



## Research on Yunnan Baiyao's Competitive Strategy Based on the Whole Industrial Chain

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### Abstract

This paper takes Yunnan Baiyao as the research object, applying strategic management theory and analysis model. Firstly, the paper analyzes the industry of Yunnan Baiyao, and comprehensively analyzes the external environment of the enterprise by PEST analysis method, and then analyzes the microscopic environment of the industry by Porter Five Forces model. Secondly, the paper analyzes the internal environment of Yunnan Baiyao by SWOT model. According to its advantages and disadvantages, the most suitable competitive strategy for the development of Yunnan Baiyao will be proposed. According to which, five suggestions are finally put forward: First, to perfect the whole industrial chain; Second, to establish a research and development platform; Third, to create new core products; Fourth, to use the "internet +" model; Fifth, to actively undertake social responsibility of the enterprise. Through the analysis of this paper, it can be concluded that differentiation strategy is the most suitable enterprise strategy for the rapid and healthy development of Yunnan Baiyao, and the implementation of differentiation strategy can make Yunnan Baiyao further enhance its core competitiveness and then achieve the strategic goal of the enterprise.

**Keywords:** *Whole Industrial Chain, Pharmaceutical Industry, Yunnan Baiyao, Porter Five Forces, Competitive Strategy*

### 1. Introduction

With the rapid development of China's economy, people's living standards are improving day by day, and people's health awareness is also increasingly improving. As a result, the pharmaceutical industry is developing rapidly, presenting diversification and modernization. With the gradual deepening of the reform of the medical system, the policy of standardizing and encouraging the healthy development of the medical industry and the continuous improvement and implementation of laws and regulations have greatly promoted the healthy development of China's pharmaceutical industry. At present, the development of China's pharmaceutical industry has the characteristics of high technology, high returns and high risks, which make the pharmaceutical industry have a very good aggregation, which means capital, talents, technology and other resources can be integrated well. These factors have laid a good development prospect for the pharmaceutical industry. With the development of science and technology, biopharmaceuticals and natural traditional Chinese medicines will become the new development focus of the Chinese pharmaceutical industry. Pharmaceutical enterprises with characteristic drugs will be more competitive in the future market.

Yunnan Baiyao Group Co., Ltd. (hereinafter referred to as "Yunnan Baiyao") is the first listed company in Yunnan Province. At present, it is a comprehensive group company that integrates drug production, research and development, and sales. At present, Yunnan Baiyao is already one of the top 100 enterprises in Yunnan Province, and is also the first batch of innovative enterprises in China. Its sales volume and stock market have been ahead of China's pharmaceutical industry for many years. Currently, Yunnan Baiyao is making great efforts to construct the whole industrial chain of the pharmaceutical industry, further reorganizing the industrial structure and product structure of Yunnan Baiyao through the construction and improvement of the whole industrial chain. So far, the competition in China's pharmaceutical industry is becoming increasingly fierce with the implementation of medical reform, thus bringing great challenges to Yunnan Baiyao. Therefore, under such background, it is of great significance for the future development of Yunnan Baiyao to analyze its internal and external environment, as well as selecting and formulating appropriate competition strategies.

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This article takes "Yunnan Baiyao" as the research object, based on the perspective of the whole industrial chain, uses common analysis methods in strategic management, and puts emphasis on the analysis of the industry environment and competitive environment in which the enterprise is located. The article will also make internal analysis of the enterprise and define the future competitive strategy from the internal perspective of the enterprise and based on the whole industrial chain. In combination with the actual situation of the enterprise, some suggestions will be proposed, hoping to provide reference theory for other pharmaceutical enterprises.

The concept of whole industrial chain was first proposed by COFCO in China as a development pattern. The whole industrial chain is consumer-oriented, and food safety can be realized from the supply of products from the source of the industrial chain to the end of the industrial chain, which means, a complete industrial chain system consisting of planting and purchasing, trade/logistics, raw-food materials/raw-feed materials and biochemical, breeding and slaughtering, food processing, distribution, brand promotion, food sales and other links covered from the field to the dining table. From the vertical perspective, from upstream suppliers in the industrial chain to downstream customers, one link by one link, to realize the integration of production and marketing. From a horizontal perspective, we can continuously expand the diversity and relevance of industries and realize diversified development of industries. Looking at the whole industrial chain as a whole, it is a development mode that can maximize the benefits of enterprises. In order to realize the whole industrial chain, it is necessary to plant and purchase at both ends, namely upstream and distribute products downstream. The whole industrial chain model makes the upstream and downstream become a community of interests. All links in the industrial chain must be market and consumer oriented.

