

## Competitive Advantage “by Slice”

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**ABSTRACT:-** *Markets are continuing in movement and changes, taking into account the realities of our time. It's about, from one side of global competition and global markets and, on the other hand, of a segmentation of the global markets in niche and specialized markets, in the latter where assisting to the domination of a product/service in spite of the other ones of the same kind, in a manner of an important share or slice of those products/services.*

*Important is that one country, or one company, as in the below analyzed case, to realize in one field, or one specific product/service, a competitive advantage, to become part of the economic and social "high life", in this emulation spirit of the world, i.e. into a specific context. Punctually, it's about a symbol of the Romanian economy, almost the sole remained, Antibiotice S.A., entered in this select club, as a competitive player, in the global drugs market with ruthless competition.*

**KEYWORDS:-** *generic drugs, global competition, comparative advantage, productivity, profit.*

### I. GLOBAL COMPETITION BY COMPANIES

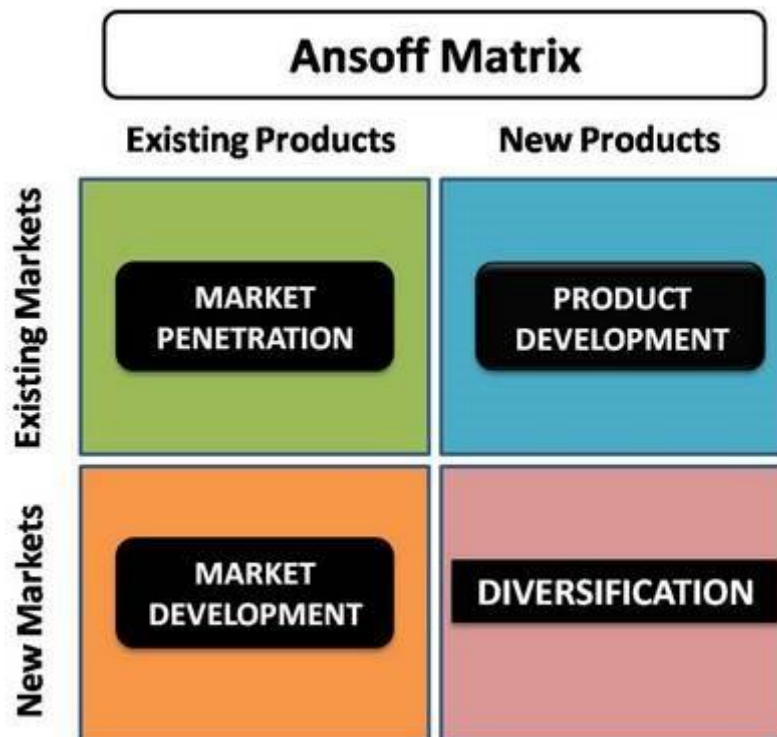
This problem analyzed is considered very sensitive and complex and involve several aspects which must be taking into account, but of the same importance. Of course, the starting point is represented by *Michael E. Porter's approach/theory*, i.e. the consideration of 5 (five) major key forces that affect competition in any market:

1. *The new entries in the market;*
2. *The power of the buyers;*
3. *The threat of substitutes;*
4. *The competitive rivalry;*
5. *The power of suppliers.*

We know that the current markets are asymmetrical and imperfect, therefore one competitor is interested in the existent rivals, *but also in the potential ones*, which will become new entrants and powerful rivals in the specific market.

We think that is good to use the known *Ansoff model/matrix*, especially in this analyzed case (Ansoff, 1965), because is very efficient instrument to give managers and teams strategies for future product and market activities.

Fig. 1 Ansoff Matrix



Source: [www.professionalacademy.com](http://www.professionalacademy.com)

- Market penetration* focuses in increasing the sales of the existing product/products to the clients/consumers on the existing markets, by defending or growing the share of the respective market.
- Product development* is represented by new products in existing markets, meaning an enlargement of the products portfolio.
- Market development* means reaching new markets using products of the portfolio. In other words, this means expansion on new markets: new segments/niches, new geographical areas.
- Diversification* means both new markets and new products, but for producers/providers a lower strategic/investment risk is within a market they have familiarity with.

In a competition, tough or not, the scope of one competitor is to attract and capture a wider range of customers for its products/services, or for a single and high performance product, case in which we can talk about a defining “slice” in the specific market.

