# RESPONSE STRATEGIES OF MULTINATIONAL PHARMACEUTICAL CORPORATIONS TO CHALLENGES OF COMPETITION FOR INSTITUTIONAL MARKETS IN KENYA

**BY**

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# DECLARATION

This is research project is my original work and has not been submitted for examination in any other university or institution of higher learning for Examination or for any other purpose.

**SIGNED ____________________________** **DATE __________________**

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**D61/8367/2006**

This Management project report has been submitted for Examination with my approval as University Supervisor.

**SIGNED ____________________________** **DATE __________________**

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# DEDICATION

To my dear parents, the Late George Samuel Onyinge and Pamela for giving me the gift of life, the sacrifices they made in bringing me up and support throughout my life.

Dad, you inspired me to be the best I can in all my undertakings in life, rest in peace.

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GOD BLESS YOU ALL!

# ABSTRACT

The Kenyan pharmaceutical industry like any other industry has been faced with challenges in the past decade which has led Multinational Pharmaceutical Corporations to strategize for survival in the market. They have in the recent past shown keen interest in the institutional markets in order to grow their market share. This study looked at challenges of competition facing MPCs for institutional markets and response strategies to these challenges. This study will benefit company executives and top management teams of various MPCs in the Pharmaceutical industry as they are the drivers of the companies' grand strategies for business growth. Other stakeholders in the industry like investors, collaborating multinational donor Agencies and the public in general would benefit as this research would provide detailed information for making informed decisions. Key institutions like Department of Defence (DOD), Kenya Pots Authority (KPA), Referral hospitals (KNH, MTRH) and universities health facilities could also be of interest to foreign investors as they make good and reliable business partners in terms of quantity of purchase and consistency in payment. Primary data was collected using self-administered drop and pick questionnaires which were distributed to the managers in each of the 25 MPCs. These managers were picked because of their knowledge of the industry and were in a position to expound the strategic issues facing the companies. The questionnaires were semi-structured having both open-ended and closed-ended questions. The study used descriptive statistics for data analysis. These measures included frequency, mean and percentage. Tables were used exclusively to present the findings and to generate quantitative data which was finally integrated to form a comprehensive report. The findings revealed that the bulk of business comes from institutions 68.4%, while the rest comes from open market 31.65 %, and the majority of respondents agreed that buyers insisting on lower prices, parallel /illegal imports, cheaper substitutes, undercutting of prices, competition using unorthodox methods, counterfeits and threats from importers of generic products pose a great challenge in pharmaceutical industry. They went further to clarify that counterfeits and illegal imports threat was more in the open market than institutions. On the side of practice this study recommends that pharmaceutical firms need to form strategic alliances with institutions in order to lock out parallel/illegal importers and counterfeit products. The Pharmacy and Poisons Board (PPB) should come up with legislations to curb parallel/illegal imports and counterfeits in order to minimise unhealthy competition. The use of professionals (either outsourced or in-house) in the negotiation process with formulary committees and preparation of tender documents to deal with institutions is an option that the firms should look at. This is because the institutions are getting more advanced, away from manual to e-tendering, ordering and even payment which calls for further training or use of skilled personnel who understand the complexities associated with such processes. Further, there are other legal parameters that must be met by tendering firms that calls for the input of professionals. The study recommends that multinationals are better placed to use local distributors to undertake local logistics in relation to tenders. This is in relation to what the distributors can undertake locally as compared to the multinationals. The legal requirements (both local and international) restrict the participation and involvement of the multinationals in certain activities.

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# ABBREVIATIONS

| | | |
|---|---|---|
| CBK | - | Central Bank of Kenya |
| DOD | - | Department Of Defence |
| IMS | - | International Medical Survey |
| KAPI | - | Kenya Pharmaceutical Industry |
| KEMSA | - | Kenya Medical Supplies Agency |
| KNH | - | Kenyatta National Hospital |
| KPA | - | Kenya Ports Authority |
| MNCs | - | Multinational Corporations |
| MPC | - | Multinational Pharmaceutical Corporations |
| MTRH | - | Moi Teaching and Referral Hospital |
| NGO’s | - | Non Governmental Organization |
| OTC | - | Oven the Counter Products |
| POM | - | Prescription only Medicine |
| PPB | - | Pharmacy and Poisons Board |
| R & D | - | Research and Development |
| ROK | - | Republic of Kenya |
| WHO | - | World Health Organization |

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

"Strategy is the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations". Johnson and Scholes (1997). Corporate Strategy is concerned with the overall purpose and scope of the business to meet stakeholder expectations. This is a crucial level since it is heavily influenced by investors in the business and acts to guide strategic decision-making throughout the business. Corporate strategy is often stated explicitly in a "mission statement".

For many years different strategy schools have emerged with different views on how strategy should be developed and formulated. Henry Mintzberg was the first person to divide strategy development into different schools – in his book (Strategy Safari, 1998) he counts up to ten different schools. The whole issue of how strategy is made has been a case of debate among academia for many years. A primary divide has been between the design school and the learning school. In the design school strategy is viewed primarily as a rational analytical process whereas the learning school sees it mainly as emerging from a complex organizational process. Even if the debate is still ongoing it is becoming more apparent that they are moving in the direction of complementing one another rather than being extreme opposites (DeWit and Meyer, 2004). Both these two schools and other authors (Hax and Majluf, 1991; Johnson & Scholes, 1997) seem to agree that the strategy process can be divided into distinct phases of strategic analysis, strategy formulation, planning and execution of strategy. The disagreement is not whether the phases exist but how they interact. The design school has a more linear view of the process; excellent analysis leads to well formulated strategies again leading to good planning and execution (Mintzberg, 1994).

### 1.1.1 Response Strategies

Organizations depend on the environment for survival. They scan the environment in an effort to determine the trends and conditions that could eventually affect the industry and adapt to them (Thompson and Strickland 1993). The organizations environment is dynamic and to operate effectively within it, organizations must be able to change in response. Responses can be both strategic and operational. Ansoff and McDonnel (1990) noted that strategic responses involve changes in a firm's strategic behaviors to ensure success in transforming the future. The choice of the response depends on the speed with which a particular threat or opportunity develops in the environment.

According to Johnson and Scholes (2002) strategic response is concerned with the overall purpose and scope of the business to meet stakeholder expectations. It guides strategic decision-making throughout the business. It focuses on changes in product or market domain or both. On the other hand, operational response is concerned with how each part of the business is organized to deliver the corporate and business-unit level strategic direction. Operational strategy therefore focuses on issues of resources, processes, and people and is largely concerned with strategy implementation issues.

### 1.1.2 Industry Competition

Competition is the chief selective process in modern economic society, and through it we have the survival of the fit. Competition, in the sense in which the word is still used in many economic works, is merely a special case of the struggle for survival. Competition, in the Darwinian sense, is characteristic, not only of modern industrial states, but of all living organisms (Ely, 1901, P. 64)

Chen and Miller (1994) defined competition as the actions and responses in competitive engagement against rivals. Competition is also defined as rivalry in which every seller tries to get what other sellers are seeking at the same time: sales, profit, and market share by offering the best practicable combination of price, quality, and service. Where the market information flows freely, competition plays a regulatory function in balancing demand and supply. Competition can have both positive as well as negative effects on a company's market opportunity. For example, competition can cause an entire market to flow through market development, which results from more people becoming aware of the product, and therefore more people buying the product, thereby, increasing total sales for the entire industry (Eddy, 1913, 19):

With the changing operating environment, a more pronounced transformation of the business landscape lies ahead. Strategy becomes vital to the adaptation of the business to the changing business environment. The pharmaceutical industry in Kenya has undergone numerous changes since being liberalized in the early 1990s. There has been an influx of many pharmaceutical companies into the market, either as direct investments or through franchise holders. The product range within the industry has widened greatly to meet the ever increasing consumer needs. The industry has been characterized by many challenges of competitive forces such as new entrants, substitute products and increased supplier and buyer power, illegal/parallel imports and counterfeits which have transformed the environment a great deal, creating the need for firms to come up with response strategies and change their competitive positions.

