

Five Forces Model Analysis of Traditional Chinese Medicine Industry

-- Take Tong Ren Tang as an Example

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Abstract

This paper uses the Porter's Five Forces Model to analyze the current competitive situation faced by Tong Ren Tang, and then summarizes its shortcomings, and proposes corresponding suggestions to promote the long-term development of Tong Ren Tang traditional Chinese medicine enterprise in the future.

Keywords

Porter's Five Forces Model; Tong Ren Tang; Traditional Chinese Medicine Industry.

1. Company Profile

Tong Ren Tang, as one of the first batch of Chinese long-established enterprises, insists on the main direction of TCM, takes the responsibility for promoting Chinese medicine culture, leading the trend of "green medicine" and improving the quality of human life and life, insists on the road of synergistic development of economic entities and cultural carriers, and has formed a business pattern of pharmaceutical industry as the core and health and wellness, medical and pension, commercial retail and international pharmaceuticals as the support. Tong Ren Tang has formed five major business sectors, including pharmaceutical industry as the core, health and wellness, medical care and pension, commercial retail, and international pharmaceutical industry as the support, and built a big health industry chain integrating cultivation, manufacturing, sales, medical care, recreation, and research and development. At present, Tong Ren Tang has always played a unique role in promoting the development of TCM and inheriting TCM culture.

2. Analysis of Tong Ren Tang based on Porter's Five Forces Model

The Porter's Five Forces Analysis model was proposed by Michael Porter in the early 1980s, which brings together a large number of different factors in a single model as a way to analyze the basic competitive dynamics of a firm. The five forces model identifies five major sources of competition, namely, the bargaining power of suppliers and buyers, the threat of potential entrants, the threat of substitutes, and competition from existing firms in the industry. It is from these five sources of competition that this paper analyzes Tong Ren Tang.

2.1. Threat of Potential Entrants

Although Tong Ren Tang is a giant in China's pharmaceutical manufacturing industry and a famous long-established company in the national traditional Chinese medicine industry with a large market share after years of accumulation, with the rapid development of the pharmaceutical manufacturing industry and the increase in demand from residents, the barriers to market entry have gradually decreased and more and more companies have started to develop and manufacture pharmaceutical products, and the potential competitors of Tong Ren Tang have increased to the traditional manufacturers of proprietary Chinese medicines,

such as The potential competitors of Tong Ren Tang have increased the strength and influence of western medicine manufacturers and Chinese and western medicine manufacturers, such as Qianjin Pharmaceutical, Xiuzheng Pharmaceutical etc, which has intensified the competition of Tong Ren Tang in the market.

Therefore, for new entrants who want to enter the pharmaceutical manufacturing industry with high industry barriers, then the impact of ordinary new entrants on the development of Tong Ren Tang is very small; however, Tong Ren Tang should be wary of the established companies with great competitiveness represented by Yunnan Baiyao and Jiuzitang, as well as companies with high technology and influence such as Tebao Bio and Yibai Pharmaceutical and have the intention to enter the pharmaceutical manufacturing market.

2.2. Threat of Substitutes

As one of the alternatives, health supplements are much more palatable than proprietary Chinese medicine and traditional Chinese medicine and have fewer side effects, which will have a great impact on consumers who pursue a sense of use. Moreover, as the state's control over the health supplement manufacturing industry continues to strengthen, the quality of the industry is improving and the number of users is increasing. In addition, health care products as tonic type products, in recent years, also by more and more people's trust and support, low and high age groups for health care products, health care products have a broad market prospect, in the future has a certain alternative role. At the same time, compared to proprietary Chinese medicines in China, chemical pharmaceutical preparations with fast efficacy and obvious therapeutic effects are obviously also widely recognized by the public. As a commodity, investors may prefer chemical drug preparations with higher returns . Moreover, most consumers will choose medical electronic devices to treat or eradicate diseases through surgical procedures and other methods than drug treatments with long lead times and slow results. Thus, it seems that surgical and device treatments and other non-pharmaceutical treatments are alternatives to proprietary Chinese medicines for fundamental treatment.

