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Cost-Focused Strategies of Pharmaceutical Firms

¹ To Thi Thu Trang, ² Trieu Thi Trinh, ³ Ngo Thi Minh

^{1,2} University of Labour and Social Affairs, Vietnam

³ East Asia University of Technology, Vietnam

Corresponding Author: Ngo Thi Minh

Abstract

Vietnam is classified in the group of countries with an emerging pharmaceutical industry. Vietnam's population is entering the "aging" phase; the proportion of the population aged 65 and over is 6.5%, and in 2017, it is expected to reach 21% in 2050. With the cost-focus strategy, firms only need to focus on applying the lowest prices and providing products and services to users at minimal costs. Implementing this strategy will help firms easily increase brand recognition and satisfy customers' shopping needs because they always prefer products with affordable prices and many great promotions. This paper aims at providing a comprehensive empirical examination regarding the cost-focus strategy of pharmaceutical firms in Hanoi, Vietnam.

By drawing the concept from the previous studies, the study explores the cost-focus strategy of pharmaceutical firms as a business performance determinant. We used primary data from a survey of 200 employees working at pharmaceutical firms in Hanoi during 2022–2023, and there were 168 valid survey questionnaires included in the analysis, including descriptive statistics, reliability analysis of scales, and EFA analysis. Our findings suggest that the cost-focus strategy of pharmaceutical firms in Hanoi, Vietnam, is highly appreciated. Based on the research findings, our study emphasizes that the cost-focus strategy of pharmaceutical firms in Hanoi, Vietnam, needs urgent improvement to support the business performance of pharmaceutical firms.

Keywords: Competitive Strategies, Pharmaceutical Firms, Cost Focus Strategy, Public Policy

JEL codes: D49, M19, M21, J18, J88

1. Introduction

Currently, there have been many documents for the pharmaceutical industry in general and pharmaceutical firms in particular, such as: On April 6, 2016, the National Assembly issued the 2016 Pharmacy Law stipulating the State's policies on pharmacy and pharmaceutical industry development, effective from January 1, 2017; Resolution No. 20-NQ/TW on October 25, 2017 of the Central Executive Committee on strengthening the protection, care, and improvement of people's health in the new situation; Resolution No. 36-NQ/TW on January 30, 2023 of the Politburo on the development and application of biotechnology to serve the country's sustainable development in the new situation; Circular No. 16/2022/TT-BYT on the list of species and types of precious, rare, and endemic medicinal herbs that must be controlled; Circular No. 08/2022/TT-BYT regulating the registration of the circulation of drugs and medicinal ingredients; Circular 27/2021/TT-BYT regulating drug prescriptions in electronic form; Circular 23/2021/TT-BYT amending a number of legal documents; Circular 08/2021/TT-BYT on ethical principles for pharmacy practice; Circular 32/2020/TT-BYT regulating standards for processing and preparing traditional medicines in medical examination and treatment establishments using traditional medicine.

Pharmaceuticals have become an inevitable part of life. Throughout history, the world has witnessed a continuous improvement in the quality of life. Pharmaceuticals are considered the "ultimate weapon" for people to fight diseases and improve health. Thanks to them, some previously "incurable" epidemics or diseases can now be cured and prevented.

The domestic pharmaceutical industry also has to import medicinal materials from abroad at a fairly high rate, up to 80%–90%. In particular, imported raw materials from India and China account for up to 85% of the total imported raw material turnover. The serious outbreak of the disease in Vietnam has increased the demand for medicinal herbs in general and API active ingredients in particular. Meanwhile, the domestic drug market has not been able to meet this sudden demand. The COVID-19 pandemic has clearly revealed the confusion for domestic businesses when the drug supply chain from other countries is broken. Dependence on imported raw materials also makes the pharmaceutical industry affected by external factors such as exchange rate fluctuations and supply sources. In addition, import costs make Vietnam's drug export costs about 20–25% higher than those of China and India (Minh Hoa, 2023) ^[6].

Vietnam is classified in the group of countries with an emerging pharmaceutical industry. Vietnam's population is entering the "aging" phase; the proportion of the population aged 65 and over is 6.5%, and in 2017, it is expected to reach 21% in 2050. In addition, the alarming trend of diseases among young people, such as industrial lifestyle, lack of exercise, unscientific diet, alcoholism, smoking, etc., is causing disease patterns in the country to change, in which non-communicable diseases are the cause of 73% of deaths. Alarmingly, many diseases that were previously only found in the elderly are now trending toward younger people. All of the above factors cause the need for health care to increase (Minh Hoa, 2023) ^[6].