The concept of "whole industrial chain" was first proposed by COFCO, and thus a research boom of "whole industrial chain" was set off in the academic circle. Among them, Yang and Gan (2011) hold the view that the whole industrial chain is a management mode in which core enterprises integrate the upstream and downstream enterprise resources through capital operation to form an industrial chain system. Through the management of the system and effective control of key links, core enterprises finally make their voice heard, and obtain bargaining power and sales dominance in the industry and market to maximize the value of the industrial chain and the benefits of enterprises and customers. Feng, Lan, and Zhou (2012) believe that enterprises should base on their own core competitive advantages in the process of building the whole industrial chain and make dynamic adjustments in the management and control methods of enterprises to further transform the strategic activities of enterprises into aggregation effects, so as to ensure the sustainability of overall value creation. Li (2013) proposes that the whole industrial chain model is reasonable for modern Chinese enterprises to become bigger and stronger and to enhance their influence. However, Chinese enterprises must not blindly follow this model. They must clearly recognize the shortcomings and drawbacks of this model and avoid falling into trouble and crisis. The author also believes that the core of the "whole industrial chain" is to integrate industrial chain resources, so as to improve the enterprises' speaking right and the dominant power in the distribution of benefits. However, integration does not necessarily need to be carried out within the same enterprise, and the integration method within the scope of virtualization organization may be a more reasonable method. Xu, Li, and Wang (2014) hold the opinion that the "whole industrial chain" strategy does not have any overwhelming advantages in theory. In practice, it is found that this strategy is highly dependent on the enterprise's ability and internal governance mechanism. The "whole industrial chain" model is the result of long-term evolution, not a simple vertical scale expansion. The model has very high requirements on the ability of enterprises in all aspects. If the enterprise blindly imitates and expands excessively under the circumstances of lacking relevant capabilities and experience and having imperfect internal governance mechanism, it may lead the enterprise to get into trouble ahead of time. In addition, the authors also believe that the core of this model is to replace external transaction costs with internal cost management, and to improve the core competitiveness of enterprises through the complementary advantages of upstream and downstream enterprises. Chen, Guo, and Wei (2016) put forward that in the process of the integration of Internet technology into the whole industrial chain model, through market-oriented reform and information construction, the development model of traditional Chinese medicine industrial chain has been broadened,

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and the competitive relationship between the stakeholders in the original industrial chain and the inheritance and dissemination pattern of Chinese medicine culture have been changed, so the sustainable development of Chinese medicine enterprises has been further boosted.

## 2. Objectives

Through the study of Yunnan Baiyao's competitive strategy, the author hope it can provide some theoretical reference and guidance for Chinese pharmaceutical enterprises to formulate their competitive strategy.

## 3. Materials and Methods

Enterprise strategic management refers to an enterprise or organization that has a long-term and overall development direction, goals, tasks and decisions for its development within a period of time, as well as the decision-making and management art for the allocation of resources of the enterprise or organization.

The basic framework of competition strategy refers to the fierce competition in the external environment during the development of enterprises. Every enterprise should consider how to survive and develop better in this market obeying law of the jungle during its development. Professor Michael Porter's competition strategy theory points out that enterprises develop in a combination of five forces, namely, the ability of existing competitors, the ability of potential competitors, the bargaining power of suppliers, the bargaining power of buyers and the threat of substitutes. Based on the analysis of this competition intensity, three strategies for enterprises to choose are put forward: cost leadership strategy, differentiation strategy and specialization strategy.

(1) Theoretical Research Method: This article will use Porter's Five Forces Model, SWOT and PEST analysis methods to analyze the development strategy of Yunnan Baiyao Group Co., Ltd., so as to put forward development suggestions for China's bio-pharmaceutical enterprises as well as promoting the development of Yunnan Province and even the national pharmaceutical industry.

(2)Literature Research Method: By reading strategy related books, literature and other relevant theoretical knowledge about development strategy to know and understand the strategic knowledge involved in the enterprise, and to provide theoretical foundation for the competition strategy of Yunnan Baiyao Group Co., Ltd.

