UNIVERSITI SAINS MALAYSIA

Peperiksaan Semester Pertama
Sidang Akademik 1999/2000

September 1999

AMW 341 - PENGURUSAN PEMASARAN

Masa : [3 jam]

ARAHAN :

Sila pastikan bahawa kertas soalan mengandungi **TUJUH (7)** muka surat yang bercetak sebelum anda memulakan peperiksaan.

Jawab **TIGA (3) soalan** sahaja. **Soalan 1 dan 2** adalah **Wajib**. Pilih **SATU** soalan lagi daripada yang lain. Rancangkan masa anda secara teliti. Hadkan masa anda kepada 2 jam sahaja untuk **soalan 1**.

BAHAGIAN A: **Jawab 2 soalan sahaja**

Soalan 1: **(Wajib)**

Baca kes di dalam appendik 1 secara teliti. Selesaikan kes tersebut dengan menggunakan soalan-soalan berikut sebagai garispanduan:

(a) Apakah bentuk saluran pengedaran bagi industri farmasi di Malaysia.

(b) Apakah kedudukan pesaingan Prime Pharmaceutical (M) di dalam industri tersebut. Apakah kekuatan dan kelemahannya? Bagaimanakah faktor-faktor ini memberikan kesan terhadap pemilihan saluran pengedarannya.

(c) Apakah kebaikan dan keburukannya menggunakan saluran pengedaran sendiri? Apakah faktor-faktor yang perlu dipertimbangkan di dalam memilih saluran pengedaran yang sesuai untuk syarikat ini.

(d) Apakah jenis fungsi/perkhidmatan PMR berikan kepada Prime Malaysia dan pelanggan-pelanggannya. Yang manakah di antara fungsi/perkhidmatan yang boleh dikendalikan sendiri oleh Prime melalui saluran pengedarannya.

(e) Wajarkah Prime Malaysia membatalkan perjanjian pengedaran dengan MTR.

[50 markah]

...2/-

Soalan 2 : **(Wajib)**

"Bersaing di peringkat dunia - adalah komitmen kita" ialah sebahagian daripada pernyataan misi korporat Universiti Sains Malaysia. Sebagai Pengerusi Ahli Lembaga Pengarah Universiti Sains Malaysia, anda telah diminta untuk menyediakan perancangan pemasaran untuk universiti ini. Bincangkan isu-isu pemasaran yang perlu diberikan perhatian dan bagaimanakah perancangan pemasaran perlu dilaksanakan untuk merealisasikan pencapaian missi ini.

[30 markah]

BAHAGIAN B : **Pilih satu soalan sahaja**

Soalan 3:

"Perlakuan Pengguna merupakan hasilan pertembungan di antara individu dan faktor-faktor persekitaran". Apakah yang anda faham tentang pernyataan ini? Bincangkan?

[20 markah]

Soalan 4:

(a) Huraikan kenapakah penyelidikan pemasaran penting kepada sesebuah organisasi?

(b) Bincangkan proses yang terlibat untuk mengendalikan penyelidikan pemasaran.

[20 markah]

Soalan 5:

Kenalpastikan dan bincangkan dengan menggunakan contoh pada setiap tahap proses pembentukan produk/perkhidmatan baru?

[20 markah]

...3/-

Case 28

Prime Pharmaceuticals Malaysia (M) Sdn. Bhd.

Manuel S. Lizardo, Jr., Lope L. Belardo
Asian Institute of Management, Makati, the Philippines

During the management staff meeting in January 1991, Managing Director Oliver Smith, announced the sales growth objective set by head office for the decade just starting: "With major new product introductions scheduled in our market in the next few years, and with continuing support from the mother company, we are committed to a targeted growth rate of 25% p.a. in the near and medium terms and 30% long term." Smith said that although these numbers appeared optimistic, considering the previous three years' growth rates, he also knew that, given the continuing strong performance of the Malaysian economy and the increasing health care awareness in all sectors of the country, these targets were achievable. He was considering strategic marketing moves to further strengthen Prime Pharmaceuticals Malaysia's competitive position and enable it to meet management expectations.

The first move Smith had in mind was to discontinue Prime's exclusive distribution arrangements with M.T. Rollins (MTR), in favor of self-distribution. He wondered if this move would have the support of the head office. In any event, he knew that his recommendation would weigh heavily in the final decision.

