

Pandemic demand creates growth opportunity for domestic vaccine companies

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Any pandemic sends shockwaves through markets, forcing companies to adapt to surging demand. New University of Minnesota research highlights the differences in how domestic and foreign firms reacted amid the 2009-10 H1N1 pandemic, offering insights that resonate today during the current global supply chain troubles amid the COVID-19

pandemic.

A forthcoming paper in *Management Science*, co-authored by U of M Carlson School of Management Associate Professor Anant Mishra, Arzi Adbi of the National University of Singapore and Chirantan Chatterjee of the University of Sussex, used the H1N1 pandemic to investigate the impact of a global demand spike on domestic and foreign-based [vaccine](#) firms. The research team analyzed monthly vaccine sales in India between 2007 and 2013 by 29 firms (8 foreign and 21 domestic). They found:

- The high demand created an opportunity for more domestic firms to enter the influenza vaccine market, which was heavily dominated by foreign firms before the pandemic.
- Foreign firms tended to focus on areas with existing health infrastructure and avoid areas with political differences between the regional and federal levels of government.
- Domestic firms adapted better to serving regions with political differences and less health infrastructure.

Mishra states the findings emphasize the perils of overreliance on foreign firms and global supply chains at the expense of developing homegrown firms and domestic supply chains in times of a worldwide health crisis, like the COVID-19 or H1N1 pandemics.

"Domestic firms may not necessarily have the same scale benefits as a multinational company, but I think supporting your own domestic industry is crucial because in moments of crisis, domestic firms are more likely to cater to local needs and focus on their home base, compared to foreign firms which may have more lucrative opportunities elsewhere," said Mishra.

Before the H1N1 pandemic, there was low demand in India for the

influenza vaccine because the vaccine was optional. Domestic firms largely manufactured government-mandated vaccines for other diseases while foreign firms led the flu vaccine market. However, when H1N1 brought a surge in demand, domestic firms recognized the untapped potential in the flu vaccine market and decided to enter this market.

"During a pandemic, foreign firms are being pulled in different directions worldwide," said Mishra. "Because the willingness to pay is likely to be smaller in emerging economies than in developed economies, the foreign firms with established capabilities are likely to pay attention to developed locations. This, in turn, creates a business opportunity for domestic firms to serve the market in underdeveloped locations."

The research team found that while both foreign and domestic firms expanded their business across India, foreign firms tended to concentrate on more developed regions with adequate [health infrastructure](#) and without political misalignment.

"Friction manifests in the critical junctures, especially in the moments of crisis," said Mishra. "Foreign firms tend to avoid getting into the markets where there's friction between the federal and local government, but domestic firms are homegrown, and they probably have a lot more understanding of regional politics and the connections to make it work."

After the H1N1 pandemic ended, the foreign firms still led the flu vaccine market, but their dominance had diminished because the market became more competitive. Joining the market paid off for some domestic firms, like Serum Institute of India (SII), which later became a supplier to other countries.

"SII now has a very sustained vaccine manufacturing, research and development capacity," said Mishra. "Even after the H1N1 pandemic ended, the Indian vaccine firms were still doing well, and they continue

to do well."

More information: Arzi Adbi et al, How do MNEs and Domestic Firms Respond Locally to a Global Demand Shock? Evidence from a Pandemic, *SSRN Electronic Journal* (2021). [DOI: 10.2139/ssrn.3936089](https://doi.org/10.2139/ssrn.3936089)

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