

How does external environment in China affect Tongrentang's  
strategic choices?



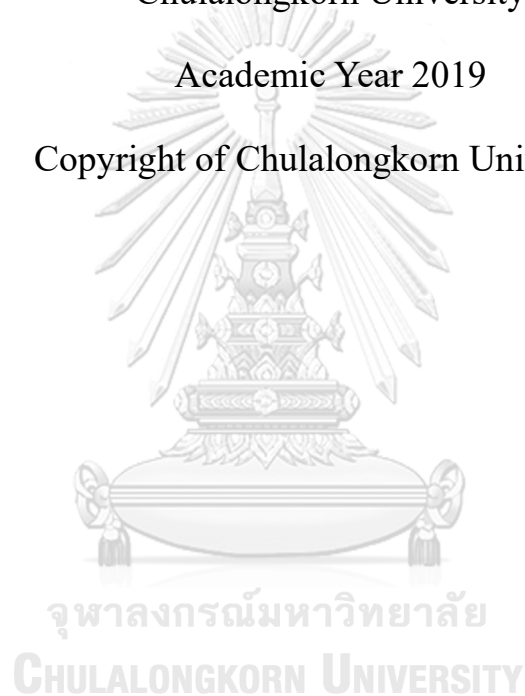
An Independent Study Submitted in Partial Fulfillment of the  
Requirements  
for the Degree of Master of Arts in Business and Managerial Economics  
Field of Study of Business and Managerial Economics

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จุฬาลงกรณ์มหาวิทยาลัย

CHULALONGKORN UNIVERSITY

สภาพแวดล้อมภายนอกในประเทศจีนส่งผลกระทบต่อตัวเลือกเชิงกลยุทธ์ของบริษัท เบย์จิน ถง

เย็นถึง อย่างไร



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Tongrentang's strategic choices?  
By                                      Miss Manni Wei  
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Thesis Advisor                      Chalaiporn Amonvatana

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Accepted by the FACULTY OF ECONOMICS, Chulalongkorn University in  
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INDEPENDENT STUDY COMMITTEE

..... Chairman  
(SAN SAMPATTAVANIJA)  
..... Advisor  
(Chalaiporn Amonvatana)  
..... Examiner  
(NIPIT WONGPUNYA)



จุฬาลงกรณ์มหาวิทยาลัย  
CHULALONGKORN UNIVERSITY

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Student's  
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Signature .....

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## TABLE OF CONTENTS

	<b>Page</b>
ABSTRACT (THAI) .....	iii
ABSTRACT (ENGLISH).....	iv
ACKNOWLEDGEMENTS.....	v
TABLE OF CONTENTS .....	vii
1.Introduction and Objective .....	1
1.1 Study Background.....	1
1.2 Presentation of BEIJING TONGRENTANG GROUP CO.,LTD (TRT) .....	1
1.3 Objective of the thesis and research problem .....	2
1.4 Scope of the Study and Possible Benefits.....	2
2.Literature review .....	2
3 Research methodology.....	5
3.1 Conceptual framework.....	5
3.2 Data collection .....	6
3.3 Data analysis .....	7
4 Global Economy .....	8
5 Brief details of major economic area .....	9
5.1 United state .....	9
5.2 Euro-zone .....	10
5.3 Japan .....	10
5.4 Emerging market countries .....	11
5.5 ASEAN region .....	11
6 The effect of global economy to TRT .....	12
7 Chinese economy .....	12

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8 China economy situation in 2019 .....	15
8.1 Consumption.....	16
8.2 Household disposable income.....	17
8.3 Exchange rate.....	19
8.4 Inflation.....	19
8.5 Export and Import Volumes .....	21
9 China Economy outlook .....	23
10 Government policy.....	23
11 The Effect of China Economy to TRT .....	31
11.1 The impact of monetary policy to TRT .....	33
11.2 The effect of Government policy to TRT .....	35
12 Social-Cultural Environment .....	39
12.1 Population .....	39
12.2 Social Culture.....	40
12.3 The effect of social-culture to TRT .....	42
13 Technology.....	44
13.1 Current situation of technology .....	44
13.2 The Effect of technology to TRT .....	46
14 Environment.....	48
14.1 Current situation of Environmental .....	48
14.2 The environment effect to TRT .....	49
15 External factor evaluation matrix (EFE) .....	50
16 Conclusion .....	52
17 Strategy Recommendation.....	53
REFERENCES .....	58
VITA .....	61

## List of Figures

Figure 1	Global economic growth rates,2010-19(Percent).....	8
Figure 2	Health expenditure share of GDP for selected OECD countries,2018..	9
Figure 3	China real GDP Growth Rate .....	14
Figure 4	GDP growth (Contribution to growth, percentage points) .....	15
Figure 5	Rebalancing from investment to consumption for China.....	17
Figure 6	Household consumption per capita .....	17
Figure 7	Household disposable income and labor income share in China .....	17
Figure 8	Household gross savings rate, China(Percent of household disposable income) .....	18
Figure 9	Spot and currency basket exchange Rates.....	19
Figure 10	Monthly change in consumer prices (yoy percent) .....	20
Figure 11	Housing price growth in 70 cities.....	20
Figure 12	Growth in goods trade (yoy percent, 12 month moving average)...	21
Figure 13	Growth in good exports, by regions .....	22
Figure 14	Growth in good imports, by regions.....	22
Figure 15	2017-2019 TRT's TCM revenue and net profit growth.....	32
Figure 16	China's GDP vs Monetary Supply: M2, Total Social Financing and Shadow Banking: Q4, 2007-Q1, 2019 (Unit: Growth Rate). .....	34
Figure 17 :	Market size and growth rate (One billion yuan) of TCM health industry .....	36
Figure 18	Scale and Growth of China's online drug market from 2011 to 2018	37
Figure 19	Number of online drugstores in China from 2014 to August 2018.	37
Figure 20	The proportion of the elderly population over 60 years old in China is close to 40% around 2055 .....	40

Figure 21	Revenue scale of various drugs in the Chinese drug market (billion yuan) .....	42
Figure 22	Analysis of Chinese Traditional Medicine Production in 2009-2014 (Unit: 10,000 tons) .....	48

### List of Tables

Table 1	China selected economic and social indicators, with projections from 2019-2021 .....	16
Table 2	The main content and distribution of Chinese medicine policy tools	30
Table 3	EFE evaluation matrix of TRT	51
Table 4	SWOT analysis of the external environment of TRT	53

### *Abstract*

In recent years, under the changes of China's population structure and the increasing pressure on people's lives, the problem of "sub-health" is becoming more and more common. The implementation of the "13th Five-Year Plan" and the promulgation and implementation of the "Traditional Chinese medicine (TCM) Law" reflect the government's policy guidance to support and encourage the TCM industry. The development of TCM has risen to the height of national strategy. In the large health industry, TCM and the related industries are receiving more and more attention and recognition, The TCM industry has ushered in new opportunities for rapid development.

Tongrentang company (TRT) is a Chinese TCM company with a long history

and a benchmark TCM company in China. However, In recent years, the company's performance has maintained stable development as the Chinese economy has entered a new medium-speed growth period. This thesis attempts to make reasonable strategic choices by analyzing the external environment of Tongrentang, and provide useful inspiration and suggestions. The first chapter clarifies the research background and significance of this thesis, and explains the main research content and framework. The next chapter is focus on analyzing the external environment of China and the impact on the development of the TCM industry by using the PESTEL analysis theory, which focus on the analysis of the political, economic, social and cultural, and technological environment that Beijing Tongrentang Group Co., Ltd. are facing. At the same time, combined with Porter's five-force analysis method, which simply analyzes the competitive environment, so as to summarize the opportunities and challenges that the Tongrentang are facing. The last chapter is the conclusion and suggestion part, which trying to make suggestions for Tongrentang's Strategy choices, including the culture strategy and production strategy through the above specific analysis, and provide the beneficial enlightenment to the development of TCM industry.

**Key words:** Traditional Chinese medicine Tongrentang external environment  
PESTEL analysis strategic choices culture strategy production strategy

## **1.Introduction and Objective**

### **1.1 Study Background**

In recent years, under the changes of China's population structure and the increasing pressure on people's lives, the problem of "sub-health" is becoming more and more common. The implementation of the "13th Five-Year Plan" and the promulgation and implementation of the "Traditional Chinese Medicine (TCM) Law" reflect the government's policy guidance to support and encourage the TCM industry. The development of TCM has risen to the height of national strategy. In the large health industry, TCM and the related industries are receiving more and more attention and recognition, The TCM industry has ushered in new opportunities for rapid development.

### **1.2 Presentation of BEIJING TONGRENTANG GROUP CO.,LTD (TRT)**

Tongrentang is a Chinese traditional Chinese medicine company with a long history and a benchmark Chinese medicine enterprise in China. The development of Tongrentang has witnessed the development of the Chinese patent medicine industry in China. TongRenTang is a century-old Chinese medicine store that has experienced 326 years of hardships and obstacles. After the establishment of New China in 1949, Tongrentang changed from a family-owned company to a state-owned enterprise. The establishment of the Tongrentang Group Co., Ltd. in Beijing, China in 2001 marked the establishment of a modern enterprise system by Tongrentang. In recent years, Tongrentang has adhered to the traditional pharmaceutical model handed down from its predecessors, and combined with new technological processes, has expanded its production scale to become a world-renowned Chinese medicine company and achieved excellent performance. Its overseas sales terminals ranked first among

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Chinese medicine companies. . It can be said that Tongrentang is a Chinese medicine enterprise with a long history and vigour.

### 1.3 Objective of the thesis and research problem

However, in recent years, the company's performance has maintained stable development as the Chinese economy has entered a new medium-speed growth period. This thesis attempts to make reasonable strategic choices by analyzing the external environment of Tongrentang, and provide useful inspiration and suggestions about the strategic choices for this important TCM company.

### 1.4 Scope of the Study and Possible Benefits

The first chapter clarifies the research background and significance of this thesis, and explains the main research content and framework. The next chapter is focus on analyzing the external environment of China and the impact on the development of the TCM industry by using the PESTEL analysis theory, which focus on the analysis of the political, economic, social and cultural ,and technological environment that Beijing Tongrentang Group Co., Ltd. are facing. At the same time, combined with Porter's five-force analysis method, which simply analyzes the competitive environment, so as to summarize the opportunities and challenges that the Tongrentang are facing. The last chapter is the conclusion and suggestion part, which trying to make suggestions for Tongrentang's Strategy choices, including the culture strategy and production strategy through the above specific analysis, and provide the beneficial enlightenment to the development of TCM industry.

## 2.Literature review

Over the last few decades, the academic literature has devoted significant



attention to the issue of Chinese pharmaceutical industry、 Chinese traditional medicine., and Tongrentang company's development and strategy research.

The first part of the relevant literature is about China's external environment, including the macroeconomic environment and political policy environment, analyzed from the **PESTEL theory** analysis method, and the data sources are from the National Bureau of Statistics of China and the China Statistical Annual Report, the website of IMF、 WORLD BANK, and industry research reports from consulting companies. The China United States (US) trade war during 2018–19 has caused serious shocks to the Chinese economy. And the monetary policy and fiscal that the Chinese government interventionist policies influence the value of Chinese currency, the author of “ *China's Policy Response to the China US Trade War: An Initial Assessment* ” provide a comprehensive analysis about the Chinese economy and the policy that have been taken by using **Macroeconomic theory and Policy instruments theory** (Liu, K, 2020) The author of “ *PEST Analysis of Development Trend in China's Online Drug Retail Market under the “Internet Plus” Strategy* ” analysis the online drug and analysis the “Internet Plus Strategy” of the current china, through big data to establish PEST model in order to analysis the current situation of the online drug retail market in China, which give some idea and data from PEST perspective, Beijing Tongrentang Co., Ltd is one of the Registered Capital of Top 10 Online Drug stores, the online drug have great development potential. (Chen, B., & Chang, F., 2020)

The second part of the literature is about the development of TCM, the development of the Chinese pharmaceutical industry and the development of Tongrentang. The authors of “ *Corporate heritage tourism brand attractiveness and national identity* ” aim to analysis the attractiveness and the significant of tongrentang (TRT), as a Chinese corporate heritage tourism brand, TRT's company culture have influenced by the Chinese traditional culture, **Confucius Theory and Taoism Theory**, and finally find that the attractiveness is the Chinese national

identity. (Balmer, J. M., & Chen, W., 2016). It's not only a medicine shop, but also a culture shop for the tourism. It provides a culture perspective thought for this thesis. From the article "The rising Chinese pharmaceutical industry: local champions vs global players", The pharmaceutical sector has become one of the most important industries promoted by the Chinese government (Spigarelli, 2012, P9-10) And the aim of the paper of "The Chinese pharmaceutical market: driving forces and emerging trends" is to give a general overview of the current status and importance of China's pharmaceutical industry. Chapter 2 focuses on the main trends of TCM and the markets: consumption, production, import and export flow, industry characteristics and main competitors. (Spigarelli, F., & Wei, H., 2014)