Company Background

Prime Pharmaceuticals USA (PPUSA) was established in the early 1900s. Focusing efforts and resources on R&D, it developed a wide array of products. Through the years, PPUSA expanded its operations to different parts of the globe. Prime's organization was functionally structured. Divisions included the major subgroups: marketing, finance, R&D, and manufacturing and logistics. Marketing and R&D were the leading functions; other areas provided support.

PPUSA's corporate policies reflected its emphasis on R&D; R&D budgets were required to be 20% of sales; thus, growth was pursued by developing new products and identifying new markets. A research area was given priority if it satisfied an urgent medical need. The firm set market leadership in a priority research area as a primary corporate objective.

Rather than enter into licensing agreements, PPUSA preferred to establish operations in other countries especially in Southeast Asia. Expansion of productive capacity and R&D took the bulk of capital expenditures both in the U.S. and abroad. From 1985 to 1990, contributions from foreign operations averaged 24.5% of total revenues.

Prime focused operations and resources in the cardiovascular, respiratory, gastrointestinal, infection and local anesthetics segments. The main thrust of PPUSA and all subsidiaries was to "product/markets" with consistent and uniform product strategies. Introduction of new products and branching into new markets were the main avenues for profitability and growth. These objectives were accomplished by research for new products and innovative projects.

Company Background in Malaysia

Prime Pharmaceuticals Malaysia (M) Sdn. Bhd., wholly owned by PPUSA, formally started its Malaysian operations in 1981 by marketing products imported from its parent. Company objectives included: maintenance of Prime's premier position in ethical pharmaceuticals; concentration on the private sector to increase use of Prime's products; increase use of Prime's products in all sectors of the market; and involvement in doctor training via its educational program.

Several products were launched in the ensuing years; 1984 sales were RM8.7 million, up 40% from 1981. Growth slowed in 1985 (sales: RM9.4 million) but picked up the following year to RM11.28 million. The late 1980s were a slow growth period, but sales spurted to RM20.2 million in 1990 (Table 1).

Table 1: Historical and Targeted Sales

Year	Sales RM million	Increase %	Year	Sales RM million	Increase %
1984	8.70		1989	16.90	9.0
1985	9.40	8.0	1990	20.20	19.5
1986	11.28	20.0	1991*	25.00	25.0
1987	14.50	28.5	1992*	31.25	25.0
1988	15.50	7.0	1993*	40.60	30.0

*Targeted

PPUSA decided on all product launches based on corporate product policies. Decisions made by the local company had to fall within boundaries set by PPUSA's philosophy and policies. International operations emphasized "product marketing" and distribution following strict PPUSA guidelines, including centralization of licensing, finances and investments. Company growth targets were set above industry growth. The company secured market share information from market research conducted by survey organizations but closely guarded this data from competitors. Profits were

repatriated largely through transfer pricing; contribution to the parent was pegged at 25% of sales.

The Malaysian Pharmaceutical Industry

In Malaysia, major pharmaceutical companies engaged only in formulation compounding and marketing. The marketing function could be further segregated into promotion, distribution, wholesaling, retailing and the tendering agents in government medical facilities.

The Malaysian pharmaceutical industry was generally divided between the government and private sectors:

- Government purchases were made through General Medical Stores (GMS). The GMS, under the control of the Ministry of Health (MOH), facilitated collective government purchases of medicines.
- Local purchase orders (LPOs) referred to public hospitals' own purchases when demand exceeded GMS supply and/or special drugs were needed. Hospital purchasing committees decided on LPOs subject to GMS regulations.
- The private sector comprised 280 private companies which together vied for the RM488–RM517 million market (including government purchases). Local companies included 23 manufacturers and 59 distributorships. From time to time, distributors also acted as marketing arms. Several tendering agents dealt mainly with government hospitals. The remainder were small firms engaged in minor operations.

Industry Composition

Most pharmaceutical companies were concentrated in Selangor, and Kuala Lumpur, Malaysia's capital.[1] A high percent (37.5%) of all Malaysian doctors were located in Selangor and in the capital; other important areas were Penang and Perak. Customers were concentrated in Selangor and Perak states and Kuala Lumpur. These areas, together with Penang, Johore, Sabah and Sarawak accounted for 80% to 90% of customers.

