

# *Advanced Pharmaceutical Industries*<sup>1</sup>

AMMAN, JORDAN

## **Case Description**

**T**his case centers on a small pharmaceutical company located in Amman, Jordan. Advanced Pharmaceutical Industries (API) was founded in 1994 as a public shareholding company for the purpose of providing high quality pharmaceuticals at reasonable prices for the local and regional population. API faces a critical turning point in its young existence due to a number of external factors, including intense domestic and regional competition and Jordan's planned membership in the World Trade Organization (WTO). The lead character in the case, Dr. Rakan Rshaidat, wants to propose that his firm enter a strategic partnership with a European-based multinational pharmaceutical company to dodge the external factors that threaten the company's existence.

## **Position in the Course**

This case is best suited for courses in International Business and Business Strategy, even though it requires that students demonstrate knowledge of Marketing and Operations as well. Students must develop an effective corporate strategy for a small regional firm based on an analysis of the information provided. This case provides an interesting international twist on the pharmaceutical industry since it examines the industry from the perspective of a small regional player, not the major multinational pharmaceutical firms often studied in courses on strategy.

The case endeavors to:

1. Demonstrate the influence of developed countries' business practices on developing countries.
2. Illustrate how businesses in developing countries face the same obstacles (such as competition, government regulations, etc.) as those encountered in developed countries.

## **Teaching Purpose and Objectives**

The case study was drafted in 1999 before Jordan's membership into the World Trade Organization (WTO) on April 11, 2000. It was written to illustrate corporate strategy implications for a young company in a developing country. The case strives to encourage students to think about the relationship between small firms in developing countries and huge multinational corporations.

The purpose of this case is to challenge the student to think about the following issues:

1. Development of strategic partnerships/alliances
2. Free trade and its effects on developing countries

## **Teaching Plan and Session Overview**

Advanced Pharmaceutical Industries broke even in terms of profit and loss for the first time in 1999, which was very important for the young company. Management hoped this would be a strong indicator of the sustainability of the operation. Gross profit margin hovered at 62% since 1999, according to a report issued by Atlas Investment, a Jordanian Equity Research Firm, in November 2001. In fact, API's gross margin was higher than the usual 30% of other pharmaceutical companies. The objective of the company was to secure its place among the top ten Jordanian pharmaceutical manufacturers by 2003. API had gained considerable market share already, reaching number twenty-two in the market by Q4 1999.

Due to successful registration, exports made up 25% of sales, with markets in almost all Arab countries. With the opening of new markets beyond the Middle East North African region, future exports were expected to grow to 70% of sales by 2005. In addition to exports, API also expected to achieve 25%

sales growth concentrating on niche products in markets such as Saudi Arabia and the Gulf where the only other suppliers of such drugs are European countries.

Jordan joined the WTO and implementation took place on April 11, 2000. For API, this resulted in a substantial reduction in the number of new products available for development as many API products were previously granted protection for a longer period of time before membership. The initial strategy was to focus on strengthening the financial position of the company and keep the world-class standard in product development and manufacturing. API anticipated that this strategy would attract multinationals to hire them for regional production and marketing. In fact, API was granted three licensing agreements. API will manufacture and market two products for Roche and one product for Solco Pharmaceuticals, another company located in Switzerland.

API minimized the effect of WTO membership by shifting their medium-term strategy to building and operating a biotechnology production plant. Biotechnology is still a limited field outside Western countries despite the potential market in the region for its products. Biotechnology is the science and set of techniques for using living organisms – bacteria, yeast, fungi, plant, and animal cells – to produce substances or perform a commercial purpose. Most biotechnology firms develop pharmaceuticals.

As API strengthened their financial position and entered the niche of biotechnology, they anticipated developing their long-term strategy in the following areas:

1. production of generic rHu growth hormone (treatment for dwarfism), rHu insulin and rHu streptokinase; and,
2. development of formulations for new biotechnology companies in Western countries as this job is cumbersome and work intensive, and will give API a competitive advantage.

In April 2002, API planned to invite United States Food and Drug Administration and European Union officials to inspect the facilities in order to obtain certification from both bodies.

### Study Questions and Discussion

1. **Given the reasons shown below and provided in the case, argue for or against developing countries becoming members of the World Trade Organization (WTO). Consider the double standard for protecting intellectual property rights (IPR), especially in big markets such as Egypt, where there is little push to enforce intellectual property laws/rights on a country of sixty-eight million people. (See table below.)**
2. **What issues must Roche (or other pharmaceutical companies) consider before granting licenses to API or to other pharmaceutical companies in developed and developing countries?**
3. **What strategy would you recommend for API based on the strengths and weaknesses of the company and its employees outlined in the case?**

<p>Traditionally <b>developed countries</b> have favored <i>strong intellectual property protection</i>. The reasons for this are:</p>	<p><b>Developing countries</b>, historically, have provided little to <i>no protection to intellectual property</i>. The reasons for this are:</p>
<ul style="list-style-type: none"> <li>• Protection for intellectual property provides incentive for technological advancement (innovation or invention) by guaranteeing exclusive right to an invention's economic rewards for a limited period of time.</li> <li>• Innovation plays an important role in developed countries' continued economic growth and competitiveness.</li> <li>• Piracy of intellectual property reduces the return to the investor, thereby reducing the incentive to innovate.</li> <li>• Piracy of certain goods can threaten the health and safety of all consumers.</li> </ul>	<ul style="list-style-type: none"> <li>• They perceive that they will gain little by extending such protection since the immediate benefits of intellectual property protection accrue primarily to developed countries.</li> <li>• This protection helps maintain the status quo whereby developed countries produce more protectable goods as developed countries have comparative advantages in technology, capital and services.</li> <li>• Piracy yields immediate benefits to the developing country. It provides goods and services to consumers at lower prices and stimulates domestic production, enhancing competitiveness, economic development and employment for local residents.</li> </ul>

Source: Peterson, Kristin, "Recent Intellectual Property Trends in Developing Countries," Harvard International Law Journal, 33(1992), pp. 277–290.

1. This note was written by Tangela Monroe of Wright State University.