Competition however limits market opportunity for individual companies. Firms try to enhance their competitive position by using appropriate marketing strategies and as long as the company has had a stronger competitive position than the others, it will expand its market share while that of the weaker firms is reduced. It is therefore important for marketers to analyze competitors in the market in which they operate. A good starting point would be to identify the competitors.

The next step would be to identifying competitors' strategies for the organization to respond or react accordingly. The strategy may depend on the competitors' strength, weaknesses, opportunities and threats. Competitors come up with many strategies depending on the market situation in which they operate their internal capability and the life stage of the market.

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 industry wide 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 MPCs, generic importers and local manufacturers.

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 substitute products in form of imported generics, parallel imports and counterfeits can influence competitive strategies employed by MPCs.

When there is threat of substitute products or services consider switching costs, buyer inclination to substitutes and price performance trade-off of substitutes.

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, vertical (forward, backward) integration and cost relative to total purchases in the industry. These challenges can influence response strategies employed by Multinational Corporations.

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.

### 1.1.3 Pharmaceutical Industry in Kenya

The pharmaceutical industry in Kenya is very closely related to and almost inseparable from the Healthcare industry and consists of three segments namely manufacturers (local and international), distributors (local and international) and retailers consisting of chemists and pharmacies all of whom all actively support the Ministry of Health and other key players in developing the health sector and comprises of over the counter (OTC), patented drugs and generics market segments**.**

According to The Kenya Pharmaceuticals and Healthcare Report Q1 2012, the Kenyan pharmaceuticals and healthcare market presents significant revenue earning opportunities for drug companies. Growth in the sector is boosted by strong demographics, increased healthcare needs, and longer life expectancy, rising healthcare spending in the public and private sectors and improved access to health facilities. Furthermore, in addition to an increase in the healthcare services provided by the government, BMI notes that there is also a growing demand for health services due to a growing awareness of preventative healthcare.

According to Business Monitor 2012, the government of Kenya spent on Pharmaceuticals: KES33.02bn (US$417mn) in 2010 to KES38.72bn (US$450mn) in 2011; +17.3% growth in local currency terms and +5.6% in US dollar terms. This is an indication of the growth potential of this industry. It is worth to note that Kenya's pharmaceutical industry is on a rebound, riding on the back of increased expenditure in healthcare and general economic growth over the years.

The pharmaceutical sector consists of more than 35 licensed units which include local manufacturing companies and large Multi-National Corporations (MNCs), subsidiaries or joint ventures. Most are located within Nairobi and its environs. These firms collectively employ over 2,000 people, about 65% of who work in direct production.

The key players in the pharmaceutical industry are Large Multinational Pharmaceutical Corporations who are represented in this country as Subsidiaries, Franchise, Scientific office or joint ventures with local or international distributors and also locally owned corporations as manufacturers or distributors of which most are located within Nairobi and its environs.

Quite a number of the Nairobi offices also serve as regional offices for Sub- Saharan Africa or Middle African countries.

Some pharmaceutical companies either supply their drugs directly to distributors who in turn supply the retail outlets, hospitals, government institutions, non-governmental organizations(NGOs) and privately owned institutions or they give importation and distribution rights to some distributor(s) who import on their behalf and equally distribute to retail outlets, hospitals or other institutions.

The Multinational Pharmaceutical Corporations with presence in Kenya are like Bayer Healthcare, Pfizer Laboratories, and GlaxoSmithKline, Astra-Zeneca, Roche, Sanofi-Aventis and Novartis among others. The multinational pharmaceutical corporations are generally faced with the challenge of legal constraints, code compliance and patency issues as compared to the generic importers and local manufacturers.

Sales of over-the-counter (OTC) and prescription drugs clocked up sales of 17.7 billion Kenyan shillings (USD 234.6 million) in 2008, up 22.9% from Sh14.4 billion the previous year, according to the Kenya Pharmaceutical and Health Report 2010. By 2014, the Kenyan drug market is expected to hit a value of Sh33.5 billion, equating to a compound annual growth rate (CAGR) of 13.53% in local currency terms and 22.8% in US dollar terms

The legal framework that takes care of the pharmaceutical industry are Pharmacy and Poisons Act, Cap 244, Industrial Property Act, 2001, Anti-Counterfeit Act, December 2008, Kenya Public Procurement and Disposal Act, 2005

Pharmacy practice is regulated by The Pharmacy and Poisons Board (PPB) which is the pharmaceutical regulatory authority in Kenya and established by law under the Pharmacy and Poisons Act, Cap 244. The Board regulates the practice of pharmacy and the manufacture and trade in drugs and poisons.

### 1.1.4 Pharmaceutical Institutional Market in Kenya

The pharmaceutical institutional market in Kenya is mainly composed of the public and private healthcare institutions. The Public Health institutions were previously organized into national, provincial, district, and community level, therefore forming a pyramid-like pattern but recently reduced to national, level five, level four and the county health facilities. Mobile clinics and dispensaries are at the very bottom of the pyramid with level four and five hospitals at the middle. Kenyatta National Hospital (KNH) in Nairobi and Moi Teaching and Referral Hospital (MTRH) in Eldoret are at the apex of the public healthcare system both receiving budget allocation from the Ministry of Health for running the facilities. The other health facilities depend on Kenya Medical Supplies Authority (KEMSA) for most of its medical requirements. Besides the free supply form the government, most of the level four and five institutions purchase medication not available in the government formulary using Revolving Drug Fund (RDF). This is in response to customers (doctors and patient) needs.

The Kenya Medical Supplies Authority (KEMSA) is a specialized medical logistics provider for Ministry of Medical Services and Public Health which supports health facilities and programs. The Authority was formed on 11th February 2000 as a result of recommendations of a health stakeholders' forum dubbed "Strategies for Reforming the

Drug and Medical Supplies Systems in Kenya" held between June 7 and 10, 1998. As the primary public procurement agency for medicines, KEMSA plays a significant role in the pharmacy sector and the pattern of procurement at KEMSA has recently been modified to alleviate certain problems that had risen in the procurement process in recent years.

Hit by rising inflation and the increase in the price of medicines and medical devices, the majority of which are imported, the subsequent increase in the cost of operations for Multinational Pharmaceutical Corporations leading formulation of strategies for survival and sustainable competitive edge. Apart from the major private and public hospitals like Nairobi hospital, The Aga Khan, KNH and MTRH, the high caliber government-owned/public and parastatal institutions like Department of Defense (DOD), Central Bank of Kenya, Kenya Ports Authority, East African Portlands and Public University health facilities have in the recent past been of great attraction to both Multinational and generic pharmaceutical organizations mainly due to large quantities consumed by both the employees and dependents at no or subsidized costs, their reliability in terms of payment and affordability of good brands. The other advantage of selling to these institutions is that it locks out competition and no substitution can take place.

The main characteristic of these institutions are, Legal and Regulatory environment pertaining to the competitive bidding and procurement process of pharmaceutical products and thus calls for a lot of market intelligence. These institutions are usually a "one-stop" source of care that takes care of disease diagnosis through necessary tests and medication. The procuring entities (PE) within the public health institutions usually aim at acquiring medical supplies and services at optimum terms by taking into account the acquisition price, payment terms, product and service quality, availability, supplier support and track record.

Qualified suppliers are usually given equal opportunity to bid for supply of medical products and services and the highest ethical, professional and legal standards in procurement are always observed in establishing a mutually beneficial relationship with suppliers and customers. All procurement of medical requirements are done through open competitive public bidding un less an alternative procurement method is justified in accordance with the relevant provisions in the Public Procurement and Disposal Act 2005, Public Procurement and Disposal Regulations 2006, the Public Procurement and Disposal (ROK 1994)

In order to lock out illegal traders, the institutions take suppliers through Pre-qualification process that requires them to produce Certificate of Local Technical Representative(LTR), Certificate of incorporation, letter of authorization of Manufacturer (in case of distributors) among others. Financial and security bid bonds are also a requirement for participation in the tender process. Once the supplier qualifies, the next stage is to sign a binding contract the supplier and the institution authorities.

