmacy Ltd
52. Maendeleo Pharmacy
53. Malibu Pharmacy (Agriculture House)
54. Malibu Pharmacy (Mama Ngina Street.)
55. Maripharm Pharmacy Ltd
56. Mansion Pharmacy
57. Med Rx Pharmaceuticals
58. Medipharm Pharmacy
59. Medox Pharmaceuticals Ltd.
60. Metropolitan Pharmacy
61. Modana Pharmaceuticals
62. Monks Medicare Africa ltd
63. Montel Pharmacy Ltd
64. Nairobi Drug Stores
65. National Pharmacy
66. Nature Pharmacy
67. Nelly Pharmacy
68. Neonise Pharmacy
69. Newmark Pharmacy ltd
70. NickPharm Pharmacy
71. Nila Pharmaceuticals Ltd (Ronald Ngala St.)
95. Theluji Pharmacy
96. Thorn Tree Chemists
72. Nila Pharmaceuticals Ltd (Accra Road.)
73. Nothern Pharmacy
74. Parth Pharmaceuticals Ltd.
75. Pentapharm Pharmacy (K.TDA House)
76. People Pharmacy Ltd
77. Pharmatrade Pharmaceuticals Ltd
78. Portal PharMacy
79. Prime Pharmacy Ltd.
80. Race Course Pharmacy Ltd.
81. Rangechem Pharmaceuticals
82. Rence Pharmacy
83. Riverlyne Pharmaceuticals Ltd.
84. Rosegate Pharmacy
85. RupPharm Chemists
86. Salama Pharmaceuticals
87. Sears Pharmacy
88. Shamchem Pharmacy
89. Sirs Pharmacy
90. Sonachem Pharmaceuticals
91. Southlands Pharmaceuticals Ltd.
92. Super Drug Pharmacy
93. Teachers Pharmacy
94. Temple Stores Pharmaceuticals Ltd.
97. Transchem Pharmaceuticals (Church House)

98. Transchem Pharmaceuticals
Ltd (Mumbi House)

99. Transwide Pharmaceuticals
Ltd

100. Troy Medical supplies
Ltd

101. Vidonge Pharmacy

102. Well-med Pharmacy

103. Weston Pharmacy

104. Zenamed Pharmacy