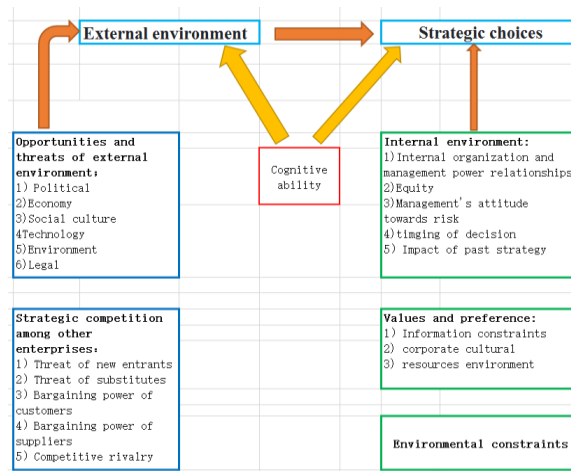
The relevant literature in the third part is the literature on strategic management and Tongrentang's strategic choice. Research status of strategic management theory since the 1990s. Porter's theory of competitive advantage Porter published "Competitive Strategy" and "Competitive Advantage" in 1980, systematically elaborating the theory of competitive advantage, and pointed out that "enterprise is a set of values Activity aggregation, the competitive advantage of an enterprise comes from various value activities" In 1998, Collis and Montgomery systematically elaborated the theory of enterprise strategic management based on the perspective of strategic resources in their book "Company Strategy: Enterprise Resources and Scope", also advocates that "the business strategy of an enterprise should be consistent with the overall strategy, starting from a single operation and expanding to Large-scale diversified business model. The author of "Internationalization Strategy of Chinese Healthcare Industry-The Case Study of Beijing Tong Ren Tang" is committed to exploring the international diversification strategy of Tongrentang, so that people can see the feasibility of Tongrentang in overseas markets. Tongrentang has always opened retail stores in the city center to play its biggest role, including Tongrentang stores located on the main streets of Hong Kong, Singapore, London or Seoul. In the strategy of cooperation with the host

country research center, especially in the model of leaving Chinese physicians in each center, internalization advantages were discovered.(Yang, 2018).Finally, the author conclude the **SWOT analysis** of TRT.The author of “*Research on the development strategy of Beijing Tongrentang T Company* ”analysis the development strategy of the TRT, by using the method of PEST analysis, **Potter's five forces model**, SWOT analysis, IFE matrix analysis and EFE matrix analysis and other analytical tools and the strategy management theory,The author developed a diversification strategy for Tongrentang.(Li Chen,2018). The author provides a large number of analytical tools and strategic management theories about strategic management, such as the **development strategy theory and competitive theory** .However, its limitations and shortcomings are that his data is only collected until 2017, and his analysis focuses on strategic management. The short PEST analysis and Porter's analysis of the external environment indicate that it is not in-depth and the analysis is not in-depth.

Then, on the basis of above previous research structure and authors thoughts, this thesis will updates the data to the year of 2019, analyzes the specific external environment of Tongrentang in depth, and proposes a strategic choice for TRT, which should adopt cultural strategy and product strategy according the specific external environment.

### **3 Research methodology**

#### **3.1 Conceptual framework**



The conceptual framework above relates external environment in China to Tongrentang's strategic choices. According to Strategic Choice Theory, Strategic Choice Theory describes the role that leaders or leading groups play in influencing an organization through making choices in a dynamic political process, external environment can influence the strategic choices. However, other factors can influence the strategy choice too, including the internal environment, value system in decision making, environmental constraints. In addition, other factors can impact the improvement of the external environment condition, including Opportunities and threats of external environment and Strategic competition among other company. Finally, I have identified cognitive ability of leaders as a factor that can influence both the improvement of external environment and making the actual strategy choice.

### 3.2 Data collection

Using quantitative analysis, I collected the data of the external environment of China from the perspective of political, economy, social culture dimension, technology, environment. Including the data of GDP growth rate during the period 2016~2019 and Exports and import data, also the government policy such as the drug control policy and technology the raw material resource analysis. Data about the economic were obtained from the report released by IMF, World bank National Bureau of Statistics, CEIC and the related literature. However, I will combine the

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**both quantitative and qualitative analysis**, do some social media interviews ,and will adopt a variety of strategic analysis methods to carry out the suitable strategic choice for Tongrentang .

### **3.3 Data analysis**

According to the economy data, analysis the data from Consumption、Household disposable income、 Exchange rate、 Inflation、 Export and Import Volumes, the result is that China's economy has entered a new medium-speed growth period . And When the economy develops well and the national health policy is conducive to medical expenditures, the entire pharmaceutical industry will face a loose operating environment, and both companys and industries have Rapid growth, and vice versa. At the same time, the state has issued a number of policies to support the development of the health service industry, The slowdown in revenue growth shows that companies shows that the development of company was impact by the condition of the macro-economy.The speed of TRT's business expansion has slowed down too.In the other hand,the social-culture of the ageing,and the traditional culture,and development of the technology ,and good raw material,have brought a good environment for TRT.

Finally,according the analysis about the treat and opportunity that the TRT are facing ,we recommend that TRT's strategic choice should be : cultural strategy and product strategy.Differentiation strategy: the high-end varieties highlight the brand advantages, use the unique court formula to develop new varieties to achieve product differentiation. Aiming at the customers who identify with TCM culture and TRT brand, positioning and developing the applicable varieties.

## 4 Global Economy

The economy situation of the third quarter of the year 2019 is affected by international trade frictions, geopolitical conflicts and the uncertainty of the brexit , global economic growth continues to slow and downside risks increase. In the major countries, the downward pressure on the US economy continues to increase, the eurozone economy is slowly recovering, and the Japanese economy is now showing signs of deterioration. Economic growth in emerging markets continues to slow.

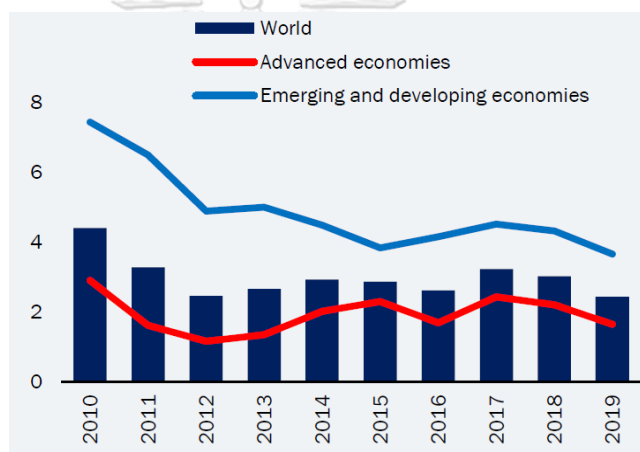


Figure 1 Global economic growth rates,2010-19(Percent)  
Source:World bank

With the rapid spread of covid-19 and the first case of human-to-human infection outside China,January 31 of 2020 , the world health organization (WHO) announced the coronavirus-19 infection pneumonia .The situation constitutes a "public health emergency of international concern (PHEIC)"

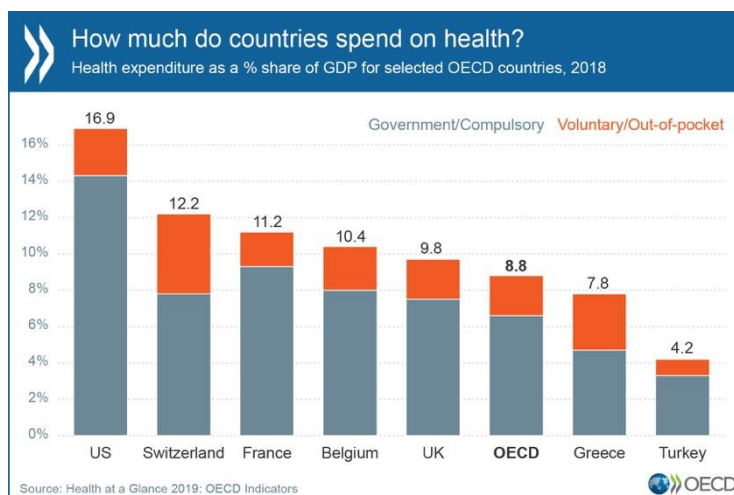


Figure 2 Health expenditure share of GDP for selected OECD countries, 2018.

Source: Health at a Glance 2019 OECD Indicators.

According to the latest OECD forecasts, Health expenditure will outpace GDP growth over the next 15 years in almost every OECD country.

## 5 Brief details of major economic area

### 5.1 United state

The third quarter of the year 2019, the US real GDP growth rate was 1.9%, higher than the previous. Both the quarter (2.0%) and the same period last year (2.9%) continued to slow down. The manufacturing industry continued to shrink.

During the same period, the demand has further weakened; the US unemployment rate (3.6%) has been fell slightly, and fell to the lowest point in 50 years (3.5%) in September. The employment situation continued to be good .

Investment decline is the main reason for the slowdown of US economic growth. In the face of increasing downward pressure on the economy, on 31 July 2018 , the Fed lowered the target scope of the federal funds rate by 25 basis points to 2.00% ~

2.25%, which was the first interest rate cut in the United States in 10 years and ended the schedule of reductions in advance; On 9 October 18, the Fed interest rate was reduced by 25 basis points to 1.75% ~ 2.00%.

The continuous interest rate cuts which predict that the United States responded to the risks brought by trade policy uncertainty, global economic slowdown and low inflation pressure in a timely measure to maintain the expansion of the US economy.

## 5.2 Euro-zone

Due to weak overseas demand leading to the weaken manufacturing activity, the euro zone's key automotive industry has difficulty in coping with market cooling and the cost of developing a new version of electric vehicles, the euro zone's economic growth in 2019 has slowed significantly.

The economic weakness in the euro area also reflects some of the longer-term problems, including the aging population and stagnant population, the deficiencies in the digital field that has been growing rapidly . In the February of the year 2020 ,Eu's statistical office announced that the euro zone's gross domestic product (GDP) in 2019 increased by 1.2%, which was the lowest growth rate since 2013.

## 5.3 Japan

The Japanese economy is now showing signs of deterioration. In the third quarter of the year 2019, The initial growth rate of 1.2% has been revised down to 1.0%, which is the same as the first quarter and has dropped significantly from the same period last year (1.5%). The global economic slowdown led to a sluggish export, and Japan 's economy entered a recession.And the Bank of Japan maintained the policy target interest rate of -0.1% and kept the 10-year Treasury bond yield at about 0%, and continued to implement ultra-loose monetary policy.



#### 5.4 Emerging market countries

The Economic growth of the emerging market countries trend to be slowly. In the third quarter of 2019, emerging market countries generally showed shrinking manufacturing, low inflation, high unemployment, contraction of foreign trade and general exchange rate depreciation. Economic growth continued to decline and monetary policy was generally loose.

#### 5.5 ASEAN region

In recent years, the ASEAN region has developed in good condition and has become an important "locomotive" of world economic growth. Against the background of a slowing global recovery and weak external demand, the growth rate of ASEAN economy also declined in 2018, but the overall level remained at around 5%. Some economies followed the pace of the Fed's interest rate hike and started the rate hike process in 2018. In the five ASEAN countries (Indonesia, Malaysia, Philippines, Singapore and Thailand), the momentum of economic growth in the first half of 2019 has weakened due to the weaker external demand. In the future, the economic growth rate is expected to stabilize at around 4.5%. (IMF) Issues such as slowing exports, rising inflation, capital outflows, and worsening balance of payments may become important factors affecting ASEAN's economic development and monetary policy.

In 2019, the total volume of bilateral trade between the ten ASEAN countries and China surpassed that of China-US trade war, and ASEAN leaps into China's second largest trading partner. (*wind*)

## **6 The effect of global economy to TRT**

The impact of the trade war imposed by tariffs is limited, due to the export of finished medicines to the United States is relatively small. According to customs' data, China's total exports of pharmaceutical products in 2017 totaled US \$ 54.352 billion Yuan, the largest exporting country is the United States, with a total of 9.818 billion US dollars, the proportion is 18%. At present, China's pharmaceutical exports mainly focus on intermediates, APIs and medical devices, The two together accounted for more than 85% of the total export value of medicines and health products. The proportion of finished medicine export is relatively small. In terms of formulation exports, China's total exports of formulations to the United States are small, approximately US \$ 600 million Yuan, the increase in tariff rates will weaken the the profit margin and the severity of the impact are closely related to the company's sales model in the United States turn off.

