REPORT ON

MICHAEL E. PORTER - FIVE COMPETITIVE FORCES

By

Group 12

Under Supervision of

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Group Details

Group Number: 12

Industry: Pharmaceutical
Company Name: Pfizer's Laboratories, Sun Pharmaceuticals Industries Ltd., Dr. Reddy's Laboratories

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ABSTRACT

The primary motive of this assignment is to study the pharmaceutical sector by taking Dr. Reddy's Laboratories, Sun pharmaceuticals private limited, and Pfizer's as the companies. The concern is to check for the industry's competitiveness analysis by applying Michael E. Porter - Five Competitive Forces. Secondly, the motive is to check for the application of Michael E. Porter's generic corporate strategy (Cost Leadership and Differentiation). Analysis includes the business's critical analysis and its riskiness and future growth.

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Cost Leadership:

A cost leadership strategy is a blueprint to produce goods at a lower cost than competitors to gain a competitive edge. Firms that follow the cost leadership strategy offer products with almost the same features or characteristics that offer similar utility to the customer, thus making them able to compete aggressively in the industry.
Customers might also gain if a company can successfully implement a cost leadership strategy as the reduced cost increases producer surplus and might increase consumer surplus as well.
However, it is challenging to implement a cost leadership strategy in the long run as firms have to actively compete to remain the cheapest producer, which implies more spending on R&D and other cost-reduction investments.

Differentiation:

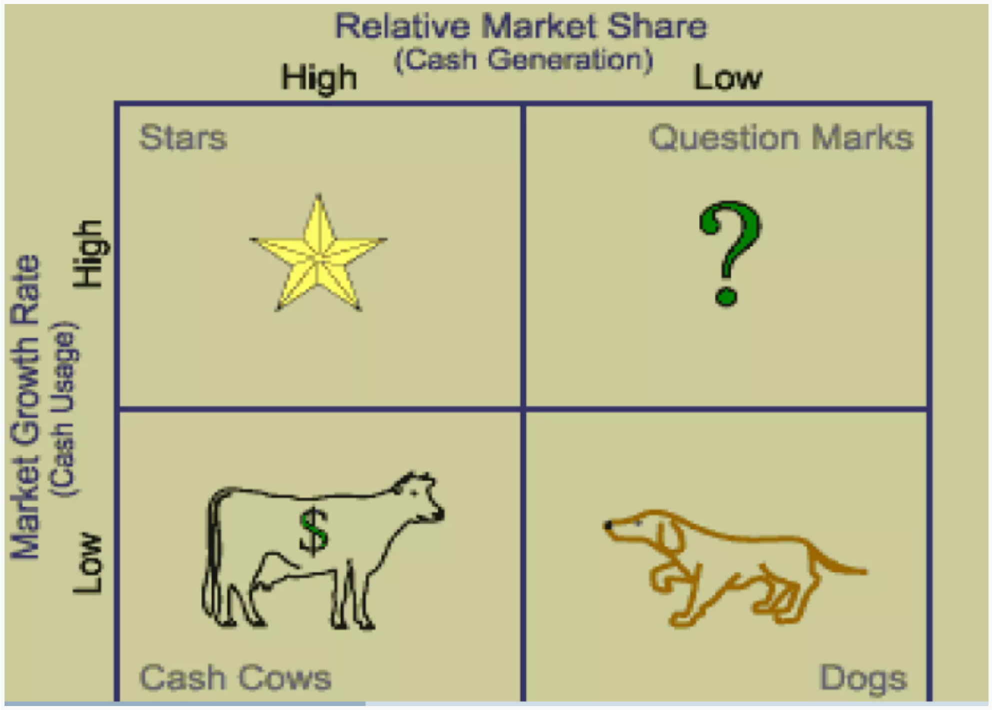
Differentiation is a strategy that focuses on increasing customer satisfaction and attempting to increase their preference for the firm's products or services.
Typically, differentiation is achieved by funding any or all of the following:

- advertising, marketing, and celebrity endorsements
- Product designing- distinctive selling points and add-on features of the product
- Strong brand image
- Possession of reliable distribution channels

BCG matrix (also known as a growth share matrix or a product portfolio matrix):

In order to classify businesses according to their performance, Bruce Henderson of the Boston Consulting Group created the BCG matrix.

The success of the BCG matrix depends on 'Accumulated experience'. It is primarily used for 1) Managing Product Portfolios 2) Assessing Product growth prospects
3) Making Investment Decisions.
BCG matrix is used to manage different SBUs(Strategic Business Units) or major product lines.
Understanding the interaction between market share and market growth helps create the BCG Matrix.



SBUs can be classified into 4 categories according to BCG matrix

Stars:
Stars are the forerunners of the market. They have a large market share and a rapid rate of growth.
Despite having a large capital requirement and cash consumption, they are extremely profitable.

Cash Cows:
Market share for cash cows is strong(high), but growth is low. They are generally Stars that have lost their previous stance due to their industry's stagnant growth. They usually generate more profits than required and extract profits by investing back in as little as possible.

Dogs:
They are low-growth and have a low market share both. They have very little potential to bring in cash and their quantity should be minimized as much as possible.

Question Marks:
The majority of businesses often begin as Question Marks, with minimal market share but significantly high growth and potential.. They may end up becoming Stars, and then Cash Cows or they fall into becoming Dogs. Question Marks require high investment in order to see success.