(3) On-the-spot Investigation Method: By visiting Yunnan Baiyao Company to understand its development background in more detail and by visiting the logistics center and its production line to know more about its detailed situation so as to better consider things from the point of view of enterprise itself.

## 4. Results and Discussion

### 4.1 Analysis on Internal and External Environment of Yunnan Baiyao

#### 1) Using PEST to Analyze the Industry Environment

Political Environment Analysis , With the promotion of the 13th Five-Year Plan by the state, China has increased its investment in medical treatment and public health. In particular, the state should energetically develop the traditional Chinese medicine industry, implement the inheritance and innovation project for traditional Chinese medicine, promote the organic combination of traditional Chinese medicine and clinical scientific research, strengthen the application of appropriate technologies of traditional Chinese medicine, and give full play to the important role of traditional Chinese medicine in the "prevention of diseases" as well as the treatment and rehabilitation of serious diseases. This provides a huge development opportunity for Chinese medicine enterprises. The increase of government's investment will promote the development of the basic medicine market, thus pushing forward the innovation of the medicine industry and improving the competitive position of China's medicine industry in the world. It is conducive to developing Yunnan Baiyao towards the world.



**Economic Environment Analysis** , The economic environment of an enterprise refers to the social and economic environment faced by the enterprise, as well as its operation status, development trend, industrial structure, logistics, etc. Among them, the social and economic environment mainly consists of GDP level, people's consumption level, inflation rate, economic formulation and economic structure. According to the data of China's Bureau of Statistics, China's GDP by 2018 was 90030.9 billion yuan, up 6.6% year on year. Economic growth has laid a good foundation for the development of the pharmaceutical industry. With the rapid growth of China's economy and the gradual improvement of the economic system as well as the continuous improvement and perfection of China's social system, the living standards of the people are continuously improving. per capita disposable income is getting higher and higher, and the people's medical expenditure will also gradually increase, thus promoting the better development of the medical market and the development of Chinese medical enterprises.

**Social Environment Analysis** , The main factors that compose the social environment are population structure, population base, age structure, consumption structure, etc. The population base can directly affect China's market capacity, and the larger the population base, the greater the impact will be brought on the market. Age structure can determine the types of goods consumed in the market and the marketing methods used. By 2018, China's population has reached 1,395.38 million with a fairly large population base, which means that China has a large market capacity. Moreover, the imbalance of China's population age structure is becoming more and more serious. The aged tendency of population is also becoming more and more serious, and the elderly have relatively high demand for pharmaceutical products, which determines the large demand for pharmaceutical products in our country. With the increasing living standards of the Chinese people and the increasingly serious aged tendency of population, China's pharmaceutical industry has seen a certain increase in profits.

**Technical Environment Analysis** , Technical environment factors mainly include the total amount of national research funding, the research and development expenditure of the industry in which the enterprise is located, intellectual property rights and patent rights, and the new technologies, new materials, new processes and application effects of the industry in which the enterprise is located. The pharmaceutical industry is a high-tech industry, which is mainly reflected in the research and development of new drugs and the technical improvement of drug production, and the research and development of new drugs require the application of biology, chemistry and other disciplines, so the pharmaceutical industry needs more investment in innovative research. On the one hand, it is necessary to meet the requirements of the country, such as quality and quantity. On the other hand, it is also necessary to introduce more developed production technologies to improve production quality, production efficiency and technology. Currently, the Chinese government is increasing its investment in research and development, encouraging enterprises to continuously innovate, improving their research and development capabilities and promoting technological development.

## 2 ) Analysis by Using Porter Five Forces Model

The pharmaceutical industry is closely related to people's life and health, so the national control over the pharmaceutical industry is very strict. The pharmaceutical industry has features of high skill, high technology and high capital cost. Therefore, it is not easy to enter the pharmaceutical industry as there are relatively high requirements for new entrants to enter this industry. The state has strict business requirements on the production and operation of the pharmaceutical industry. Pharmaceutical production enterprises must pass relevant state business licenses and certifications before they can produce and market them. For enterprises, the research and development as well as production of pharmaceuticals have relatively high requirements on technology and industry, and long-term research and development as well as accumulation of practical production experience are needed before mastering. Drug research and development need a large amount of funds to support, and enterprises need a large amount of investment in research and development, but the production of a drug coming from research and development to the market is a long process, which requires a large amount of funds. Therefore, for pharmaceutical companies



that already have well-known brands, there are few medicines in the market having ability to compete with them. As a result, considering the characteristics of the pharmaceutical industry, entering the pharmaceutical industry needs to face barriers such as capital, technology, brand and policy, so the threat of new entrants to the pharmaceutical industry is relatively low.