At the same time, Tongrentang has branches in Malaysia, Singapore and Thailand. With the complete establishment of the China-ASEAN Free Trade Area, the tariffs on pharmaceutical products between the two parties have been significantly reduced, and the pharmaceutical trade has developed rapidly, with an average annual growth rate of more than 20%. Due to the geographical, ethnic and cultural ties, it has formed similar medication habits. ASEAN has become China's third largest pharmaceutical export trading partner after the United States and the European Union. ASEAN has become an emerging market with the most development potential for China's pharmaceutical exports.

## **7 Chinese economy**

After China's GDP growth rate fell to the bottom in 2008 due to the financial

crisis, it rebounded slightly from 2009 to 2011, but it has shown a downward trend since 2011, indicating that China's economy has entered a new medium-speed growth period . The current round of economic growth adjustment is essentially due to the fact that the factor-driven growth model has become unsustainable increasingly , and China's economic growth has entered a new normal of steady and slowing down. On the one hand, the disappearance of the demographic dividend has caused a mismatch between the labor force structure and the industrial structure, which has weakened the competitiveness of the export industry. There exist the problems of investment-driven growth models, such as high-cost continue to emerge. Growth models with high investment and low consumption are no longer sustainable. Inadequate consumption-driven capital factors make insufficient contributions to economic growth. In addition, the rise in real estate prices has been transmitted to the consumer level, which has raised the price level and thus slashed consumption. This has caused a long-term negative impact on economic growth, and has become another important factor that constrains the rapid growth of the economy.

It means that, The era of rapid GDP growth has been ended, and China's economic growth has entered a period of moderate growth. In the year of 2015, China's economy growth rate year-on-year 8%, which met one of a lowest point since the year of 2009. Overall, the continued decline in the social investment rate shows that the turning point that marks the new normal of the economy is not far away. As the proportion of fixed-asset investment in society has fallen, the tertiary industry has sprung up and its proportion has gradually increased. With the adjustment of the economic structure, the government will continue to increase investment in fixed assets in social undertakings such as education, medical care, and culture, thereby driving the tertiary industry to become a newly investment growth point.

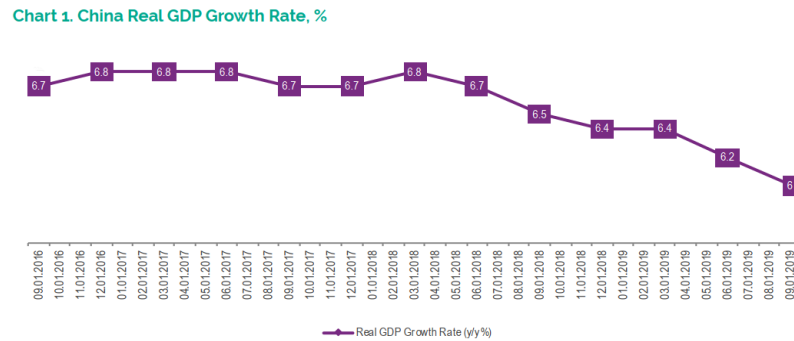


Figure 3 China real GDP Growth Rate

Source: National Bureau of Statistics, CEIC

**Trends:** Based on the above macroeconomic trends, the explosive growth of the medical service industry is the trend. China is the world's third-largest pharmaceutical market in term of sale (IMF, 2010; Economic Research Institute, 2012), but it should ranked the second by 2020.

For the large health industry, at the macro level, the state has issued a number of policies to support the development of the health service industry. In 2020, the scale of China's health service industry will reach 8 trillion yuan. The government plans to use measure of market-oriented to increase the employment effectively, form new growth points, and promote economic transformation and upgrading. The most beneficial to the development of the health service industry is the emerging medical service industry such as medical services, health management, diagnostic equipment and reagents, and various types of medical equipment.

From a micro perspective, the development of the health industry is relatively slow at present, but people's health awareness is gradually improving, and the coming of an aging society and the health problems of the elderly are increasingly prominent. The current status of the health industry is in conflict with people's needs for health products and healthy lives. Therefore, in the favorable environment of the government's policy of stimulating domestic demand, consumers have great potential for health services, which indicates that the health industry is about to usher in a

golden development period.

## 8 China economy situation in 2019

In 2019, in the face of the complex situation in which domestic and foreign risks and challenges have risen significantly, and adhere to the overall tone of steady progress. Adhere to the new development concept, adhere to the supply-side structural reform as the main line, actively promote high-quality development, do a good job of stabilizing employment, stabilizing finance, stabilizing foreign trade, stabilizing foreign investment, stabilizing investment, and stabilizing expectations. The three major battles have made key progress. The overall operation of the national economy is stable, the quality of development is steadily improved, and the main expected goals are well achieved, laying a solid foundation for the comprehensive construction of a well-off society. According to preliminary calculations, the GDP for the whole year was 990,865 billion yuan, calculated at comparable prices, an increase of 6.1% over the previous year, in line with the expected target of 6% -6.5%.

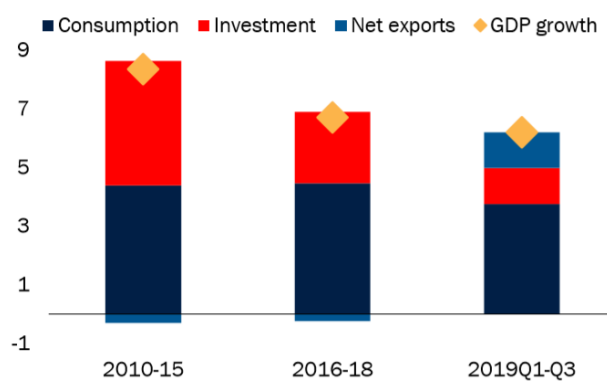


Figure 4 GDP growth (Contribution to growth, percentage points)

Source: National Bureau of Statistics (NBS), World Bank.

China selected indicators	2016	2017	2018	2019f	2020f	2021f
Real GDP growth, at constant market prices	6.7	6.8	6.6	6.1	5.9	5.8
Private consumption	8.6	6.4	9.1	6.8	7.6	7.3
Government consumption	8.8	9.5	9.4	8.4	8.5	8.3
Gross fixed capital formation	6.8	5.2	4.9	4.0	3.9	3.8
Exports, goods and services	1.8	8.9	4.0	1.7	0.8	1.5
Imports, goods and services	5.7	6.6	7.5	-1.0	1.2	1.6
Real GDP growth, at constant factor prices	6.7	6.8	6.6	6.1	5.9	5.8
Agriculture	3.3	3.9	3.5	3.3	3.3	3.3
Industry	6.3	5.9	5.8	5.5	5.2	5.0
Services	7.7	7.9	7.6	7.1	6.8	6.7
Inflation (Private Consumption deflator)	2.0	1.6	2.1	3.0	2.6	2.4
Current account balance (% of GDP)	1.8	1.6	0.4	0.7	0.5	0.3
Financial and capital account (% of GDP)	-3.8	0.9	1.0	0.9	0.9	0.9
Net foreign direct investment (% of GDP)	-0.4	0.2	0.8	0.9	1.0	1.1
Public finance balance (% of GDP)	-2.9	-2.9	-2.6	-2.8	-3.0	-3.0
Augmented fiscal balance (% of GDP) <sup>a</sup>	-3.1	-2.5	-3.9	-5.3	-5.3	-5.3
Primary balance (% of GDP) <sup>a</sup>	-2.0	-1.2	-2.7	-4.1	-4.0	-4.0
Government debt (% of GDP)	37.0	36.5	36.9	39.3	41.8	44.0
International poverty rate (\$1.9 in 2011 PPP) <sup>b</sup>	0.6	0.4	0.3	0.3	0.2	0.2
Lower middle-income poverty rate (\$3.2 in 2011 PPP) <sup>b</sup>	5.9	4.6	3.5	2.7	2.1	1.6
Upper middle-income poverty rate (\$5.5 in 2011 PPP) <sup>b</sup>	24.7	21.4	18.7	16.0	13.9	11.9

Table 1 China selected economic and social indicators, with projections from 2019-2021

Sources: World Bank

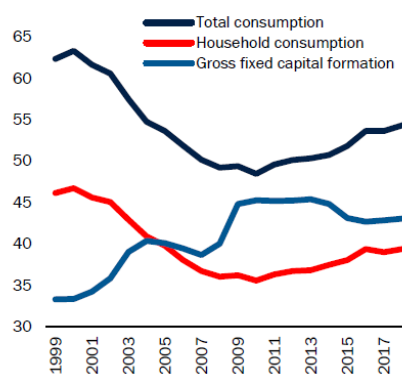
Notes: *f* = forecast.

## Details of the economic conditions:

### 8.1 Consumption

Private consumption accounts for about two-thirds of GDP in most developed economies. Despite a rebound in recent years, China's consumption remains low. After several years of decline, China's household consumption dropped to a low of 35.6% of GDP in 2010 and hit 39.4% in 2018 (Figure 5 )

(Consumption versus



*GDP, PPP USD thousand per person, 2012-17 average)*

Figure 5 Rebalancing from investment to consumption for China

*Source: WDI, World Bank.*

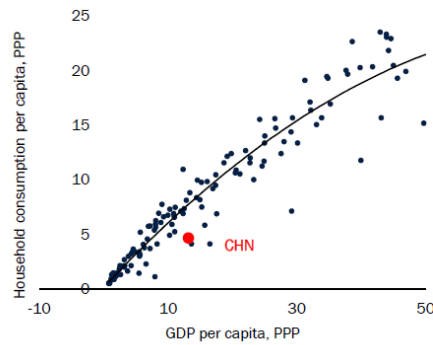


Figure 6 Household consumption per capita

*Source: NBS, World Bank.*

In most advanced economies, private consumption constitutes about two-thirds of GDP. China's consumption remains low, despite some pickup over recent years. Following several years of decline, household consumption in China bottomed out at 35.6 percent of GDP in 2010 and reached 39.4 percent in 2018 (Figure 5).

## 8.2 Household disposable income

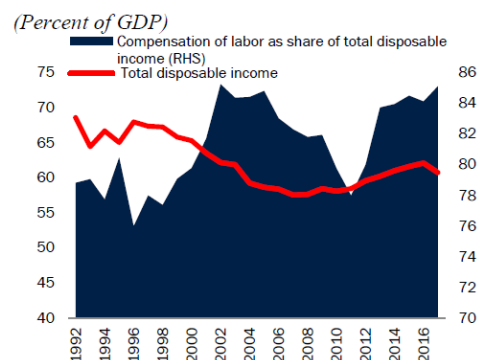


Figure 7 Household disposable income and labor income share in China

*Source: NBS, World Bank staff calculations.*

Fund flow data showed that although the government transfer payments and investment income proportion fall also led to a decline in the share of labor remuneration, but family income accounted for the proportion of national income has been the main suppression (*Ma et al. 2016*), the surplus rural labor into urban areas, has a downward pressure on wages (*Perkin, 2015*) although wages increased, but the labor force in the share of GDP fell (*DRC and World Bank 2019*)

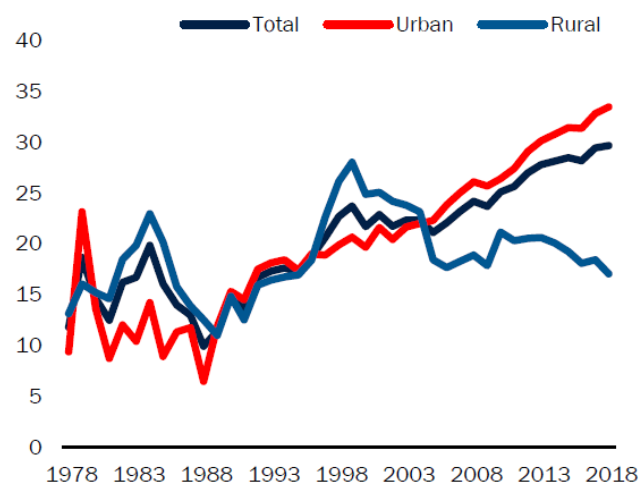


Figure 8 Household gross savings rate, China(Percent of household disposable income)

Source: NBS Household Survey, World Bank.

Note: The aggregate household saving rate is defined as  $1 - \text{household consumption/disposable income}$ .