Steps for BCG:

1) Identify and divide companies into SBUs
2) Assess the prospects of each SBU on the basis of its market share and growth rate.
3) Classifying the SBUs inside the BCG matrix
4) Developing strategies for the SBUs

Benefits of using the BCG matrix:
It is very easy to comprehend.
It makes analyzing the opportunities in front of us simple and helps us in making the most lucrative corporate decisions.

Limitations of using the BCG matrix:
It restricts us to only two dimensions during analysis: market share and growth
Market share isn't the best indicator of profitability as low market share firms can still be profitable and high market share ones can still be non-profitable.
It may be difficult to attain data on market share and growth.

SPACE ANALYSIS (Strategic Position & Action Evaluation):

This methodology evaluates 4 variables and assigns them a score based on how imperative they are to the company. The 4 variables are Financial Strength (FS) , Competitive Advantage (CA), Environmental Stability (ES) & Industry Attractiveness (IA). FS and CA are internal strategic dimensions and ES and IA are external strategic dimensions.
The financial strength of a company is rated from 1 to 6 where 1 represents the lowest and 6 represents the highest financial strength according to our perception. The main factors that determine the financial strength are

- Return on Investment (ROI): The net income gained for every unit of money invested.
- Leverage: Borrowing of funds to invest in assets that provide a greater return than the lending rate.
- Liquidity Position: How easily a company can convert its assets to cash.
- Capital required vs Capital Available: Capacity utilization of assets.
- Cash Flow: Total amount of money entering and leaving the business.
- Ease of entry/exit from the market: Determines sunk costs and cost of entry.
- Risk involved in the business: Determines the riskiness of the business's day-to-day operations.
- Inventory turnover: Number of times inventory is used in a year.
- Economies of Scale: Measure of how average cost varies with production level.

The competitive advantage of a company is rated from -6 to -1 where -6 represents the lowest and -1 represents the highest competitive advantage in the industry according to our perception. The main factors that determine the competitive strength of a firm are

- Market Share: How much the firm's size is in the overall market.
- Product Quality: Comparing the product quality with other competitors in the industry.
- Customer Loyalty: How loyal the customers are towards buying the firm's products.
- Technological know-how: Cost-effective methods to produce goods.
- Vertical integration: How reliant the firm is on other firms for supply chain processes.
- Product replacement and life cycle:
- Competitor's capacity utilization: Efficiency of how much competitors utilize their assets.

The environmental stability of a company is rated from -6 to -1 where -6 represents the lowest and -1 represents the highest environmental stability in the industry according to our perception. The main factors that determine the environmental stability of a firm are

- Technological change: How tech impacts the supply side.
- Rate of inflation: inflation from both the input and output sides.
- Demand Variability: How much demand varies based on various demand-side factors.
- Price range of competitive product: How competitors price 3their products.

- Market entrance barriers include the effect of already-existing institutions and economies of scale.
- Competitive Pressure: How competitive the industry is.
- Price elasticity of demand: How much demand fluctuates with a unit change in price.
- Pressure from substitute products: How competitive substitute products are.

The financial strength of a company is rated from 1 to 6 where 1 represents the lowest and 6 represents the highest financial strength according to our perception. The main factors that determine the financial strength are

- Growth Potential: Current and expected growth of the industry.
- Profit Potential: Range of profits that firms in the industry make.
- Financial Stability: Level of financial riskiness of the industry.
- Technological know-how: Cost-effective methods to produce goods.
- Resource Utilization: The extent to which businesses in the sector use their available capacity.
- Amount of capital assets in relation to income is known as capital intensity.
- Impact of existing institutions and economies of scale on ease of market entrance.

Conservative: The industry is potentially stable, but the growth rate is low. The company is Financially stable and should safeguard existing products whilst trying to venture into different industries. Firms should stick to their core competencies and avoid taking additional risks. (Market penetration, Market development, Product development, Related diversification).

Aggressive: The industry is attractive and stable. The company has a competitive advantage that it must strive to protect and retain. The threat of new entrants is present and the objective is to increase market share by minimizing these threats.
(Backward, Forward & Horizontal integration; Market penetration, Market Development, Product Development, Diversification (Related or unrelated).

Defensive: The industry is unattractive and the company is lacking in Financial strength and competitive products. The Company should strive to reduce costs and further minimize investments while trying to find a way to exit the industry.
(Retrenchment, Divestiture, Liquidation).

Competitive: It is when there is an attractive sector but also happens to have unstable enivornment. The Company has some competitive advantages and should focus on financial stability so that it can offset the poor external environment. This can be done by improving cashflows and operating efficiency. (Backward, Forward & Horizontal integration; Market penetration, Market Development, Product Development).