Thus, we are in the presence of *Michael Porter’s second competitive strategy* called:

**The differentiating strategy** involving the fact that the strategy, combined with tactics appropriate, is focused on the analyzed product’s features (as we shall see in the core of our paper), including chemical properties, distribution chain, customers informed. In this case of strategy, what matters is the product meeting the necessities of clients and, consequently, to get the consumers’ loyalty, by its quality and efficiency and possible acceptable price (a lower one), of course using a well-known pharmaceutical brand.

Factually, the literature and practice consider that a company is competitive, so we are in *the Microeconomic approach*, when under the internal mix of factors (human, material, financial, technical, plus management & marketing skills and capabilities) succeeds in a competitive advantage over competitors, in terms of production costs, quality of products, the rhythm of development, the capacity of being sustainable and, thus, to be strength to face competition and meet properly the demands/needs of the consumers/clients.

We must remark *a truism*, i.e. every *competitive advantage* is based and developed upon a particular set of conditions that exist at a particular moment in time and for particular reasons (Christensen, 2001). This state of spirit starts from the necessity of innovation, for overcoming competitors for a period of time, after that

intervene the dissipation of the advantage and a quasi-equilibrium situation is installed. Or, in someone else’s opinion, *the competitive advantage is transient, not sustainable* (McGrath, 2013).

We see, even in the theoretical approach, a debate with supporters for both sides, i.e. the end of *the sustainable competitive advantage* and, on the other hand, this affirmation of the transient character of the concept. This situation was arbitrated, if we may say so, by *Harvard Business Review*, which republished professor Michael E. Porter’s “classic” article on this issue from 1979 and also published the book of professor McGrath about the burial of *sustainable competitive advantage*.

The reality shows us that businesses continue to face the challenges of competitive aspects in each and every market (Natter, 2018). Companies use a variety of marketing and production techniques to grab larger portions/slices of the market share. For example, expanding the businesses by outsourcing manufacturing and selling products to overseas markets, but the trend is thinking and acting globally, even there are pitfalls and failures on this course.

For understanding the subject in discussion, we stopped to analyze the Romanian pharmaceutical sector and possible competitive advantage “by slice” at Antibiotice S.A. factory in Iasi. Very interesting that also this example was used by other authors (Pop et. al., 2013) for supporting the idea of micro and macro competitive advantages, i.e. at the firm’s level and at country’s level. For us, this means that over the years nothing changed in Romania’s situation and we remain with this productive symbol to demonstrate the competitive advantage in one specific market.

We think that the concept of *competitive advantage “by slice”* is more appropriate to producers with a wide range of products, such as pharmaceutical domain, in opposition with producers of large or heavy products, such as automotive industry. For the latter, we’ve chosen from the literature the example of BMW automobiles. In this case, the competitive advantage resides in its internal processes of designing unique automobiles. We know what is called “BMW-ness”, a specific form and design for the cars, not successfully replicated by the competitors. The collaboration between different groups of engineers, technicians and the other members of staff and management, lead this ability to produce such cars and to have competitive advantage in the specific market.

## II. GENERIC DRUGS AND THEIR MARKET

Step 2 in our analysis is represented by descending to a deeper level of analysis, i.e. the level of pharmacology, including the study of drugs and medicines, with their uses and effects on consumers. Especially we are interested in *generic drugs*, which are identical to their branded counterparts ([www.globenewswire.com](http://www.globenewswire.com)). The generic drug should contain the same active ingredient as their branded counterpart, *but they are cheaper*. Hence, *generic drugs manufacturing companies* should be capable of selling these generic drugs at a lower price, because they are not required to repeat costly clinical trials, and first of all, *to pay for marketing activities and strategies elaboration*.

Below, we present *the top 10 generic pharmaceutical companies in 2018*, with their afferent net sales (Saha, 2019). Before, a clarification is required: excepting Teva Pharmaceuticals and Sanofi, *none others from the top ten list currently market patented drugs* (as we’ve indicated above):

1. Mylan- \$ 11.26 bn
2. Sandoz- \$9.85 bn
3. Teva Pharmaceuticals- \$ 9.67 bn
4. Sun Pharmaceutical Industries- \$ 4.11 bn
5. Lupin- \$2.27 bn
6. Cipla- \$ 2.20 bn
7. Hikma Pharmaceuticals- \$ 1.80 bn
8. Sawai Pharmaceutical- \$ 1.77 bn
9. Dr. Reddy’s- \$ 1.74 bn
10. Sanofi- \$ 1.69 bn

Very important to highlight is the fact that the producers/providers of *generic drugs* are waiting the moment when the patents expire, to enter/penetrate the specific market with their products, identical quality with the originals, but at the lower prices.