### 1.1.5 Multinational Pharmaceutical Corporations in Kenya

According to the Drug Index (Formerly East African Pharmaceutical Loci) 12th Edition 2012/2013 there are 25 Multinational Pharmaceutical Corporations that have a presence in Kenya as subsidiary, scientific representative offices, franchise or through importers and distributors. These are companies that develop, produce and market ethical drugs that are licensed for use as medications in the treatment, prevention or alleviation of symptoms of diseases. Drugs have been categorized into three distinct and broad product segments. First is the Over the counter drugs (OTC), which are easily accessible and can be purchased as the name suggests over the counter without a doctor's prescription and are found in shops, supermarkets and pharmacies and rarely stocked in institutions.

The second segment is the ethical drugs, found in pharmacies/chemists in both open market and institutions and should be dispensed only with professional advice with some not necessarily on prescription. While the third segment is the prescription only medicines (POMs), found in pharmacies and institutions and can only be issued where a prescription signed by a doctor exists. Examples of POMs are very potent pain killers like pethidine, hypnotics and tranquilizers which could cause dependency or addiction.

The MPCs manufacture drugs after a long time of research and development(R&D) are usually under patent for about twenty years after which any other company may manufacture the generic equivalent of the drug, which is usually cheaper in price mainly since they do not incur research and development costs. Besides, the raw materials could also be more readily available by then due to demand created by the originator company. Drugs are also a highly commodity regulated and are subjected to a variety of laws and regulations regarding patents, testing, registration and marketing.

Multinational pharmaceutical companies are companies which are privately owned or publicly traded, and conduct their business in many countries in different continents. They participate in a broad range of drug discovery and development, manufacturing and quality control, marketing, sales, and distribution. Drug discovery and development is very expensive as only one out of every ten thousand discovered compounds actually becomes an approved drug for sale and the cost of developing a successful new drug has been estimated at about 1.3million USD. The fifteen top Multinational companies in the world are Pfizer, GlaxoSmithKline, Johnson & Johnson, Merck, Astra-Zeneca, Novartis, Sanofi-Aventis, Roche, Bristol-Myers Squibb, Wyeth, Abbot, Eli Lilly, Takeda, Schering-Plough, Bayer with revenues ranging from 10-50,000 million USD annually.

The main challenges for drug companies come from four areas. First, they must deal with competition from within and without. Second, they must manage within a world of price controls that dictate a wide range of prices from place to place. Third, companies must be constantly on guard for patent violations and seek legal protection in new and growing global markets. Finally, they must manage their product pipelines so that patent expirations do not leave them without protection for their investment. (Davidson & Greblov 2005)

According to IMS Health as restated in the 2004 Astra-Zeneca Annual Report, the United States, the European Union and Japan comprise the three major pharmaceutical markets which together represent 88% of world sales. At the same time, although the share of world pharmaceutical sales in developing countries at this point of time is much lower, they show much faster growth rate than developed countries do, therefore developing countries contain a significant potential for further expansion of pharmaceutical industry in the future.

MPCs are bound by international codes of conduct that range from industry specific codes like IFPMA among others whereas the generic importers and distributors may not necessarily subscribe of follow these codes. Besides, MPCs operate in the global space exposing them to more scrutiny beyond Kenya and African borders, in this regard it is expected that even in the presence of week enforcement of laws and regulations in the developing countries, they would be still sticking to the rules of the day due to their international obligations in the rest of the world.

## 1.2 Research Problem

Organizations generally operate in stiff environment mainly because they most times sell products or services which are similar and target same customers as competitors. For a long time the pharmaceutical market operates in a relatively stable environment till the last decade when the industry experienced drastic change and aggressive competition mainly as a result of liberalization and globalization of the industry.

It is therefore very crucial for a firm’s top executives to not only monitor existing competitors but also the emerging ones then quickly formulate strategies to counter the threats as they emerge. The multinational Pharmaceutical Corporations just as any other business ventures have been faced with competition in its operating business environment.

Mc Kinsey and Company (2008) carried an extensive survey on how to competitors out of the realization that firms operate in a highly competitive environment. In Kenya, a lot of studies have been carried out on how various organizations have responded to competition out on  strategic responses; Murgor (2008) set to identify the challenges in the sugar industry in the light of changing operating environment; he did a census survey of 7 firms and concluded that the key challenges were globalization, mismanagement and poor technology. On her part, Mugweru, (2008) did a case study of Barclays bank. Her objective was to establish the strategic responses to the external environment the study concluded the challenges experienced were mainly due to liberalization.  In the Pharmaceutical field, Ateqa (2012) researched on responses by private Mombasa County pharmaceutical distributors to challenges faced in implementation of the Kenya National Drug policy, Opiyo, J.O. (2006). Responses of Pharmaceutical importers to challenges of illegal trade in the Pharmaceuticals. Simba (2012) also researched on strategic responses by multinational corporations to challenges posed by generic drugs in Kenya, a research that was done more of in the open market i.e. in dispensing chemists and pharmacists but not in the enclosed institutions like Department of Defense (DOD) medical facilities, Kenyatta National Hospital.

Findings from the above show that none of these past studies has been able to address the response strategies of Multinational Pharmaceutical Corporations to challenges of competition in the institutional markets in Kenya yet they contribute substantially to the organization’s overall business, command a significant market share and been able to remain profitable at the same time.

This brings us to the question of "What are the challenges of competition facing Multinational pharmaceutical in the institutional markets and which response strategies have they employed to overcome these challenges?

## 1.3 Research Objective

The objectives of this study were:-

i) To identify the challenges of competition facing Multinational Pharmaceutical Corporations (MPCs) for institutional markets in Kenya.

ii) To determine the response strategies employed by Multinational Pharmaceutical Corporations (MPCs) to overcome challenges of competition for institutional markets in Kenya.

## 1.4 Value of the Study

The study will benefit company executives and top management teams of various MNCs in the Kenyan Pharmaceutical industry as they are the drivers of the companies' grand strategies and business growth by entry and gaining share of this market segment. Other stakeholders in the industry like investors, collaborating multinational donor Agencies and the public in general would benefit as this research would provide detailed information and thus make informed decisions. Institutions like Department of Defense (DOD), Referral hospitals and universities health facilities could also be of interest to foreign investors as they buy in bulk and usually make good and reliable business partners. The research findings would enable Multinational Pharmaceutical Corporations to make informed decisions on how align their internal capabilities to the environment and therefore have a competitive edge over competition in the market place. Other organizations including generic pharmaceutical company executives could also learn best practices in the industry and identify those that may apply to their own organizations and thus run competitively in the market place.

The government, policy makers and other regulatory bodies like PPB would get more information to include in data bank for references. 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 bridge 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

This chapter reviews literature on the concept of strategy, the environment of competition, strategy in the pharmaceutical industry, strategic responses and an empirical review of literature.

## 2.2 Theoretical foundation

“The aim of strategy is to provide organizations with direction whether is a carefully developed plan or a series of related opportunities which the organization follows or a combination of plans and opportunities” Clair (2008). Further, Clair (2008) continues to say that “There are many and varied definitions of strategy but common to nearly all are an understanding of the external environment and the resources and the resources available to compete in the external environment”. It is thus noted that developing strategy is often concerned with markets, competition and growth both domestically and internationally. This may necessitate changes to structure or existing set-up in the organization may be sufficient to take the organization forward.

## 2.3 The Concept of Strategy

There are several views on what strategy means. Typical definitions include: "Strategy is the skill in managing or planning" .Mintzberg, and Quinn (1991), states that strategy is the primary means of reaching the focal objective. The focal objective is whatever objective is in mind at the moment. Strictly speaking, it is literally meaningless to talk about strategy without having an objective in mind. Viewed in this context strategy becomes an integral part of the ends and means hierarchy (Thorelli, 1977). There is a growing cognizance that in highly dynamic environments, traditional approaches to strategy development often do not lead to the intended results, and that organizations must move towards a more dynamic concept as the underlying conditions change before formulated strategies can be fully implemented. However, the way in which a dynamic approach to strategy development can be achieved is not clear. According Andrews (1971), strategy is a rational decision-making process by which the organization's resources are matched with opportunities arising from the competitive environment.

