

Its Current and Future Impact on Competitiveness

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DOES LACK OF TRUST UNDERMINE COMPETITIVENESS?

Trust and Competitiveness Effect on National Diamond

Context for Firm Strategy and Rivalry

Low level of trust in market competition leads to collusion and informal cartels as well as corruption.

- Low trust also results in negative perception of the regulators
- Trust in regulators and rule of law also critical for smooth functioning
- Independent regulators critical for institutional trust

Related & Supporting Industries and Institutions

- Low level of trust in institutions undermines the rule of law.
- Low level of trust leads to non sharing of know how resulting in lesser network externalities of agglomerations
- Trust in Institutions undermined when they harass companies.
- Vicious cycle also leads to poor quality services as nobody is willing to provide them in an overregulated economy.

Factor Conditions

- Trust is critical in factor markets for appropriate resource allocation.
- Rent seeking reduces trust and forces creates an atmosphere of corruption
- Inadequate / arbitrary policy design leads to erosion of trust.
- Risk of the market is in the form of the trust that the goods and services produced will be consumed.

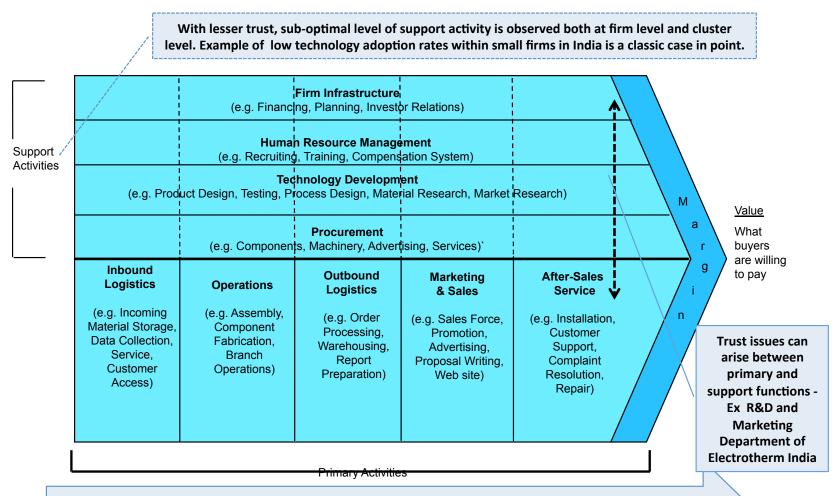
Demand Conditions

- Quality, Price and differentiation are the main considerations
- Essential for the consumer to trust the producer.
- If the consumer does not trust the producers sale may not happen
- Effect is a slowing down economy with low level of consumption and investments
- Safeguards in the economy include quality certifying institutions as well as branding of the product

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IMPACT OF TRUST ON THE VALUE CHAIN OF A FIRM



Lack of trust results in interdepartmental/inter primary activity conflict and can result in in longer lead times and sales cycles at minimum and complete shutdown of operations at maximum.

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IMPACT OF TRUST ON FIVE FORCES MODEL OF PHARMACEUTICAL INDUSTRY IN INDIA

2 kinds of trust:

- Intrafirm Within the firm
- Interfirm- within the cluster
- Analysis is done here on Indian Pharmaceutical Cluster

Bargaining Power of Suppliers: Medium-high.

- Large number of suppliers for various API Inputs .
- Clusters are normally dense with large number of suppliers as large clusters of pharmaceutical industry are present
- Suppliers include Chemical companies
 - Lack of formation of Clusters
- API's not supplied on time resulting in lead times
- People might switch to alternative systems if they don't trust Pharmaceutical manufacturers.

Threat of New Entrants:

- Technology and capital Intensive business
- · Pharmaceutical drugs are a necessity
- Huge marketing, sales, branding and regulation prevents new players from coming in.
- Know how of Indian conditions is a must for entry into the business

Rivalry amongst Existing Firms: High

- Tough Competition (>35 players) among existing players to capture market.
- · Strong segmentation is seen.
- Value is driven by relationship with doctors as well as the fact that the drug is branded or generic
- Disruptive innovation is observed in certain select cases.

- Lack of trust will further decrease the threat of new entrants
- Piracy will be rampant and nobody will invest in patents as there will be no barriers to entry in an environment of low trust.

Medium- High

- Buyers have rising disposable incomes due to growth of the economy
- Buyers have a range of segments and players to choose from
- Doctors act as significant influencers for Buyers
- Lack of trust gives the buyer to switch in favour of alternative products
- Calls for government to intervene to produce better medicines that might not be economically efficient
- Lack of trust gives the incentive to move out of the business – Sub optimal cluster performance
- No trust on regulatory regime resulting in low investment in drug research

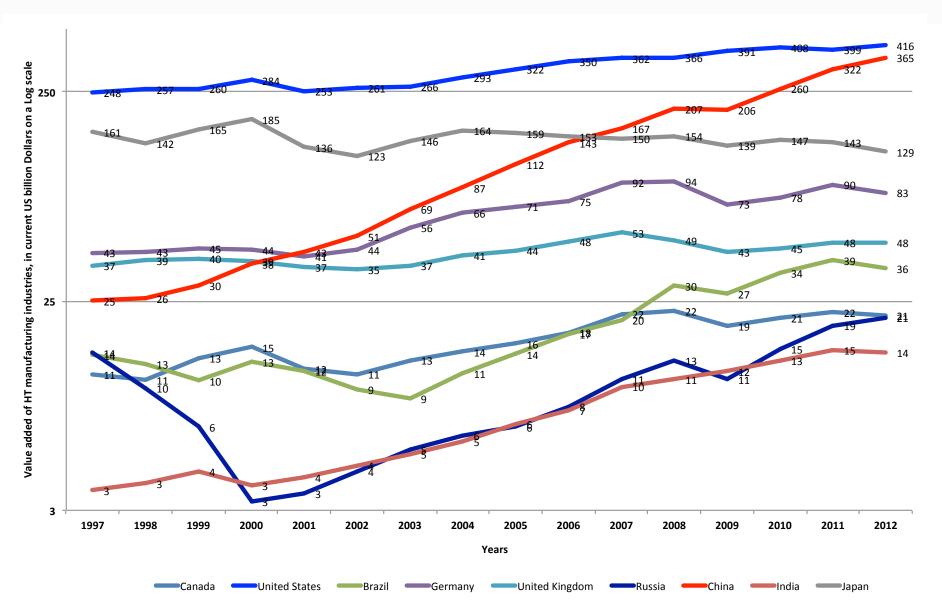
Threat of Substitute Products:

- Low- medium
- · People still rely on doctors for prescription
- Ayurveda, homeopathic systems not very viable
- There is tussle between generic and patented drugs..
- It will take a lot of time before India has a total patented regime

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HI- TECH MANUFACTURING IN BILLION OF USD



Source: http://www.nsf.gov/statistics/seind14/index.cfm/chapter-6/c6s1.htm



HI- TECH MANUFACTURING AS A % OF WORLD OVER THE YEARS