Building a competitive strategy is an important task that any business needs to pay attention to and implement. Promoting the organization's competitive capabilities will be a way for businesses to achieve better results in their business and marketing strategies.

Building a competitive strategy needs to be based on integrity, consistent with market developments, customer needs, and the competitive strength of the business. And for a competitive strategy to be successful, businesses will have to regularly update and evaluate their strategy to ensure it is always relevant to the market.

Building a competitive strategy plays an extremely important role in the management and business development processes of any organization today. Its importance is expressed through the following values: (i) Creating competitive advantage: Through the process of analysis and research, firms will find strengths and weaknesses in products as well as customer care services compared to competitors, thereby using them to create a competitive advantage in the market. (ii) Sales growth: An effective competitive strategy can give firms optimal sales and profit growth. (iii) Maintain market share: Through competitive strategies, firms will always create quality products and optimal customer care services to satisfy their customers. This helps firms maintain their market share, prevent the entry of competitors, and create a stronger position.

A good competitive strategy ensures improved efficiency in using the enterprise's resources, creating a basis for increasing the connection and engagement of management staff in implementing the enterprise's goals. Competitive strategy helps increase revenue, labor productivity, and management efficiency, avoid financial risks, and increase the ability to prevent difficult problems in firms, thereby strengthening and improving their internal strength.

With the cost-focus strategy, firms only need to focus on applying the lowest prices and providing products and services to users at minimal costs. Implementing this strategy will help firms easily increase brand recognition and satisfy customers' shopping needs because they always prefer products with affordable prices and many great promotions.

2. Literature Review

Competitive strategy is one of the research topics that many researchers are interested in and is one of the main solutions for firms during their business operations. However, currently, there are many different perspectives and approaches to competitive strategies.

Porter (1980) ^[9] focuses on clarifying that the survival of a business is determined by one of two advantage factors:

lowest cost and product differentiation, from which the author has developed three types of competitive strategies. The main competitive options for businesses are: cost leadership strategy, differentiation strategy, and cost focus strategy. The author has analyzed the nature, characteristics, and suitable conditions for choosing and pursuing each type of competitive strategy, as well as the advantages and risks for firms when choosing.

Sanchez and Heene (2004) ^[11] built a new theory of competitive strategy based on firm competitiveness. It emphasizes the competition of firms based on the following factors: resources, markets, and competitive interactions. It is emphasized that a viable strategy must include resources, the enterprise's capabilities in using resources, management processes to identify and build capacity, and a defined strategy in the implementation process. Deployed to pursue specific strategic goals.

The content of business strategy development includes selecting, supplying, communicating, and implementing value for target customers to create balance with the environment and improve the business performance of the enterprise (Nguyen, 2010) ^[8].

Porter (1985) ^[10] argues that business performance can be achieved in an industry by pursuing a common competitive strategy, including a cost leadership strategy, a differentiation strategy, and a cost focus strategy. If a firm does not pursue one of the above types of strategies, it will fall into a stuck situation and have no comparative advantage with competitors in the industry.

Mintzberg (2001) ^[7] believes that competitive strategy should start with positioning an enterprise's business activities, followed by orienting its development in the long term, and then analyzing competition to decide how to compete with competitors in the market. For each market segment, firms need to restructure the chain of operations toward low-cost differentiation.

According to Mai (2015, p. 228) ^[4], "competitive strategy is also known as business strategy or simply positioning strategy, understood as a structure of tools, solutions, and resources to determine strategic positioning to achieve long-term business goals."

3. Material and Methodology

3.1 Research Design

The study is an experiment that comprehensively investigates the cost-focus strategy of pharmaceutical firms in Hanoi, Vietnam. The study employs pharmaceutical firms in Hanoi, Vietnam, during 2022–2023 as the research population. As for the data, the study uses primary data from a survey of 200 employees working at pharmaceutical firms in Hanoi during 2022–2023. Finally, the study used 168 valid survey questionnaires included in the analysis.

3.2 Variable Measurement

We based on the results of previous studies, expert opinion, and tailor it to the context of pharmaceutical firms. The cost-focus strategy of pharmaceutical firms in Hanoi, Vietnam includes six observed variables (scales) (see Table 1).

3.3 Analysis Tools

Quantitative research method through SPSS software with descriptive statistics, reliability analysis of scales (Cronbach' alpha) and EFA analysis.