Blindspot analysis:

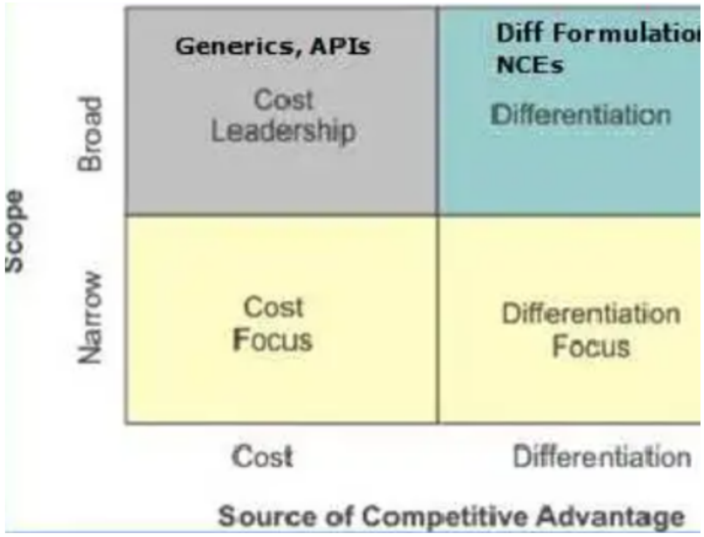
Blindspot analysis is a method of evaluating decisions systematically. Analysis of blind spots may assist in un-earth inaccurate or outmoded beliefs, which can stymie corporate decision-making by stifling fresh ideas.

Overview of Dr Reddy's Laboratories Limited:

Dr. Anji created Dr. Reddy's in 1984, and it started producing active pharmaceutical ingredients(APIs).
The headquarters of Dr Reddy's Laboratories, a multinational pharmaceutical corporation, is located in Hyderabad city, Telangana. It manufactures and markets a variety of medications both domestically and internationally.
It manufactures around 190 medications as well as 60 active pharmaceutical ingredients (APIs) for use in pharmaceuticals, critical care, diagnostics, and biotechnology goods.The business declared a partnership with the Russian Direct Investment Fund in September 2020. They recently got Phase 3 research approved, as well as created and provide more than 100 million doses of Sputnik V.
India's COVID-19 vaccination. The vaccine was granted an emergency usage license following phase 3 trials on April 20, 2021.
Dr. Reddy started transforming from a provider of pharmaceutical ingredients to a manufacturer of medicinal products. Dr. Reddy holds a 29.04% majority stake in FII shares, a 28.17% stake in public shares, a DII ownership of 15.73%, a 26.73% promoter shareholding, and other shareholders' shares of 0.33%.

- ## General strategy of Dr.Reddy's Laboratories Ltd:

  Dr. Reddy's Laboratories Ltd has been forced to extensively strategize in order to maintain its market leadership position and to increment its market share due to the increasing rivalry in the pharmaceutical industry. To manage the competitive pressure in the sector, Dr. Reddy's has implemented a strong combination of cost leadership, differentiation, and focus strategies.



- ## Cost Leadership:

Cost leadership is the main generic strategy used by Dr. Reddy's Laboratories Ltd. in several consumer categories. Dr. Reddy maintains market leadership by optimizing supply chain efficiency. As they handle the entire value chain, from the design formulation to the delivery of the products, and also have one of India’s strongest manufacturing bases, they are able to make medications inexpensively.

The primary targeted market of the firm is the middle class, who are extremely price-conscious. Therefore, in addition to the value chain management and cost cuts, Dr. Reddy’s regularly provides discounts and coupons in an effort to further draw in consumers and increase its brand awareness. Additionally, the company's comprehensive knowledge of the law and intellectual property helps it reach millions of people worldwide with high-quality, regulatory-compliant pharmaceuticals.

- ## Differentiation:

The differentiation strategy of Dr. Reddy's Laboratories Ltd. complements cost leadership to provide the foundation for sustained competitive advantage.

Dr. Reddy boasts of its high investment in research and development and its high number of patents in order to set itself apart from its competitors with the help of innovation and being ever-ready to meet its consumers' changing needs. It offers its consumers a wide range of differentiated services (such as various flavors) in order to boost their preference for Dr. Reddy’s.

They also spend extensively on marketing and celebrity endorsements. It uses the fact that it is one of the oldest firms in the sector to its advantage and distinctively flaunts its well-recognized logo to Indian customers and other clients. Dr. Reddy's, therefore, has a very consistent and strong brand image.

Also, many products made by the company are one of a kind such as;

FondaRed

Fondared (Fondparinux sodium injection) is used in the management of acute coronary syndrome (ACS), deep vein thrombosis (DVT) and pulmonary embolism (PE). We are the first company, after innovator to crack the manufacturing of this complex molecule. Fondared is the only generic approved by the USFDA, and it has been present in the US market for over three years.

Dacotin

Dacotin (Oxaliplatin injection 50/100 mg) is used in the management of metastatic colorectal cancer. The product is in-licensed from the innovator - Debiopharm, a Swiss-based global biopharmaceutical group of companies. Dacotin is the market leader in the Oxaliplatin segment.

DUROLANE®

Durolane (Hyaluronic Acid) is the original, single intra articular hyaluronic acid injection treatment to relieve the pain of knee or hip osteoarthritis. Durolane was launched in an exclusive partnership with Bioventus. It is based on the patented NASHA™ (stabilized, non-animal origin hyaluronic acid) technology.