Clinics. Malaysian doctors dispensed drugs through their clinics; by law, doctors had to be present whenever the clinic was open. In 1990, this channel represented 55% (RM268 million) of total purchases. Stocks were purchased primarily from wholesale pharmacies. Average inventory (RM20,000 to RM30,000) turnover was three times per annum. Revenue estimates for clinics were RM100,000 to RM250,000 annually; profit margins were estimated at almost 50%.

Pharmacies. Pharmacies were either retailers, wholesalers or both; in Malaysia, the majority fulfilled both functions. Together, pharmacies accounted for 7% (RM34.16 million) of total industry sales. A pharmacy with RM2.5 million sales volume required RM300,000 equity for its operations.

Distributors. Distribution agreements between pharmaceutical companies and their distributing agents varied. Typically they fell into one of three categories:

- Distribution and promotion of the principal's products. The distributor was responsible for all aspects of distribution (e.g., storage, delivery/physical transfer of goods, receiving orders, order processing, billing, collection of payment, credit handling, providing the principal with sales and market information). Promotion involved detailing calls on doctors and advertising. The principal's role was limited to supply.
- Distribution of the principal's products. The distributor was responsible for all aspects of distribution but the pharmaceutical company promoted its own products.
- Physical transfer of principal's products. The distributor warehoused and delivered the principal's products. Other aspects of distribution and marketing were undertaken by the pharmaceutical company.

Pharmaceutical companies paid from 9% to 21% of sales for distribution services. Although 59 distributors carried pharmaceutical products, 90% of distribution was handled by three distributors; their revenues ranged from RM100 million to RM400 million. Low gross and net margins earned by distributors were compensated by high volume sales. In addition, through licensing and representation of parent companies, these major distributors imported and carried products of other pharmaceutical companies. Payment periods for distributors ranged from 45 to 90 days from receipt of stocks.

Tendering agents. Up to 18% (RM90 million) of industry sales was to tendering agents, middlemen who offered tenders to the GMS, and hospitals authorized to make LPOs on government purchases not exceeding RM10,000. Mark-up averaged 3%; average revenues for tendering agents were RM5 million, net profit, RM27,000.

The flow of goods in the pharmaceutical industry is shown in Figure 1. Competition for profits, market share and brand awareness took place where the arrows meet. Mark-up was highest at the level of clinics, hospitals, druggists and retail pharmacies, lowest between the distributors and its principals.

Marketing Practices

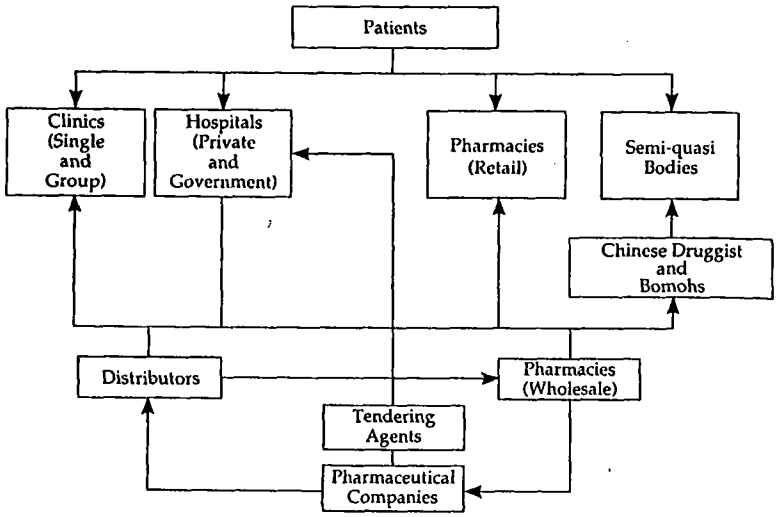
Before 1984, roughly 20,000 different drugs were offered to the Malaysian market; for example, the antibiotic ampicillin alone was offered as 110 different brands. In 1985, the Drug Control Authority (DCA) was established to authorize the use of drugs in Malaysia. By 1990, 4,000 drugs had been approved by the DCA.

Stiff competition limited price increases. Since 1989, prices had risen by 8% to 10%, driven by inflation, rising expenses and the increased cost of manufactured goods.

[1] Although geographically located in Selangor, Kuala Lumpur was part of the Federal Territory.

However, clinic treatment costs had not risen during the previous eight years. Drug prices were not subject to regulation in Malaysia and the medical care and health expenses price index increased only by 5.5% in 1989.

