

## Amgen – Five Forces

**Domains:** Leadership and Organizational Management, Individual and Organizational Behavior

**Method of Research/Model:** Case study, Porter's Five Forces

### Overview:

Utilizing Porter's Five Forces (power of the buyer, power of the suppliers, power of rivalry, threat of entry, and the power of substitutes), we analyzed Amgen, a pharmaceutical company.

### Findings:

**Power of Buyers:** We consider biopharmaceuticals to be neither a normal nor inferior good, as the decision of how much to buy and when is not influenced by income but by need (a person having a disease or illness). We also consider biopharmaceuticals to be inelastic, possibly even perfectly inelastic, until a biosimilar medication comes on the market. At that time, demand will be influenced by affordability (income) and price (both of Amgen's goods and competitors' goods). Most importantly for the biopharmaceutical industry, buyer power is limited due to buyers' limited product knowledge. Identifying the "buyer" of biopharmaceutical products is complicated. Buyers in the U.S. are primarily pharmaceutical wholesale distributors who then distribute the products through a variety of channels. The decision to utilize a biopharmaceutical medication is influenced by individuals, providers, healthcare systems, and governments, all of whom possess different levels of knowledge.

**Power of Substitutes:** Biopharmaceutical medications compete with each other and with other substitute products including generic medications, medical devices, surgeries, alternative therapies, and hospitalizations. The Biologics Price Competition and Innovation Act (BPCI Act), part of the Patient Protection and Affordability Act (Affordable Care Act) of 2010, reduces the period of time a pharmaceutical corporation has to recoup research and development costs. Competitors introduce biosimilar products using the FDA's fast track approval process, only allowing the reference product developer 12 years of exclusive rights. These regulations are an attempt to increase competition and help with cost containment. Amgen's competition from substitutes should be a growing concern for the company. As patents expire and biosimilars come on the market, Amgen may be looking at decreased profits in the near future. To combat this HL Consulting recommends that Amgen continue to invest in research and development of new biopharmaceuticals, engage in value-based pricing models, and develop biosimilars. These recommendations will increase Amgen's competitive position in the rapidly changing biopharmaceutical market.

**Power of Suppliers:** Supplier power is directly influenced by the number of suppliers of input products. Specialized inputs from limited manufacturers will have a greater impact on the negotiating power, in the manufacturers' favor, especially if there are high costs associated with

switching input manufacturers. These switching costs can include contract negotiation costs, specialized equipment for testing inputs, and any costs associated with finding a supplier. In the biopharmaceutical field, Amgen deals with two distinct types of suppliers: 1) the suppliers of generic chemicals and 2) suppliers of more specialized inputs. Amgen currently acquires most raw materials and undifferentiated chemicals from unaffiliated third-party suppliers. These undifferentiated materials cause no concern based on the number of suppliers available with whom Amgen can contract. However, several raw materials, medical devices, and components that are used in Amgen's production lines are specifically cited in its drug applications with regulatory agencies. This means that Amgen must obtain these supplies from this single source, until another supplier can be vetted by the regulatory agency involved.\

**Threat of Entry:** The threat of entry by new competition is low to medium for the biopharmaceutical industry because multiple barriers exist. Traditional barriers identified by Porter including capital requirements, economies of scale, technological expertise, product differentiation, limited access to distribution channels, and government regulations restrict new market entrants. The cost of entering the biopharmaceutical market as a new manufacturer of a novel biopharmaceutical agent is prohibitively high for small start-up biopharmaceutical firms. Established firms, having developed, manufactured, and marketed successful biologic medications, can more easily attract capital, or self-finance, to produce novel medications or biosimilars. Large, established manufacturers benefit from economies of scale with respect to nearly all functions including manufacturing, distribution, marketing, sales, research, and development. When trying to enter the market for developing new or bio similar medications, established companies can capitalize on previously implemented systems, decreasing their barriers to entry.

**Rivalry:** Rivalry in a market is based on: 1) the concentration of the market; 2) price, quantity, quality, or service competition; 3) switching costs; 4) information; 5) degree of differentiation, and 6) government constraints. Amgen faces direct producer-producer rivalry in the market as customers are limited to those who need the medication. Due to patent laws, Amgen will be protected from direct competition for new biopharmaceuticals for several years (discussed below), but the competition to between producers is constant as all companies strive to produce the best, new medication the fastest. Novel medications result in little direct competition, essentially a monopoly. However, once a medication is introduced the doors open for additional, similar-but-new medications. Sometimes, this will create price wars and impact Amgen's profits. Consumer-producer rivalry can also be seen in the biopharmaceutical market through the bargaining power of managed care organizations and Medicare. Managed care organizations want to pay the least amount possible for medications and will aggressively negotiate with producers. Managed care organizations can significantly impact Amgen's profitability and market share if they choose not to add one of Amgen's products to their formularies.

**Lessons Learned:**

Application of the five forces to a real company allowed us to see how these different aspects actual affect an organization.

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