

Johnson and johnson: a global approach to healthcare



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Johnson & Johnson: A Global Approach to Health Care Your Name Here

Webster University Abstract Johnson & Johnson is a world leader in health care products and services. In this paper, I thoroughly analyze the foundation of Johnson & Johnson to determine the characteristics that make the corporation successful. My paper explains the organizational structure within the company and identifies a few members on the board of directors. I will show you that a firm allegiance to the Credo throughout global operations helps foster successful corporate social responsibility. The grand strategy that Johnson & Johnson employs is concentrated growth in the health care sector.

The paper also features two internal analyses: a resource based analysis and a SWOT analysis. The conclusion of this paper is a discussion on benchmarking and illustrates some of the reasons Johnson & Johnson will be a dominant and powerful company for years to come. Johnson & Johnson: A Global Approach to Health Care Johnson & Johnson is a company entrenched in health care products and services that improve human well being. Since its formation in 1887, Johnson & Johnson expanded into a global corporation that controls over 230 companies worldwide. Look no further than your shower, medicine cabinet, or glove compartment to find a Johnson & Johnson product. This paper will show you that the company is (a) lead by experts, (b) committed to social responsibility, and (c) determined to control the market share of the health care industry.

I will show you through careful analysis and examples of excellence that Johnson & Johnson is a solid company, worthy of your investment. The <https://assignbuster.com/johnson-and-johnson-a-global-approach-to-healthcare/>

In lieu of a mission statement, vision statement, or a statement of values, the former Chairman of the Board, General Robert Wood Johnson, created a one page document to outline the operating principles that guide the company. Written and published in 1943 and famously known as 'The Credo', this document is very much in use today (Johnson & Johnson website, 2007). The Credo guides the employees' actions and speaks of responsibilities to customers, employees, communities, and shareholders. As a living document, employees offer periodic feedback on how well the employees uphold the values and responsibilities listed within the Credo. The Credo assessments provide senior managers the opportunity to take swift measures to ensure correction of any of the institutional shortcomings (McClenahan, 2005).

Johnson & Johnson touts their Credo by making it the guiding centerpiece of company practices. As a testament to their commitment to the Credo, Johnson & Johnson created a Center for Legal and Credo Awareness. With over 120, 000 Johnson & Johnson employees around the globe, the Center recently launched interactive web-based training to supplement already-extensive training. This latest venture with The Legal Knowledge Company allows managers to track user activity, reduce costs associated with teachers, and ensures employees satisfy training requirements.

As the Executive Director Harman Grossman noted, " It is one thing to tell people that the Credo should help guide their decisions...that premise becomes much more real when employees can have (an) interactive learning experience..."(Making a Code, 29). The Credo is available in 36 languages and is accessible on the corporation's website for anyone around the world <https://assignbuster.com/johnson-and-johnson-a-global-approach-to-healthcare/>

that has access the internet. Board of Directors William C. Weldon is the Chairman of the Board of Directors and Chief Executive Officer of Johnson & Johnson. Mr. Weldon, a graduate of Quinnipiac University, started working for Johnson & Johnson in 1971 as a sales representative for McNeil Pharmaceutical.

After various management positions in sales and product management for McNeil, he eventually was promoted to vice-president of Janssen Pharmaceutica in 1989. Before taking a position on the Board of Directors in 2001 and eventually becoming the Chairman and CEO of Johnson & Johnson in 2002, Mr. Weldon also served as president of Ethicon Endo-Surgery and Worldwide Chairman for the Pharmaceuticals Group (William C. Weldon to Succeed, 2002). The Office of the Chairman consists of Mr. Weldon, Vice Chairman and Chief Financial Advisor Mr.

Robert J. Darretta, and Vice Chairman Christine A. Poon. The Board of Directors currently hosts 13 members, of which, four are women and two are minorities. There are six distinct committees of the board consisting of (a) audit, (b) compensation and benefits, (c) finance, (d) nominating and corporate governance, (e) public policy, and (f) science and technology.

The committees receive recommendations and guidance from 22 corporate officers and 19 company group chairmen. The 2005 Annual Report also details the accomplishments of the members of the Board of Directors. There is a vast wealth of experience and knowledge within the Board of Directors including: 1. Current CEOs: Michael Johns, M. D. – Robert W.