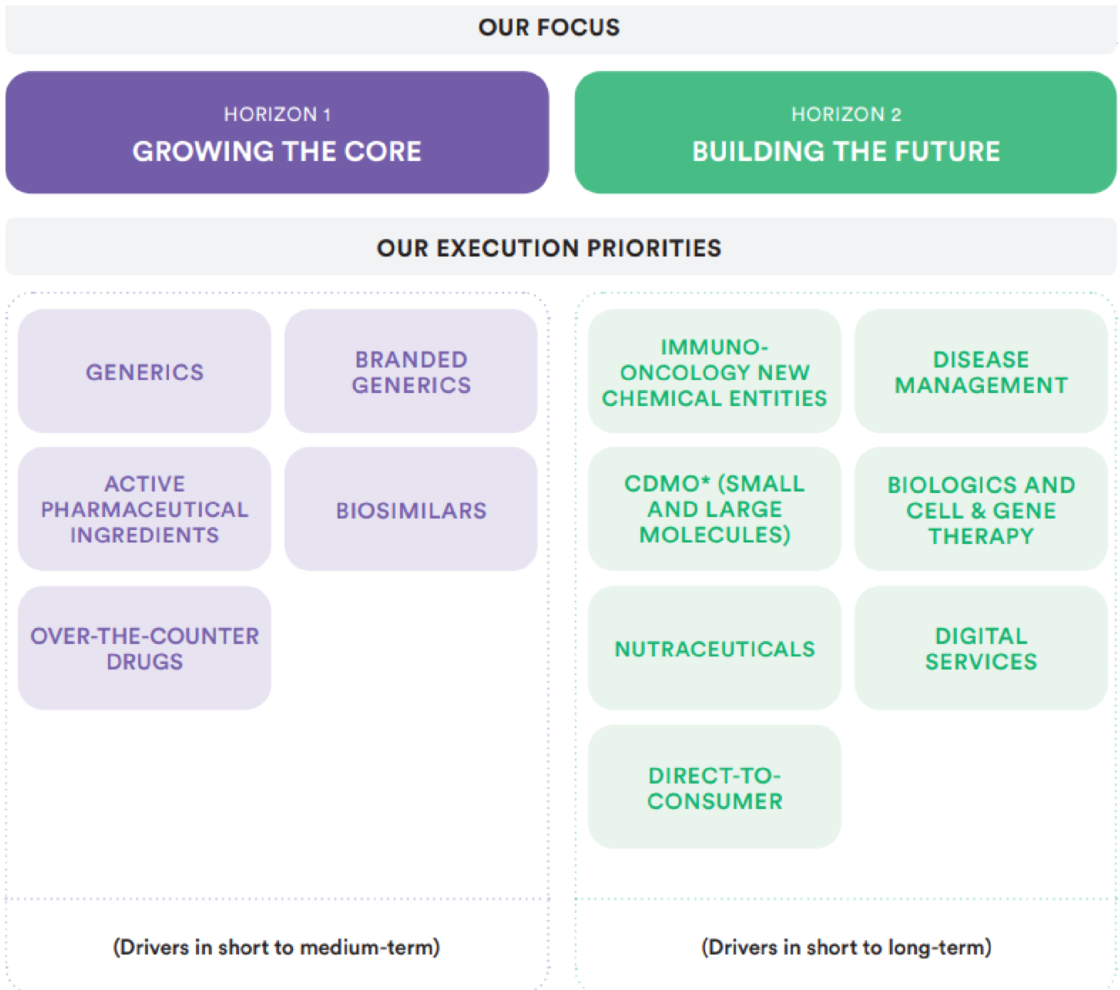
- **Focus strategy:**

Dr. Reddy's Laboratories Ltd adopts a focus strategy to reduce expenses while offering the highest value. Its low-cost emphasis strategy sees it cater to a niche market segment's needs at the lowest cost. It constantly revises its branding strategies and product design with taste, size, etc. in mind, in order to meet its customers’ preferences.

- **Riskiness:**

The pharmaceutical industry requires high initial investment and continuous cash inflow. Drug discovery and research and development are usually very time-consuming processes. Furthermore, the industry is burdened with strict government regulations and intense competition. If Dr. Reddy fails to be flexible and open to constantly update its sales and marketing strategies, it will lose its hold on the market.

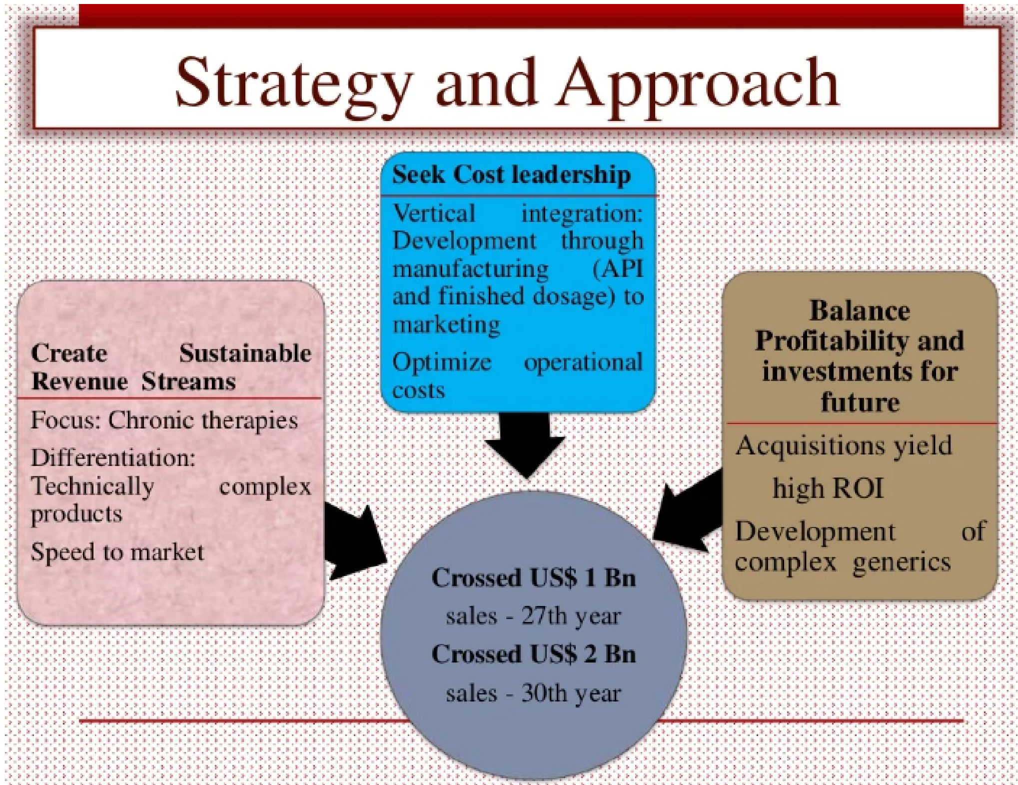
Blindspots Dr. Reddys:



Sun Pharma

Overview

Sun Pharmaceutical Industries Limited, based in Mumbai, Maharashtra, is an Indian multinational corporation (MNC) operating in the pharmaceutical sector that manufactures and sells active pharmaceutical ingredients (APIs) in about 100 countries worldwide. It is the biggest pharmaceutical firm in India and the fourth-largest worldwide as of June 2021, with a market value of $27 billion and total sales of over $4.5 billion. In addition to psychiatry, diabetology, neurology, orthopedics, cardiology, etc., the company offers active pharmaceutical ingredients such as Absorica, Acamprosate Calcium, etc.



Differentiation

Acquisition of DUSA Pharmaceuticals:

- It's an end-to-end pharmaceutical firm with a particular emphasis on the commercialization of its Levulan photodynamic treatment (PDT) technology.
- It has a patented drug device for the treatment of skin lesions.

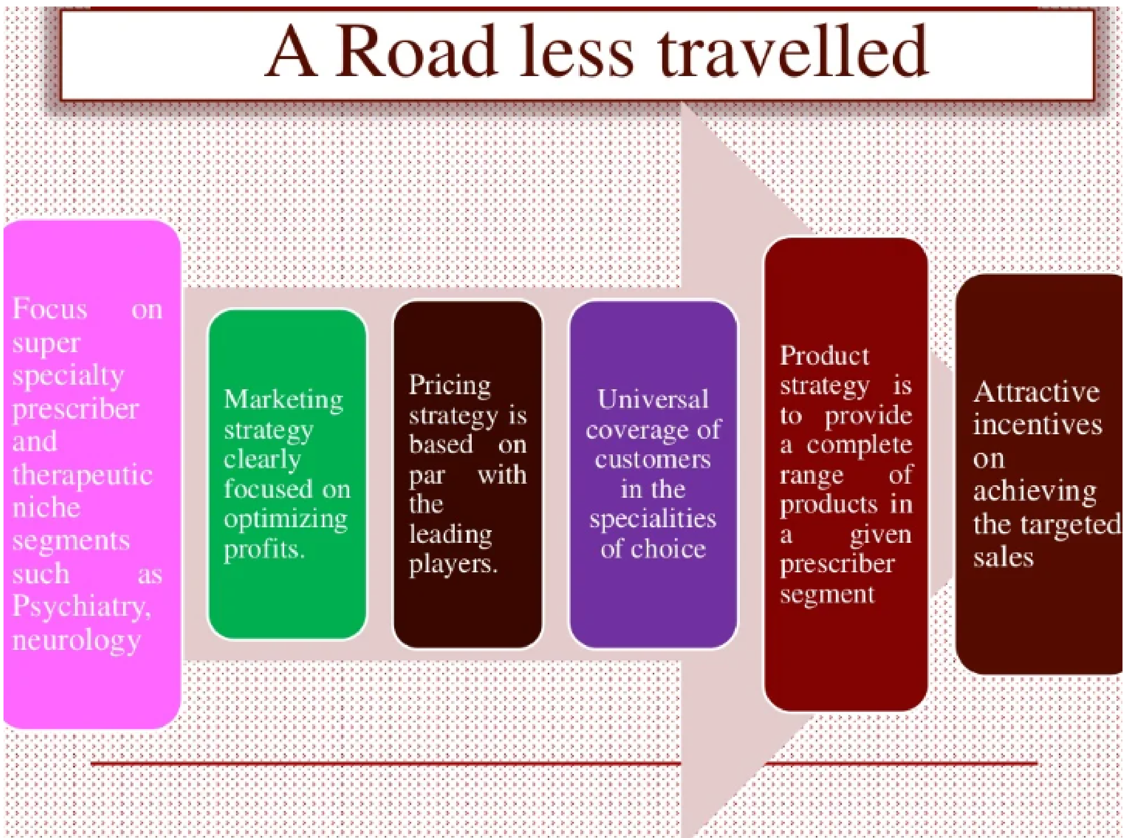
- A drug-device combination is challenging for a generic business to replicate.