Figure 1: Flow of Goods in the Malaysian Pharmaceutical Industry



Product advertising in Malaysia was regulated by the Medicine and Advertising Act. Promotional practices included:

- Missionary sales generated by medical representatives;
- Printed promotional materials distributed to customers;
- Discounts given to customers;
- Sample distribution to customers;
- Advertising for over-the-counter products;
- Consumer product education through symposia, congresses and the like;
- Generation of purchases via local and overseas trips;
- In certain cases, direct cash donations to charitable funds.

Manpower. Medical representatives were integral components of the industry. Their primary function was detailing, approaching doctors or pharmacists and introducing the company's products. Signed orders were executed through distributors or pharmacies. Product deliveries were usually made within 72 hours of order placement.

Sales teams cover different product groups. On average, medical representatives visited clients every 60 to 90 days. However, visits were sometimes made twice or three times per month. Detailing coverage ranged from 9.4% to 51.4%; no company reached 100% market coverage since most focused efforts on specific market segments.

Prime Pharmaceuticals Malaysia

Sales Performance

Sales by product segments. The cardiovascular, infection and respiratory product segments were the largest sales contributors to Prime Malaysia, about 77% of total company sales (Table 2). However, in 1990, growth was only significant in infection (47%). Except for cardiovascular products, Prime Malaysia's top sellers registered growth rates higher than the industry. Prime's highest growth rate (376%) was in the gastro-intestinal segment.

Table 2: Sales by Product Segment, 1989, 1990 (RM)

	1989	1990	% of total	% increase
Cardiovascular				
Commerical	1,410,887	1,663,882	8.2	17.9
LPO*	26,787	13,089	0.06	-51.1
Tender	5,574,303	5,545,690	27.4	-0.5
Subtotal	7,011,977	7,222,661	35.7	3.0
Infection				
Commerical	1,411,696	1,720,277	8.5	21.9
LPO	1,453	16,123	0.1	1,000.8
Tender	2,519,569	4,043,785	20.0	60.6
Subtotal	3,932,718	5,780,185	28.5	47.0
Respiratory				
Commerical	1,469,720	1,643,395	8.1	11.1
LPO	104,345	127,299	0.6	22.0
Tender	1,014,292	890,100	4.4	-12.2
Subtotal	2,588,357	2,660,794	13.1	2.4
Local anesthetic medical				
Commerical	660,769	716,666	3.5	7.4
LPO	272,359	414,011	2.0	52.0
Subtotal	933,128	1,130,677	5.6	20.0
Local anesthetic dental				
Commerical	354,032	404,144	2.0	14.2
LPO	8,552	32,511	0.2	280.2
Tender	1,068,603	1,374,075	6.8	28.6
Subtotal	1,431,187	1,810,730	8.9	26.5
Gastro-intestinal				
Commerical	137,017	650,515	3.2	374.8
LPO	311	3,224	0.01	936.7
Subtotal	137,328	653,739	3.2	376.0
Others				
Commerical	554,481	634,429	3.1	14.4
LPO*	167,264	293,135	1.4	75.0
Tender	154,553	81,018	0.4	-47.6
Subtotal	876,298	1,008,582	4.5	15.1
Total commerical	6,004,402	7,422,808	36.6	23.6
Total LPO	581,071	899,392	4.4	54.8
Total tender	10,331,320	11,935,368	58.9	15.5
Total	16,916,793	20,257,568	100.0	19.7

*Local purchase orders

Sales by state. In 1990, sales growth varied considerably by state (Table 3). For example, in Selangor, Penang and Perlis, sales increased by over 50%. However, this growth was offset by declines in such areas as Negri Sembilan and Terengganu. Poor performance in these states was attributed to lack of manpower; one person covered several product ranges and segments in several states.

