

# Rethinking the joint venture strategy

Business



The case consists of two major pharmaceutical companies that joint to collaborate their research and pharmaceutical technologies to start a joint venture in India.

Both have valuable resources that have benefited both companies during the joint venture. Now both are questioning if there is still any value in maintaining the joint venture in India and will be deciding what will be the best route to take. Ranbaxy Laboratories wants to be bought out, but Eli Lilly is worried of the financial implications of such move.

There were two pharmaceutical companies that were looking for ways to expand globally to position themselves in a competitive advantage from their competitors. One was located in the United States, which was Eli Lilly and Company and the other one was located in India, which was Ranbaxy Laboratories. Research and development was crucial to Lilly's long-term success.

Ranbaxy Laboratories was a firm that was evolved into a serious research-oriented firm. With the change, in the government, India was attracting foreign investors in the pharmaceutical industry.

Lilly decided to form the joint venture in India to focus on marketing Lilly's drugs there, and a formal JV agreement was signed in November 1992. The main key issues of this case are as follow. The pharmaceutical industry had come about through both forward integration from the manufacture of organic chemicals and a backward integration from druggist-supply houses. The industry's rapid growth was aided by increasing worldwide incomes and a universal demand for better health care; however, most of the world

markets for pharmaceuticals were concentrated in North America, Europe and Japan.

Drug discovery was an expensive process, with leading firms spending more than 20 per cent of their sales on research and development (R; D).

Developing a drug, from discovery to launch in a major market, took 10 to 12 years and typically cost US\$500 million to US\$800 million (in 1992). Bulk production of active ingredients was the norm, along with the ability to decentralize manufacturing the packaging to adapt to particular market needs.

In most countries, all activities related to drug research and manufacturing were strictly controlled by government agencies, such as the Food and Drug Administration (FDA) in the United States, the Committee on Proprietary Medicinal Products (CPMP) in Europe, and the Ministry of Health and Welfare (MHW) in Japan. While companies used the global market to amortize the huge investments required to produce a new drug, they were hesitant to invest in countries where the intellectual property regime was weak.

Although patent protection was strong in developed countries, there were various types of price controls. Also, the rise of generics, unbranded drugs of comparable efficacy in treating the disease but available a fraction of the cost of the branded drugs, were challenging the pricing power of the pharmaceutical companies. The 1970s Indian saw several changes that would dramatically change the intellectual property regime and give rise to the emergence of local manufacturing companies. Two such key changes

were the passage of the Patents Act 1970 (effective April 1972) and the Drug Price Control Order (DPCO).

The Patent Act in essence abolished the product patents for all pharmaceutical and agricultural products, and permitted process patents for five to seven years.

The DPCO instituted price controls, by which a government body stipulated prices for all drugs. Under the leadership of Dr. Manmohan Singh, then finance minister, the government began the process of liberalization and moving the economy away from import substitution to an export-driven economy. Foreign direct investment was encouraged by increasing the maximum limit of foreign ownership to 51 per cent (from 40 per cent) in the drugs and pharmaceutical industry (see Exhibit 2).

It was in this environment that Eli Lilly was considering getting involved. The main key questions that both companies were facing with are that Mayr wanted to expand Lilly's operations in Asia, where several countries including India were opening up their markets for foreign investments.

Lilly also saw opportunities to use the world for clinical testing, which would enable it to move forward faster, as well as shape opinion with leaders in the medical field around the world; something that would help in Lilly's marketing stage.

Ranbaxy's R; D efforts began at the end of the 1970s; in 1979, the company still had only 12 scientists. Ranbaxy approached Lilly in 1992 to investigate the possibility of supplying certain active ingredients or sourcing of

intermediate products to Lilly in order to provide low-cost sources of intermediate pharmaceutical ingredients. The two companies had very different business focuses. Once Indian JV was formed, they were facing with the following issues. They were new and it was very difficult for them.

They did not have a distribution network and Lilly did not want to invest heavily in setting up a distribution network. The employee turnover in the Indian pharmaceutical industry was very high. The first products that came out of the joint venture were human insulin from Lilly and several Ranbaxy products; but the team faced constant challenges in dealing with government regulations on the one hand and financing the affiliate on the other. There were also cash flow constraints. The company lacked in systems and processes that brought stability to the fast-growing organization.

They also did not have in place standard operating procedures (SOPs) for ensuring smooth operations.

There was a need to streamline the sales and marketing activities around therapeutic areas to emphasize and enrich the knowledge capabilities of the company's sales force. These key issues were important to both companies because both wanted to expand, but were facing the challenge of cost in the process of discovering. Drug discovery was an expensive process, with leading firms spending more than 20 per cent of their sales on research and development (R&D).

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point to the importance of the key issue was that both having different business focuses. Ranbaxy was a company driven by the generics business.

Lilly, on the other hand, was driven by innovation and discovery. Once India JV was formed, they were faced with the ministry of health provided limitations on Lilly's pricing, and even with the margin the Indian government allowed, most of it went to the whole-salers and the pharmacies, pursuant to formulas in the Indian ministry of health.

