

## COMPETITION AMONG TRANSNATIONAL COMPANIES IN THE PHARMACEUTICAL INDUSTRY

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### **Abstract**

Transnationals' growing importance within world economy has become an extremely controversial topic. Appreciated by some, disapproved by others, these giant firms are certainly reality in nowadays economy and they are the most important economic agents all over the world. Companies of this kind have reached so much expansion that they have somehow lost their national feature. For these firms competition is no longer national, but international, against foreign companies with the same profile, to cover large segments of the global market.

Transnationals are fundamental in competition's globalization. Transnational manufacturing has inserted the global competition within national markets, so that many firms are forced to manufacture at the international border of efficiency or get out of business. Transnationals have developed over the last decades, as they have worked on their competitive advantages at international level. These advantages emerge from scale economies, higher management techniques and/or world sales networks. The rapid changes brought about by globalization generate huge opportunities for those able to find the answers that suit the new conditions, but also imply new risks to those who cannot adapt.

**Key words:** transnational companies, pharmaceutical industry, foreign assets, acquisitions, mergers

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### **1. Introduction**

Globalization is a reality that must be taken into account and analyzed carefully, by extracting conclusions from the work of those who have benefits from this process, noticing its weaknesses and anticipating the possible ways of avoiding or correcting its negative effects.

Transnationals are viewed as entities whose action is performed by means of the subsidiaries in various countries and regions of the world. These companies have generated new economic devices, have transformed states of being, leading to outsourcing the activities in manufacturing, relocation, exchange and consumption. Transnational companies are fundamental to the globalization of competition. These rank among the most innovative companies as they are responsible for most private spending on research and development. As far as the pharmaceutical industry is concerned, it is the first among the industries investing in research and development.

In recent years, the pharmaceutical industry has invested in research and development more than any other industry has, even more than the IT industry has.

## 2. Power Relationships in the Pharmaceutical Industry

Creativity, inventiveness and ingenuity manifest in an industry regarded as the leader of economic and social progress - the pharmaceutical industry. It has enjoyed great development due to high demand, as a result of health insurance systems' expansion.

The total value of the global pharmaceutical market in 2013 was 970 billion Dollars (IMS Health).

In 2013, the pharmaceutical industry reported a 3% average increase at world level. Emerging countries (Brazil, Russia, India and China) whose figures rank between 8% and 10%, greatly contributed in this development, whereas mature markets (in the U.S.A, in Western European countries) had an average increase between 1% and 4%.

The agreement concluded in the early 2000's in the World Trade Organization which gave developing countries more flexibility in terms of medicine property rights has cleared the market. Poor countries not having their own pharmaceutical plants can import cheap copies if they need them urgently. This is admitted for large manufacturers in America, Great Britain and Switzerland, as average-income countries have agreed not to disregard patents.

But the largest global pharmaceutical companies are already competing with Indian manufacturers of genetic products that have become rapidly well-known. Chinese medicine companies are becoming more powerful, and so are Brazilian competitors.

Additionally, the most promising countries in the pharmaceutical business are now Algeria, Colombia, Saudi Arabia, Nigeria and South Africa.

The pharmaceutical industry is characterized by high levels of spending on research and development and on advertising, too. Although most research and development take place in a home country, both European and U.S. corporations have established major overseas research units.

Japanese companies tend to focus their research and development in their own country, but they conclude more and more trade agreements with foreign companies for technology and product generation (Held, McGrew, Goldblatt, Perraton, 2004, p. 308).

Most pharmaceutical companies rely on a strategy that places emphasis on new medicines and therefore on research and development. Over the years, three new strategies of pharmaceutical enterprises have emerged (Linch, 2002, p. 268):

- the need to control distribution channels

The distribution of medicines has become increasingly concentrated. Some leading manufacturing companies having substantial financial resources have acquired the main distribution companies (e.g. during 1993-1994 two American pharmaceutical companies spent over \$ 10 billion to acquire U.S. medicine distribution companies, as a consequence of fundamentally reassessing their strategies). Pursuant to such takeovers, their efforts have focused on the change generated by increasing distribution costs and inventory control.

- merging with or acquiring competitors

The purpose of the strategy is to get increased performance due to joint manufacturing, research and design activities, and marketing expenses.

- transition of creating new products from biochemistry to biogenetics

Biogenetics is one of the areas that have the highest growth. Worldwide, there are records of some changes in power relationships. Assets are the "tangible" part of a company's wealth. To a certain extent, the more assets a company has, the larger and richer the latter becomes.

**Table 1. Top Transnational Companies in the Pharmaceutical Industry  
(by Foreign Assets)**

Ranking in 2012	Corporation	Country of origin	Assets (million Dollars)	
			abroad	total
1	Pfizer Inc.	United States	92 494	185 798
2	Sanofi	France	81 748	132 708
3	Novartis AG	Switzerland	70 685	124 216
4	Johnson & Johnson	United States	57 149	121 347
5	GlaxoSmithKline PLC	United Kingdom	47 872	67 057
6	AstraZeneca PLC	United Kingdom	41 218	53 534
7	Abbott Laboratories	United States	38 695	67 235
8	Teva Pharmaceutical Industries Limited	Israel	37 394	50 609
9	Merck & Co	United States	36 679	106 132

Source: Prepared by the author based on data from UNCTAD (2013), World Investment Report. Global value chains: investment and trade for development, New York and Geneva, [unctad.org/.../WIR2013/WIR13\\_weftab28.xls](http://unctad.org/.../WIR2013/WIR13_weftab28.xls) accessed on 23/May/2014

Pfizer Inc. has become one of the largest pharmaceutical companies in the world by the acquisition of Warner-Lambert Company in June 2000 and of Pharmacia corporation in July 2002 and now seeks the takeover of its British rival AstraZeneca. The merger of the two companies would be one of the largest transactions ever made in the pharmaceutical sector.

