

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

Chapter 5 has illustrated the analysis of the GPO's share in drug market before deregulation and the forecasts of its sale or earning after abolishing the procurement regulation by using opinion survey. In addition, the present situation of the GPO on its products and structure was also addressed in the last part of Chapter 5. In this chapter, the summary and conclusions of the study were provided in the first part, followed by the recommendations in the second part.

6.1) Summary and Conclusions

This study is aimed at the impact on the GPO after abolishing the Prime Minister Office's Procurement Regulation 1992, to which the public sector has to conform. Private drug companies have argued that the regulation gave GPO unfair advantage since it was promulgated in 1986.

This study used the primary data recently done in 1997 by three academic institutes of GPO, Tangchareonsathien et al, and LAD. , and the secondary data from various sources as described in Chapter 4. The study results can be summarized as follows:

6.1.1) Pharmaceutical Production in Thailand.

In Thailand, drugs are supplied from both the domestic production and the import from foreign countries. Most of local firms lack innovation. Their activities are largely imitation or the dosage formulations and repackaging of imported bulk products using simple technologies. Thai pharmaceutical industry is dominated by foreign multinational companies. The imported drugs are in original brand name both patent and non-patent to which some customers are still firmly loyal. Thus, the share of imported finished products is higher than those of locally made drugs, especially in 1995 when their amount growth rates are 52.41 % and 21.98 %, respectively (Table 2.1).

Moreover, most of the raw materials used in domestic production are also imported. The domestic production capacity exists but is simply not enough. As a result, Thailand has to import the raw materials from the neighboring countries such as India, Korea and China. These are crucial problems in Thai pharmaceutical industry. To curb the raw material imports, government tried to promote MNCs investment.

Ratio of local and imported raw materials used by GPO is increasing each year (Table 3.1). This seemed to confirm that GPO tried to use more local raw materials instead of the imported one.

6.1.2) Distribution of Drugs

It was found that drugstores played the most important role in drug distribution. They are responsible for the distribution of around 45 % of the total drug value in Thailand (Figure 2.2) whereas GPO distributed only 7% of total value.

Most of the GPO's customers are government sector, which accounted for about 90% of its total sale. A significant portion of this part is the sale to public health providers under MOPH with an annual share of 85.12% in 1997 when the non MOPH is responsible to only 6.47% (Table 3.2). The remaining portion of GPO's customers is the private sector, which comprises of hospitals, clinics, drugstores, GPO dealers and drugstores, companies, etc. Sale to this portion is only 10% of GPO total sale.

6.1.3) Pricing Policy

It was shown that complexity in determining the drug prices is the problem of setting the medium price by the National Drug Committee due to the concealment of production cost by each company.

In the past few years, when competition in the drug market is very high, prices cutting policy has been extensively used. Therefore, the price differentiation exists in drug market for the same product in many trade names. Many tactics have been used in drug market competition by most local companies to attract the customers. The original drugs can be sold by the MNCs or their branches at high prices due to the customer's loyalty and the customer's preference of expensive drugs because they believed that the expensive drugs were more effective in curing than the cheaper ones.

6.1.4) Procurement Regulation

Since the government had decided to establish the Government Pharmaceutical Laboratories to produce modern drugs by the distribution of the Division of Medical Depot, the regulation had been announced to enforce the government sector to buy drugs from the Government Pharmaceutical Laboratories and the Division of Medical Depot in 1959. After these two

organizations merged to form the GPO, the government announced the regulation for drug purchasing. In the 28th WHO Assembly Conference, the essential drug list was introduced to developing countries in order to solve the problems of inefficient drug utilization and to save the budget of drug expenditure. In 1978, the government implemented the NEDL in the procurement regulation. There were objections to this regulation from the private sector about using generic names of NEDL and there were price discriminations among drugs in the market. In 1986 the National Drug Committee determined suitable prices for generic drugs and announced them as medium prices to be used with the procurement regulation in that year. The medium prices were later revised in 1992 and have since been effective.