It has manufacturing plants in 6 continents of around 19, with new ones opened in Mexico, Bangladesh, and Brazil. The company emphasises investment in R&D to create products suited to its customer's needs, and this has borne fruit in several areas.

Cost Leadership

The pricing policies which Sun Pharma uses is at par with its fellow rivals in the market.

Sun Pharma attempts to produce low cost, easily accessible generic drugs to gain a competitive advantage because of its very price sensitive target customers. Their ability to accommodate both high-end and entry-level items is a direct result of the diversity of their product line. To date, they were able to generate substantial revenue thanks, in part, to their extensive portfolio of patents.



PFIZER

Overview

Pfizer Inc. is a multinational pharmaceutical and biotechnology corporation founded in New York in the year 1849.

Pfizer develops and produces drugs and vaccines for the sciences of immunology, cancer, neurology, etc. Each of the company's top-selling medicines or goods brings in more than $1 billion in yearly sales. 52% of the company's sales came from the United States in 2020, compared to 6% from China and 6% from Japan, and 36% from other nations.

Pfizer’s notable positions:

- Dow Jones Industrial Average stock market index(2004 - 2020)
- Forbes Global 2000(49th rank)
- Fortune 500(64th rank)

Cost Leadership

Pfizer’s Cost Management: The use of a high-cost structure is a significant tradeoff associated with a differentiation strategy while increasing the perceived value of the brand. Pfizer has decided to "exchange" the notion of a cheap product for the uniqueness they provide.

Although a high-cost structure is necessary when it comes to wide difference, Pfizer bears in mind that items priced too extraordinarily high will not sell and customers may end up buying from rivals.

Differentiation

- Economies of Scale

  Taking advantage of cost efficiency

  Pfizer has one of the biggest economies of scale in the pharmaceutical sector due to its size. In an industry where it takes multiple attempts to make the creation of a medicine successful, Pfizer got the means (economic) and proven research so that more novel treatments can be created and offered. It may reduce the fixed cost per unit of pharmaceuticals and enhance capacity utilisation, increasing operational efficiency and profit.
- Sales Force (2nd Largest)

  Productivity and effectiveness enhancements in sales force interactions

  The vast financial resources of Pfizer support a top sales team. Pfizer's commitment to post-approval research gives its salespeople access to a wealth of data for marketing campaigns. In addition, Pfizer's top sales teams in emerging countries put the company in an excellent position to benefit from the rapidly growing wealth in nations like Brazil, Russia, India, etc.

- Marketing Capabilities: By combining two of the pharmaceutical industry's fastest-growing businesses in 2000, Pfizer added Warner-Lambert to its roster of worldwide capabilities and illustrious history. Pfizer acquired product lines from Warner-Lambert, including Schick and Wilkinson Sword wet-shave products, Listerine mouthwash, and Parke-Davis branded medications. Over the last several decades, Pfizer's Viagra has unquestionably been one of the most well-known and often discussed pharmaceutical medications, making it into popular culture and becoming a synonym for potency. However, the medication is also authorised to treat pulmonary arterial hypertension.

- Research and Development: Pfizer has the resources and reputed research skills to support the development of new cutting-edge pharmaceuticals. For the quarter that ended June 30, 2022, Pfizer's research and development costs were $2.815B, up 25.73% increase year-over-year.
- Blockbuster drug portfolio: Lyrica and Lipitor are two well-known Pfizer medications that, despite having lost their patent protection, nonetheless produced over 3.3 and five billion dollars in sales, respectively, in 2019. Pregabalin, marketed by the name Lyrica, is an anticonvulsant medication used to treat conditions including fibromyalgia, diabetic peripheral neuropathy, and epilepsy. One of Pfizer's most well-known drugs, Lipitor, produced 12.9 billion dollars in sales in 2006 but with the patent expiry of Lipitor in 2011, sales have decreased to less than two billion dollars.