Almost all industries are facing the threat of substitutes, as is the pharmaceutical industry. The rapid development of social economy has also promoted the progress of science and technology, so similar products may also appear. Yunnan Baiyao Group is an enterprise with diversified products, so it faces the threat of more than one substitute. However, its main products Baiyao series are protected by national patents because their secret recipes are kept unknown. Moreover, its mature development has established a good brand effect and has formed a monopoly position in similar products. Therefore, its main products Yunnan Baiyao series are not so much threatened by substitutes. However, Yunnan Baiyao has other products besides its main products, which have relatively low popularity due to their short development period and insufficient promotion efforts, so these kinds of products are much more threatened by their substitutes. Generally speaking, the threat of substitutes to Yunnan Baiyao's main products is relatively low, but the threat of substitutes to its other products is relatively high, so further brand publicity is needed.

In terms of the bargaining power of buyer, Yunnan Baiyao's main products Baiyao series are mainly aimed at people with specific needs, such as medicines for treating traumatic injuries and minor wounds. Its main products Baiyao series have already formed a good brand effect in the market, and are protected by the national patent for a long time, besides, standardized and specialized management specifications have been formulated in the enterprise, so the bargaining power for buyers to purchase Yunnan Baiyao series is relatively weak. However, other products of Baiyao have less brand influence and face more diverse consumer groups, so consumers have more products to choose from, and buyers have stronger bargaining power. At present, with the implementation of the national medical reform, the implementation of the two-vote system has also affected the bargaining power of the buyers. But generally speaking, the bargaining power of the buyer is relatively weak for Yunnan Baiyao.

For Yunnan Baiyao, the supplier refers to the supplier of raw materials and auxiliary materials, that is, the grower of traditional Chinese medicine. At present, Yunnan Baiyao Group has set up planting bases for its products in Wenshan, Wuding and other places for direct internal supply. At the same time, the company also has a special platform for purchasing raw materials. Its Wenshan planting base is a notoginseng GAP planting base. GAP is a GMP supporting project implemented by Chinese traditional medicine pharmaceutical enterprises, a product of the combination of Chinese agriculture and medicine, and a green and sunny project to ensure the quality of Chinese traditional medicine. The Wuding planting base is mainly used to study planting technology and promote planting, as well as establishing an effective medicine guarantee system. From this perspective, Yunnan Baiyao has already built an industrial chain in its upstream to support its production development. Therefore, for Yunnan Baiyao, the bargaining power of the supplier is also relatively weak.

By 2018, Yunnan Baiyao had business income of 26.708 billion yuan and a total profit of 3.826 billion yuan. All management indicators were healthy and stable. Yunnan Baiyao holds a total of 23 enterprises, mainly covering Yunnan Baiyao series, notoginseng series and Yunnan characteristic traditional Chinese medicine series. In terms of drugs, main products such as Yunnan Baiyao aerosol, Yunnan Baiyao wound dressing and Yunnan Baiyao ointment continue to rank first in the sales volume of similar products in China. In terms of daily chemicals, in 2018, Yunnan Baiyao toothpaste sales volume was ranked the second in the market share of similar products and ranked the first in national brands. Yunnan Baiyao has the strength that cannot be underestimated in China. It was ranked the sixth in the TOP100 list of Chinese traditional medicine enterprises in 2018. Although it has a high ranking among Chinese traditional medicine pharmaceutical enterprises, it still has some competitors that cannot be underestimated, such as China traditional medicine group corporation, Guangzhou pharmaceutical group, Shanghai fosun pharmaceutical group, etc. These groups all have their well-known brands, and their product development has diversified characteristics; additionally, they all begin to develop overseas



markets. Therefore, although Yunnan Baiyao Group is not weak in competitiveness in the industry, it still has strong competitors.