Aldrich (1979) states that the environment has a strong deterministic influence on the strategy-making processes in organizations. On the other hand, proponents of the resource-based view argue that it is not the environment but the resources of the organization which form the foundation of firm strategy Grant (1994). Despite the differences, all these frameworks have one thing in common which is that they all aim at maximizing the performance of an organization by improving its position in relation to other organizations operating in the same competitive environment.

Johnson and Scholes (2002) define strategy as the direction and scope of an organization over the long-term, which achieves advantage for the organization through its configuration of resources within a challenging environment with an aim to meet the needs of markets and to fulfill stakeholder expectations. Corporate Strategy is concerned with the overall purpose and scope of the business to meet stakeholder expectations and is often stated explicitly in the organization’s mission statement. Bryson, (2004) notes that today’s environment has not only become increasingly competitive but uncertain, complex, interconnected and fast changing. Organizations are therefore required to think and plan in advance, yet be flexible enough to incorporate changes as they operate in the ever changing environment.

### 2.4 The Organization and the Environment

Economic forces can have a profound influence on organizational behavior and performance. Economic growth, interest rates, the availability of credit, inflation rates, foreign exchange rates, and foreign trade balances are among the most critical economic factors. Economic growth can also have a large impact on consumer demand for products and services. According to Hill and Jones, (1998) every organization exists within its own internal environment and is influenced by its external environment. The business environment is subject to many changes and the complexity of these environmental influences upon an organization will vary significantly from case to case. It is therefore necessary for organizations to understand how the changes in the external environment might differentially affect them. Some organizations pass from decade to decade with little change in their environments whilst others must cope with daily or hourly changes which must be addressed.

Organizations are dependent on the environment which is constantly changing .To adapt to the environment the organization must adopt significant changes and strategies geared towards serving changing the environment. Organizations must cope with and manage uncertainty created by changing environment to be effective. Uncertainty increases the risk of failure for organizational responses and makes it difficult to compute costs and probabilities associated with decision alternatives (Koberg and Ungson, 1987).

Characteristics of the environmental domain that influence uncertainty are the extent to which the external domain is simple or complex and the extent to which events are stable or unstable (Dess and Beard ,1984).

The patterns and events occurring across environmental sectors can be described along several dimensions, such as whether the environment is stable or unstable, homogeneous or heterogeneous, concentrated or dispersed, simple or complex; the extent of turbulence; and the amount of resources available to support the organization (Bluedorn, 1993). These dimensions boil down to two essential ways the environment influences organizations: the need for information about the environment and the need for resources from the environment. The environmental conditions of complexity and change create a greater need to gather information and to respond based on that information.

### 2.5 Response Strategies to competition

Competition forces companies to constantly engage in offensive and defensive marketing strategies. Rivalry occurs because one or more competitors either feels the pressure or sees an opportunity to enter an industry or to improve its position within an industry. In most cases, competitive moves by one firm have noticeable effects on its competitors and, thus, may invite retaliation or efforts to counter the move (Porter 1980). Companies respond to competitor challenges by counterattacking with increasing advertising expenditures, cutting prices, increasing innovation, and introducing new products, or even accommodating the entrant by doing nothing or decreasing the level of marketing effort (Karakaya and Yannopoulos, 2011; Scherer, 1980). Firms grow by taking market share from rivals or creating new markets. Incumbents need to be prepared for attacks by existing firms seeking to expand their business and new entrants. The incumbents' objective is to defend their market share and strengthen their position by making it harder for companies to enter or for existing firms to challenge them. Incumbent firms may also attack in an attempt to enter a new market, reposition themselves, or improve their market position. Markets are dynamic arenas where firms try to expand into their industries or reposition themselves in other segments within the industry. As firms attempt to improve their position, they engage in competitive battles and adopt offensive strategies. Successful use of offensive strategies can help a firm improve its competitive position, gain market share, and increase profits. In this paper we discuss both defensive and offensive marketing strategies. We, first, discuss the pre-entry and post-entry defensive marketing strategies, and, then, a number of offensive marketing strategies.

Because of ongoing rivalry, established firms need to engage in defensive strategies to fend off the various challengers. The primary purpose of defensive strategy is to make a possible attack unattractive and discourage potential challengers from attacking another firm. Incumbents try to shape the challenger's expectations about the industry's profitability and convince them that the return on their investment will be so low that it does not warrant making an investment in that industry.

Defensive strategies work better when they take place before the challenger makes an investment in the industry, or if they enter the industry before exit barriers are raised, making it difficult for the challenger to leave the industry. For this reason, an incumbent needs to take timely action to discourage a challenger from making any substantial commitment, because once the commitment is made, it is more difficult to dissuade the challenger from following through with the attack especially if exit barriers are high. If an attack has already begun, a defending firm may attempt to lower its intensity and potential for harm, by directing the attack to areas where the firm is less vulnerable, or in areas which are less desirable to the attacker (Porter, 1985). Or they should initiate actions designed to make the entrant's life difficult after entry has occurred. This may convince the entrant that its calculations were too optimistic and its early experience in the industry is so negative that it does not warrant continuing the entry effort.

## 2.6 Ansoff's Product-Market Expansion Grid

Ansoff's model is one of the best tools which companies use to develop market and product expansion strategies. Ansoff's model is based upon four type of strategies namely market penetration strategy, market development strategy, product development strategy and diversification strategy. The strategy is also dependent on company objectives which include increasing sales, increasing profit, enter into new market, develop new product and venture into new business area.

The company's first preference would be to check whether they can gain more market share with their current product portfolio in their current markets (Market penetration). The next would be to find out whether they could find new market for the current products (Market Development).They would then consider if there is a place to get more share by introducing new products in the current market (Product Development). Lastly if all the strategies are not feasible in current company environment then the company could produce new products for new markets which need a lot of budget and efforts.

### 2.6.1 Market Expansion Strategy

Market expansion strategy as a response is a strategy that can allow an organization to concentrate its limited resources on the greatest opportunities to increase sales and achieve a sustainable competitive advantage. It should be centered on the concept that customer satisfaction is the main goal. Kotler (2003) argues that it is most effective when it is an integral part of corporate strategy. Ansoff (1957) proposed a useful framework for detecting new intensive growth strategies called “product-market expansion grid”.

The company first considers whether it could gain more market share in its current market. This is known as market penetration strategy. The best way to achieve this is by gaining competitors’ customers or attracting non-users of your products and convincing current clients to use more of the company’s products or service. The next step is whether it can find or develop new markets for its current products; here an established product can be targeted to a different customer segment as a strategy to earn more revenue. This is known as market development strategy (Ansoff 1957). It then considers new products of potential interest to current markets known as product development stage. Frequently, when a firm creates new products, it can gain new customers for these products. Product development can be a crucial business development strategy for firms to stay competitive. Finally, the business reviews opportunities to develop new products for new markets known as diversification strategy.

### 2.6.2 Diversification Strategy

Diversification is a corporate strategy to increase sales volume from new products and new markets. Diversification can be expanding into a new segment of an industry that the business is already in, or investing in a promising business outside of the scope of the existing business. Diversification growth strategy makes sense when good opportunities can be found outside the present business. Kotler (2003) states that a good opportunity is one in which the industry is highly attractive and the company has a mix of business strengths to be successful.

The company could seek concentric diversification for new products that have technological or marketing synergies with existing product lines. This will enable the company to leverage on its technical know-how to gain some advantage. The company can also pursue horizontal diversification where it searches for new products that could appeal to its current customers even though the new products are technologically unrelated to its current product line. Finally, the company might opt for conglomerate diversification where it seeks new businesses that have no relationship to its current technology, products or markets in order to improve the profitability and flexibility of the company (Kotler, 2003). Diversification results in the company entering new markets where it had no presence before. It usually requires new skills, new techniques and new facilities. As a result it almost invariably leads to physical and organizational changes in the structure of the business which represent a distinct break with past business experience.