Once those were factored out of the gross margin, achieving profitability was a real challenge, as some of the biggest obstacles faced were duties imposed by the Indian government on imports and other regulatory issues. Because India JV did not have a distribution network and Lilly not wanting to invest in creating one, Ranbaxy was able to provide the distribution network needed. Also with the uneasy of the patents dilemma in India, considering the weak intellectual property rights regime, Lilly did not want to launch some of its products, such as its top-seller, Prozac.

Product and marketing strategies had to be adopted to suit the market conditions. Some alternative ways that India JV had to adopted to suit the market conditions by them evolving their strategy over the years to focus on two groups of products: one was off-patent drugs, where Lilly could add substantial value (e. g. Ceclor), and two, patented drugs, where there existed a significant barrier to entry (e. g. Reopro and Gemzar).

ELR marketed Ceclor, a Ranbaxy manufactured product, but attempted to add significant value by providing medical information to the physicians and other unique marketing activities.

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The pro in doing so was that by the end of 1996, the venture had reached the break-even and was becoming profitable. India JV did not have a distribution network and Lilly did not want to invest heavily in setting up a distribution network, so they paid Ranbaxy for the service. The pro was that they were able to get the assistance needed for the distribution network from one of the parent companies. The con was that they had to pay for the service which brought a cost to the company.

With the company lacking in systems and processes that brought stability to the fast-growing organization, Chris Shaw brought his own expertise in the operations which made a significant contribution. Also with them not having in place standard operating procedures (SOPs) for ensuring smooth operations, a senior level manager was hired. Chris Shaw streamlined the sales and marketing activities around therapeutic areas to emphasize and enrich the knowledge capabilities of the company's sales force.

Seeing the rapid change in the environment in India, ELR, with the support of Mayr, hired the management-consulting firm, McKinsey, to recommend growth options in India.

The solution that I would suggest to both companies, which would be Eli Lilly and Ranbaxy, is that with India JV (ELR) becoming the 46th largest pharmaceutical company in India out of 10,000 companies, they should not disintegrate the company but branch it off as a child company. They should stop contributing knowledge and allow ELR to run as an independent company.

This way both can continue to receive revenue generated from their original investment, but also ELR is now stable to finance itself. As Dr. Vinod Mattoo, medical director of ELR, had stated, that they now are able to achieve penetration in key therapeutic areas of diabetes and oncology.

They have created a high caliber, and non-unionized sales force with world-class sales processes. They have medical infrastructure and expertise to run clinical trials to international standards.

And they have been able to provide clinical trial data to support global registrations, and an organization in place to maximize returns post-2005. Ranbaxy should sell off some of the vast network of international sales; since it created a large financial burden, depressing the company's 2000 results, and was expected to significantly affect its cash flow in 2001 (see Exhibit 8). With doing so, they can relocate their funds in their goal of wanting to pursue on generics manufacturing.

Questions: Did Ely Lilly pursue the right strategy to enter the Indian market?

I would say yes because with the lack in not having a network distribution and not wanting to invest in creating one; they were able to take advantage of Ranbaxy's network distribution. Ranbaxy assisted them with establishing a foothold in the market in India. They opened up a number of opportunities for them to expand their network. Ranbaxy's helped with getting government approvals, licenses, and distribution and supplies. Ranbaxy was the second largest exporter of all products in India after Glaxo (a subsidiary of the U. K.



-based firm). In the 1980s, many multinational pharmaceutical companies had a presence in India and Lilly did not.

Also from analyzing the financial information on Exhibit 6, their net sales increased to 10, 862 millions by 2000. Their foreign sales increased to 3, 858 millions. Their net income increased to 3, 058 millions and the total assets increased to 14, 691 millions.

Evaluate the three successive IJV leaders. The three successive IJV were: Andrew Mascarenhas, an American citizen of Indian origin, who at the time was the general manager for Lilly's Caribbean basin, based in San Juan, Puerto Rico, was selected to become the managing director of the joint venture.

Chris Shaw, a British national, who was then managing the operations in Taiwan, was assigned to the JV as the new managing director. And Rajiv Gulati, who at the time spearheaded the business development and marketing efforts at Ranbaxy and later decided to join Eli Lilly as its employee, and was assigned to Lilly's corporate office in Indianapolis in the Business Development Infectious Diseases therapeutic division. Gulati returned to the ELR as its managing director, following his three-year tenure at Lilly's U.

S. operations. Identify the unique challenges faced by each.

Andrew Mascarenhas faced some resistance was met due to the recognition that a lot of Lilly's products were already being sold by Indian manufacturers due to the lack of patent protection and intellectual property rights so the

question was what products should they put in there that could be competitive. The products that were already being manufactured had sufficient capacity; so it was an issue of trying to leverage the markets in which those products were sold into. Lilly was a name that most physicians in India did not recognize despite its leadership position in the United States, it did not have any recognition in India.