### 8.3 Exchange rate

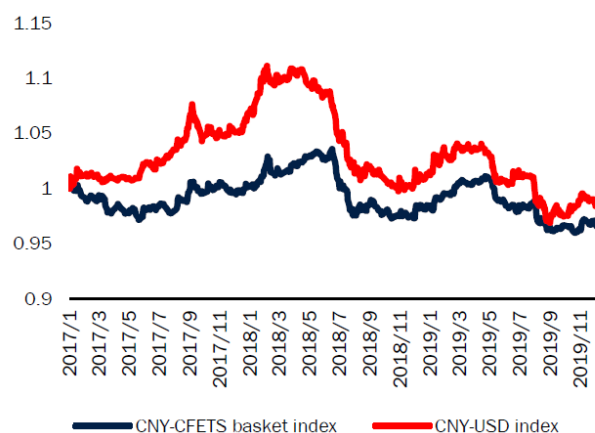


Figure 9 Spot and currency basket exchange Rates  
 Source: State Administration of Foreign Exchange (SAFE), World Bank.

Uncertainty over trade policy contributed to volatility in financial markets and currency pressures for most of 2019. In early 2019, China's financial markets had recovered most of the heavy losses suffered in 2018, but the volatility resumed in May as China-US trade escalated. Trade tensions. The renminbi has depreciated by more than 4 per cent against the US dollar and against the 24 trade-weighted baskets.

### 8.4 Inflation

The core inflation rate has decreased, but the overall inflation rate has increased due to the strong food price growth. The full-year consumer goods price index (CPI) in 2019 increased by 2.9% year-on-year, an increase of 0.8 from 2018 Percentage point, a new annual high since 2012. Among them, the price of pork in China in the fourth quarter was the same .The specific growth rate was 103%, a substantial increase of 55 percentage points from the third quarter year-on-year.And the main factors for the rise in consumer prices throughout the year. In addition, due to the spillover effect of pork prices, cattle Meat and lamb prices also rose in the fourth quarter. For non-food items,

prices continued to rise after bottoming out in October. Continued to rebound in 2 months. Among them, the price of transportation and communication is affected by the low base of oil prices at the end of 18 years. In response, the decline has converged, which is the main reason for the rebound in non-food prices.

Since June 2019, the rate of house price appreciation has slowed down, but the trend varies among cities. Since June 2019, producer price inflation (PPI) has declined sharply, reflecting the weak price growth of goods and manufacturing products.

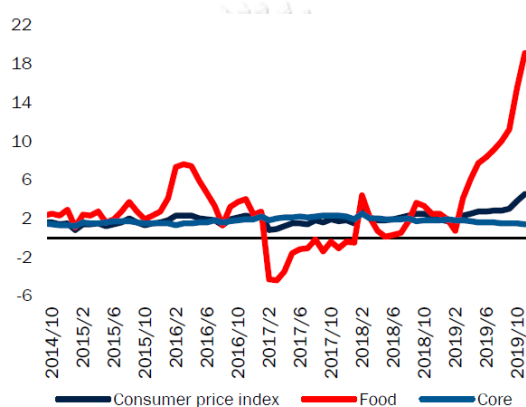


Figure 10 Monthly change in consumer prices (yoy percent)

Source: NBS, World Bank.

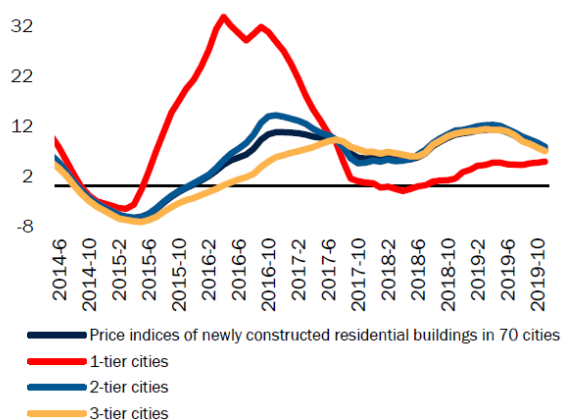


Figure 11 Housing price growth in 70 cities

Source: NBS, World Bank

## 8.5 Export and Import Volumes

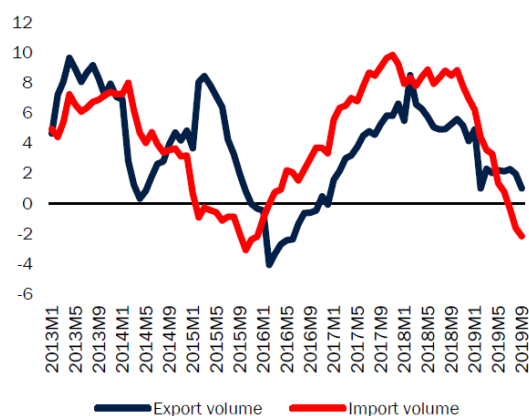


Figure 12 Growth in goods trade (yoy percent, 12 month moving average)

*Source:* China Customs, NBS, Haver Analytics, World Bank.

China experienced a broad import contraction in 2019. The biggest decline in imports was due to the sharp contraction in US imports. For the entire year of 2019, exports increased by 0.5% year-on-year, while imports decreased by 2.8% year-on-year. Due to China-US trade tensions, China's exports to the US grew by -12.5% in 2019, down 23.8 percentage points from 2018. In December, China-US trade frictions eased, and the United States reduced the tariff rate of Chinese imports of about 120 billion US dollars effective September 1, 18 from 15% to 7.5%. In December, the growth rate of China's exports to the United States was -14.6%, narrowing by 8.4 percentage points from the previous month's decline, indicating that the effect of tariff reductions has gradually begun to appear.

Judging from the amount of imports and exports, compared with 2018, the EU is still China's largest trading partner, while ASEAN has surpassed the United States to become China's second largest trading partner, and the United States retires third.

### Export:

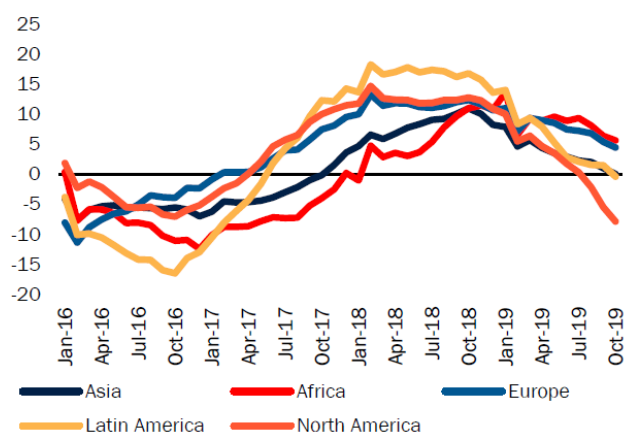


Figure 13 Growth in good exports, by regions

Source: China Customs, NBS, World Bank.

Due to the policy uncertainty and weak global demand, trade flows have slowed the growth of exports of goods, which have fallen sharply as tariff increases have taken effect in other parts of the world, particularly in Asia

#### Import:

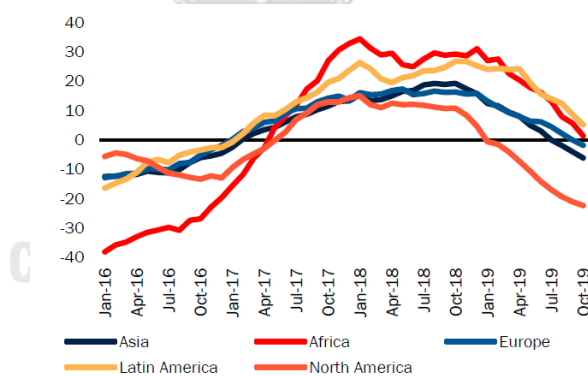


Figure 14 Growth in good imports, by regions

Source: China Customs, NBS, World Bank.

China experienced a broad contraction in imports in 2019. The biggest reason for the decline in imports was the sharp contraction in imports from the United States. The decline in both import volumes, and the weakened prices (Figure 14).

## 9 China Economy outlook

The spread of the corona-19 is posing a threat to global economic activity. On March 3 2020, the Federal Reserve cut interest rates sharply. But the Chinese central bank did not immediately follow the Fed to cut interest rates. After the Fed cuts interest rates, the central bank of China will continue to cut interest rates after considering the internal and external balance and the global interest rate cuts. After the monetary policy is adjusted toward easing, it will further reduce the cost of bank funds, thereby driving down the LPR and loan interest rates to reduce the financing cost of the real economy.

## 10 Government policy

Government TCM policy and Government relevant policy of the year 2016-2020:

<i>TCM and Medicine policy:</i>
1.The State Council issued the outline of strategic planning for the development of TCM (2016-2030)
2.The 13th five year plan for the development of TCM issued by the State Administration of TCM
3.The Central Committee of the Communist Party of China and the State Council issued and implemented the outline of "healthy China 2030"
4.The TCM law of the people's Republic of China was officially promulgated and implemented
5.The 19th national congress points out the direction for the further development of TCM
6.The State Food and Drug Administration promulgated the "Interim Provisions for the Approval of Internet Drug Trading Services".

***Relevant policy:***

1. Proposal and internationalization strategy of “One Belt One Road” policy and “Healthy China”.

2. "Coronavirus-19 Infection Pneumonia Diagnosis and Treatment Program"

**Detail of policy:**

10.1 The State Council issued the outline of strategic planning for the development of TCM (2016-2030)

On February 22, 2016, with the endorsement of Premier Li Keqiang, the State Council issued the outline of strategic planning for the development of TCM (2016-2030), which clearly defined the focus and development direction of the work of TCM in the next 15 years, and put the development of TCM in an important position in the overall economic and social development. TCM pays attention to dialectical treatment, disease prevention and holistic view, which meets the needs of the aging society and the complex and changeable health services. With the characteristics of long industrial chain, outstanding original advantages, green ecology and consumption promotion, TCM provides a new economic growth point for supply side reform. The introduction of the strategic planning outline for the development of TCM (2016-2030) has brought a broader development prospect for the TCM industry.

10.2 The 13th five year plan for the development of TCM issued by the State Administration of TCM

On August 11, 2016, the State Administration of TCM issued the 13th five year plan for the development of TCM, accelerating the transformation and upgrading of TCM industry. The 13th five year plan for the development of TCM is to implement the guidelines and policies of the CPC Central Committee and the State Council for the development of TCM. It is formulated in accordance with the outline of the strategic plan for the development of TCM (2016-2030) and the outline of the 13th

five year plan for the national economic and social development of the people's Republic of China. The aim is to revitalize the development of TCM and better serve the construction of a healthy China.

10.3 The Central Committee of the Communist Party of China and the State Council issued and implemented the outline of "healthy China 2030"

On October 25, 2016, the CPC Central Committee and the State Council issued and implemented the outline of "healthy China 2030" plan, which requires full play to the unique advantages of TCM. The core of "healthy China 2030" plan is to improve people's health level, promote reform and innovation of system and mechanism, integrate health into policy, popularize healthy life, improve health guarantee, develop healthy industry, build healthy environment, maintain people's health in all aspects, and provide healthy basis for realizing the Chinese dream of great rejuvenation of the Chinese nation.

10.4 The TCM law of the people's Republic of China was officially promulgated and implemented

In July 2017, the TCM law of the people's Republic of China was officially promulgated and implemented to further guarantee and promote the development of TCM. The law of the people's Republic of China on TCM defines the important position and development policy of the cause of TCM, and regulates the protection and development of TCM, the service of TCM, the scientific research of TCM, the training of talents of TCM, and the inheritance of TCM. The state vigorously develops the cause of TCM, adheres to the combination of inheritance and innovation, maintains and exerts the characteristics and advantages of TCM, establishes the management system of TCM, and makes it play a better role in the cause of TCM and health.

10.5 The 19th national congress points out the direction for the further development of TCM

In October 18, 2017, general secretary Xi Jinping put forward the "nineteenth

principles of implementing healthy China" in the Communist Party of China's "national strategy for health". For the further development of TCM industry pointed out the way forward and development direction.

10.6 The State Administration of Market Supervision and Administration issued the revised "Administrative Measures for Imported Medicinal Materials" . .

The "Measures" were reviewed and approved by the 8th bureau meeting of the State Administration for Market Supervision and Administration on April 28, 2019, and implemented on January 1, 2020. In the management of imported medicinal materials, the "four most stringent" requirements are strictly implemented, the standards for medicinal materials are strictly enforced, and traceability management is strengthened. At the same time, implement the requirements for the reform of "delegated services" and implement classified management of first-time and non-first-time imported medicinal materials.

10.7 The State Food and Drug Administration promulgated the "Interim Provisions for the Approval of Internet Drug Trading Services".

From 2013 to the present, B2B medical e-commerce is entering the growth phase and entering a period of rapid development. The reasons for the development of B2B medical e-commerce are in three aspects. One is that the "new medical reform" continues to advance, and the medical operating environment has changed, forcing some companies to meet the changes through innovation; the second is the development of the Internet , and other areas of e-commerce companies have mature operating experience, naturally transplanted into the field of medicine; the third is the Internet + medical ushered in the entrepreneurial boom, medical and pharmaceutical development in two directions. The factors that affect these three aspects are inseparable from the policy.