#### 4.2 Financial Analysis of Yunnan Baiyao

##### 1) Debt Paying Ability

**Table 1** Advance Payment

Project	2014	2015	2016
Turnover Rate of Accounts Receivable (Times)	34.48	25.72	21.66
Turnover Days of Accounts Receivable (Days)	10.44	14	16.62
Accounts Receivable	55488	105774	101204
Advance Payment	28895	33330	46614

Date sources: <http://www.cninfo.com.cn/new/index>

According to the balance sheet of Yunnan Baiyao from 2014 to 2016, the accounts receivable of Yunnan Baiyao Group have increased year by year, which is mainly related to the continuous development of the company's scale, the continuous increase of operating varieties, the increase of sales, the increase of downstream units, and the long payback period of some medical institutions. The turnover rate of accounts receivable is gradually decreasing, and the turnover days are increasing, indicating that the recovery rate of accounts receivable of enterprises is decreasing, while long-term debts are relatively more, and the risk of bad debts is increasing.

From the table below, we can see that the accounts payable has been increasing in terms of the deferred revenue, which shows that the company has always increased the purchase volume and has a larger upstream bargaining power, occupying more upstream funds year after year. This is a good thing for shareholders and creditors. See table 2 for details.

**Table 2** Deferred Revenue

Project	2014	2015	2016
Accounts Payable	2051600000	2469990000	3195640000
Deferred Revenue	410850000	424750000	1069910000

Date sources: <http://www.cninfo.com.cn/new/index>

**Table 3** Short-term solvency

Project	2014	2015	2016
Cash Ratio	52.36	57.67	49.89
Asset-liability Ratio	30.88	29.87	35.56
Long-term Debt Ratio	0.04	0.03	0.02
Ratio of Long-term Assets to Long-term Funds	20.15	17.64	15.89
Proportion of Fixed Assets	10.47	8.77	7.46
Current Ratio	3.57	3.61	3.28
Quick Ratio	2.3	2.41	2.25

Date sources: <http://www.cninfo.com.cn/new/index>



From the short-term solvency indicators in the above table, we can see that current ratio, quick ratio and cash ratio of Yunnan Baiyao have decreased in 2016 compared with previous years. The cash ratio in 2016 was 48.89, which indicates that Yunnan Baiyao's short-term solvency is declining. However, it is worth noting that although its short-term solvency indicators have declined from the perspective of the trend, its value is still at a relatively high level, which can ensure that enterprises can repay short-term debts. See table 3 for details.

### 2) Operational Capability

**Table 4** Turnover

<b>Inventory</b>	<b>4983310000</b>	<b>5625010000</b>	<b>6918030000</b>
Turnover Rate of Inventory (Times)	2.7	2.72	2.51
Turnover Days of Inventory (Days)	133.44	132.55	143.64

Date sources: <http://www.cninfo.com.cn/new/index>

From the perspective of inventory, a large increase in inventory and raw materials will lead to a large increase in turnover days of inventory. However, on the premise that the prices of raw materials such as Panax notoginseng and other Chinese herbal medicines are rising sharply year by year, it is also a wise move to collect and store them, which can effectively control the cost when the prices rise in the following year. However, the increase in sales volume cannot keep pace with the increase in inventory, which will lead to a decrease in turnover rate of inventory and increase the pressure on enterprises' capital. Yunnan Baiyao should improve its inventory management system, reduce its inventory and increase turnover rate of inventory to reduce costs. At the same time, Yunnan Baiyao should perfect the whole industrial chain, increase inventory circulation and reduce inventory ratio.

**Table 5** Asset-liability Ratio

<b>Project</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Asset-liability Ratio	30.88	29.87	34.401
Average Asset-liability Ratio in the Industry	40.57	37.38	35.9575

Date sources: <http://www.cninfo.com.cn/new/index>

From the perspective of debt financing, we can see that Yunnan Baiyao's debt financing rate is higher than that of the international common debt financing rate, that is because Yunnan Baiyao's development cycle is relatively short, so its dependence on debt is stronger. Thus, it can be seen that Yunnan Baiyao still has more room for development in the future. See table 5 for details.

### 3 ) Profitability

From the analysis of the income statement, it can be seen that the profit margin of Yunnan Baiyao's total assets in 2016 is 11.92%, lower than 14.28% in 2015, which indicates that the enterprise's ability to make profits from unit assets is declining, and the efficiency of asset utilization is decreasing. At the same time, the profit margin of the enterprise's main business will decline slightly in 2016, while the cost rate of the main business will rise slightly in 2016, which will have a negative impact on the profitability of the enterprise. In 2016, the return on equity of Yunnan Baiyao was 22.68%, which was lower than that of 2015. This shows that the return brought by the enterprise to shareholders is lower, and its profitability is lower. Yunnan Baiyao should pay more attention to the development of its main business. The decrease in gross profit margin may be related to the increase in product cost. Yunnan Baiyao should reduce costs and improve its main business capability. See table 6 for details.