### 2.6.3 Market entry strategies

Firms may respond to increased competition by entering new markets with similar products. These could be markets they are not currently serving or new geographical markets. Market entry strategies may include acquisitions, strategic alliances and joint ventures. Firms may also respond to competitive forces by developing new products. This will be aimed at reducing risks through diversification as a means of responding to competitive forces which could be related or unrelated. Related diversification can be further disintegrated to vertical or horizontal integration. Vertical integration refers to the integration of the adjacent (either forward or backward) activities in the value chain (Johnson and Scholes, 2002). Backward integration takes a firm closer to suppliers' thereby increasing dependability of the supply. Forward integration moves a business closer to customers. In the face of increased competition, this has the benefit of cost reduction, defensive market power and offensive market power.

On the other hand, horizontal integration refers to the development into activities that are competitive with/or directly complementary to the company's present activities (Johnson and Scholes, 2003). According to Pearce and Robinson (2003), the principle attractions of a horizontal integration grand strategy is that a firm is able to greatly expand its operations thereby achieving greater market share, improving economies of scale and increasing the efficiency of capital use. Barnard (1938) recognized that firms on their own cannot create resources and capabilities needed to prosper and grow; they identified collaboration as a viable way of combining resources in business opportunities. Such collaborations can take the form of strategic alliances, franchising, mergers and acquisitions among others. As argued by Harrigan (1985), strategic alliances are more likely to succeed when players posses complementary assets and thus a firm seeks knowledge it considers lacking but vital for the fulfillment of its strategic objectives. A firm will furthermore need to possess knowledge base in the same area, since only such similarity will allow an understanding of the intricacies of the knowledge as well as of its applicability to the firms' unique circumstances. Schollei (1999) argues that in order to fortify a firm's position against predators from abroad, it is important to collaborate.

### 2.6.4 Innovation and Technology Strategy

Hill (2003) refers to technological change which has made the globalization of markets and production a tangible reality. The internet and the associated World Wide Web are a source of phenomenal growth. Information processing capability can improve an organization's strategic capability. The use of ICT and technology has affected every aspect of business, transforming not only the way business is conducted but also creating new business sectors. Businesses have initiated strategies to meet the challenges of change. The use of websites has allowed companies to develop cheaper ways of reaching markets while enhancing the level of customer service.

Technology has been used extensively by many organizations to acquire a competitive advantage over competition. The organization needs to ensure that it chooses the right kind of technology for its given business environment. According to Johnson and Scholes (2003), what is key to technology strategy is innovation. Technology should be seen as a means of underpinning innovations. A firm's information technology knowledge is a necessary condition that enables the market driven firm to respond to the market and create/sustain competitive advantage.

The rationale of innovation strategy is to create a new product life cycle (stealth positioning) or come up with a totally new product that would render similar existing products obsolete.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter comprises of the research design, the population of interest, the population sample, data collection instruments, and the data analysis technique that will be used to establish the challenges of competition for institutional markets and the response strategies adopted by Multinational Pharmaceutical Corporations in Kenya to overcome these challenges.

## 3.2 Research design

A cross sectional survey design was used to ascertain various response strategies used by Multinational Pharmaceutical Corporations to overcome the challenges to competition for institutional markets. 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. Semi-structured questionnaires were 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 establish the challenges of competition faced by Multinational Pharmaceutical Corporations for the institutional markets and the response strategies used by them to overcome these challenges.

### 3.3 Population of study

The population of study was 25 multinational pharmaceutical companies in Kenya. As at December 2012, there were 176 pharmaceutical companies operating in Kenya as importers and distributors. Of these, 62 companies are the local importers and distributors, while the others are pharmacies, manufacturing and multinational companies. Of these 25 are the multinational pharmaceutical companies that are involved with research and development (Source: East African Pharmaceutical Loci, Drug Index 11th edition).

### 3.4 Data Collection

Primary data was collected using self-administered drop and pick questionnaires which were distributed to the managers in each of the 25 Multinational Pharmaceutical Corporations. These managers were picked because of their knowledge and were in a position to expound the strategic issues facing their organizations and the industry as a whole. The questionnaires were semi-structured having both open-ended and closed-ended questions. The closed-ended questions provided more structured responses to facilitate qualitative data analysis. The open-ended questions provided additional information that would not be captured in the closed-ended questions. The questionnaire consisted of three parts, section A consisting of general demographics of the organizations, B focused on challenges of competition and C on response strategies.

### 3.5 Data analysis

The study used descriptive statistics for data analysis. These measures included the percentages, mean scores and standard deviation. Statistical Package for Social

Sciences (SPSS) and excel spread sheet were used as an aid in the analysis of quantitative data and Tables were used exclusively to present the findings. Both were finally integrated to form a comprehensive report.

# CHAPTER FOUR: DATA ANALYSIS, INTERPRETATION AND DISCUSSION

## 4.1 Introduction

This chapter presents data analysis, interpretation and discussions of findings. The purpose of the study was to investigate the challenges of competition faced by Multinational Pharmaceutical Corporations for institutional markets in Kenya and to determine their response strategies that they use to overcome these challenges. The chapter was organized into sections mainly based on the research objectives mentioned above and the findings are presented in percentages and frequency distributions, mean and standard deviations.

## 4.2 Background information

This study targeted 25 respondents in Multinational Pharmaceutical Corporations based in Kenya. The total number which responded was 19 out of 25 making the response rate 76% which the researcher considered adequate to draw conclusions about the population. The respondents were managers who have detailed knowledge of the industry and are the ones responsible for business growth in their respective organizations. The study was divided into three sections. The first section has demographic information about the organizations studied; the second section the challenges of competition for institutional markets and finally the third section on response strategies employed by Pharmaceutical multinational Corporations to overcome the challenges.

### 4.2.1 Company age

The question of age relates to the time the firms started operating in Kenya or the period of time the company had been in operation in Kenya and the findings were as follows: - all companies had been in operation for over 10years with 26.32% between 10 and 15years, 57.89% between 16 and 50years whereas only 15.79% had been around for over 50 years and above with the highest being 65 years old in Kenya as shown in the Table below.

**Table 4.1 Company Age**

| Age | Frequency | Percentage |
|---|---|---|
| 10-15yrs | 5 | 26.32 |
| 16-50yrs | 11 | 57.89 |
| Over 50yrs | 3 | 15.79 |
| Total | 19 | 100 |

**Source author 2013**

It is worth noting that most of the firms were already well established in their country of origin long before setting foot in Kenya.

### 4.2.2 The number of full time employees

The study revealed that there is great variation in the number of full time employees as the firms employ between seven and one hundred and forty employees which is a variation also manifested in the branches across the globe. 31.58% had 10 and below employees; 42.11% had between 11 and 50employees whereas 26.31% had over 50 employees with the highest having 140 employees as in Table  4.2 below.

**Table 4.2 The number of full time employees**

| No. of employees | Frequency | Percent |
|---|---|---|
| Less than 10 | 6 | 31.58 |
| 11-50 | 8 | 42.11 |
| 50 and above | 5 | 26.31 |
| Total | 19 | 100 |

**Source author 2013**

The respondents mentioned that quite a number of Multinational Pharmaceutical Corporations depend on their distributors for operational and logistical services like importation and distribution which explains the low number of full time employees for some organizations.

### 4.2.3 The Country of origin

The researcher also established that the Multinational Pharmaceutical Corporations in Kenya mainly originate from USA and European countries like UK & Sweden, France, Britain, Denmark and Switzerland which is common with most R&D companies in the other industries as opposed to the generic manufacturers and importers whose origins are mainly Asian countries like China, India and Pakistan.

### 4.2.4 The number of branches in other countries (Worldwide)

The majorities of firms has representation and operate in 100 to 150 countries across the globe with a few having over 200 branches worldwide which is very typical of most multinational corporations across the industries.

### 4.2.5 Types of ownership/representation of office in Kenya

The response indicates that the majority operate in Kenya as subsidiary followed by distributor and scientific offices and lastly as franchise as shown in Table 4.3.

**Table 4.3 Types of Ownership of office in Kenya**

| **Type of Ownership** | **Frequency** | **Percent** |
|---|---|---|
| Subsidiary | 7 | 36.8 |
| Franchise | 2 | 10.5 |
| Scientific office | 5 | 26.3 |
| Distributor | 5 | 26.3 |
| Total | 19 | 100.0 |

**Source author 2013**

The study findings revealed that the fast majority 36.8% had subsidiary kind of ownership, 26.3% had the some kind of ownership between scientific office and distributor, and only 10.5% had franchise kind of ownership.

