# FORMULATION OF EXPORT STRATEGY OF CHEMIDAROU PHARMACEUTICAL PRODUCTS TO AFGANISTAN BASED ON DAVID'S MODEL

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Abstract. Afghanistan drug market is considered a potential market due to the absence of modern pharmaceutical manufacturers. The support lent by the Afghan government to the foreign investment, Iran's support for non-oil exports and abundance of favorable capabilities in Chemidarou Co. to enter export markets necessitate development of a written plan. The major goal of this research is identification, comparison and decision-making regarding proper exportation strategies for entrance into Afghanistan market to export Chemidarou pharmaceutical products. The theoretical framework is the strategic planning model of Fred R. The research territory included Chemidarou Co. and Afghanistan and the research time slot from which the information was collected was from 2007 to 2010.

Keywords: Strategy, Export, Drug, Competition, Opportunities and Foreign Threats, Domestic Strengths and weaknesses, Government, Strategists, Holding, Cartel

## 1. Introduction

Export is the least risky way to enter global markets. Sales through export need the least allocation of facilities and impose the lowest possible changes in the internal programs of companies. This process is carried out directly or indirectly. Lack of favorable strategy and lack of proper methods to enter the market have led to reduction in market shares of Iranian products. Although there are favorable capacities in drug manufacturing in Iran, lack of an effective export strategy will result in losing opportunities available on the neighboring countries markets, especially Afghanistan (Clarke, 2007). Expanding geographic scope of activities, diversifying the activities, acquiring other companies, producing and selling products, penetrating into market, reducing the costs, selling a share of assets, delegating a large part of authority, and arranging for private partnership are among strategies the company can adopt.( Abzari and Alisafari, 2004; Mohammad Mehdi, 2001)

With more than four decades of experience in drug manufacturing and favorable experience in exporting drugs to Afghanistan, Chemidarou Publicly Traded Company needs proper strategy to export its pharmaceutical products. (Alvani, 1997). A sound strategy helps it promote its strengths and reduce its weaknesses in order to make use of opportunities available on the market and get through looming threats; thereafter, the company's share of market will increase and its position will be stabilized. Finally, a favorable mental image of its products will be left on the market (Stringer, 2002).
It is noteworthy that exports to Afghanistan is not a fresh experience, but lack of a proper strategy has led to a reduction in the market share and a slide in the monetary value of exports (Rezaeeian, 1992). To address the issue, the researcher chooses the lack of export strategy as the research problem in order to identify strengths, weaknesses, opportunities and threats to develop a strategy for exports (Zahedi et al., 2000).

Application of a strategy for drug export to the neighboring countries, particularly Afghanistan, seems necessary more than any other times due to their potential markets (Robbins and Judge, 2007). One requirement to enter Afghanistan market is formulating a strategy for export, which contributes to the powerful presence on that market and also successful competition with foreign and domestic actors (Reymon Brus, 2000). In summary, it is an applied, exploratory field study. Theoretical framework of this research is the strategic management and planning model of Fred R. David. (Armstrang, 2005).

First phase: Entrance phase

First, strengths and weaknesses of the company and opportunities and threats the company would encounter on the Afghan market were discussed at the brainstorming session with the company's 21 middle managers in attendance (Lorndge et al., 2005). The session helped the participators identify strengths and weaknesses and opportunities and threats. A questionnaire to evaluate internal and external factors was distributed among the managers and the questionnaire results were analyzed (Terri, 2002)

Second phase: Comparison phase

A comparison was made by the organizations between skills, internal resources, opportunities and risks. In this phase, using SWOT matrix, all feasible strategies were identified. Thereafter, strategic position and action evaluation (SPACE) matrix was used to specify whether the organization's strategy should be aggressive, conservative, defensive or competitive (James et al., 2003). Then, using grand strategy matrix, the status of the organization was examined to determine what squares of the matrix the organization should be positioned on, and feasible strategies were announced. (Robert, 2005; Walker, 2007).

Third phase: Decision making phase

In this phase, i.e. decision-making, quantitative strategic planning matrix (QSPM) is used to objectively specify different strategies which are the best among their counterparts. (Marshal and Gerchen, 2002)

## 2. Main topics

Using Fred R. David model, the strategy of Chemidarou for exporting pharmaceutical products to Afghanistan was devised as described below:

### 1.2 Internal Factor Evaluation Matrix (IFE)

Analyzing Chemidarou weaknesses and strengths, we obtained 9 strengths and 5 weaknesses after the brainstorming sessions and seeking guidance from advisors and supervisors. Then, internal and external factor evaluation questionnaire was completed by the statistical population. The final score of the company's strengths and weaknesses was 22.3. It means the company is above average regarding internal factors, so its strengths outweigh weaknesses. (Andrews, 1989)

The most important identified strengths are as follows:
- Product competitiveness on the domestic market, being ranked second in the number of items sold, standing tenth in rial value of the sold items, winning the title of Tehran Province exemplary exporter.
- Production of new products and putting them onto the market annually.
- Developing and building new factory with international standards and obtaining related licenses.