He had to start from the infrastructure and move towards building up the organization from scratch. The employee turnover in the Indian pharmaceutical industry was very high. The pharmaceutical industry in India was very unionized. He had the need to create training programs customized for Indian conditions, but retain Lilly's values. It was critical task for him to make sure that the right foundations were laid down for growth.

He faced constant challenges in dealing with the government regulations and the financing the affiliate.

He also faced with the challenge of cash flow constraints. Chris Shaw- With the company lacking in systems and processes that brought stability to the fast-growing organization, Chris Shaw brought his own expertise in the operations which made a significant contribution. Also with them not having in place standard operating procedures (SOPs) for ensuring smooth operations, a senior level manager was hired. Chris Shaw streamlined the sales and marketing activities around therapeutic areas to emphasize and enrich the knowledge capabilities of the company's sales force.

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growth options in India. Rajiv Gulati-they had to be a large durable organization and prepare ourselves to go from sales of \$US\$10 million to sales of US\$100 million. He was faced with creating an independent from Ranbaxy for regulatory support. He did so by creating a medical and regulatory unit, which handled the product approval processes with government. They did not take shelter under the Ranbaxy name but built a strong regulatory [medical and corporate affairs] foundation.

And the challenge of what both companies decide will be the future of JV. How would you assess the overall performance of the JV? The overall performance of JV was extravagant with a positive turn around. There was so much achievement in the overall of the formation of JV. As Dr. Vinod Mattoo, medical director of ELR, had stated, that they now are able to achieve penetration in key therapeutic areas of diabetes and oncology.

They have created a high caliber, and non-unionized sales force with world-class sales processes.

They have medical infrastructure and expertise to run clinical trials to international standards. And they have been able to provide clinical trail data to support global registrations, and an organization in place to maximize returns post-2005. India JV (ELR) becoming the 46th largest pharmaceutical company in India out of 10, 000 companies. What did the partners learn from the IJV? The JV did add some prestige to Ranbaxy's efforts as a global player as the Lilly name had enormous credibility while Lilly gained the toehold in India.

From the knowledge learn of going global through JV, Ranbaxy formulated a new mission for the company: to become a research-based international pharmaceutical company with \$ 1 billion in sales by 2003. What action would you recommend regarding the Ranbaxy partnership? What are the implications of your recommendations? How would you implement this? What I would both companies, which would be Eli Lilly and Ranbaxy, is that with India JV (ELR) becoming the 46th largest pharmaceutical company in India out of 10, 000 companies, they should not disintegrate the company but branch it off as a child company.

They should stop with contributing knowledge and allow ELR to run as an independent company. This way both can continue to receive revenue generated from their original investment, but also ELR is now stable to finance itself. As Dr.

Vinod Mattoo, medical director of ELR, had stated, that they now are able to achieve penetration in key therapeutic areas of diabetes and oncology. They have created a high caliber, and non-unionized sales force with world-class sales processes. They have medical infrastructure and expertise to run clinical trials to international standards.

And they have been able to provide clinical trail data to support global registrations, and an organization in place to maximize returns post-2005. Ranbaxy should sell off some of the vast network of international sales; since it created a large financial burden, depressing the company's 2000 results, and was expected to significantly affect its cash flow in 2001 (see Exhibit 8).

With doing so, they can relocate their funds in their goal of wanting to pursue on generics manufacturing. Now analyzing the case with the reading lessons, let's start with using the Reading 6-2 Collaborate with Your Competitors-and Win.

By the formation of India JV, both companies, which would be Eli Lilly and Ranbaxy, were able to keep a low-cost to gain technology and market access. Because drug discovery was an expensive process, few companies can go it alone in every situation. Time is another critical factor as developing a drug, from discovery to launch in a major market, took 10 to 12 years.

Using an alliance with a competitor to acquire new technologies or skills is not devious. It reflects the commitment and capacity of each partner to absorb the skills of the other.

The JV did add some prestige to Ranbaxy's efforts as a global player as the Lilly name had enormous credibility while Lilly gained the toehold in India. Using the Reading 3-2 The Core Competence of the Corporation, the critical task for management is to create an organization capable of infusing products with irresistible functionality or, better yet, creating products that customers need but have not yet even imagined. India JV accomplished it with being able to achieve penetration in key therapeutic areas of diabetes and oncology.

The real source of advantage is to be found in management's ability to consolidate corporate-wide technologies and production skills into

competencies that empower individual businesses to adapt quickly to changing opportunities.

India JV accomplished this by creating a high caliber, and non-unionized sales force with world-class sales processes. They created a medical infrastructure and expertise to run clinical trials to international standards. And they created the ability to provide clinical trial data to support global registrations.

The case consists of two major pharmaceutical companies that joint to collaborate their research and pharmaceutical technologies to start a joint venture in India. Both have valuable resources that have benefited both companies during the joint venture. Lilly now has a presence in India and Ranbaxy has a global competence.

With both growing from the knowledge learned of JV, they are now questioning if there is still any value in maintaining the joint venture in India and will be deciding what will be the best route to take. Ranbaxy Laboratories wants to be bought out, but Eli Lilly is worried of the financial implications of such move.