**Table 6** Profit

Project (%)	2014	2015	2016
Profit Margin of Total Assets	15.28	14.28	11.92
Profit Margin of Main Business	29.67	30.03	29.18
Net Profit Margin of Total Assets	17.09	15.47	13.36
Profit Margin of Operating	15.04	15.28	14.81
Cost Rate of Main Business	69.84	69.47	70.14
Return on Net Assets	22.41	20.63	18.57
Return on Equity	287.68	321.8	344.98
Return on Net Assets	26.52	24.77	22.68
Return on Assets	18.33	17.37	14.61
Proportion of Main Profits	191.85	193.69	192.46
Gross Margin	30.16	30.53	29.86

Date sources: <http://www.cninfo.com.cn/new/index>

From the above table, it can be seen that the gross margin of Yunnan Baiyao has been very stable. Even if the income in 2015 increases at a high rate, the gross margin does not follow the increase and remains at about 30%, thus showing that the cost also follows the increase. In recent years, the price of panax notoginseng, which has great influence on the cost, is stable, and the gross margin is still not improving, which indicates that the sales volume of Yunnan Baiyao Company continues to slow down.

#### 4.3 SWOT Analysis of Yunnan Baiyao

##### 1 ) Advantage (S) Analysis

Yunnan Baiyao has an exclusive secret recipe, and this secret recipe is protected by the state so that it will not be imitated by others, making the relevant products produced by Yunnan Baiyao Company unique in the market.

Yunnan Baiyao is located in Yunnan Province, where abundant animal and plant resources are well-known as "animal and plant kingdom" and "drug treasure-house". Abundant animal and plant medicine resources have provided abundant research and development materials for the development of Yunnan Baiyao.

Traditional ethnic medicine has provided a profound foundation for the development of new drugs. As there are many ethnic minorities in Yunnan Province and most of them have their own unique formulas, the existence of these folk traditional medicines has provided a profound foundation for the development of Yunnan Baiyao's drugs.

Yunnan Baiyao is an enterprise with strong financial backing. From its annual report, we can see that Yunnan Baiyao has no debts in recent years, and its operating income is increasing year by year, which indicates that Yunnan Baiyao has abundant funds for the research, development, production and innovation of future products.

##### 2 ) Weaknesses (W) Analysis

There are insufficient investment in research and development funds and insufficient development of new drugs. Yunnan Baiyao has invested less in pharmaceutical research and development, lacks of innovation in research and development, and lacks of communication and cooperation with domestic and other research institutes.

Relying too much on Yunnan Baiyao series, it makes Yunnan Baiyao's product line is relatively single. Besides, raw materials have great influence on the development of its products. Although it has other products, they are not good enough to become its core products.





### 3 ) Opportunity (O) Analysis

According to relevant data, China's elderly population will increase from 250 million to 500 million by 2050. The aging population is the main group of medical consumption, and the rapid growth of the aging population is an important reason to promote the development of the pharmaceutical industry.

The development of Internet and e-commerce has not only brought some impact on the traditional manufacturing industry but also brought opportunities. Through promoting and selling daily chemical products on the Internet, Yunnan Baiyao can attract more consumers to buy its products.

With the improvement of people's living standard, people's living pressure is also gradually increasing. The number of people with chronic diseases and sub-health status are increasing, thus people's concept of health preservation is gradually taking shape, which has created great opportunities for the great health industry.

Traditional Chinese medicine is increasingly recognized by the public, and more and more people will choose traditional Chinese medicine or proprietary Chinese medicine, which brings new opportunities to 100-year-old brand enterprises such as Yunnan Baiyao.

### 4 ) Threat (T) Analysis

The scarcity and rising prices of raw materials of traditional Chinese medicine, especially rare medicinal materials, have greatly increased the pressure of the Chinese medicine industry on resource and cost management.

In China, the price of medicines has been further controlled due to the further strengthening of the management of food and medicines, resulting in a drop in the price of medicines. This is a challenge for the pharmaceutical industry because the reduction in drug prices has led to a decrease in corporate income, so enterprises need to strengthen their cost control in order to obtain greater profits.