The most important identified weaknesses are as follows:
- Shortage of professional staff skilled at international drug marketing

- Lack of liquidity regarding outstanding claims from distributing companies

### 2.2 External Factor Evaluation Matrix (EFE)

Brainstorming sessions and guidance seeking from advisors and supervisors resulted in identification of 9 opportunities and 5 threats on the Afghan market. After the questionnaire was completed, the final score related to the company's opportunities and threats totaled 2.98. It means the company can react favorably if it faces factors which pose threat or opportunity. In other words, the company makes use of available opportunities favorably and minimizes the effect of threat-creating factors to the lowest possible level (James et al., 2006).

The most important opportunities
- Advanced structure of Iran's pharmaceutical industry compared with Afghanistan
- Development of political and economic cooperation, conclusion of multiple memorandum of understandings and agreements between Iran and Afghanistan
- Having competitors who practice different religions and their remote distance to Afghanistan

Practicing same religion, having historic, cultural and linguistic commonality, and, as a result, existence of positive view over Iranian pharmaceutical products.

The most important threats
- Insecurity, riots and terrorism
- Activities of domestic and foreign competitors in Afghanistan

### 2.3 Threat, Opportunities, Weaknesses and Strengths matrix (SWOT)

Table 1 Threats, opportunities, weaknesses and strengths matrix (SWOT)

| | | |
|---|---|---|
| | Strengths (S)<br>1- Professional individuals among managers of the company, using incentive and deterrent systems, and, as a result, obtaining an acceptable ranking in the Award for Human Resource Empowerment<br>2- Product competitiveness on the domestic market, being ranked second in the number of items sold, standing tenth in rial value of the sold items, winning the title of Tehran Province exemplary exporter.<br>3- Effective budgeting and planning and, as a result, supplying products to the distributors based on the market needs<br>4- Favorable profitability of pharmaceutical products<br>5- The possibility of increasing production capacity based on the available resources and production in accordance with national standards and obtaining ISO quality management standards<br>6- Favorable experience in Afghanistan and Iraq and exporting products based on the customers' needs<br>7- Manufacturing new products and putting them onto the market on a yearly basis<br>8- Developing and building a new factory according to international standards and receiving related licenses<br>9- Applying IMS to promote efficiency and using paperless systems in official correspondences | Weaknesses (W)<br>1- Low experience on international market<br>2- Shortage of professional staff skilled at international drug marketing<br>3- Lack of liquidity regarding outstanding claims from distributing companies<br>4- Lack of GMP confirmation from the international organization despite receiving confirmation of its country Ministry of Health<br>5- Disability to manufacture products as the first producer |
| Opportunities (O)<br>1- Development of political and economic cooperation, conclusion of multiple memorandum of understandings and agreements between Iran and Afghanistan<br>2- Practicing same religion, having historic, cultural and linguistic commonality, and, as a result, existence of positive view over Iranian pharmaceutical products<br>3- Active participation of Iranian drug manufacturers in Afghanistan and receiving increasingly positive feedback<br>4-Laws which support non-oil export from Iran<br>5- Protective policies for absorbing investment and insuring pharmaceutical products in Afghanistan<br>6- Advanced structure of Iran's pharmaceutical industry compared with Afghanistan<br>7- Having competitors who practice different religions and their remote distance to Afghanistan | SO strategies<br>1- Participation in building drug manufacturing factories<br>(S1,6,8 / O1,3,5,6 )<br>2- Building drug manufacturing factories<br>( S1,6,8 / O3,5,6 )<br>3- Direct exports through delegation<br>( S1,2,3,6 / O1,2,3,4)<br>4- Formation of an exportation holding from Iranian companies in Afghanistan market<br>(S1,2,3,6,9 / O1,2,3,4,7 ) | Strategy WO<br>1- Trilateral participation for manufacturing products with high technology (FDO confirmation holding company with an Afghan firm)<br>(W1,3,4,5 / O1,2,5 )<br>2- Using skilled advisors/advising companies which are experienced in international marketing of pharmaceutical products<br>(W1,2,3 / O2,3,4,6 ) |
| Threats (T)<br>1- Lack of proper IT system in Afghanistan and, as a result, lack of modern distributing systems and databases<br>2- Shortage of specialized doctors and advanced pharmacies<br>3- Shortage of professional staff, low efficiency and, as a result, increase in unemployment rate, and rise in inflation<br>4- Culturally underdeveloped, resolving problems through tribal procedures<br>5- Insecurity, riots and terrorism<br>6- Presence of domestic and foreign competitors on the Afghan market | ST strategies<br>1- Branding in the Afghan market<br>(S2,5,7 / T6)<br><br>2- Training professional manpower skilled at drug distribution and providing them with franchise<br>(S1,6,9 / T1,3,6 ) | WT strategy<br>1- Insuring the products regarding Afghanistan political situation<br>(W1,3 / T4,5 )<br>2- Making use of Islamic Republic of Iran political influence over influential Afghan agents who can support drug exports<br>(W1,2,4 / T1,3,5,6 )<br>3- Cash sales with minimum risk<br>(W3 / T1,4,5 )<br>4- Taking part at trade fairs and cash sales<br>(W1,2,3 / T1,5,6 ) |

**2.4 Strategic position and action evaluation (SPACE) matrix**

This four cell matrix determines whether the type of applicable strategy is aggressive, conservative, defensive or competitive. A total of 21 questionnaires were filled out by the senior manager, members of the board and middle managers. The average scores were calculated as described on the table1 presented in the appendices. According to the annexed diagram, the company falls on the aggressive cell, indicating that it is a financially sound firm and operating in a sustainably growing industry with competitive advantages.