10.8 Impact of relevant policies

(1) Proposal and internationalization strategy of "Belt and Road" policy and "Healthy China".



With the promulgation of the national strategies and plans for the “Belt and Road” and “Healthy China”, TCM has risen to an overall health strategy at the national level. Cooperation between China and countries along the “Belt and Road” in the pharmaceutical industry is a requirement of the times. After the “Belt and Road” strategy was put forward, the Party Central Committee and the State Council attached great importance to the work of TCM and formulated a series of policy measures and national strategies.

(2)"Coronavirus-19 Infection Pneumonia Diagnosis and Treatment Program"

The third and fourth editions of the "Diagnosis and Treatment Program" have added details of traditional Chinese medicine treatment programs, and have recommended prescriptions and proprietary Chinese medicines for different stages of the disease.

The main content and distribution of Chinese medicine policy tools of recent years is following:

Policy tool	Main content	Amount	propor	Grand
		of policy	tion	total
Type of Supply	CHULALONGKORN UNIVERSITY			
Infrastructure	Improve the TCM service network and system, accelerate the construction of TCM medical institutions.	12	5.17	42.66
Capital investment	Provide financial support for the development of traditional Chinese medicine in the form of direct investment, R & D and	12	5.17	

	construction funds through the allocation of special funds			
Talent education and training	Establish and improve the training system of Chinese medicine talents, explore the establishment of a suitable talent training model, and train qualified Chinese medicine talents	33	14.22	
Public health service	Carry out scientific research and information support for preventive health care and rehabilitation services of Chinese medicine	20	8.62	
Scientific research, information support	Strengthen hospital informatization construction, improve information system, build scientific research platform, carry out traditional Chinese medicine scientific research projects, etc.	22	9.48	
Type of Demand				
Industry shaping	Promote the integration of traditional Chinese medicine with pension, tourism and other industries, and actively promote the development of supporting industries related to traditional Chinese medicine health services	11	4.74	26.31
Pilot /	Carry out pilot / demonstration	5	2.16	

demonstration project	projects with Chinese medicine characteristics, sum up the pilot work experience in a timely manner			
Financial aid	The government provides financial policy support and condition guarantees to include the development of traditional Chinese medicine in the fiscal budget	6	2.59	
Overseas Promotion	Expand foreign trade investment in Chinese medicine, promote the export of Chinese medicine technology, medicines, standards and services, and promote the widespread acceptance of Chinese medicine by the international community	16	6.90	
Organization Collaboration	All regions and relevant departments coordinate and coordinate to jointly promote the development of the Chinese medicine cause.	17	7.33	
Drug regulation	Adjust the variety and quantity of Chinese medicine in the National Essential Medicines List	6	2.59	
Environmental				
Goal Planning	Quality Evaluation Total Based on the current status and expectations	15	6.47	31.04

	of public information resources, overall planning and description of the goals to be achieved			
Regulation and control	Quality Evaluation Total Based on the current status and expectations of public information resources, overall planning and description of the goals to be achieved	26	11.21	
policy promotion	Organize Chinese medicine popularization activities to strengthen the promotion of Chinese medicine culture	19	8.19	
financial support	Finance and industrial capital jointly raise funds to establish a Chinese medicine health industry fund, broaden the financing channels for the development of the Chinese medicine industry, and encourage social capital to enter	1	0.43	
medical insurance support	Incorporate eligible Chinese medicine diagnosis and treatment items, Chinese medicine varieties, and Chinese medicines in medical institutions into the scope of reimbursement.	8	3.45	
Quality Evaluation	Evaluate the service quality of Chinese medicine medical institutions and the clinical efficacy	3	1.29	

	of Chinese medicine.			
		232	1.00	

Table 2 :The main content and distribution of Chinese medicine policy tools

Source:*Research on Chinese Medicine Policy Based on Policy Tools* By Song Xiaoqing

The 28 policy included in the analysis are sorted by clause number. According to statistics, most supply-type policy instruments (42.66%), followed by environmental-type policy instruments (31.04%), and the least demand-type policy instruments (26.31%).

There were 33 occurrences (14.22%), followed by the application of "scientific research and informatization support", up to 22 times (9.48%). "Public health service" refers to the government providing basic Chinese medicine health services to community residents, such as Chinese medicine preventive health care, healthy old-age care, etc., accounting for 8.62% of the total. Compulsory policy tools such as "planning" dominate, with "regulations and regulations" appearing the most (11.21%). "Policy promotion" is also used more often, reaching 19 times (8.19%). "Financial Support", "Medical Insurance Support" and "Quality Evaluation" are used once, 8 times and 3 times, respectively, accounting for 0.43%, 3.45% and 1.29% respectively. The proportion of policy tools is huge difference.

## 11 The Effect of China Economy to TRT

From the analysis of the changing laws of sustainable growth of TCM companies, The results show that from the year 2006 to 2014, the sustainable growth ability of TCM company fluctuated to a certain extent, but no significant

improvement has been achieved. The law basically coincides with China's macroeconomic trends. This shows that the growth of China's TCM company is still dominated by extensive scale expansion, and the company's inherent capacity for sustainable growth has not effectively increased. The development of the TCM industry is closely related to the overall national economic growth and health policies. When the economy develops well and the national health policy is conducive to medical expenditures, the entire pharmaceutical industry will face a loose operating environment, and both company and industries have Rapid growth, and vice versa. In the past 10 years, China's macro economy has undergone a transition from high growth to a new normal. In the various policies of the government's health care system reform, there have also been a lot of curbing drug expenditures and reducing medical expenses.

**Challenge:** According to the annual report that TRT has released in the year 2019 . The company's operating income was 13.277 billion yuan, a year-on-year decrease of 6.56%, and its total net profit was 985 million yuan, a year-on-year decrease of 13.12%. In the past 13 years ,This is the first time that TRT's revenue and net profit have both declined.

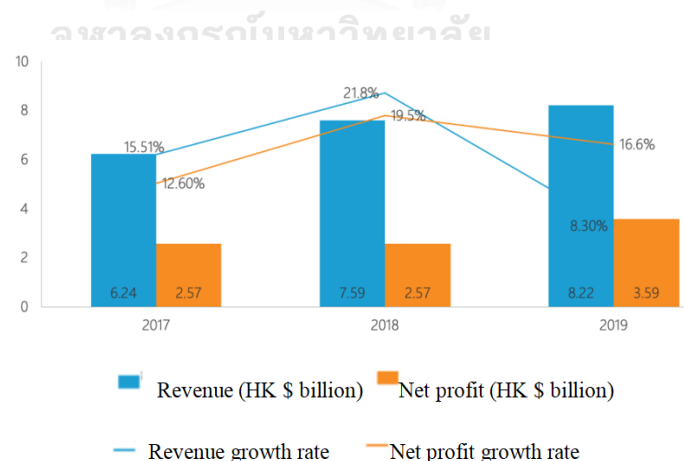


Figure 15 2017-2019 TRT's TCM revenue and net profit growth

Source: TRT annual report

However, in the past three years, TRT has already experienced a slowdown in revenue growth. In 2017, 2018, and 2019, TRT's revenue was 13.376 billion yuan, 14.209 billion yuan, and 13.277 billion yuan, while the three-year revenue growth rate was 10.63%, 6.23%, and -6.56%, respectively.

The slowdown in revenue growth shows that companies are facing a certain bottleneck period and the growth momentum is weak.

The speed of TRT's business expansion has slowed down. As of the end of 2019, TRT's business has set up 852 retail stores, an increase of 46 that year, and the closure of 2 stores. Despite the increasing number of stores, the performance of the company's pharmaceutical business segment has declined.

Under the influence of the Coronavirus-19, stores represent costs. Investors are more pessimistic about the performance of TRT's business sector in 2020.

However, TCM has highlighted the great clinical value in this coronavirus-19 pneumonia epidemic. China is constantly updating its solutions for TCM, and Angong Niu Huang Wan has been included in the diagnosis and treatment plan. TRT also set up a "Global coronavirus-19 Pneumonia Prevention and Treatment Expert Group" to integrate high-quality resources of TCM and Chinese medicine, and play terminals in 20 countries around the world. The advantages of home and regions, masters of TCM and experts of TCM from all over the world have issued the "one country, one policy", TCM epidemic prevention plan for overseas countries, and jointly contributed wisdom and strength to the construction of a community of human destiny

### **11.1 The impact of monetary policy to TRT**

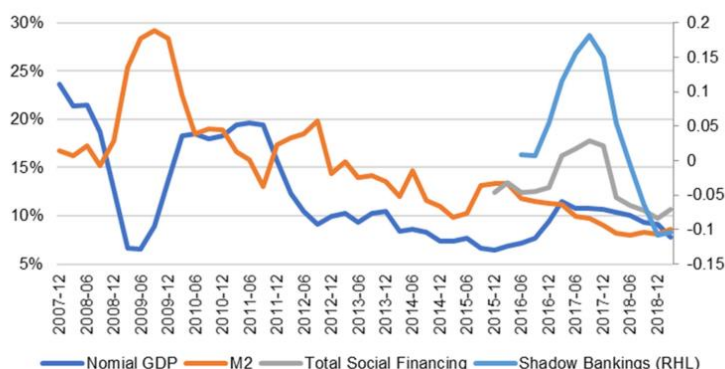


Figure 16 China's GDP vs Monetary Supply: M2, Total Social Financing and Shadow Banking: Q4, 2007-Q1, 2019 (Unit: Growth Rate).

Source: Wind.

In 2019, the central bank continued to implement a stable monetary policy, the market liquidity remained reasonably ample, and the market interest rate level declined; the growth rates of M1 and M2 remained relatively stable; the scale of social financing continued to maintain rapid growth; the RMB exchange rate continued to fall. In the third quarter, a major breakthrough was made in the market-oriented reform of loan interest rates. The new version of the loan market quoted rate (LPR) formation mechanism began to be implemented. At the same time, relevant policies were introduced to support the financing of SMEs and further improve the quality and efficiency of the financial services real economy.

Research suggests that monetary transmission is associated with the performance of the real economy, for example, Liu (2019) found that the macro economic situation has significantly positive effects on loan interest rate, the higher the macroeconomic conditions index indicates that economic activities more heat, which means that the demand for corporate loans increased, thus produce more pressure to appreciate the loan interest rate ,the logic behind this is that when China's economy faces downward pressure, corporate lending will lower (Bahmani - Oskooee, Xi and Wang, 2012)

The total assets of TRT increased from 14.43986.92 million yuan in 2015 to



202.649.516 million yuan in 2018. The increasing assets indicate that the scale of production and operation of the company has continued to expand. The company has expanded and reproduced in the past 4 years and entered a booming development period. Combining the TRT report, it can be concluded that the increasing fixed assets and projects under construction are in order to meet the needs of company expansion and redevelopment. Most of the current liabilities come from bank financing, that is, the short-term debt due within 1 year is The company's main financing means, combined with TRT as a whole.

Judging from the operating situation, since the current assets of the company are much larger than the current liabilities of the company, the company has no pressure on debt repayment. TRT's profits are mainly recurring operating profits, which accounted for more than 90% of total profits from 2015 to 2018. In 2016, the company signed a short-term loan with a value of 28 million yuan for the expansion and redevelopment of the company. The sales net interest rate of TRT showed an upward trend. From 2015 to 2018, the growth rate of the main business income of TRT showed a "U" shaped annual growth, indicating that this 3 years is a period of rapid development of the company and is slowly transitioning to Mature period. (Wenjing yan, 2019, P2)

The government's interest rate cut policy will help Tongrentang to reduce loan interest, thereby increasing the company's profit margin. At the same time, due to the impact of the China-US trade war, tariffs on materials exported to the United States will increase, which will increase the price of raw materials, and the price of products in the US branch will increase, may affect sales performance of oversea.