### 5) SWOT Matrix

**Table 7** SWOT Matrix

Internal condition	Advantage S Brand advantage Regional advantage Advantages of Traditional Ethnic Medicine Diversification advantage Capital advantage	Weaknesses W Insufficient investment in research and development Over-dependence on Yunnan Baiyao series
External condition	Opportunity O aged tendency of population Development of the internet Improvement of people's living standard Success of mixed reform	WO strategy Implement innovation strategy Implement diversification strategy and develop new products Promote core competitiveness
Threat T	ST strategy High cost of raw materials Decrease in the price of products Strict cost control Improve production process	WT strategy Speed up the process of internationalization Improve bargaining power on the upstream and downstream



		Integration of resources
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Through the analysis of four conditions of Yunnan Baiyao, four strategic alternatives are obtained, namely SO strategy, WO strategy, ST strategy and WT strategy.

SO strategy: a strategy that combines internal advantages and external opportunities of Yunnan Baiyao. Yunnan Baiyao should further give play to its brand advantages, implement brand strategy and try its best to enhance brand value. At the same time, the company should implement the "internet+" pattern, seize the existing development opportunities, combine internet technology with companies, and better serve consumers and bring new growth points of interests through the Internet. The company of Yunnan Baiyao is located in somewhere with rich resources, which has brought advantages to the company, so that it can give full play to its own advantages, introduce new products with characteristics and improve its competitiveness. From the above analysis, it can be seen that Yunnan Baiyao has outstanding advantages and opportunities. It is necessary to make full use of the existing favorable conditions to build a whole industrial chain and connect the upper and lower reaches in series to form a closure. However, the implementation of this strategy also has certain risks. The development of new products needs to improve its own research and development capability and requires a large amount of investment, which may bring certain financial pressure to the company.

WO strategy: a strategy that combines the disadvantages and opportunities of the company. Yunnan Baiyao currently invests less on R&D and innovation, so it should increase its investment in R&D and innovation. At present, the core products of Yunnan Baiyao all rely on the secret formula of "Yunnan Baiyao ". It is necessary to create new core products and increase new profit growth. The implementation risk of this strategy is consistent with the SO strategy. The up-front cost can be pretty high, and if research and development of the new product fails, it will bring great risks to the company.

ST strategy: a strategy that combines the internal advantages of the enterprise with external threats. Yunnan Baiyao should implement cost control strategy and strictly control its cost. From the above analysis, it can be concluded that Yunnan Baiyao has relatively large number of stock, so it can make efforts to reduce its stock in order to reduce the cost. At the same time, Yunnan Baiyao needs to further improve its production process and upgrade its production line so as to improve its product quality and thus improve its competitiveness.

WT strategy: a strategy made against the disadvantages and threats. Yunnan Baiyao should expand its market abroad and move towards internationalization. However, in order to occupy a certain market overseas, the enterprise needs to develop its domestic market well first, and its own strength must be excellent. Therefore, the implementation of this strategy has high requirements and takes a long time.

At present, Yunnan Baiyao is facing the problem of insufficient investment and capacity in research and development, and the core product structure is relatively single. However, Yunnan Baiyao is located in a superior geographical environment, has unique resources to facilitate its development of products which are different from other competitors, and has sufficient funds. At the same time, the future development of China's pharmaceutical industry attaches much importance to the R&D capabilities possessed by enterprises, therefore, Yunnan Baiyao should choose SO strategy and WO strategy to obtain competitive advantages.

#### 4.3 Strategic Choice and Implementation

##### 1) Strategic Choice

Yunnan Baiyao has a good brand, a secret recipe protected by the state, a strong financial advantage, a complete industrial chain and other advantages. The successful implementation of differentiation strategy requires enterprises to distinguish the products and services they can produce from other competitors, and to establish their own unique products or services in the whole industry. The existing advantages of Yunnan Baiyao almost meet these requirements. Establishing a good brand image and corporate culture, improving technology, service, product quality, and launching new products can all make the differentiation strategy successfully implemented. Yunnan Baiyao is currently implementing the



strategy of "New Baiyao, Great Health". The aim is to build a brand-new Yunnan Baiyao, relying on the development of new technologies and the innovation of management mode, and at the same time, to enter China's great health industry. The implementation of differentiation strategy is a necessary step for Yunnan Baiyao to enhance its competitive advantage and become a leading enterprise in China's major health industry. After the above analysis, if Yunnan Baiyao wants to better maintain its competitive advantage, it should not only build the whole industrial chain but also implement the differentiation strategy on this basis.