Table 3: Sales by State, 1989, 1990 (RM)

	1989	1990	% of total	% increase	% of industry
East Malaysia					
Sabah	360,035	474,683	2.3	31.8	
Sarawak	475,790	530,906	2.6	11.6	
Brunei	124,403	170,426	0.8	37.0	
Subtotal	960,228	1,176,015	5.8	22.5	15.4
West Malaysia					
Federal Territory	1,349,365	1,842,205	9.1	36.5	
Selangor	1,143,809	1,803,461	8.9	57.7	
Johor	474,772	682,065	3.4	43.7	
Pahang	132,390	148,594	0.7	12.2	
Malacca	158,606	202,572	1.0	27.7	
Negri Sembilan	174,562	171,826	0.8	-1.6	
Kelantan	212,539	265,919	1.3	25.1	
Terengganu	134,038	132,161	0.7	-1.4	
Kedah	277,462	318,177	1.6	14.7	
Perak	752,233	847,199	4.2	12.6	
Perlis	12,351	41,907	0.2	239.3	
Penang	762,129	1,167,955	5.7	53.2	
Subtotal	5,584,256	7,624,041	37.6	36.3	12.5
Tender sales	10,372,818	11,467,510	56.6	10.6	12.5
Total	16,916,792	20,257,566	100.0	19.7	12.7

Sales and Marketing Organization

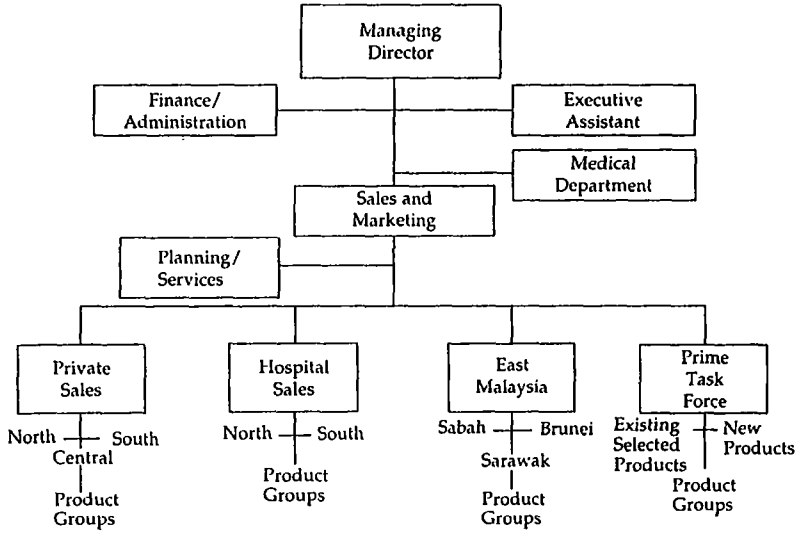
Sales teams were divided into Private, Hospital and East Malaysian Divisions and the Prime Task Force (Figure 2).

- Private: responsible for three product categories and divided geographically into North, Central, East Coast and South Malaysia. This division had four area managers and 11 medical representatives.
- Hospital: responsible for two product categories and divided into the Northern Central/South Malaysia areas. This division was managed by two area managers and eight medical representatives.
- East Malaysia: included Sabah, Sarawak and Brunei.[2] This division was responsible for three product categories covered by two area managers and one medical representative.
- Prime Task Force: a specialist group concentrating on existing selected products that also took charge of other product launches. A single product specialist and six medical representatives comprised this division.

[2] Although Brunei was not part of Malaysia, sales were handled by this division.

The primary function of Prime's medical representatives was detailing doctors and pharmacists, introducing and promoting Prime's products. They also booked orders; these were turned over to M.T. Rollins for processing, delivery, billing and collection.

Figure 2: Organization Chart



Distribution

Prime Malaysia contracted the services of M.T. Rollins (MTR) for distributing its products. MTR was one of Malaysia's leading distributors of pharmaceutical products; it had five offices and stores across the country.[3] From these offices it handled product distribution for over 100 companies in Malaysia, including Prime. In addition to pharmaceutical products, MTR distributed consumer and agro-chemical goods. It employed

[3] In addition to the main office in Kuala Lumpur serving central Malaysia were branches in Johor Bahru (south Malaysia), Perak (north of Kuala Lumpur), Penang (north Malaysia), and Sabah (East Malaysia).

31 sales representatives (supervised by nine sales supervisors) to call on customers for order booking and collection of payment for all purchases.

The distribution arrangement between Prime and MTR called for MTR to provide storage, order taking and processing, delivery, credit, billing and supply of sales and delivery information. MTR's fees averaged 9% of sales. MTR's 1990 purchases from Prime were RM12.4 million. MTR paid Prime within 60 days from receipt of stocks. MTR's customers received 30- to 60-day credit for all purchases; credit limits extended ranged from RM2,500 to RM20,000. MTR's 1990 sales exceeded RM400 million.