Table 1: Observed Variables of the Differentiation Competitive Strategy in Beverage Firms

Code	Scale
Cost focus strategy (CFS)	
CFS1	Pharmaceutical firms regularly conduct market research to understand customer needs and shape suitable products for each market segment.
CFS2	The products of pharmaceutical firms are capable of meeting the individual needs of customers.
CFS3	Pharmaceutical firms have the ability to supply products in the high-priced market segment.
CFS4	The strategy of developing differentiated marketing activities for pharmaceutical firms is always effective in each market area.
CFS5	Pharmaceutical firms regularly expand and develop new markets.
CFS6	Pharmaceutical firms regularly diversify products to meet the needs of different market segments.

Table 2: Descriptive Analysis of Attributes

Code	N	Mini	Max	Mean	Std. Deviation	Skewness		Kurtosis	
						Statistic	Std. Error	Statistic	Std. Error
CFS1	168	2	5	4.01	0.789	-0.465	0.187	-0.209	0.373
CFS2	168	2	5	3.96	0.773	-0.253	0.187	-0.543	0.373
CFS3	168	1	5	4.01	0.766	-0.587	0.187	0.696	0.373
CFS4	168	2	5	3.98	0.826	-0.278	0.187	-0.771	0.373
CFS5	168	1	5	4.02	0.804	-0.673	0.187	0.590	0.373
CFS6	168	2	5	4.11	0.774	-0.658	0.187	0.207	0.373
Valid N (listwise)	168			4.02					

4. Results

4.1 Descriptive Statistics

Table 2 indicates that the respondents agree with the variable of the cost focus strategy of pharmaceutical firms, where six attributes were quite high. All six attributes were rated at an average of 3.96 or higher.

The analysis results also show that the skewness and kurtosis coefficients are in the range of -1 to 1, so the survey data ensures a relatively standard distribution. Therefore, the evaluation levels of the employees participating in the survey are relatively uniform and concentrated, with little dispersion, so the analysis results have high statistical

significance.

4.2 Cronbach’s Alpha

The cost focus strategy of pharmaceutical firms has been measured by Cronbach's alpha. The results of testing Cronbach’s alpha for attributes are presented in Table 3 below. The results also show that attributes of the variables have Cronbach's alpha coefficients that are greater than 0.6, and the correlation coefficients of all attributes are greater than 0.3. So, all the attributes of the variables are statistically significant (Hoang & Chu, 2008; Hair *et al.*, 2009; Hair *et al.*, 2014) ^[3, 1, 2].

Table 3: Results of Cronbach’s Alpha Testing of Attributes and Item-Total Statistics

Cronbach's Alpha		N of Items		
.918		6		
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
CFS1	20.08	11.191	0.773	0.902
CFS2	20.13	11.480	0.729	0.908
CFS3	20.08	11.394	0.757	0.905
CFS4	20.12	11.088	0.750	0.906
CFS5	20.07	11.097	0.775	0.902
CFS6	19.99	11.066	0.821	0.896

4.3 Exploratory Factor Analysis (EFA)

Next, Tables 4, 5, and 6 show that exploratory factor analysis (EFA) was conducted through component analysis and variance.

The results of factor analysis in Table 4 show that KMO is 0.915, which is greater than 0.5 but less than 1. Bartlett’s testimony shows sig. = 0.000 < 0.05, which means variables in the whole are interrelated (Hoang & Chu, 2008; Hair *et al.*, 2009; Hair *et al.*, 2014) ^[3, 1, 2].

After implementing the rotation matrix, six components of the cost focus strategy of pharmaceutical firms with a factor load factor greater than 0.5 and eigenvalues greater than 1 were identified, and the variance explained was 71.043%

(see Tables 5 and 6). These statistics demonstrate that research data analysis for factor discovery is appropriate. Through the quality assurance of the scale and the test of the EFA model, we have identified six components of the cost focus strategy of pharmaceutical firms (Hoang & Chu, 2008; Hair *et al.*, 2009; Hair *et al.*, 2014) ^[3, 1, 2].

Table 4: KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.915
Bartlett's Test of Sphericity	Approx. Chi-Square	649.035
	Df	15
	Sig.	.000

Table 5: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.263	71.043	71.043	4.263	71.043	71.043
2	0.458	7.631	78.674			
3	0.410	6.830	85.504			
4	0.325	5.423	90.927			
5	0.291	4.852	95.780			
6	0.253	4.220	100.000			

Extraction Method: Principal Component Analysis

Table 6: Component Matrix^a

CFS	Component
	1
CFS6	0.883
CFS5	0.850
CFS1	0.847
CFS3	0.835
CFS4	0.830
CFS2	0.812

5. Discussion and Implications

Despite strong growth, domestic pharmaceutical production is still weak, only meeting 52.5% of society's needs. The rest of the demand is met by imports. In 2018, Vietnam spent 2.79 billion USD to import pharmaceuticals, an increase of 200 million USD, equivalent to more than 10% over the same period last year (Vietnam Business Forum, 2019) [13].