The current situation indicates a growth of the *generic drugs production/ year* around 17 %. Why this situation? Because therapeutic practice and bio-equivalence studies have proven that, from the point of view of the active ingredients, of the quality, of effectiveness and safety, *the generic drugs do not differ from the original ones. The lower price is the essential difference and leads to a higher profit.*

The situation becomes more complicated when the producers/providers and also inventors of the original medicine start to produce generic drugs after the patents expiration (even of the competition). The consumers are interested in the appearance of new medicines which allow the treatment of complex and chronic diseases.

For the purpose of this analysis, we'll present the situation of Romania, which its drugs market is considered a very important absorbent for medicines in the future but, at the same time, an important producer, *with lower costs*, at EU level. The current low level of health spending and also a low purchasing power, *the generic drugs* will be the most sought after and prescribed by doctors, because they are cheaper and, thus, the absorption capacity of the specific market is increasing and Romania has an added attraction in this respect for the companies from third countries EU.

Romania accession to EU in 2007 has determined the well-known Indian company Rambaxy to purchase 96,7 % (324 mil. \$) from the total shares of Cluj Napoca Terapia pharmaceutical factory. This action was carried out just for the reason that Terapia was the only center of bio-equivalence with GLP (Good Laboratory Practice) certificate in EU. The workforce was cheaper than in Western Europe and the Eastern European market is closer to the HQ of the company.

Translating the approach to Romanian pharmaceutical market, as we saw, not included in the survey published in 2013 only for some European Western countries (Wouters et al., 2013), our intention is to highlight the main factors continuing to influence the drugs manufacturers businesses and become brakes in the development of this sector (Bîrsan et al., 2015):

- delayed payments of invoices by the National Health Insurance House;
- the claw-back rule which requires three months once drug manufacturers to transfer taxes to Government. (This tax is payable only for the retail market in Romania, not for export. And the range of drugs for which this tax is applied is for generic drugs, in order to collect money for the payment of the compensated prescriptions, this had to be a temporary charge, but it became definitive).

BUT, the reality shows that Romanian drugs market is growing, because the absorption potential is huge and, as a paradox, what are the new units open in the great, medium, small towns? Not retailers for goods or even services, instead establishment of pharmacies belonging to different supply-chains distribution.

### III. METHODOLOGY

The research methodology in this case includes literature review in the field, comparative analysis and synthesis of data from official documents. All this activity is done in order to highlight the overview of competitive advantage of a distinct product and, at the same time, of Antibiotice S. A. Iasi, as a competitive player in the global and complex pharmaceutical market with strong and pitiless competition. Step by step and testing the product (s) in other countries and following the results of the feedback received, it is possible to expand the market and, as a result, to increase production of that good (s) involved in and, even, to diversify the business.

### IV. STUDY CASE - ANTIBIOTICE S.A. IASI

**Antibiotice SA Iasi, Romania**, was founded in 1955 as the first producer of penicillin in South-Eastern Europe. Until 1990, the company produced active substances, which became a basic component for a wide range of medicines manufactured both in Romania and abroad.

After 1990, the company's activity is reoriented towards the production of medicines. Starting with 1997, the company is listed on the Bucharest Stock Exchange. The new corporate brand identity is launched by the company in 2006 and its purpose is to reflect the transformations produced at the organizational level.

Nowadays, Antibiotice S. A. is one of the most important Romanian manufacturers of generic medicinal products that continue to heal generations of people. The company develops and produces generic medicines for human use (140 products) alongside veterinary medicines and active substance (Nystatin) in Romania and exports them in 73 countries of the world. *For Nystatin active substance, Antibiotice S. A. is ranked no. 1 amongst the world's leading manufacturers.*

In Romania, Antibiotice S. A. continues to be the leading manufacturer of generic anti-infective medicinal products and a manufacturer of competitive and affordable medicines in pharmacies. The medicines delivered to hospitals – especially anti-infective products – contribute to the achievement of important savings for the Romanian health system.

Over the years, due to its ongoing development and expansion on international markets and due to the implementation of quality standards, Antibiotice S. A. has obtained the following accreditations:

- the Good Manufacturing Practice (EU-GMP)
- the Certificate of Compliance (COS) – European Pharmacopoeia

• the Food and Drug Administration (FDA) Authorization.

The main shareholder of Antibiotice SA Iasi is the Ministry of Health, with a 53.0173% share and SIF Oltenia controls a package representing 10.1457% of Antibiotice (ATB) titles.