## 11.2 The effect of Government policy to TRT

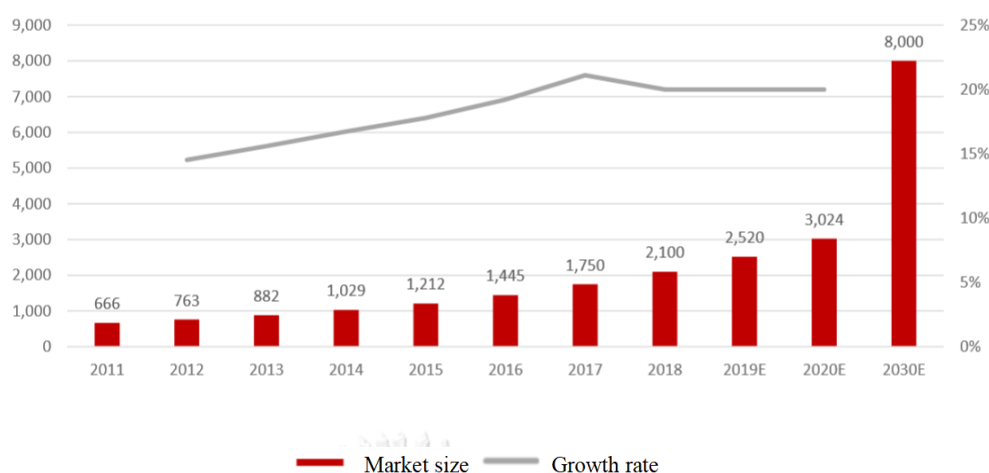


Figure 17: Market size and growth rate (One billion yuan) of TCM health industry  
Source: Qianjing Industry Research Institute

The development of the “One Belt One Road” policy in TCM is entering a new era. At present, TCM has spread to 183 countries and regions. 17 overseas TCM centers have been established in participating countries and regions of the “One Belt One Road”. These cooperation centers are the windows for the promotion and cooperation of TCM knowledge, technology, and all play an irreplaceable regional radiation role in their respective key areas. In addition, 12 Confucius Institutes featuring TCM have been established in 8 countries including the United Kingdom, Hungary, the United States, Australia, and Thailand. The Chinese government has signed 86 special cooperation agreements on TCM with foreign governments and international organizations. Hundreds of TCM schools have been established in more than 30 countries and region. The Market size and growth rate of TCM health industry is booming.

Meanwhile, the imported medicinal materials are an important part of China's medicinal countries along the “One Belt One Road”. In order to encourage the import of medicinal materials, the "Measures" abolished the "border ports that allow medicinal materials to be imported and can only import medicinal materials produced

in countries or regions around the port", and implemented the "One Belt One Road" initiative, reflecting the spirit of "interconnection".

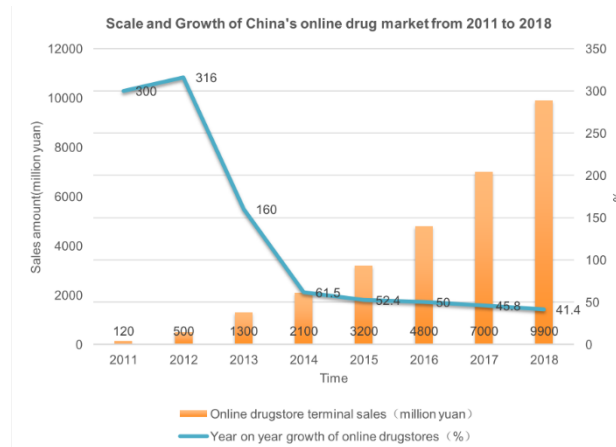


Figure 18 Scale and Growth of China's online drug market from 2011 to 2018

Source: GJEBA

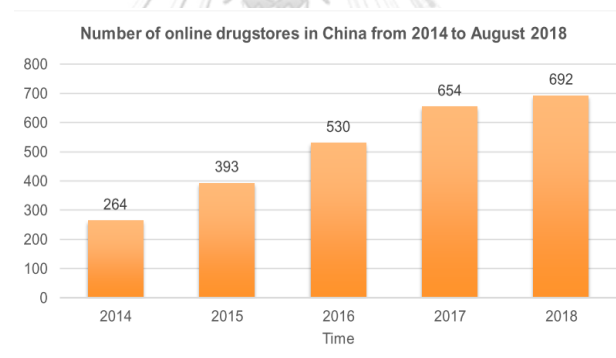


Figure 19 Number of online drugstores in China from 2014 to August 2018

Source: GJEBA

Besides, Tongrentang is one of the Registered Capital of Top 10 Online Drug stores, the online drug have great development potential. China's online drug retail market has experienced a process from small to large in recent years. From the perspective of market size, China's online drug retail market reached 100 million yuan for the first time in 2011, and increased 5 times in 2012. By the end of 2017, China's online drug retail market had reached 5.9 billion yuan (see Figure 18), and still maintained a rapid growth rate. In terms of the number of online drugstores, up to

August 2018, there were 692 online drugstores in China, with an average annual growth rate of 30% (*Chen, Beier,2020,P6*)

However, the risk is that,there are the problems of the quality and safety of drugs.By July 2016, the State Food and Drug Administration ended the pilot of the third-party platform for Internet drug trading, and withdrew the pilot of three platforms.And In January 2017, the State Council issued a document to cancel the review of the medical e-commerce B and C certificates. This can be said to be a signal of active openness in the industry. Medical e-commerce is ushering in a period of "wide entry and strict exit, record supervision".

In addition,because the "Coronavirus-19 Infection Pneumonia Diagnosis and Treatment Program" published by the state included TRT's products, namely Su Hexiang Pills and Zi Xue San in the treatment plan, which increased the order volume of TRT, plus An Gong Niu Huang Wan, 3 kinds of products produced by TRT Drugs are all national key epidemic prevention drugs. TRT has produced more than 200,000 boxes of Banlangen granules, and anti-epidemic drugs recommended by the country including Huoxiangzhengqi water, Fangfengtongshengwan are also intensifying production.

In terms of research on drug use in epidemic situations, TRT selected some products from Chinese patent medicines to carry out clinical application research on prevention and treatment of new coronary pneumonia. According to the company's website information, the project has passed the preliminary review by relevant departments.

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## 12 Social-Cultural Environment

### 12.1 Population

There are Potential market opportunities in the health sector. The number of people in the world is increasing, except for a small number of regions, the problem of food and clothing and nutrition is generally solved; the aging of the population is deepening, and human self-care awareness is gradually increasing, and large health products are expected to become the most promising sunrise industry. After 1960s, with the decline of fertility and death rate, population begun to age. Between the third and fourth censuses, aging population increased by 30.2 million with annual growth rate of 2.85 per cent, which resulted higher than the growth rate of the population. In 2000, the fifth nationwide census showed that aging population was 88.21 million (7% of the population), while in 2010 was 118.94 (8.9% of the population). The seventh nationwide census will be conducted in 2020, however it worth noting that according to Bureau of Statistics the population aged above 65 reached 150.03 million (10.80% of the total population) in 2016. (Yang, Dan, 2018, P13), and by demographic factors related to an aging population. (Deloitte, 2016; p. 5) Indeed, the increase in health expenditure of Chinese citizens can be related to specific and long-term healthcare assistance required by an aging population, which in turns impacts the overall healthcare demand (Deloitte, 2016; p. 5). There are 7.5 billion people, and the aging problem of the Chinese population has become more serious since 2010.

People have gradually attached importance to the concept of health and wellness. It is estimated that the total scale of China's health industry will exceed 8 trillion yuan by 2020, which is a huge market; it also brings rare opportunities for pharmaceutical companies to develop a large health industry.

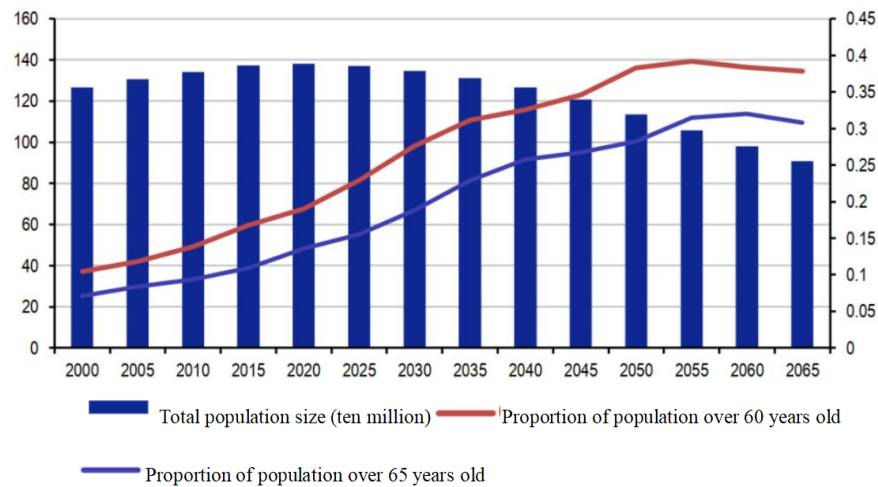


Figure 20 The proportion of the elderly population over 60 years old in China is close to 40% around 2055

Source: *Statistical Research on China's Population Aging and Industrial Structure Adjustment*, Anxin Securities Research Center.

According to the latest data of the National Bureau of Statistics in 2014, the proportion of elderly people over the age of 60 years old in China has reached 15.50%, and the proportion of elderly people over 65 years old has reached 10.10%. China is already in an aging society. In addition, according to forecasts, the size of China's elderly population will increase from the current 200 million to more than 400 million in 2050, and will remain at around 400 million for a long time, accounting for about 1/3 of the total population.

## 12.2 Social Culture

From a demographic point of view, the increase in consumption Drugs are also involved in the evolution of typical needs. The proportion of health care consumers in China. High life expectancy, coupled with environmental and pollution problems, is increasing chronic diseases such as respiratory diseases, cancer, diabetes and obesity

(*Jan-willem, 2011*). New lifestyles are believed to be responsible for these diseases (sometimes referred to as "lifestyle diseases"), and the use of lifestyle drugs is growing rapidly. OTC consumption is also on the rise as a result of the new attitude to self-medication. According to some survey reports (*Yuan Jia, 2007, pp. 297-298*), self-medication has become increasingly popular among Chinese people (*Deloitte, 2011, p.15*). The market is expected to grow in the future as OTC medicines are available only to patients without a medical prescription.

The impact of increased disease types is also included. As time goes on, the ecological environment is destroyed, and the number and types of diseases are increasing, which caused a panic among people and seriously threatened the health of the people. Medicine is the most effective weapon against diseases. The outbreak and prevalence of diseases have stimulated the rapid development of medical economy to a certain extent.

And the culture aspect, due to the long history of TRT, TRT is seen to be a meaningful express of the former imperial polity, by taking Confucian and Taoism as carriers. That is, TRT still provides the bedrock of China's ancient and incomparable Civilisation. (*Balmer, 2016, P20*) It emphasizes the "integration of man and nature" and "overall balance", promotes the harmonious unification of man and nature, and emphasizes the mutual influence and circulation constraints of the human body's own organs and meridians. Its development is unified with the development of the traditional Chinese philosophy system. The initial location of the flagship of TRT in the year of 1669, is located in DA ZHA LAN Street. Now is becoming a place of interest which represents the ancient Chinese civilization.

The development of Western medicine is based on the ancient Greek element theory and atom theory. It believes that the human body is composed of molecules and atoms. With the theoretical basis of anatomy and cytology, it emphasizes the quantitative and precise way to analyze human physiology and pathology. Phenomenon, this precise conceptualization of pathology is very different

from the abstraction of meridians in TCM.

### 12.3 The effect of social-culture to TRT

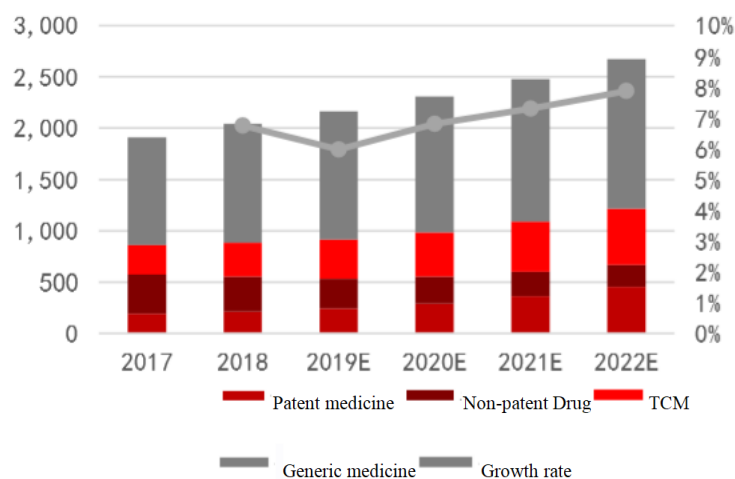


Figure 21 Revenue scale of various drugs in the Chinese drug market (billion yuan)

Source: ICEC

The opportunity of the big health industry not only means huge market space, but also means a profound market transformation. The needs of consumers who are dominated by the new generation of middle class have made a huge difference from the previous generation. Not only have they begun to pursue a higher quality of life, they also have a more discerning vision for the product. The brand-new characteristics of their cognition, consumption and usage habits pose a huge challenge to product design, marketing methods and sales channels. Not only health care products, with the improvement of living standards and changes in consumer concepts, skin care and beauty products have increasingly become a necessity in life, and women's demand for skin care products has become increasingly demanding from brand to function. The beauty of Chinese herbal medicine is unique. It is not simply makeup or skin care. It emphasizes overall beauty, that is, it promotes the normal development and



metabolism of the entire body and body surface, and prevents aging. With deep historical accumulation and good curative effect to solve the market dilemma. Solve the functional needs of female groups for skin care and beauty, and open the market.