6.1.5) GPO's Earnings after Deregulation

The outcome of GPO's earning by using the GPO's opinion survey to forecast is that the minimum earning will be 43% of the former sales in 1997 or 1,514.78 million Baht (out of 3,743 million Baht will be 40.47% of the former sales, resulting a loss of 59.53%). Whereas the maximum earning will be 88% of the former sales or 2,390.48 million Baht (which is 63.87% of the former sales, resulting a loss of 36.13%).

6.2) Recommendations

6.2.1 Policy Recommendations

In order to compete and survive in the drug market after deregulation, the managing-director and senior executives of GPO including the middle

management level should realize the situation and make decisions to increase the earning by considering factors influencing the market share as follows:

a) Customers

Due to the procurement regulation, the majority of GPO customers are public health providers whose drug purchase value averaged 87.24% of total sales during 1987-1997 (Table 5.3). Around 70-80% of these customers agreed to abolish the procurement regulation with the main reasons of unsatisfactory services, prices and benefits of GPO. Therefore, GPO ought to retain as many of these existing customers as possible and search for the new customers by increasing efforts in the following areas:

- GPO dealers in every province.
- GPO retailers or drugstores in Bangkok and suburban areas.
- Private hospital and clinics
- Exportation to neighboring countries.

b) Training

In order to compete in the drug market, GPO should increase training of market management and marketing mix to junior and senior executives to increase their awareness of the market environments so as to make the appropriate decision. All employees should be trained to increase their competency. R&D, in particular, should be trained in the latest technology to develop new products.

c) Marketing Intermediaries

Study results indicate that GPO is weak in marketing intermediaries, which are supportive to marketing strategies such as:

- Advertising through the media, i.e., of television, radio, spots, brochures, etc.
- Marketing research of new product, attitude survey, etc.

This is because of the limited budget of advertising and promotion which is very low compared to the private sector (2-3% compared to 10-40%). After deregulation, this budget should be increased in order to attract new customers and to promote sales. Moreover, GPO should increase its efforts of informational and persuasive advertising to provide product knowledge and to change customer' preferences from trade name products to GPO products.

d) Services and Delivery System.

GPO has always received complaints for the delay in delivery of products and its services, for instances, the shortage products, delay in exchange of products, incorrect delivery, etc. Thus, GPO should improve its services to satisfy the customers and deliver the products in the right quantity within the right time at the right place.

e) Product Development.

The study finds that the quality of some GPO products are not as high as those products by the private sector, so GPO has to improve its drug formulas. In addition, it ought to improve the production process in order to decrease the cost of production by using local machines or equipments and locally- made raw materials with equivalent quality. Moreover, R&D should develop e new products to replace the old ones. This will compensate the earning and even increase the total earning of GPO.

f) Production Expansion

One of the problems that GPO always faces is shortage of products. GPO has to gear up its productivity and expand production by fully utilizing the installed capacity. However, if it is not enough to meet the demand, then GPO should hire more private companies to produce more products and joint venture with more private companies for new products or their well-known products to increase the earning after deregulation.

Due to the constraints of laws or regulations imposed on GPO and the problems of limited budget and resources which hinders production expansion, GPO could not produce enough to meet the high demand and may not be able to improve the organization administration and operation. Then the inevitable solution may be to privatize the GPO in order to survive in the drug market, which is extremely competitive. This may be done after studying the feasibility of privatization.

6.2.2) Recommendation for Further Study

The researcher tries to forecast the situation in future after deregulation by using all the secondary data in retrospection from many sources to analyze and interpret the results under the limitations and deficiencies of the study, mainly derived from the opinion survey which is one of the basic forecasting technique. The further study is recommended to examine the market structure and market performance of the pharmaceutical industry both in public and private sector in the situation of deregulation the purchase procurement and the effects to the public especially in the quality and prices of the pharmaceutical and medical products.