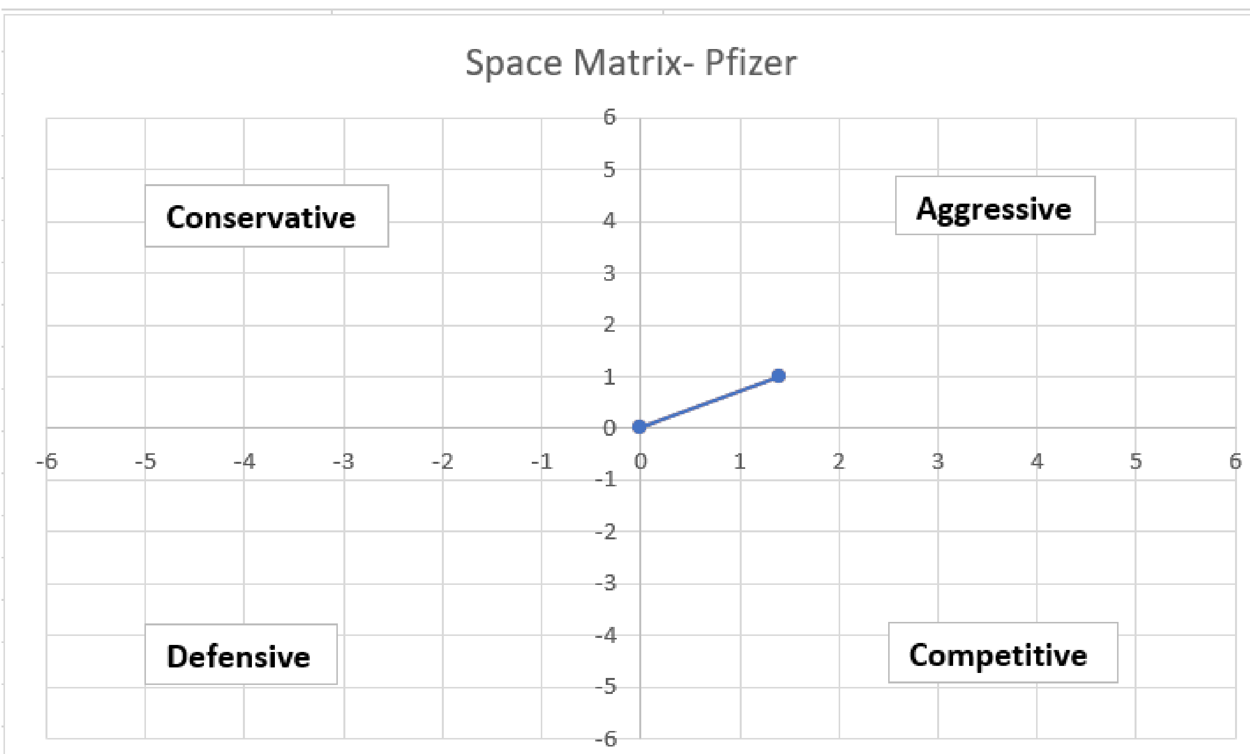
SPACE Matrix for Pfizer:

Financial Position	Score	**Stability Position**	Score
Return on Investment (ROI)	3	Rate of Inflation	-4
Leverage	6	Technological Changes	-3
Liquidity	5	Price Elasticity of Demand	-4
Working Capital	5	Competitive Pressure	-4
Cash Flow	4	Barriers to Entry into Market	-3
Financial Position (FP) Average	4.6	Stability Position (SP) Average	-3.6

Competitive Position	Score	**Industry Position**	Score
Market Share	-2	Growth Potential	4
Product Quality	-3	Financial Stability	3
ConsumerLoyalty	-2	Ease of entry into market	4
Technological Know-How	-4	Resource Utilization	4
Control over suppliers and distributors	-2	Profit Potential	5
Competitive Position (CP) Average	-2.6	Industry Position (IP) Average	4.0

X-Axis: CP+IP= 4-2.6=1.4

Y-Axis: FP+SP= 4-3=1

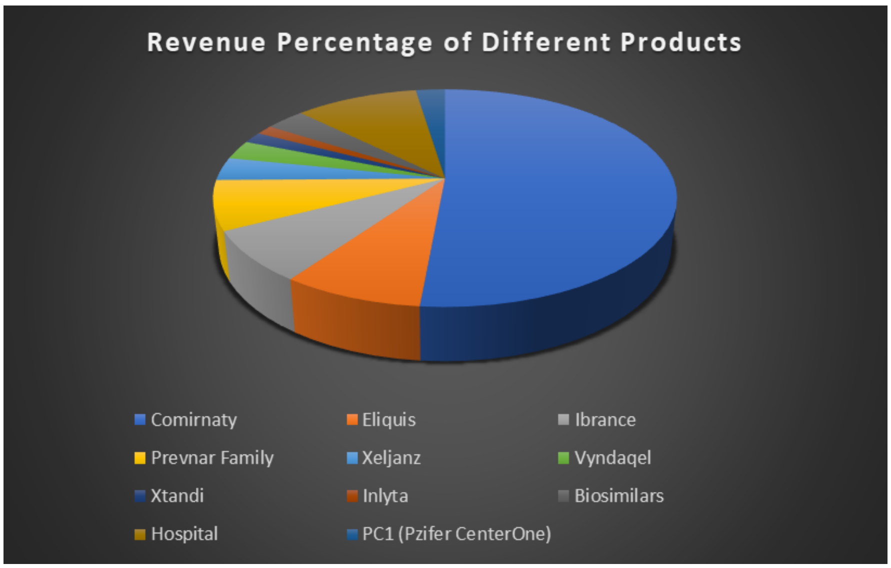


BCG Matrix for Pfizer:

The two Strategic Business Units of Pfizer are BioPharma (the various products are listed below) and Pfizer CentreOne.

Pfizer					
Product (BioPharma)	**2021 Global Revenues (in $ millions)**	**2020 Global Revenues (in $ millions)**	**% Change**	**Market Share Percentage (2021)**	**Conclusion**
Comirnaty	36781	154	23784%	51.45%	**Star**
Eliquis	5970	4949	21%	8.35%	**Question Mark**
Ibrance	5437	5392	1%	7.61%	**Poor Cash Cow (can turn into dog if growth rate slips)**
Prevnar Family	5272	5850	-10%	7.37%	**Dog**
Xeljanz	2455	2437	1%	3.43%	**Dog**
Vyndaqel	2015	1288	56%	2.82%	**Question Mark**
Xtandi	1185	1024	16%	1.66%	**Small Question Mark**
Inlyta	1002	787	27%	1.40%	**Small Question Mark**
Biosimilars	2343	1527	53%	3.28%	**Question Mark**
Hospital	7301	6777	8%	10.21%	**Cash Cow**