### 4.2.6 Source of Revenue

The study further sought to know whether the bulk of business come from institutions or the private market and the findings are as shown in Table 4.4.

**Table 4.4 Source of Revenue**

| **Source of Revenue** | **Frequency** | **Percent** |
|---|---|---|
| Open market | 6 | 31.6 |
| Institutions | 13 | 68.4 |
| Total | 19 | 100.0 |

**Source author 2013**

The respondents reported closely varying percentages revealing that the bulk of business comes from institutions 68.4%, while the rest comes from open market 31.65 which depicts that the larger market share comes from the institutions. Most organizations with the bulk of business coming from institutions had comments by respondents indicating that they have assigned and trained personnel (Business development/Institutional Manager) who take care of institutional business.

### 4.3 Competition Challenges

In order to asses the response strategies of multinational pharmaceutical corporations to challenges of competition in institutional markets in Kenya, respondents were requested to indicate their level of agreement on various strategies effective in helping the business operations. The responses were rated on a five point scale where: 1-not at all, 2-little extent, 3-moderate, 4-greater extent and 5-very great extent as shown in Table 4.5 below.

**Table 4.5 Competition Challenge**

| **Competition challenge** | **Mean** | **Std. Deviation** |
|---|---|---|
| Threats from distributors of new branded products | 3.210 | 0.787 |
| Threats from importers of generic products | 3.526 | 1.263 |
| Threats from locally manufactured products | 2.315 | 1.492 |
| Competition using unorthodox methods | 3.789 | 0.854 |
| Competitors resulting to under cutting prices | 3.842 | 1.014 |
| Innovative products | 3.263 | 1.045 |
| High prices by suppliers | 3.263 | 1.194 |
| Rigid credit terms by suppliers | 3.368 | 1.011 |
| Suppliers dictating quality of products | 2.210 | 1.397 |
| Buyers insisting on lower prices | 4.105 | 0.936 |
| Formation of cartels by suppliers | 2.894 | 1.328 |
| Collusion amongst buyers | 2.631 | 1.422 |
| Parallel/illegal imports | 4.052 | 1.311 |
| Counterfeits | 3.315 | 1.565 |
| Cheaper substitutes | 3.894 | 1.149 |
| Better quality substitutes | 2.157 | 1.384 |

**Source author 2013**

As the table shows, the top four highest mean scores were on: - Buyers insist on lower prices, parallel /illegal imports, cheaper substitutes, undercutting of prices and competition using unorthodox methods which pose the greatest challenge to

Pharmaceutical Multinational Corporations in pharmaceutical industry in Kenya. The lowest mean scores were on better quality substitutes followed by suppliers dictating quality of products and threats from locally manufactured products. Of moderate scores were: - Threats from importers of generic products (mean=3.526), rigid credit terms by suppliers (mean=3.368), Counterfeits (mean= 3.315), Innovative products (mean= 3.263), high prices by suppliers (mean= 3.263) and threats from distributors of new branded products (mean= 3.210) all posing almost equal challenge.

Some respondents specified that challenges on counterfeits and illegal/parallel imports affected the open market as opposed to institutional markets due to the rigorous and strict regulations and procedures that require suppliers of institutions to produce certificates registration of entities, Local Trade Representation(LTR) and letter of authorization from manufacturers in case tender is done by a distributor.

Other challenges mentioned in the questionnaire under comments were legal constraints and code compliance which affects the multinational more than the generic importers/distributors and local manufacturers.

### 4.4 Response strategies for challenges

The second objective was to establish the response strategies of multinational pharmaceutical corporations to challenges of competition for institutional markets in Kenya. The respondents were requested to indicate their level of agreement on various strategies used by their organizations to overcome the challenges. The responses were rated on a five point scale where: 1-not at all, 2-little extent, 3-moderate, 4-greater extent, and 5-very great extent as shown in the Table 4.6 below.

**Table 4.6 Response strategies for challenges**

| **Response Strategies for challenges** | **Mean** | **Std. Deviation** |
|---|---|---|
| Market penetration (gain more market share in current market) | 4.210 | 0.787 |
| Market development (develop new markets for current products) | 4.052 | 0.848 |
| Products development(develop new products for current markets) | 3.789 | 1.182 |
| Diversification(new products for new markets) | 3.368 | 1.300 |
| Cost leadership | 3.000 | 1.333 |
| Differentiation | 4.157 | 0.898 |
| Targeting the market in general | 3.210 | 1.315 |
| Targeting one or few markets segments | 3.210 | 1.272 |
| Vertical integration (forward ,backward) | 3.052 | 1.352 |
| Mergers and acquisitions | 2.578 | 1.574 |
| Strategic alliances | 2.894 | 1.328 |
| Technological response | 3.685 | 1.157 |
| Human resource | 3.894 | 1.100 |
| Employ more competent staff | 4.157 | 0.958 |
| Resort to continuous training of staff | 4.473 | 0.696 |

**Source: author 2013**

From the study findings majority of the respondents agreed to a great extent that continuous training of existing staff, market penetration, differentiation, employment of competent staff and market development are the most effective response strategies to challenges of competition for institutional markets in Kenya.

The least in scores were on grand strategies like Mergers and acquisitions, Strategic alliances, vertical integration and also cost leadership.

**4.5 Discussion of Findings**

It has been noted from the study that most MPCs have been in Kenya for over 10 years and were well established in their countries of origin long before then. Some of them especially the ones with few employees depend on their distributors for operations and logistics like importation and distribution, some even tendering as well. It was also established that firms with high percentage of revenue from the institutions have developed special teams or assigned a skilled personnel (Business development Manager/Institutional Manager) to handle all the tender business.

Regarding the first objective which was to identify the challenges facing Multinational Pharmaceutical Corporations in Kenya, the researcher established through the correspondents that the greatest challenges were:- buyers insisting on lower prices, parallel /illegal imports, cheaper substitutes, undercutting of prices, competition using unorthodox methods, counterfeits and threats from importers of generic products . For most institutions price is considered to be amongst the most important factors after quality and efficacy. This takes place during the formulary or tender committee evaluations that take place yearly or quarterly for some institutions in the course of the year. This is a major challenge to Multinationals as they cannot afford very low prices due to the hefty costs and time spent on R&D and clinical trials that are done on their products before they are finally released for clinical use by patients. Even after finally launching the newly developed drugs, the Multinational Pharmaceutical Corporations put these products under patency for some years for them to recover the costs incurred and at it takes quite some years to break even and thus the prices remain high as compared to the generic products.

The researcher learnt from the respondents that competition using unorthodox methods is also a challenge especially with the local distributors who try to lock out the MPCs who are restricted by the legal and compliance code of conduct.

Parallel/illegal imports are also a great challenge as some distributors import products from other countries where these products are registered and not necessarily from their country of origin. This goes to confirm what Opiyo (2006) found out in her survey that illegal/parallel imports is a threat to pharmaceutical companies. Her findings identified lack of legal and regulatory structures, desire for higher profit margins and high costs of multinational pharmaceutical products as the greatest causes of parallel/ illegal trade in pharmaceuticals. She further found out from the study that over 70% of the respondents felt that their sales were affected moderately to a very great extent.

Muchelule (2005) in his study on established that parallel importers of pharmaceutical drugs engage in business across border without permission of the manufacturer.  He also found that the main driving factor of parallel importations for the culprits to make excessive profits, thus denying the legally registered and appointed companies their profits.

Counterfeits are also a great threat to the multinationals mainly because the products are usually costly and out of reach of most population. According to the World Customs Organization(W.C.O), counterfeiting and piracy of products have grown dramatically in the previous ten years and thus some local manufactures have in the recent past taken to imitating the original brands which they in turn offer at lower prices in order to attract more customers and thus more profits. Opiyo(2006) learnt from her study that 29.8% of respondents indicated that counterfeits had negatively affected their firm's sales moderately to a very great extent.