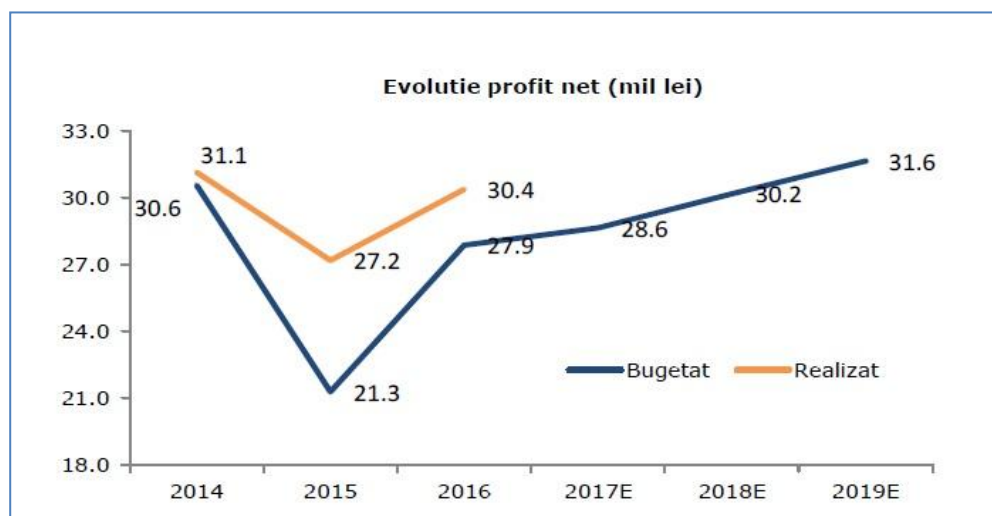
In 2013 and 2014, Antibiotice SA had a market share of 2.1% in the pharmaceutical segment; in 2015 the market share reaching 2.5%; in 2016 the market share experienced a fall to 2.3%.

**Table 1 Shares of the specific market**

-Mil. LEI	2014	2015	2016
Sales of antibiotics —Hospitals	62.9	71.8	76.5
Market share	17.0%	18.7%	18.3%
Sales of antibiotics —Retail	194.5	215.5	223.6
Market share	4.2%	4.6%	4.6%
Antibiotice Iasi sales*	257.4	287.3	300.1
Pharmaceutical market	12285.9	11703.6	12946.4
Market share	2.1%	2.5%	2.3%

Source: Antibiotice S. A., Intercapital Invest; \*Pharmacy outflow

In 2017, Antibiotice SA Iasi has made a net profit of 27.9 million LEI, down by 5.7% compared to the previous year, amid a 3.2% drop in business. It is estimated that the profit obtained in 2016 will be exceeded only in 2019, when a profit of 31.6 million LEI is expected. During the last 3 years, Antibiotice SA has had a conservative attitude in budgeting, with the results surpassing estimates of both in revenue and profit. In 2016, Antibiotice SA has achieved 103% of its operating income target and 102% of its gross profit target, with a net profit higher than expectations due to tax cuts.



**Fig. 1 Source: Antibiotice S. A., Intercapital Invest**

In 2017, during the third quarter according to the official reports, exports increased by 26% compared to the same period of 2016 to 91.7 million LEI, earning a considerable profit allowing the company to further develop and build a new plant until 2019, where ointments, gels and suppositories will be produced as these products are most sought after in Europe, Canada and the US.

Also, the exports increased by 45% for the US market, where the most demanded products are the injectable medicinal products and the Nystatin active substance. Also, in 2017, Antibiotice S. A. received the US Food and Drug Administration (FDA) inspection for the manufacturing lines of aseptic injectable preparations and Nystatin active substance. Following the inspection, FDA issued the final report confirming that these manufacturing flows are in line with the FDA's requirements.

Over 80% of the company's exports were shipped to Asia, North America and Europe, but Antibiotice S. A. exports cardiovascular products, injectable products and suppositories to Russia also, and this year the increase of the export to this country are 70% higher than last year. By the end of 2020, Antibiotice S. A. aims

to expand its market to Vietnam and other South Asian markets such as the Philippines, Hong Kong and Taiwan.