Medicine manufacturers with U.S. Pfizer group ranking first increasingly rely on emerging markets in terms of growth. Pfizer revenues in Brazil, Russia, China, India, Mexico and Turkey rose by 10% in 2013, compared to a 15% decrease in the USA.

GlaxoSmithKline Plc. is one of the largest pharmaceutical corporations in the world - that has developed over more than 150 years from the merger of several companies. The company's branded products known worldwide are Zovirax (a medicine against herpes), Retrovir (an AIDS treatment) and Zyban (for those who want to quit smoking).

As far as its sales are concerned, Novartis AG company is by far better in terms of its sales abroad.

The Swiss Novartis AG medicine manufacturer will undergo in 2014 a significant reorganization of its product portfolio, including the sale of several types of

business and the acquisition of a department (to fight against cancer) belonging to British company GlaxoSmithKline, in a series of transactions that amount to over 25 billion Dollars. Sanofi-Aventis is the result of taking over Aventis SA company, in the spring of 2004 by French rival Sanofi-Synthelabo, thus creating one of the most powerful pharmaceutical companies worldwide. All this during one of the most difficult times to European medicine manufacturers, with the Euro higher than the Dollar and the reform of national health systems which has caused more pressure on medicine prices.

**Table 2. Top Transnational Companies in the Pharmaceutical Industry  
(by Sales Abroad)**

Ranking in 2012	Corporation	Country of origin	Sales (million Dollars)	
			abroad	total
1	Novartis AG	Switzerland	55 967	56 673
2	GlaxoSmithKline PLC	United Kingdom	38 353	41 887
3	Johnson & Johnson	United States	37 394	67 224
4	Pfizer Inc	United States	35 900	58 986
5	Sanofi	France	34 201	44 913
6	AstraZeneca PLC	United Kingdom	27 305	27 973
7	Merck & Co	United States	26 875	47 267
8	Abbott Laboratories	United States	23 090	39 874
9	Teva Pharmaceutical Industries Limited	Israel	19 696	20 317

Source: Prepared by the author based on data from UNCTAD and World Investment Report 2013. Global value chains: investment and trade for development, New York and Geneva, 2013, [unctad.org/.../WIR2013/WIR13\\_weftab28.xls](http://unctad.org/.../WIR2013/WIR13_weftab28.xls) accessed on 23/May/2014

The sales of Merck&Co. company on emerging markets increased by 11% in 2013, whereas in the U.S. they dropped by 7%. Most medicine sales on these markets were provided by the manufacturers of generic products.

Having been founded in 1886, U.S. company Johnson & Johnson, has a total of over 127,000 employees of whom more than half are in foreign subsidiaries. The success of pharmaceutical companies is also due to the huge investment in scientific research. Merck has triggered the fight against AIDS and Pfizer, after having launched the famous Viagra pill on the market, has switched to intensive research aimed at increasing the performance of human memory. Currently, two new molecules recently launched in the field of oncology have enjoyed significant sales: Yervoy against malignant melanoma and Zytiga against prostate cancer.

Innovative medicines launched in 2012-2013 have contributed more than 1 billion Dollars in the pharmaceutical market growth, whereas global spending for medicines will reach nearly 1,200 billion Dollars in four years, as the emerging and generic products pharmaceutical markets (with prices 20-90% lower than those of original medicines) will have an increasing contribution.

**Table 3. Top Transnational Companies in the Pharmaceutical Industry  
(by the Number of Employees Abroad)**

Ranking in 2012	Corporation	Country of origin	Number of employees	
			abroad	total
1	Johnson & Johnson	United States	74 926	127 600
2	Novartis AG	Switzerland	68 296	127 724
3	GlaxoSmithKline PLC	United Kingdom	60 700	99 488
4	Pfizer Inc	United States	56 841	91 500
5	Sanofi	France	55 709	111 974
6	Abbott Laboratories	United States	52 546	92 939
7	Merck & Co	United States	50 500	83 000
8	AstraZeneca PLC	United Kingdom	46 492	53 500
9	Teva Pharmaceutical Industries Limited	Israel	38 551	45 948

Source: Prepared by the author based on data from UNCTAD and World Investment Report 2013. Global value chains: investment and trade for development, New York and Geneva, 2013, [unctad.org/.../WIR2013/WIR13\\_webtab28.xls](http://unctad.org/.../WIR2013/WIR13_webtab28.xls) accessed on 23/May/2014

### 3. Conclusions

Transnational companies including the pharmaceutical ones are acknowledged as major companies with verified competitive capabilities which may face not only the ordinary competition so far, but also global scale competition, which is actually triggered by them, too.

Their preeminence in terms of manufacturing, trade and investment at world level is unique. Transnational companies have grown from national companies into global corporations that use foreign investment to exploit their own competitive advantages.

Speaking about the power of these companies, the Watch corporation's report recently published in the weekly *The Guardian* reveals that "the combined profit value of the five largest pharmaceutical corporations in the world is two times higher than the combined gross national income of all the underdeveloped countries in Africa".

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