Woodruff Health Sciences Center; Charles Prince – Citigroup Inc. ; Steven Reinemund – PepsiCo. 2. Former CEOs: Arnold Langbo – Kellogg Company; Leo Mullin – Delta Air Lines, Inc. 3.

Former U. S. Surgeon General: David Satcher, M. D. , Ph. D (Annual Report, 2005).

Organizational Structure At Johnson & Johnson, the depth and breadth of global operations demands an extensive division organizational structure. In a division organizational structure the central corporate office governs the divisions of the company, but the operating segments have their own functional teams to manage essential business processes. This structure allows the corporate management to delegate strategic management decisions down to the operating divisions. By delegating strategy development down to the divisions, Johnson & Johnson empowers managers within their unique environments to make knowledgeable and rapid decisions. One of the disadvantages of this structure is the potential for competition for corporate level resources (Pearce & Robinson, 2007).

Johnson & Johnson relies on the Credo to guide divisional businesses strategic decision-making. Located in New Brunswick, New Jersey, the corporate headquarters handles functions such as (a) advertising, (b) finance, (c) human resources, (d) environmental affairs, and (e) others (See Appendix A). The headquarters is the governing body that oversees the processes of the business divisions and sustains the support activities. The Johnson & Johnson outreach of human health care in global businesses spans

three key business segments: medical devices and diagnostics, consumer, and pharmaceutical.

There are 38 global businesses across the corporation, each with its own unique area of focus. Within the 38 global businesses are over 230 autonomous operating companies that allow the businesses to extend the outreach globally and cater to the specific market demands by region (Johnson & Johnson website, 2007). The autonomous companies allow for interaction between business professionals and consumers across four global regions, a human outreach that is often lost in larger corporations. Corporate Social Responsibility The fluidity of a global marketplace and growing concern for corporate social responsibility make it essential that Johnson & Johnson honor their Credo. The Credo emphasizes (a) the importance of being responsible to the world community, (b) protecting the environment and natural resources, and (c) supporting good works and charities. Unlike Enron and other corporations embroiled in scandal, Johnson & Johnson made their Credo an integral part of the decision-making process when dealing with serious crises (Berenbeim, 2006).

The integration of ethical principles coupled with continual revision of these principles became apparent in 1982 during a Tylenol cyanide-poisoning crisis. In 1982, Johnson & Johnson had to recall Tylenol capsules at a cost of \$100 million to the company because of the discovery of cyanide in tampered containers. The increased financial value of corporate social responsibility is realized through swift action when a crisis occurs. The company image of Johnson & Johnson survived because of a solid reputation before the incident and continued dedication to the customer's health after <https://assignbuster.com/johnson-and-johnson-a-global-approach-to-healthcare/>

the tainted capsules were removed from stores (Pearce & Robinson, 2007).

By placing the needs of consumers ahead of the company, a socially responsible company can recover and investors may profit.

The handling of the Tylenol crisis by Johnson & Johnson management is now reviewed by other companies as an example case study for adapting socially responsible behaviors (Torlee, 2005). James Burke, Chief Executive Officer in 1982, was courageous and showed that customer safety outweighed short-term financial success. Furthermore, overcoming such a devastating financial loss invokes a recommitment from all involved stakeholders while providing inspiration to others (James Burke acted, 2003). In today's socially responsible and environmentally conscious business milieu, Johnson & Johnson remains a company worth emulating. Grand Strategies The grand strategy that is used most by Johnson & Johnson is concentrated growth.

Pearce and Robinson (2007) define concentrated growth as "aggressive market penetration where a firm's strong position and favorable market growth allow it to "control" resources and effort for focused growth" (p. 253). Within the concentrated growth strategy, Johnson & Johnson relies on market development and product development to reach new consumers with renowned products or innovative similar products in new markets. Famous brand-names such as Johnson & Johnson's Baby Shampoo, Band-Aids, Tylenol, and Acuvue are some of the products that help millions around the world.