While this presents a huge market opportunity for TRT Health, it also raises a series of unprecedented problems, including how to transition its image from a TCM company image to a modern and innovative health product company image, and how to sell traditional health products to Promote the transition of large health products, how to transition from the middle-aged and old customer groups to the young customer group, how to transition from the traditional very successful store-in-store model to the modern omni-channel sales model and so on.

For TRT Health, if the transformation is not promoted, in the foreseeable future, with the gradual diminution of young consumers' awareness of Chinese medicine, the TRT brand is likely to gradually fade out of the mainstream consumer's vision, and the traditional health care product market has crossed the peak. After that, the attractiveness to the market will also decrease, and the company's core main business will begin to shrink; and the further squeeze of offline channels by online channels will further limit the scale of expansion of enterprises. Both image and long-term development will be severely restricted, and it will also have a profound and adverse impact on TRT, a brand with more than 300 years of history, and this process is likely to occur in the next 5-10 years. Therefore, TRT Health must promote transformation. This is the real reason why TRT Health began to clearly target the transition to a large health industry in 2011.

The introduction of the eight central regulations at the end of 2012 not only had a profound impact on the entire traditional health care product market, but also finally gave TRT Health a clear transformation signal. Therefore, since 2013, TRT, who strictly adheres to the "two must not dare" ancestral training of TRT, has truly started a comprehensive strategic transformation centered on services. The company is already promoting the transformation through multiple projects such as retail 4.0 and

smart manufacturing 4.0, and plans to build an ecological hospital to let more and more people know what the future TRT health will look like. , Brand consulting and other different types of professional institutions to inject capabilities, and also through various forms of training seminars, We Chat public platforms, and even We Chat groups to fully promote the organization's information exchange and learning

## 13 Technology

### 13.1 Current situation of technology

In recent years, with the rapid development of high and new technology in the world, the information industry has sprung up, which brings new challenges and development opportunities to the cause of TCM.

#### Technology list:

1.Technology in the field of development of TCM.
2.Mechanization.
3.The big data technology.
4.Logistic technology

#### Detail:

##### 13.1.1 Technology in the field of development of TCM.

In the field of TCM, molecular biology, gene detection technology, immunology, genetics and other new technologies and methods are used to study TCM. However, the innovation foundation of new TCM is weak, the prevention and treatment of diseases relies too much on the accumulation of clinical experience, the industrialization mechanism of pharmaceutical technology innovation has not been fully formed, the investment in pharmaceutical technology is insufficient, the product update is slow, and the repetition is serious, so it is necessary to further improve the

clinical efficacy and establish a scientific and standardized clinical efficacy evaluation system

### **13.1.2 Mechanization.**

In terms of mechanization, the company has carried out research and development and promotion of honey pill automatic dip wax machine, buckle shell machine, gold stamp pad printing technology, cellophane automatic packaging machine and other projects. The production process of Mi Dai Maru and Xiao Maru are all mechanized. The level of process manufacturing is at the leading level in the same industry.

### **13.1.3 The big data technology.**

The advent of the Internet and the era of big data is quietly changing the traditional e-commerce model. When consumers experience physical discomfort, most people search the Internet for relevant information and get treatment suggestions. People have become very dependent on the Internet. The deep integration of the Internet, big data and the pharmaceutical industry will become the key to the future development of pharmaceutical e-commerce.

In the future, not only can informationization and big data be used to realize online video consultations, to achieve the purpose of online medical treatment, but also to store a large amount of data such as medical treatment, drug purchase information and patient health information through mobile clients. The characteristics and needs of drug purchase in order to provide targeted pharmaceutical services.

### **13.1.4 Logistic technology**

In "Industry 4.0", a very important link is "artificial intelligence". As a large manufacturing country and an e-commerce country, China's warehousing and logistics market is very huge, the modern warehousing logistics technology is becoming an Prerequisites.

### 13.2 The Effect of technology to TRT

TRT have been played a very important role in protecting and promoting human being's health, improving the quality of life, population control, disaster relief, epidemic preparedness, military preparedness, and the improvement of economic development and social harmony .The technology innovation platform based on TRT Research Institute and TRT TCM Hospital, including more than 1,500 retail terminals and more than 130 medical outlets and a national engineering center and post-doctoral research station.

And In the past 20 years, TRT has developed and diversified new products. TRT has developed 679 new products, including 176 medicines, 92 health foods, 288 foods, and 123 cosmetics. The last three of them account for 74.07% of newly developed products. For example, after 14 years of research and development, TRT has overcome the difficulty of using TCM to treat depression named "Morinda Oligosaccharide Capsule".

In addition to the research and development of new medicines, the TRT Research Institute is also responsible for the secondary development of old medicines, research on the pharmacological system of TCM, alternative research on scarce medicine resources, and research on pharmaceutical standards.

During the "Eleventh Five-Year Plan" period, new products were developed and listed a total of 194 species ,which provide strong support for TRT's sustained and healthy development.

In 2019, TRT invested 241 million yuan in research and development, of which the amount of research and development expenses was 110 million yuan, an increase of 20% year-on-year, but it also only accounted for 1.82% of the operating income of the year. Too low an investment in R & D and too few high-end talents will inevitably cause an company to rely on the resources it once used, which will eventually exhaust its growth momentum. In the future, simply relying on brands,

channels, and marketing cannot achieve a long-standing enterprise, and continuous breakthroughs in core technologies and innovations in business models can give TRT a new life.

In addition, TRT cooperated with Yiheng Health Technology, with the help of Yiheng's "service system", to achieve a significant leap in product sales and brand reputation, a new automated warehouse logistics system to solve the "goods to people" picking system, automation Handling systems, parcel sorting systems, unmanned forklifts, etc., fully cover all aspects of logistics, warehousing and manufacturing. Through the integration of robot technology, high automation can be achieved, even unmanned warehouses and factories.

On August 1, 2017, the new logistics distribution center of TRT Technology Co., Ltd. was officially opened. The three-dimensional warehouse is mainly high-storage storage. All medicines can be automatically transported after entering the shuttle storage area through the code wheel. . The logistics storage center has a storage capacity of 1.13 million pieces, an average daily storage of 60,000 pieces of medicines, and an average storage capacity of 24.5 pieces per plate. When the logistics distribution center was moved from the old warehouse in Liujiayao to Daxing, make the logistics storage capacity was increased from 300,000 to 1.31 million. At the beginning of the relocation, 13,000 medicines were shipped out every day, and the current delivery efficiency was increased to 35,000 goods, which doubled growth of. The increase in inbound volume and outbound efficiency fully ensure the overall operation quality of the new logistics distribution center.

The fully automated operation equipment and the three-step inspection and acceptance of the storage quality control, technology has improved the logistics warehousing and distribution capabilities, and the acceptance method has ensured the quality of the goods, fully reflects the advanced concept of TRT's technology-oriented and strict quality control.

## 14 Environment

### 14.1 Current situation of Environmental

There are many Chinese medicinal materials resources in China. China is a country rich in Chinese medicinal resources. The specific climatic conditions are suitable for the growth and reproduction of a variety of medicinal animals and plants, and they are of good quality; complex physical conditions, rich underground mineral deposits and many mineral medicines. According to the statistics of the TCM resources survey, there are 12,807 kinds of medicinal animal mineral resources in the country, with a total reserves of 7,500 tons, including 11,146 kinds of botanical medicines, belonging to 385 families and 2,312 genera; 1,581 kinds of animal medicines and 80 kinds of mineral medicines. Among them, 320 kinds of commonly used plant medicinal materials have a total reserves of about 8.5 million tons. Such a rich treasure trove of Chinese medicinal materials has laid a solid foundation for the rise of China's Chinese medicinal materials industry.

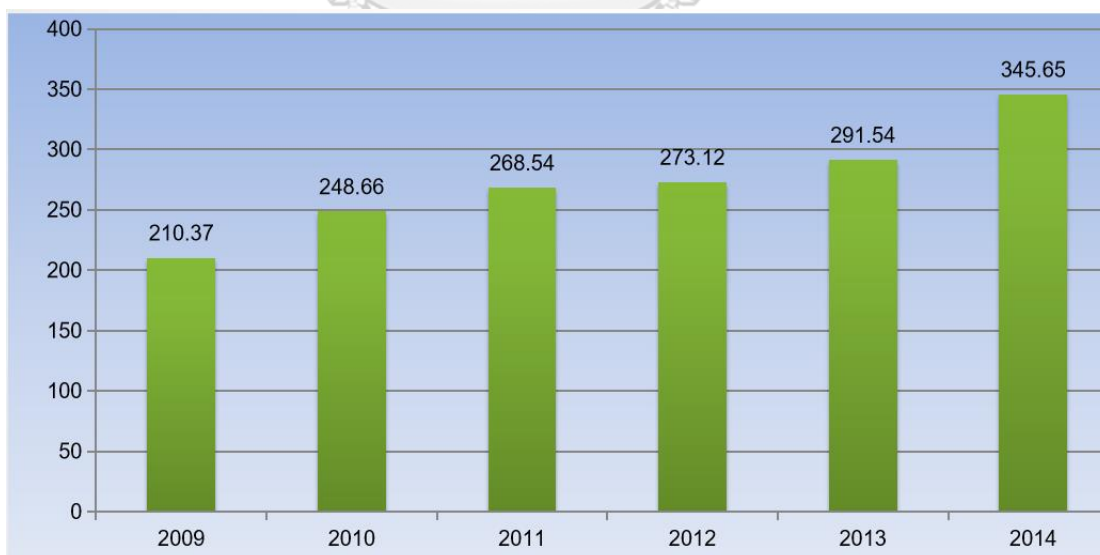


Figure 22 Analysis of Chinese Traditional Medicine Production in 2009-2014 (Unit: 10,000 tons)

Source: Chinese herbal medicines website

Until 2019, there are currently 65 Chinese herbal medicine planting bases in China, covering 46 varieties and covering an area of 35,000 mu. The bases that have obtained GMP licenses: 14 bases for decoction pieces, 5 bases for TCM granule preparation, 9 bases for TCM extraction, and 9 bases for TCM production. In 2019, it is planned to continue to establish 6 decoction pieces bases (increased production capacity of 11,500 tons), 8 TCM granule preparation bases (increased production capacity of 4,000 tons), and 6 TCM extraction bases (increased production capacity of 7,900 tons)

**Environment protection:**

With the continuous improvement of environmental protection requirements, the government has imposed requirements on production suspension and production limitation on heavily polluted weather.

**14.2 The environment effect to TRT**

14.2.1 Although TRT has been continued to flourish for 349 years, TRT is now facing a new and changing external environment. From the perspective of raw materials, raw materials have entered a new round of price increase cycles. In the case of increased costs, it is a new challenge to ensure both quality and profit and reasonable prices. In order to ensure the quality of raw materials, the company has established a planting base to ensure a self-controlled quality system. At the same time, establish a stable supply channel, which is also an important measure to ensure the supply of the raw materials.

14.2.2 TRT's core product varieties involve endangered medicinal materials and are not included in the medical insurance catalog, resulting in a lack of sales advantage in the medical market.

In the future, Tongrentang will achieve self-sufficiency of at least 120 varieties,

accounting for 70-80% of the required resources. On the premise of sufficient front-end resource layout, it is expected that the scale of Tongrentang's TCM granules will reach 20 billion yuan in 2022.

Tongrentang deployed ahead of schedule, rationally scheduled production, strictly abided by the relevant laws and regulations of the country and Beijing, and further improved the transformation of environmental protection equipment and facilities such as VOCs (volatile organic compounds) treatment devices, sewage stations, and coordinated with the success of major events in Beijing Complete air quality assurance.

### **15 External factor evaluation matrix (EFE)**

External factor evaluation matrix analysis, which is based on the analysis of the external environment of Tongrentang, preliminary identification of opportunities and threats and establishment of external factors. The evaluation matrix (EFE) evaluates the external environment faced by Tongrentang and identifies opportunities and threats that affect Tongrentang's future development. According to the importance of external factors, each factor is given a weight, with a weight range of 0.0-1.0. The weight indicates the importance of this factor to help Tongrentang succeed in its operation. Evaluate the response of Tongrentang to the identified external factors, the score range is 1-4, which means that: 1 means poor response, 2 means average response, 3 means response exceeds average, 4 means good response, total average weighted 2.5 points. The weight setting and the results of scoring key external factors are comprehensively obtained based on 10 senior managers of Tongrentang who accepted the interview by social media, due to the situation of coronavirus-19 that unable to do the field visit.