PC1 (Pzifer CenterOne) (Not a product of BioPharma)	1731	926	87%	2.42%	**Question Mark (Best Prospectus)**
Total	71492	31111	130%		



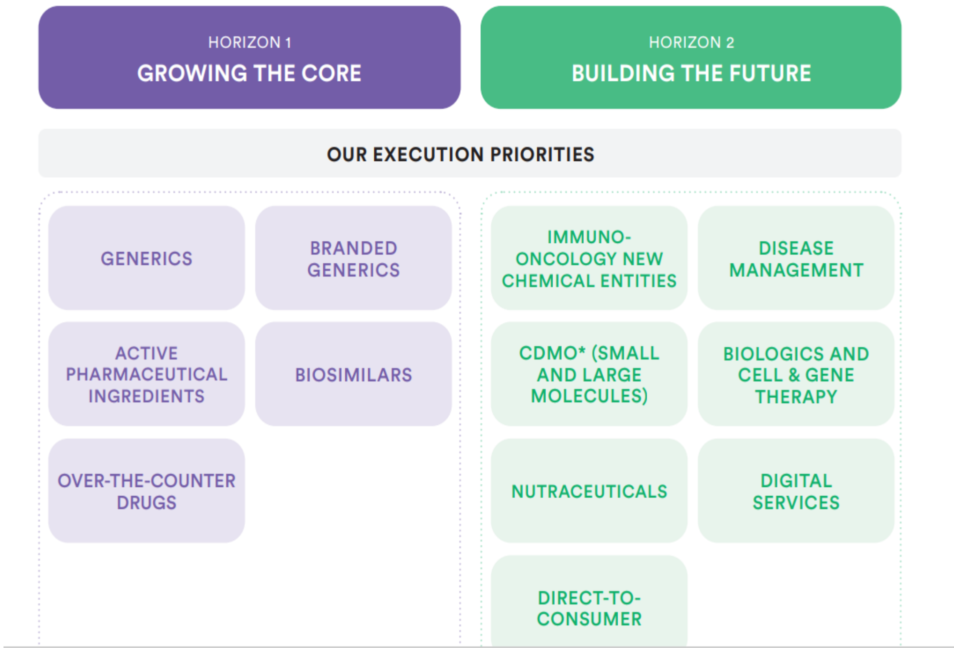
Thus as per the market share (revenue shares of the company's products)

From the above table, we can thus conclude, **BioPharma**, due to its robust growth rate and its dominant market share is a **Star.**

We can also observe that **PC1** is following close behind with the second-highest product growth rate and highest SBU growth rate, but a relatively very low market share is a **question mark.** Thus, we can convert the current question mark into a star with a sufficiently huge investment.

BCG Matrix for Dr. Reddys:

SBUs



Global Generics: Constitutes 83.6% of FY 2022 Revenue share and has Growth% = 16% (YoY 2021-22). Thus it is the highest market share and growth and can thus be classified as a **Star.**

Pharmaceutical Services & Active Ingredients(PSAI): Comprises of 14.3% revenues share of FY2022 and a growth rate of 4% (YoY 2021-22). This can be a cash cow for the company, but as the market share is not the highest, it can also be classified as a **question mark**. If the sales start dipping upon adequate investment, it can become a dog, or if market share is gained, it can convert into a healthy cash cow.

Proprietary Products & Others: Comprises 2.1% FY2022 and growth is a whopping 34% (YoY 2021-22)!! This clearly shows that it is a **question mark** and appropriate investment should be made in this as it gives the highest returns.

BCG Matrix of Sun Pharmaceuticals:

API business-related revenues saw a downtrend of 5.9% (18,354 million rupees) attributed to poor sales in Australia and India. The revenue share of the API business stands at a meagre 5% which leads us to the conclusion that this SBU is a dog for FY 21-22.

A global healthcare consumer business Major success of SunPharma's FY 22 can be attributed to Volini and Revital which is paramount in maintaining a strong market position that backs the high consumer preference and brand recall.

By launching nutrition bars named Revital Energy NXT and Revital protein NXT, the firm increased its commitment to the Revital product. The supplement vertical had an 8% to 14% growth rate.

Blindspots for Dr Reddy:

Poor brand awareness (Overemphasis on where not how rivals will compete): Dr Reddy did not invest in advertising as much as its competitors such as Cipla. Dr Reddy's products are popular among the public and doctors alike; however, due to negligence in advertising and brand image the consumers are mostly unaware of the products they are using which leaves them open to market share erosion by unbranded and other branded competitors.

Blindspots for SunPharma:

Movement of biotech and chemical industries into the pharma space (Misjudging industry boundaries): With the advent and close interplay of these industries within the healthcare sector, SunPharma has been displaced as one of the leaders in the pharmaceutical industry.

(Patent expiration)

Blindspots for Pfizer:

Extensive spending on R&D (overemphasis on competitor's visible competence):

Pfizer employed a strategy of spending heavily on R&D to develop a big product that would capture the market. However, often the extensive R&D did not bear any fruit and even did not allow Pfizer to capture market share in already existing simple molecules and APIs that Pfizer could easily produce. Medical logistics and human resources did not receive the same attention that R&D, material cost, direct labour etc.

However, an interesting case is that Pfizer's international operations provided them with a major source of information and used this to identify rivals and frame its competitive strategy **(Overemphasis on Visible Competence).**

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