Deliveries were made by vans within city limits and in areas covered by MTR branches and stores. If possible, deliveries were made in 48 hours; in some cases, delivery could be delayed up to one week by transport problems. Lorry services (RM2 per package) were available outside these areas: delivery was 48 hours to one week.

Prime Considers Self-distribution

Although MTR had performed creditably in distributing Prime's products, its extensive product line included pharmaceuticals, agro-chemicals and consumer items. As a result, Prime executives believed it did not provide adequate attention and concentration on a particular product group such as Prime's. Moreover, it appeared that self-distribution would enable Prime to save on distribution costs as sales volume grew. These savings could be reinvested in additional medical representatives to improve Prime's market penetration and servicing.

If Prime terminated MTR's services and commenced self-distribution, it would have to set up a minimum of four distribution units across Malaysia, in addition to the Kuala Lumpur-based unit, to maintain Prime's distribution status and delivery standards. (Table 4 details the annual estimated cost of one distribution unit and associated capital requirements.) These distribution units would handle storage, order processing, billing and delivery and collection of accounts. Because of Prime's inexperience in distribution, an experienced manager in inventory and distribution management would be required. Smith believed that Prime's good reputation and industry status would allow him to attract qualified applicants. He estimated that a suitable distribution manager would cost from RM30,000 to RM48,000 per annum.

Smith's tentative plan was to assign outlets covered by MTR to Prime medical representatives for order booking; orders would be passed to distribution units for processing and delivery. Collection of accounts would be handled by Prime's sales force. Since the proposed change would entail additional new responsibilities, particularly credit management and collection, Smith wondered how the sales force would adjust and react. He was also concerned about the degree of orientation and training the sales force would require and who would accept this responsibility. Mostly, since the sales force's primary responsibility was demand creation for Prime products among physicians, he wondered how distribution responsibilities would affect its performance in the physician's clinic.

Smith was also concerned about the reaction the proposed change would have on Prime's working relations with outlets, inasmuch as many had long-term working relationships with MTR. Would they be as cooperative in placing their orders for

Table 4: Estimated Cost of One Distribution Unit, 1991

Cost	RM	Cost	RM
Salary of pharmacist	40,000	Telephone charges	5,000
Salaries of six staff (2 clerks, 2 store keepers, 2 delivery men)	65,000	Transport charges	5,000
		Courier charges	3,000
Electricity and water	2,400	Grand total	235,610
E.P.F.	13,650		
Insurance premium	55,250	Capitalization	
Licence fee	310	Two vans	80,000
Postage	1,000	Deposits	10,000
Petrol and traveling	14,000	Renovations	50,000
Overtime	1,500	Equipment	100,000
Office upkeep	2,500	Miscellaneous	60,000
Rental of warehouse	24,000	Total	300,000
Stationery	3,000		

Prime products, maintaining adequate inventories, providing prominent and adequate display space and meeting payment terms as they were with MTR? Based on industry standards and MTR practices, Prime would offer the same terms: 30 days credit with a 30-day grace period. Also in line with industry practice, discount terms would range from 15% to 25%, depending on whether purchases were direct or through wholesalers.

In addition to the economics, Smith believed important qualitative factors had to be considered. For example, greater attention and concentration on Prime's products at the outlet level might be expected if the Prime sales organization was fully responsible for distribution. This issue was particularly important for new product introduction, a major source of growth and profitability for Prime. Prime medical representatives could also provide better in-store support (e.g., maintaining displays, educating retail clerks, assisting inventory tracking of Prime products). Smith also felt that problems in delivery, billing, back orders, cancellations, returns and product quality could be more effectively handled on the spot by a company representative.

Smith believed that the advantages of self-distribution revolved around the greater control it allowed management. He believed Prime medical representatives could provide more and better market information than MTR. Information on competitive activities, new product introductions and trade developments would be fed back to marketing and necessary actions quickly implemented. Finally, self-distribution would present more job opportunities. Existing employees, as well as people outside the company, could fill new openings the distribution units would make available and could contribute to matching the qualifications of some company's personnel to the right job.

As he contemplated the issues, Smith knew that his recommendation would be critical for the Malaysian organization's future. He also knew that head office would scrutinize any plan, so it would have to be backed up by solid economic analysis.