	No	Key internal factors	Weighted	score	Weighted
	.		d		score
Oppor tunitie s	1	The drug circulation industry maintained a medium-high rate of growth	0.15	4	0.6
	2	The government has carry out a series of policies to support the development of traditional Chinese medicine company culture	0.15	4	0.6
	3	The government has improved its development plan for the TCM industry	0.1	3	0.3
	4	Public health awareness is growing	0.1	4	0.4
	5	The rapid development of aging society	0.03	3	0.09
	6	More diseases	0.02	3	0.06
	7	The constant development of new technologies	0.05	3	0.15
	8	Potential competitors are not strong enough to enter	0.05	3	0.15
Threat	9	The country's overall economic growth is slowing	0.1	2	0.2
	10	Market competition is fierce, product homogeneity is serious	0.1	2	0.2
	11	Suppliers have strong bargaining power	0.1	2	0.2
	12	The rapid development of western medicine nutrition and health care	0.05	2	0.1

	products			
	Grand total			3.05

Table 3 EFE evaluation matrix of TRT

Source: Authors' own elaboration and interview.

From the EFE evaluation matrix of Tongrentang above, the total weighted score of the company is 3.05 points. According to the set scoring standard, Tongrentang's EFE evaluation matrix score of 3.05 points is higher than the average level of 2.5 points. The external environment faced by Tongrentang is conducive to its development. The suggestion is that, Tongrentang can use appropriate methods to avoid unfavorable threats and seize the opportunity to improve the company's development.



## 16 Conclusion

<p><b>Strengths:</b>  <i>A century-old brand;</i>  <i>National Traditional Culture Representative;</i>  <i>rich variety resources;</i>  <i>The government's monetary easing policy is conducive to reducing interest.</i></p>	<p><b>Weaknesses:</b>  <i>Facing industrial structure adjustment;</i>  <i>Young people's consumption preferences change;</i>  <i>household consumption is trend to decreasing;</i>  <i>Product homogeneity is at a disadvantage, mainly concentrated in the elderly.</i>  <i>Product modernization.</i></p>
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<p><b>Opportunities</b></p> <p><i>The pharmaceutical distribution industry maintains medium and high speed Growth;</i></p> <p><i>The government issued a series of policy to support the development of Chinese medicine, in order to improve the development of Chinese medicine industry planning;</i></p> <p><i>Public health awareness continues to increase;</i></p> <p><i>Loosened restriction by Overseas Markets ;</i></p> <p><i>Aging;</i></p> <p><i>More diseases;</i></p> <p><i>Automated high-tech logistics;</i></p> <p><i>The explosive development of the Internet and big data.</i></p>	<p><b>Threats</b></p> <p><i>The country's overall economic growth is slowing;</i></p> <p><i>R &amp; D capabilities are less than R &amp; D of Western medicine;</i></p> <p><i>Cultural Differences in the oversea market.</i></p>
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Table 4: SWOT analysis of the external environment of TRT

Source: Authors' own elaboration

Through comprehensive analysis of the external environment of TRT, the establishment of SWOT external environment of TRT and the main opportunities and threats that affect Company's future development are identified. Overall, The external environment that the TRT are facing is good for the development and competition.

## 17 Strategy Recommendation

Although TRT Company is facing more opportunities than threats, more advantages than disadvantages, to further consolidate its dominant position in the Chinese medicine industry, it is necessary to skillfully overcome disadvantages, evade threats, and better grasp opportunities and seize opportunities. And make good use of advantages, develop new products in more fields, continuously expand market share, and enhance TRT's core competitiveness

## 17.1 Research on the strategic choice of Beijing TRT

### 17.1.1 An analysis of Porter's three competitive strategies

(1) Cost strategy: The national pricing and general drug varieties listed in the list of essential drugs. 2. Differentiation strategy: the high-end varieties highlight the brand advantages, use the unique court formula to develop new varieties to achieve product differentiation. 3. Focus strategy: Aiming at the customers who identify with TCM culture and TRT brand, positioning and developing the applicable varieties. Therefore, we can conclude that TRT's competitive strategy includes two aspects: cultural strategy and product strategy. (*Zhang Jingyun, 2016, P94-95*)

### 17.2 Cultural Strategy: using culture to move towards the international stage

Unique corporate culture helps to establish an excellent corporate image. In China, Beijing TRT has a long history. TRT are strict in pharmaceutical industry, and their meticulous spirit has become the benchmark of pharmaceutical industry. Its reputation is excellent, and it is loved by Chinese people. These are the unique advantages of TRT brand. In the world, TCM has its own complete system, rich literature and materials: TCM has a history of more than 5000 years in China, from the "Huangdi Neijing" to "Shennong bencaojing" generation of medical literature, from the sage of Medicine Zhang Zhongjing to the king of medicine Li Shizhen, the accumulation of TCM culture is profound, which is the biggest advantage of the development of TCM in China. The theory of TCM is characterized by "holistic concept, dialectical treatment", and the use of TCM to regulate the balance of human health. And TRT's unique TCM culture and international publicity will enable the corporate image to gain more recognition and comparative advantage. Through the promotion of TCM culture to the international market, people around the world can understand TCM culture, and then understand TRT culture, and further expand to the cognition of TRT brand and products, and finally realize the market segmentation of positioning and serving the customers who identify with TCM culture. (*Xia*

*Yuefang,2018,P102-103)*

### 17.3 Product strategy - prescription drugs and over-the-counter drugs

#### 17.3.1 Over-the-counter drugs

The advantages of over-the-counter drug products are as follows: 1) there is a large population and market prospect. 80% of the low-end population in China is in the countryside, and the per capita drug consumption level is only equal to that of the urban residents<sup>1/3</sup>. The rural market is more sensitive to price, which is the largest OTC market with the most value-added potential in the world. Under the acceleration of population aging, and the change of disease spectrum and life style, and the enhancement of self-care awareness, high-end one directly stimulates the continuous expansion of domestic and foreign pharmaceutical market demand. 2) Most of the varieties are mature old drugs, which is easy to achieve large-scale. 3) The variety is stable so that the channel is stable, the customer group is stable, and the marketing cost is low. 4) Sales revenue is fast, capital cost is saved, and business turnover is accelerated.

#### 17.3.2 Development of prescription drug product portfolio

At present, according to the types of diseases, TRT's products can be divided into the following systems: cardiovascular and cerebrovascular series, rheumatic series, gynecology series, pediatrics series, exorcism series, tonic series, seasonal diseases series, chronic diseases series, etc. These systems have a wide scope of applications, basically covering most of the consumer groups, and each series has a household word-of-mouth products. Cardio cerebral vascular series, gynecology series, Pediatrics series, exorcism series, tonic series, seasonal disease series, chronic disease series. The functions of TRT's above series products are mainly aimed at the current common diseases and frequently occurring diseases. They not only play the role of treatment, but also play the role of prevention, health care and rehabilitation, that is to say, they adapt to the current disease spectrum and medical model, so these drugs will meet the

needs of most patients. With the gradual popularization of medical knowledge of consumers, there will be a broad market prospect

At the same time, TRT has many valuable court prescriptions and secret recipes. TRT Tang should also develop new products of TCM adjuvant therapy based on market demand and its own advantages, such as Qingnaoxuanqiao dropping pill for acute cerebral ischemia and Morinda oligosaccharide capsule for depression.

Based on the market segmentation of different product lines, TRT should choose the target market with development potential, market demand has not been met, and it is consistent with the company's advantages. This includes not only the reinterpretation of the known products, but also the promotion of the newly developed series of products. For example: Tongren Wuji Baifeng pill is the first good medicine to treat gynecological diseases and enjoys a high reputation at home and abroad.

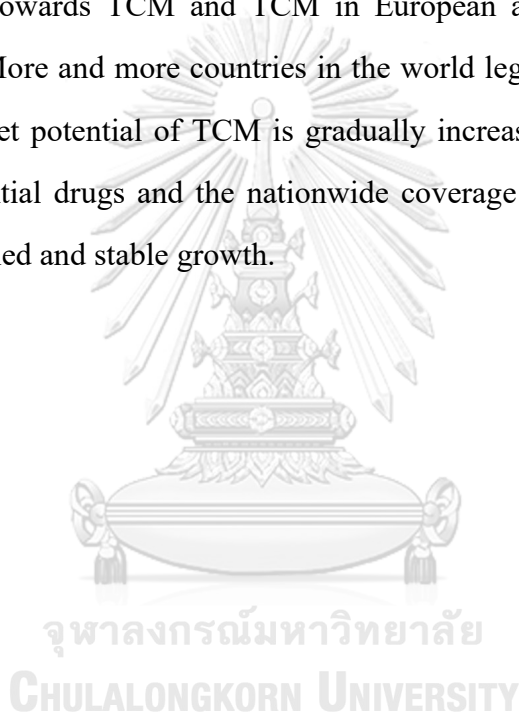
In recent years, Beijing TRT has carried out in-depth pharmacological and pharmacodynamic research on Wuji Baifeng pill by using modern medical and pharmaceutical high-tech means. The research results make Wuji Baifeng pill in clinical practice. It has been used as a good medicine to assist the treatment of liver diseases such as cirrhosis, and has become a model of "old medicine new use". At the same time, the sales scale of Wuji Baifeng pill increased significantly, which also led to the sales of Kunbao pill, rhubarb Zhechong Pill and Ankun Zanyu pill, which increased consumers' trust in TRT's ancestral classic prescription. (Yu Ji'an, 2015)

#### 17.4 Develop prescription drugs in cooperation with hospitals

Although TRT has many prescriptions, and the drug administration has approved hundreds of varieties of products, there are too many changes in modern people's diseases and clinical medication characteristics compared with ten years ago. At the same time, in order to share the benefit cake brought by the popularization of basic medical insurance system, company should actively cooperate with TCM colleges and universities as well as TCM departments of TCM hospitals or general hospitals to develop effective drugs for the latest epidemic diseases. It should be one of the

important transformation measures of TRT's product strategy to make the new varieties developed quickly accepted by the market through the personal experience of patients and the recognition of doctors.

In the long run, the development of chemicals is expensive, long cycle, toxic and side effects, so people pay attention to the natural animal and plant as the main component of TCM. The development cycle of new TCM is short and the cost is low. The recognition and acceptance of TCM in the world are constantly improving. The cautious attitude towards TCM and TCM in European and American countries is becoming loose. More and more countries in the world legalize TCM and TCM. The international market potential of TCM is gradually increasing. The expansion of the catalogue of essential drugs and the nationwide coverage of medical insurance will bring about sustained and stable growth.



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## VITA

<b>NAME</b>	Manni Wei
<b>DATE OF BIRTH</b>	13 June 1993
<b>PLACE OF BIRTH</b>	Nanning city,China
<b>INSTITUTIONS ATTENDED</b>	The 33th high school of Nanning city, China.(2008-2011) Faculty of foreign languages, Guangxi university , China. (2011-2015) Faculty of international, Thammasat University(2013) Faculty of economics,Chulalongkorn University.(2018-2020) Summer internship in IT department of Capgemini(China)Co.,Ltd.(2014) Commerce department, Guangxi construction engineering group yian (Thailand) co. ltd.(2015-2020)
<b>HOME ADDRESS</b>	538 4th fl.Grand building,Ratchadapisek Rd.Sam Sen Nok,Kuai Khwang,Bangkok 10310 Thailand.
<b>AWARD RECEIVED</b>	Winner of the 2011 Eastern Zhenglong Cup National College English Competition Winner of 2011 Guangxi English Translation Competition 2012 Top Ten Host Contest of Guangxi University School of Foreign Languages 2012 Guangxi University China Railway Cup Chinese Debate Team Third 2013 Outstanding member of the dance team of Guangxi University Gold Medal of 2013 Guangxi University West Street Cup Campus Dance Competition 2013 3rd place in the Women's Singles Team of the International College of Thammasat university 2013 Outstanding Volunteer of the Volunteer Association of Thammasat university 2014 Khon Kaen Cup Guangxi District Thai Recitation Competition 6th place Bronze Medal of 2014 Lishan Cup Campus Dance Competition of Guangxi University

2014 The golden Prize, Journalist Group News  
Communication, Guangxi University Journalism Awards  
The bronze prize in the news communication category of  
the reporter team of the Guangxi University Journalism  
Awards 2014

2016 Outstanding fresh Award of Guangxi Construction  
Engineering Group First Installation Co., Ltd.

2017 Advanced staff Award Guangxi Construction  
Engineering Group First Installation Co., Ltd.



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