Speaking about *comparative advantage*, this situation is part of the firm’s performance, including all specific indicators, but above all, it is needed of a sound financial situation and a good management of the entire activity (situation presented, in synthesis, below):

**Table 2 Financial situation**

Balance sheet (IFRS)						
- mil. LEI	2014	2015	2016	2017E	2018E	2019E
Tangible assets	188.6	205.9	206.7	223.4	243.7	252.9
Intangible assets	7.9	9.7	10.1	11.8	13.5	15.2
Total fixed assets	196.5	215.7	216.8	235.2	257.2	268.1
Stocks	57.3	60.3	60.2	62.1	64.2	66.9
Commercial and similar receivables	232.1	231.3	242.5	244.9	247.3	249.8
Financial assets held for sale	0	0	0	0	0	0
Cash and cash equivalents	17.8	37.4	13.9	10.1	19	19.4
Total current assets	307.2	329	316.6	317.1	330.5	336.1
Total assets	503.6	544.7	533.4	552.3	587.7	604.3
Commercial and similar debts	46.9	74.1	49	49.5	50	50.5
Amounts owed to credit institutions	54.8	41.8	40.7	57.6	87.2	94.3
Other debt on short term	5	4.7	1.7	1.7	1.8	1.9
Total current liabilities	119.2	129.6	102.9	120.4	151	159.2
Investment grants	3.5	2.9	2.6	2.7	2.8	2.9
Deferred tax	16.6	19.5	18.8	19.4	20	20.9
Liabilities to banks	0	0	0	0	0	0
Long-term provisions	0	0	0	0	0	0
Total long-term liabilities	20.2	22.4	21.4	22.1	22.8	23.8
Total liabilities	139.3	152	124.3	142.5	173.8	182.9
Total equity	364.3	392.6	409.1	409.8	413.9	421.3
Net liabilities	37	4.4	26.8	47.5	68.2	74.9
Liabilities/assets	27.7%	27.9%	23.3%	25.8%	29.6%	30.3%
Current liquidity	2.6	2.5	3.1	2.6	2.2	2.1
Immediate liquidity	2.1	2.1	2.5	2.1	1.8	1,

*Source: Antibiotice S. A., estimations of Intercapital Invest*

BUT, “the jewel of the crown”, as we already remarked, is represented by the product *Nystatin*, whose production and, especially, selling on the US market, led to an expected situation, that one of *world leader in the manufacture of this product*. This situation is due to a complex process of harmonization with the international quality standards and important investments in producing it, based on professional human resource, adequate technologies and financial support.

In short, *Nystatin* is an antifungal medication, treating Candida infections of the skin, or other diseases of mouth, vagina and so on.

Antibiotice S.A. constantly pursuit to make the entire process of fabrication, distribution and selling, in order to increase the profit and competitiveness on this niche market, considering this *product slice* the most important exported product from the company’s portfolio, especially n the USA, the most consistent and benefic for other products having Nystatin at the base, such as oral tablets, creams and gels. Since 2013, Antibiotice S.A. ranked first in the world production of *Nystatin*.

The appreciation is based on the fact that Antibiotice S.A. is a company meeting both the European and American regulatory requirements. In order to maintain this rank, the company must define the appropriate marketing policies and to do continuous investments in revamping the production lines and keep up the standards.

In a partial conclusion, as a result of the data regarding the company's evolution, Antibiotice S. A. is one of the leading domestic generic drug companies, a leader of the sales to hospitals, a leading global company in the manufacture of Nystatin active substance and ranking fifth in retail sales, with a diversified portfolio and a plan to increase investment and with the possibility of attracting European funds for investment.

Something more, even for future strategies to be drawn, is the fact that in this case we can speak about *synergy*, both in Fuller first meaning (1975) and in Ansoff (1965) concept of combined action in strategic management.

## V. CONCLUSIONS

The European authorities in the field have to prescribe a so-called “*equilibrium recipe*”, i.e. between the protection of the producers/providers and the safety of the consumers/patients, of this balance or game variation depending the future of the pharmaceutical industry in Europe and not only.

To get *competitive advantage* it is necessary to reunite in a functional mechanism the elements of R & D activity, production/service providing, marketing instruments and efficient feedback from the market (clients/customers and rivals)

In the analyzed case, we face with the situation of different small cakes, made by diverse aspects and ingredients and one of these small cakes is capable to attract the appreciations of the consumers and to be purchased even at a higher price, being considered a *comparative advantage* upon the other goods of the same kind or close.

We consider that it is necessary of a permanent change of mindset, an ongoing research for innovation and bringing something new in the market and all these aspects require strategies well thought out by the management and staff of the company, in accordance with Government coherent supply-and demand-side policies in generic drugs market, especially.

And, in our particular case, Antibiotice S.A. slogan “*Science and soul*” proves exactly the ingredients for business success and comparative advantage for some products (or singular) and, as a rule to be implemented in the organizational culture, innovative and competitive spirit to be supported and exchanges of ideas and solutions amongst all contributors to the final products, products entering in competition in the market.

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