**2.5 Grand strategy matrix**

Any organization falls on one cell of the grand strategy matrix, regardless of its industrial position. The position of organizations can be determined based on their competitiveness and market growth. Results obtained from the questionnaire filled by the statistical population indicates that the organization falls on the first cell of the matrix. It is indicative of its excellent position as described below.

Current markets (market penetration and development)
Products (product development)

A company which holds such position will find it unreasonable to lose such status (having a strong competitive advantage). The companies falling on the first cell and having large resources should use backward integration, forward integration and horizontal integration strategies. Homogeneous variety can reduce the risks of a unique product when a company commits itself to producing and distributing a distinctive item.

**2.6 Quantitative strategic planning matrix**

The quantitative strategic planning matrix is used as an analytic framework. Relative attractiveness of strategies is determined by using the quantitative strategic planning matrix. Regarding the obtained results from SPACE matrix, which evaluated the organization position as aggressive, strategies resulting from SO were sent to 21 managers through questionnaires and, after they were filled up, the results were calculated. According to the results, the first applicable strategy is "formation of a holding from Iranian companies for Afghanistan market".

**2. Conclusion**

Aggressive strategies are appropriate for the company regarding the result obtained from the SPACE matrix. Four SO strategies from the SWOT matrix were tested. These 4 strategies are listed below in order of priority.

1-Formation of a holding from Iranian companies for Afghanistan market
2-Participation in building drug-manufacturing factories in Afghanistan
3-Direct exports to Afghanistan through agents
4-Building drug-manufacturing factories in Afghanistan

In summary, we describe the issues related to the above mentioned strategies.

**3.1 Strategy of formation of an exportation holding from Iranian companies on Afghanistan market**

To effectively implement the holding, the following recommendations are made:
General approaches must be in line with promoting the country's capabilities to use potential and actual opportunities available on the free market.
In line with high level documents (20-Year Vision Plan and the Fourth National Development Plan), the principle of government downsizing and reduction in government involvement should be taken into consideration. To that end, government involvement should have a descending trend (Boroujerdi, 1991).
Infrastructures and privatization capabilities including capital markets, laws for private sector activities, corresponding political factors, etc. must be promoted.
Professionalizing the management to maintain organizations' dynamic and sustainable equilibrium on free market environment.
In line with maintaining a trade-off between structure effectiveness and strategy, the structure of holdings should be examined. Some structures should be designed to help the organizations become well responsive to environmental complexity. (IRICA, 2007)
Meritocracy and professionalism in assigning managers and avoiding political devastating influence should be institutionalized as the major principle.

**3.2 Strategy of participation in building pharmaceutical factories in Afghanistan**

The foreign investor might obtain its required capital independently (independent investment) or carry out its economic activities through joint investment. Legally, foreign independent investors are the subsidiaries which have 100% foreign ownership (Strategic management of Human resource, 2006). Subsidiaries are headquartered in the host nation but their entire stocks or the majority of them are owned by the foreign company. In joint foreign investment, investment costs and the obtained benefits are distributed among domestic and foreign investors. Nowadays, the majority of developing countries prefer this kind of investment for its benefits (ertest, 2002).

**3.3 Strategy of direct exports through agents**

By the time a company has extra capacity in the factory located in the parent country, it can probably operate effectively on limited market. Since the production fixed costs are covered by domestic sales, foreign sales costs can be determined based on the variable costs instead of total costs. When foreign sales outweigh domestic sales, or the production reached the maximum capacity of the factory, this pricing strategy is ignored. (Suzan et al., 2003)
One advantage of this strategy is that companies can receive better indication of foreign sales before engaging their resources for production in other countries (Matching research, 2003).
The other advantage is that companies become familiar to the operating environment of the other country before investing abroad

**3.4 Strategy of building pharmaceutical factories in Afghanistan**

To make direct investment, control should accompany investment; otherwise, it is defined as “investment through securities”. Regarding the direct investment, companies should perform in such a way that the government does not dictate whom they must hire, what they must sell (or at what price they must sell), and how they must distribute incomes (Hunger and Wheelen, 2007).

The control over the company will be handed over to the government if all conditions are not included. For investors, the control is an important issue, since they do not feel like handing over all their critical resources to a domestic or foreign organization which can make all operating decisions independently and freely. (Fred, 2007)

If new inventions, trademark and management knowledge are handed over to these companies, they might be misused to degrade the competitive position of the original holder. Next to that, operating costs will reduce, if "control" exist, in addition to the following cases:

1. The parent company and the subsidiary have the same organizational culture.
2. The company can hire internal managers who understand its goals.
3. The company can avoid lengthy negotiations with other companies.

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