According to Minh Hoa (2023) [6], along with the economic growth rate in recent years, the average income per capita in Vietnam has also increased, and the level of education is higher, so the level of willingness to pay for health care is increasing. Increased health care and medical services are also the main factors leading to the development of Vietnam's pharmaceutical industry. Currently, the demand for nutritional supplements and alternative medicines (used to treat the same disease) is creating new opportunities for latecomer manufacturers and increasing the level of competition in the industry. At the same time, pharmaceutical raw materials originating from nature and plant extracts are being focused on research and development to create new drugs that are friendly to human health and have few side effects. However, the pharmaceutical industry depends too heavily on imported raw materials from abroad, easily causing risks to the production and business activities of enterprises. What is worth mentioning here is that despite having a very diverse source of medicinal materials, Vietnam still has to import a high proportion of medicinal materials. The reason is that techniques for growing, processing, and extracting medicinal herbs have not been seriously implemented and have not been invested properly.

To compete and develop in both domestic and international markets, pharmaceutical firms have focused on implementing a focused competitive strategy. Select a number of product categories that the firm has strengths in to target a few target markets and customers to bring optimal value to customers.

Pharmaceutical firms identify their strong products to focus on for development.

Pharmaceutical firms rely on reputation and product quality through good control of their supply chain to satisfy consumers. Raw materials for processing drugs are purchased by pharmaceutical firms from branded

organizations and individuals or pharmaceutical firms that have placed orders.

The products of pharmaceutical firms are increasingly diverse and rich in variety.

With a cost-focused strategy, pharmaceutical businesses are required to make efforts to improve key capabilities, including market and customer research capabilities, leadership capabilities, product supply capabilities in the market niche, and effective promotion capacity.

Pharmaceutical firms apply a cost-focused strategy that aims to perform well on a number of key competencies, such as: market research capacity to understand customer needs and shape new products; differentiated marketing capacity for each market segment of the enterprise; the ability to supply products in niche market segments; and the ability to meet individual customer needs.

Pharmaceutical firms deploy cost-focused strategies, identifying niche markets or customer groups and bringing food products into the market with the competitive advantage of low cost or differentiation. Therefore, to convince customers, firms have been proactive in creating separate marketing programs for these customer groups.

The weakness of pharmaceutical firms applying a focused competitive strategy is their ability to diversify products and develop the market. This shows that applying a focused competitive strategy puts pharmaceutical businesses in a stuck situation, meaning it is difficult to distinguish between low-priced and high-quality products, leading to a lack of customer trust when consuming the company's products. In addition, when competitive advantages cannot be accurately positioned, the competitive strategic direction is also unclear, causing difficulties in diversifying products, developing markets, and identifying competitors and methods of firm competition. On the other hand, meeting many small niche markets makes it difficult to meet all customer needs well, and the level of customer satisfaction for pharmaceutical firms is low.

To develop medicinal herbs into an economic and technical industry that not only serves the care and protection of people's health but also contributes to hunger eradication and poverty reduction, pharmaceutical firms should focus on investing in support, applying science and technology in selecting and creating new varieties, technical cultivation procedures for cultivating medicinal herbs for high productivity, quality, and stability for precious, endemic medicinal plants, and competitive advantages.

Pharmaceutical firms should focus on improving executive management capacity. Corporate governance is a general activity that involves managing all business issues, such as corporate structure, development orientation, and technology. Technology, human resources, production lines, products, and financial management. Effective corporate governance includes establishing good relationships with

stakeholders, improving access to resources and capital, reducing capital mobilization costs, thereby perfecting the capital structure of the enterprise, and improving operational efficiency (Vu, 2017) ^[14].

Pharmaceutical firms should develop a plan to use capital appropriately to improve business performance. The ability to maintain the trust of shareholders and investors is the most important factor in the success of a listed enterprise. Therefore, listing on the stock market and increasing the charter capital of a firm need to be accompanied by developing an appropriate capital use plan, improving operational efficiency, and minimizing risks to maintain investors' trust in the firm.

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