The study further revealed that challenges of parallel/illegal imports and counterfeits affect the private market more due to the stringent requirements by the institutions on the suppliers like Certificate of registration of premises, latest Products Retention list from PPB, Wholesaler/dealer's license or Local Trade Representative's certificate, Certificate of registration company pharmacist and annual practice license which some illegal traders may not be in a position to avail.

Notably, threat from locally manufactured brands scored quite low mainly because the MPCs target a totally different target market from the local brands.

The second objective sort to establish the response strategies employed by MPCs to overcome challenges of competition for institutional markets and the respondents agreed that the most effective strategies are: - continuous training of staff, market penetration, differentiation, employ more competent staff and market development. Mergers and acquisitions, strategic alliances, vertical integration and cost leadership were the least employed strategies.

This is in line with the fact that the pharmaceutical market is very dynamic and highly specific and requires highly skilled personnel especially for the field force which calls for continuous learning/training of staff in order to cope with the continuous changes in the medical field. The disease profiles/ patterns also keep changing. Employment of competent staff saves the organization on cost of training and also helps the organization meet its objectives of having the right people interacting with its customers. Quite a number of respondents indicated that some of the top positions in their organizations were held by expatriates with high level skills and vast experience. According to Owuoth (2010) on his survey on Multinational companies in Kenya identified well trained staff and highly effective sales force as one of the critical success factors for the organizations. He also established that differentiation/branding is also a critical success factor for both MPCs and branded generics.

Market penetration and market development also scored high due to the fact that most organizations aim at repeat business with customers who already identify with and have confidence in their brands. In the pharmaceutical industry, new markets emerge due to new medical graduates who may be unfamiliar with the brands currently in the market and new health facilities that come up from time to time in order to meet the market demands. The organizations naturally try to get the market share of this new business. For most institutions, the formulary is continuously being reviewed in order to accommodate new customers (doctors and patients) needs whereas others float quotations quarterly or tender annually or biannually and thus the Multinational Pharmaceutical Corporations aim at gaining entry while also trying to protect and grow their market share in these institutions.

Most respondents agreed that Mergers and Acquisitions, Strategic Alliances, Vertical integration (backward, forward) and Cost leadership were to the least extent effective response strategies to competition for institutional markets mainly because these are corporate level strategies which are determined by the head office and usually more of long term in nature whose effects are unlikely to be realized in the short run in this case for institutional business. Cost leadership strategy appeared to be one of the least effective due to the fact that Multinational Pharmaceutical Corporations cannot afford to sell their products at low costs due to the heavy investment on R&D and time spent on clinical trials and also have to maintain output of the stream of innovative products which requires a lot of investment on R&D. This is a strategy that is however more popular with the generic importers from the Asian countries and also local manufactures whose input is much lower than the multinationals.

Response by innovating new products adds a lot of value to the Multinational Pharmaceutical Corporations as this would render most current products irrelevant creating a new market in return. The respondents however rated it as an averagely effective response strategy since it is more of a long term strategy due to the long time that it takes to discover new molecules and hefty costs incurred on R&D. Research and trials for efficacy and safety post discovery of a new product is also costly and tales many years.

# CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMENDATIONS

## 5.1 Introduction

This chapter presents summary of findings, interpretation of results, conclusions and recommendations in line with the objectives of the study. The research sought to identify the challenges of competition faced by Multinational Pharmaceutical Corporations for institutional markets in Kenya and secondly to identify the response strategies that they use to overcome these challenges.

## 5.2 Summary of Findings

It's evident from the study that the greatest challenges facing Multinational Pharmaceutical corporations are buyers insisting on lower prices, parallel /illegal imports, cheaper substitutes, undercutting of prices, competition using unorthodox methods, counterfeits and threats from importers of generic products.

The challenges related to price are common with multinationals as their products are usually expensive as compared with the generics which do not take part in R& D. Illegal and parallel imports is also a common challenge with most organizations as Pharmaceutical Multinational Corporations use the same manufacturing plants for their products which are produced centrally yet operate in many countries with similar brand names. Counterfeits are becoming rampant with traders who want quick and high profits and also due to the high cost of Multinational brands which most population cannot afford.

On response strategies, the respondents revealed that continuous training of staff, market penetration, differentiation, employ more competent staff and market development are the most effective response strategies for challenges of competition whereas Mergers and acquisitions, strategic alliances, vertical integration and cost leadership were the least employed strategies.

It's also evident that the Multinational pharmaceutical corporations are keen on institutional business due to its reliability, consistency, the bulk of business as this contributes substantially to their entire business. This could explain the reason why quite a number have resorted to training personnel as Business Development/Institutional/Key accounts managers specifically for the business in order to maximize on potential.

Multinational products are as a result of R&D over years and usually unique targeting customers with high technical needs which explains why the organizations not only employ competent staff at the point of employment but also offer continuous training in order to cope with the continuous changes in the medical world medical world which is quite dynamic; the disease profiles/ patterns keep changing and thus pharmaceutical products.

Strategic marketing also plays a key role in the business strategy which explains why market penetration is key. The multinational organizations generally target markets that can afford their "expensive' products and therefore it's much easier for customers or institutions that are already using the products to buy more from the same range than get new markets that may be comfortable with cheaper products.

## 5.3 Conclusions of Study

The study concludes that Multinational Pharmaceutical Corporations in Kenya like any other multinationals are faced with the challenges relating to price and parallel/illegal imports, counterfeits and threat of cheaper substitutes which are mainly due to the high cost of their products.

Other challenges that were identified in the study include rivalry within the industry in terms of competition using unorthodox methods while on the side bargaining power of suppliers in terms of their ability to fix rigid credit terms while insisting on very low prices.

On challenges of parallel/illegal imports and counterfeits, quite a number of the respondents indicated that these two factors affect the organizations more in the open market at the level of distributors and retail chemists/pharmacies but minimal in the institutional markets due to direct purchase arrangements and thus the increase of interest in institutional markets in the recent past.

The study also reveals that the Kenyan offices have over time come up with strategies to overcome challenges in the local markets which are not necessarily global or dependent on the parent organization. Most organizations have been in operation for over 10 years and thus well versed with the local challenges.

On response strategies the organizations have adopted mainly market penetration, market development, continuous training of staff and recruitment of highly skilled staff due to the complexity of the industry. Findings reveal that the bulk of business comes from institutions with a contribution of 68.4% to overall business. The organizations tend to do their best at getting their products listed formularies after which they maximize by selling as much as possible by creating demand-more of both market development and penetration strategy as repeat business is assured.

### 5.4 Recommendations of the Study

The recommendation of the study is divided into three major parts according to the following sub-sections namely implications for theory and knowledge, recommendations for managerial policy, recommendations for managerial practice.

#### 5.4.1 Implications for theory and knowledge

The pharmaceutical industry today, as with many other industries is under intense pressure to meet ambitious growth objectives and thus must continuously respond to the challenges in the medical environment. The level of competition in the pharmaceutical industry especially for Multinational Pharmaceutical Corporations is very high as observed in the study and therefore they must resort to effective response strategies to overcome the challenges, gain competitive advantage and survive. Each organization needs to develop their own unique strategies to match the market dynamics and also to transform or re-design their internal capabilities to match these strategies.

Ansoff and Mc Donnell (1990) state that strategic responses by an organization involve change in the firm's strategic behaviors to ensure success in the transforming future environment. They further say that the choice of the response will depend on the speed with which a particular threat or opportunity develops in the environment.

From the study findings, it's evident that putting more focus on the institutions which gives more bulk and consistent business while locking out parallel/illegal imports and counterfeits would add a lot of value to the business.

For the firms to meet their local objectives, they need to tailor strategies relevant to the local challenges besides the centralized ones normally formulated by top management in the head offices.

### 5.4.2 Recommendations for Managerial policy and practice

There are lots in terms of changes in the industry that requires competent staff and constant training in order to keep up with the developments in the industry. Therefore there is need to develop placement and training policies in all organizations that would respond in real time to such changes.

On the side of practice this study recommends the pharmaceutical firms need develop sustainable competitive advantage in order to attract and retain customers in order to benefit from reliable and continuous business from institutions. They could also come up with some collaborations strategies in form of vertical forward integration with institutions in order to lock out parallel/illegal importers, counterfeits and substitute products. The stakeholders and regulatory bodies like Pharmacy and Poisons Board, Kenya Association of Pharmaceutical Industry and Pharmaceutical Society of Kenya should come up with legislations to curb parallel/illegal imports and counterfeits in order to minimize unhealthy competition.