At present, the traditional TCM industry chain follows the development model of planting → production → sales , which has problems such as soaring and plunging prices of Chinese herbal medicines and difficulty in tracing the production sources of TCM products, while the closed-loop development model of Internet+TCM whole industry chain gradually develops into the integrated model of TCM production → circulation → sales → service, which fills the gap of the traditional TCM industry chain and the overall direction of human-centered It has formed a patient- and physician-centered industrial layout. Nowadays, with the continuous iterative development of mobile Internet, especially in the era of 5G, information technology such as Internet has expanded the space and content of medical services and built an integrated online and offline medical service model covering pre-consultation, consultation and post-consultation, which will lead to significant structural changes in TCM medical services.

In summary, substitutes are a greater threat to Tong Ren Tang's drug manufacturing; therefore, Tong Ren Tang should improve the relevance of its drugs, accelerate technology to improve the quality and usefulness of its products, and promote progress in terms of efficacy, service surface, and type while maintaining its experience.

2.3. Bargaining Power of Suppliers

The upstream suppliers of proprietary Chinese medicine products are herbal growers, and good herbs can make the products most effective. Therefore, Chinese medicine manufacturing companies pays extra attention to good quality herbs when selecting them, and the high cost of growing fine herbs requires higher prices, so suppliers have stronger bargaining power. Secondly, drugs are made by mechanical equipment, with the rapid development of high-tech, hardware, machinery and equipment domestically imported abound, machinery and

equipment inputs, can be completed through government procurement and government platforms, without incurring the cost of switching suppliers, so the bargaining power of machinery and equipment suppliers is not strong. Again, the pharmaceutical industry, the core technology suppliers are more concentrated, especially in Japan and the United States control is stronger. Although with the national policy support, China's pharmaceutical industry continues to develop, Tong Ren Tang in the lead. However, there is still a big gap with Japan and the United States in biotechnology, life science, medical diagnostic services and medical devices. Therefore, Tong Ren Tang still has more room for progress. Meanwhile, at present, suppliers are small in scale and low in industrial concentration, so it is difficult to form a strong bargaining alliance, while suppliers are very willing to cooperate with Tong Ren Tang due to its strong brand advantage in the industry, so Tong Ren Tang has an advantage in bargaining power and can carry out better cost control.

In summary, Tong Ren Tang has strong bargaining power over suppliers, but to a certain extent, problems such as unbalanced supply and demand of quality herbs and technical shortcomings still exist. Therefore, Tong Ren Tang still has carried out the improvement to core technology and establish its own technical team. Some low-tech production can be outsourced, making full use of advantages such as concentration of manufacturing machinery suppliers for their own development, while looking for other materials of the same quality and performance but at lower prices to reduce production costs.

2.4. Bargaining Power of Customers

Despite the current momentum of Tong Ren Tang in the industry, with the development of online shopping, most companies need to rely on major shopping websites to search for related products. As a result, manufacturers are generally subject to the control of the website terminals, and the bargaining power of the shopping website terminals is stronger. And all brands of drugs are generally mediated by pharmacies, making a large number of high volume products needed from brand owners to various local pharmacies and clinics. As a for-profit pharmacy, its own instinct for the pursuit of revenue will come into play, and it will definitely choose the higher-selling products as its own sales resources as much as possible. The supply of good quality, effective and high-impact drugs is less than the demand. We fully feel in the industry and company research, with brand effect, good quality brands in the face of the industry downstream will be able to grasp more bargaining chips, so the bargaining power of quality drug suppliers will improve.

From the above analysis, it can be found that there is an imbalance between supply and demand of high quality Chinese medicines in the country, the number of substitute products is high, and the cost of customers choosing other substitutes is comparable to the level of cost of choosing to spend on Chinese medicine products, so the relative bargaining power of customers is high and they can bargain with manufacturers on product prices and choose the one with lower product prices among different manufacturers of the same consumer product.

At the same time, the impact on the new crown epidemics will lead to a steep increase in demand for public health protection and an increase in the number of devices used by medical institutions to rescue and sustain life. Such products as masks, after the epidemic, must be worn when going out, which may lead to a significant increase in sales of such products at the end of retail pharmacies, while the public's increased awareness of self-protection will increase the stockpile of various types of cold / antiviral drugs, causing a significant increase in sales of such drugs for a short period of time, at this time, consumers have a strong desire to buy, manufacturers of such drugs to take the initiative to improve bargaining power. After the epidemic, sales will gradually fall back to a stable level, and the bargaining power affected by this will be relatively weakened.