## 2) Strategy Implementation

Perfecting the whole industrial chain: Yunnan Baiyao's whole industrial chain infrastructure is getting larger and larger, and the integration of resources is becoming more and more optimized. Yunnan Baiyao needs to continue to adhere to improving and expanding the construction of the whole industrial chain, so that the industrial chain can form a more complete closed loop and further reduce production costs. Only in this way can the whole industrial chain become part of the core competitiveness of Yunnan Baiyao, thus making Yunnan Baiyao maintain its competitive advantage.

Establishment of research and development platform: Yunnan Baiyao has already achieved the leading position in the industry in terms of raw material planting and purchasing, logistics and marketing, but the future development trend of the pharmaceutical industry needs to rely on research and development capabilities, so as to enable enterprises to be more competitive in the field of great health. Although Yunnan Baiyao has also invested in research and development, it is obviously not enough. As a pharmaceutical manufacturing enterprise, if it wants to become a leader in the great health industry in the future, it must increase its investment in research and development to improve its core competitiveness. Yunnan Baiyao already has a certain position in the great health industry at present. In order to enable enterprises to better base themselves on the great health enterprises and realize their strategic goals, they must pay more attention to the importance of research and development and develop their research and development capabilities into one of the core competitiveness of enterprises.

Creating new core products: It is known from the above article that Yunnan Baiyao relies too much on the national secret recipe of "Yunnan Baiyao" for its own development. Therefore, Yunnan Baiyao needs to create new core products to further enhance its core competitiveness. Yunnan Baiyao can cultivate new business growth points on the basis of the whole industrial chain, create new core products, and develop horizontally and vertically with this point as the center, thus creating an industrial line and forming a new product group like Yunnan Baiyao series products. Bringing new operating profits to Yunnan Baiyao, it can also spread risks for Yunnan Baiyao, promote the balance of product structure, and create a new product structure.

Yunnan Baiyao can use the "internet+" model to cooperate with all major great health network platforms to realize complementary advantages in product marketing and technology, thus achieving common development and progress. At the same time, "internet+" can use information technologies such as big data, Internet of Things and cloud computing to break the narrow and asymmetric information flow in traditional industries, integrate and optimize the industry's big data resources, accelerate the transformation and upgrading of the industry, and improve the innovation capability of enterprises.

In recent years, in the research of competition strategy, it has been found that starting from their own strategic objectives, enterprises can find out their competition strategy and the social responsibilities they should undertake, and find out the agreeing points between the two, and organically combine them, which can make the products and services of enterprises more effectively match with the needs of consumers, realize better integration of internal and external resources of enterprises, and help enterprises to better implement the differentiation strategy.

## 5. Conclusion

The status of the industry in which the enterprise is located is of vital importance to its future development. Taking Yunnan Baiyao Group as an example, based on the perspective of the whole industrial chain, this paper analyzes and discusses the current development status of the Chinese pharmaceutical industry and makes a detailed analysis of the Chinese pharmaceutical industry by using PEST model, so



that the following conclusions are drawn: At present, the Chinese pharmaceutical industry is a potential industry, at a new turning point in development, and the country is vigorously promoting the development of the industry; As the number of aging population getting large, the market facing the industry will also expand further. Promoting the innovation and R&D capabilities of the enterprise is the key to its future competitive advantage. The key factors of industry competition are mainly research and development capability, resource advantages, product quality, etc. At the same time, the analysis of the internal environment of the enterprise shows that the enterprise has certain brand advantages in terms of competition, has a century-old brand, and has a relatively perfect whole industrial chain, which means that the enterprise is doing well in resources integration, but not perfect enough. At present, the enterprise is facing the problem of insufficient investment in R&D and innovation. Secondly, the core products are too dependent on "Yunnan Baiyao". Based on the analysis of its internal and external environment, it is concluded that Yunnan Baiyao should implement the differentiation strategy, and achieve the successful implementation of the differentiation strategy by improving the whole industrial chain, establishing a research and development platform, creating new core products, implementing the "internet+" pattern, and actively taking social responsibility so that some theoretical reference for its further development can be provided.

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