The use of high skilled professionals (either outsourced or in-house) in the negotiation with formulary/tender committee and preparation of tender documents to deal with institutions is an option that the firms should look at. This is because the institutions are getting more advanced away from manual to e-tendering, e-purchase and even payment which calls for further training or use of skilled personnel who understands the complexities associated with such processes. Further, there are other legal parameters that must be met by tendering firms that calls for the input of professionals.

On the sides, multinationals are better placed to use local distributors to undertake local logistics in relation to tenders due to the restriction by the ethical code of conduct and legal constraints that render them disadvantaged. This is in relation to what the distributors can undertake locally as compared to the multinationals. The legal requirements (both local and international) restricts the participation of the multinationals in certain activities

Finally, the Multinational Pharmaceutical corporations should give room for localization of some of the strategies according to the local environment as some factors do not affect the parent organization, this would improve their efficiency and thus become more competitive in the local market.

**5.5 Limitations of the Study**

There was no response from other managers who were not sure of the implication of the research on their firms suspecting competition from the researcher's organization and therefore were reluctant to provide information that they thought might compromise their strategies.

The other limitation was time constraint as some of the respondents who were busy running errands for their organizations or out of the office due to official engagements within or out of the country. It's worth noting that this is a very active industry with a lot of trainings and meetings, both local and regional which really affect the availability of the managers. This research also coincided with the industry quarterly evaluations and third quarter cycle meetings that not only put pressure on the researcher but also on the respondents.

## 5.6 Suggestions for Further Research

This particular study focused only on Multinational Pharmaceutical Corporations in Kenya, for a complete picture, the researcher recommends that a similar study be carried out on the strategies employed by generic importers and local manufacturers in order to gain competitive gain/edge in institutional markets.

A study focusing on the institutions(buyers) instead of the pharmaceutical organizations(suppliers) on critical success factors for organizations aiming at doing business with them would add more value to all pharmaceutical firms other than MPCs.

Another study could also be done on strategies that Multinational firms employ in partnering with donor organizations like UNFPA, WHO, UNICEF for international tenders for Social Healthcare programs that take care of family planning and disease control like HIV/AIDS, Malaria, TB, Polio among others.

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# APPENDICES

## APPENDIX I: LETTER OF INTRODUCTION

**UNIVERSITY OF NAIROBI**
**SCHOOL OF BUSINESS**
**MBA PROGRAMME**

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O.
Nair

DATE 24/09/2013

**TO WHOM IT MAY CONCERN**

The bearer of this letter JUDITH A. ONYINGE

Registration No. D61/8367/2006

is a bona fide continuing student in the Master of Business Administration (MBA) program in this University.

He/she is required to submit as part of his/her coursework assessment a research report on a management problem. We would like the students to do their projects problems affecting firms in Kenya. We would, therefore, appreciate your assista enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of th will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
24 SEP 2013
P.O. BOX 30197 - 00100, NAIROBI

**PATRICK NYABUTO**
**MBA ADMINISTRATOR**
**SCHOOL OF BUSINESS**

# APPENDIX II: RESEARCH QUESTIONNAIRE

## SECTION A: GENERAL INFORMATION

### A: Organizational Background

1. Age of company (how long it has been in operation in Kenya).

   …………………………………………………………………

2. Size (Number of full time employees)…………………………………………

3. Number of Divisions in Kenya (Please indicate below)

   i)……………………………………………………………………………………….

   ii)………………………………………………………………………………………

   iii) ……………………………………………………………………………………

   iv)……………………………………………………………………………......

   v) ……………………………………………………………………………......

4. Country of origin ……………………………………………………………………

5. Number of branches in other countries (worldwide)

   ……………………………………………………………………………………….

6. Any other………………………………………………………………………………

7. Type of ownership/representation of office in Kenya

   (a) Subsidiary…………………………………….… (b)Franchise…………………..

   (c) Scientific office …………………………….. (d) Distributor ………………..

   (e) Others (please specify…..……………………………………

8. Where does the bulk of your business come from (Indicate % contribution)

   (a) Open market ……………………………………………………

   (b) Institutions…………………………………….................................

**SECTION B: CHALLENGES OF COMPETITION**

1) To what extent do you encounter each of the following challenges in the Pharmaceutical Institutional Markets in Kenya? Use the following five point scale, where: - **1**= not at all, 2 = little extent, 3 = Moderate extent, 4 = Great extent

**5** = Very great extent

**Rating**

| **Challenges** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| **Threat of new entrants** | | | | | |
| 1.Threat from distributors of new branded products | | | | | |
| 2. Threat from importers of generic products | | | | | |
| 3. Threat from locally manufactured brands | | | | | |
| **Rivalry within industry** | | | | | |
| 1. Competition using an unorthodox methods | | | | | |
| 2. Competitors resulting to under cutting prices | | | | | |
| 3. Innovative products | | | | | |
| **Bargaining power of suppliers /distributors** | | | | | |
| 1. High prices by suppliers | | | | | |
| 2. Rigid credit terms by suppliers | | | | | |
| 3. Suppliers dictating quality of products | | | | | |
| **Bargaining power of buyers** | | | | | |
| 1. Buyers insisting on lower prices | | | | | |
| 2. Formation of cartels by buyers | | | | | |
| 3. Collusion amongst buyers | | | | | |
| **Threat of substitute products** | | | | | |
| 1. Parallel /Illegal imports | | | | | |
| 2. Counterfeits | | | | | |
| 3. Cheaper substitutes | | | | | |
| 4. Better quality substitutes | | | | | |

Other challenges (Please specify)…………………………………………………………..

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

**SECTION C: RESPONSE STRATEGIES**

1. To what extent do you apply the following strategies to deal with challenges of competition in the Pharmaceutical Institutional Markets in Kenya? Use the following five point scale, where:-

   **1**= not at all, 2 = little extent, 3 = Moderate extent, 4 = Great extent

   5 = Very great extent

**Rating**

| **Response Strategies** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Market penetration(gain more market share in current market) | | | | | |
| Market development (develop new markets for current products) | | | | | |
| Product development(develop new products for current markets) | | | | | |
| Diversification(new products for new markets) | | | | | |
| Cost Leadership | | | | | |
| Differentiation | | | | | |
| Targeting the market in general | | | | | |
| Targeting one or few market segments | | | | | |
| Vertical integration( forward, backward) | | | | | |
| Mergers and acquisitions | | | | | |
| Strategic alliances | | | | | |
| Technological Response | | | | | |
| Human resource | | | | | |
| Employ more competent staff | | | | | |
| Resort to training of staff | | | | | |

Others (Please specify ……………………………………………………………………….

…………………………………………………………………………………………………...

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……………………………………………………………………………………………………

……………………………………………………………………………………………………

……………………………………………………………………………………………………

**Thank you**

# APPENDIX III: LIST OF REGISTERED MULTINATIONAL PHARMACEUTICAL CORPORATIONS IN KENYA

## (According to East African Drug Index 12th Edition 2013)

1) 3M Pharmaceuticals (Now iNova)-USA
2) Abbott Laboratories-Solvay
3) Adcock Ingram-UK
4) AstraZeneca-UK/Sweden
5) Sanofi-Aventis Pharma-France
6) Bayer Healthcare-Germany
7) Boehringer Ingelheim International-Germany
8) Bristol-Myers Squibb-USA
9) Dafra-Belgium
10) Eli Lilly-USA
11) Glaxo Smithkline-UK
12) Janssen-Cilag-Switzerland
13) Johnson & Johnson-USA
14) Merck Serono-
15) MSD-Schering Plough-USA
16) Novartis Pharma-Switzerland
17) Novo-Nordisk-
18) Organon Pharma
19) Pfizer Laboratories Ltd-USA
20) Roche –Switzerland
21) Servier-France
22) Meranini-Italy
23) UCB-Belgium
24) Teva-Israel
25) Prodes Pharma-Spain