Overall, the Chinese medicine manufacturing market is highly competitive, with a high degree of similarity in the products available in the market and a large scope for consumer choice. Currently, Tong Ren Tang has not developed unique differentiated products or access to proprietary resources, so it has low bargaining power with consumers.

2.5. Competition among Existing Companies in the Industry

Leading companies such as Jiuzhitang, Yunnan Baiyao, 999, Tianshili, and Xiuzheng have more than 80% of the market share and attention in China's drug brand industry, and among them, as the main competitors of Tong Ren Tang Jiu Zhitang, Yunnan Baiyao, and 999 each have their unique competitive advantages. As shown in Table 1.

Table 1. Short-term solvency analysis

	Jiuzhitang	Yunnan Baiyao	999	Tianshili	Xiuzheng
Advantages	Effective cost control and management, business restructuring resulting in higher core profits and high overall competitiveness in the industry.	With a confidential formula, the product has a monopoly, product quality is reliable	High brand influence and strong profitability and solvency.	Strong quality capability, precise efficacy and innovation	Brand image support, strong corporate technical capability and large audience.
Disadvantages	A high-cost, low-risk capital structure is not conducive to long-term business growth.	Insufficient brand promotion, single marketing method, poor R&D capability and small development potential	Excessive diversification is not conducive to pooling resources, and the disadvantages of individual responsibilities are becoming apparent.	Operating costs are high and the company is under pressure to operate.	Marketing System

At the same time, the shift of foreign product manufacturing and market focus has further intensified the competitive situation. China is a country with a large demand for drugs, and international giants such as Pfizer, Sanofi and Novartis have shifted their manufacturing and market focus to China, and countries such as Korea and Japan, which are in the same cultural circle as China, have also continued to seize market share with China internationally, which has further intensified the competitive situation between Tong Ren Tang and other companies.

3. Summary

In the Chinese pharmaceutical industry, Tong Ren Tang still maintains a dominant position, but with the increasing competition in the industry, its dominant position is always under threat, so we propose the following strategies based on the current development of Tong Ren Tang.

(1) Tong Ren Tang should deeply explore the new efficacy of the products and increase the innovation and secondary research and development of Chinese medicine. Around the original varieties of secondary research and development, innovative product reserves, famous varieties cultivation, fully explore the scientific connotation and potential value of products.

(2) Tong Ren Tang should cultivate new business. The "production → distribution → sales → service" models established by the company has built a good platform to solve the problems of soaring and falling prices of Chinese herbal medicines and difficulties in tracing the production sources of Chinese medicine products, which has filled the gap in the industrial chain of traditional Chinese medicine. In the future, Tong Ren Tang should continue to keep pace with the times, optimize the development model and cultivate new business models.

(3) Tong Ren Tang can use optimization of search engines, digital advertising, WeChat public number marketing, microblog official number marketing and webcasting to promote various products of Tong Ren Tang on a large scale and enhance product awareness.

(4) Tong Ren Tang should make full use of the "One Belt, One Road" strategy to expand foreign markets, such as selling products to Africa and other regions at lower copyright prices, providing experience and technical support to other countries, strengthening cooperation and taking responsibility, and contributing to the promotion of friendship between China and other countries along the "One Belt, One Road". The company should make full use of the "One Belt, One Road" strategy to expand foreign markets, such as selling products at low copyright prices in Africa and other regions, providing experience and technical support to other countries, strengthening cooperation, taking responsibility, and contributing to the promotion of friendship between China and other countries along the "Belt and Road".

(5) With the occurrence of the new crown pneumonia epidemic, the market potential for medical protective equipment is huge. It is expected that the demand for medical protective products such as masks, gloves and related preventive drugs in China will grow rapidly. To grasp the development opportunity, Tong Ren Tang should further improve product quality, increase the development layout and expand the international market on the basis of enhancing product development.

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