In my opinion, the strength of Johnson & Johnson's brand names will allow the company to reach into lesser developed countries and continue to

stimulate corporate growth. A consumer is more likely to purchase a similar product from Johnson & Johnson before trying a lesser known (a) pharmaceutical, (b) medical device, or (c) consumer product. Investment analyst Robert Gold predicts that the company's long-term growth rate will exceed that of their health care peers. Furthermore, Johnson & Johnson's products command a competitive share of the global market in pharmaceuticals, medical devices and diagnostics (Gold, 2006).

Internal Analysis: Resource Based To effectively analyze Johnson & Johnson from a resource-based view, I will highlight the tangible assets, intangible assets, and organizational capabilities that give Johnson & Johnson a competitive advantage in the market place. Tangible Assets The tangible assets are the physical and financial means by which a company provides a product or service to the customers. At Johnson & Johnson the outreach over 230 companies in fifty seven different countries provides the global positioning to remain a market powerhouse. The consumer segment contains a wide breadth of products from baby's health care to nutritional and over-the-counter pharmaceutical products. These products are distributed to both the general public and chain retail-outlets throughout the world.

The pharmaceutical segment provides products for prescription use to the general public through (a) retailers, (b) wholesalers, and (c) health care professionals. Some of the therapeutic areas these products cover are: (a) anti-fungal, (b) gastrointestinal, (c) oncology, (d) pain management, (e) psychotropic, and (f) urology. The third business segment, medical devices and diagnostics, are available by prescription through physicians, therapists, hospitals, diagnostic laboratories and clinics. All of these products carry the <https://assignbuster.com/johnson-and-johnson-a-global-approach-to-healthcare/>

individual company's name and include products such as: (a) circulatory disease management products, (b) wound care products, (c) minimally invasive surgical products, and (d) disposable contact lenses (Annual Report, 2005). Intangible Assets Intangible assets are those which you can not touch or see, but that are critical to competitive advantage.

For a company like Johnson & Johnson, the trademark brand-names and long-term history in health care products and service provides a reputation that outperforms their peers. The largest source of revenue for the company in 2005 was through the pharmaceutical segment which generated \$22.3 billion in sales. Medical device and diagnostic sales followed pharmaceutical sales with \$19.1 billion. Consumer sales accounted for the remaining \$9.

billion in revenue. The reason these figures are significant is not because they account for over \$50 billion in market share, but because each of the segments experienced growth relative to 2004 (Annual Report, 2005). The growth statistic illustrates that Johnson & Johnson products are increasingly becoming the choice of (a) companies, (b) physicians, and (c) individual consumers over time. As growth and market share percentages favor Johnson & Johnson in the future, the strength of their intangible assets becomes solidified. Organizational Capabilities Johnson & Johnson views the decentralized organizational structure as an asset that is fundamental to success in a global environment.

A distinguished management professor, Robert Fulmer, sights three commitments that elevate Johnson & Johnson over its peers: (a) commitment to the Credo, (b) commitment to decentralized management, and (c)

commitment to the long-term (Fulmer, 2001). By decentralizing the company, an entrepreneurial force utilizes the external resources of the parent company to fund rapid response initiatives at the lower level. The continued education of the employees and the distinct use of the Credo across all business segments creates an organization that is in tune with social responsibilities and committed to improving quality of life. More to the point, intellectual capital of the employees and workshops that focus on the Credo helps regulate any departures from a common vision. A commitment to the long-term begins with the employees and carries into the consumer segment by attracting and maintaining valued customers.

Internal Analysis: SWOTAs a leading manufacturer for the world's growing health care needs, Johnson & Johnson provides products and services in the consumer, pharmaceutical, and medical device and diagnostics fields. The strong reputation of Johnson & Johnson's global products will help sustain long-term revenue growth. The largest threat to the company will continue to be the availability of substitutes on the market. Strengths The strengths of Johnson & Johnson are: (a) complementary multi-sector health care focus, (b) strong product portfolio, (c) well-established brand, and (d) healthy financial position. By dividing into three distinct business segments, the company exploits synergies unrivaled by competing companies. For example, a medical device implant usually requires complimentary pharmaceuticals for patients in post-surgery recovery.

The product line of Johnson & Johnson spans virtually every health care sector, allowing for continued growth and reduction of risk from one particular market. As a well-established brand, the company name will continue
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its proud legacy in the consumer market. A new product emblazoned with the Johnson & Johnson name increases product awareness and puts the company at a market advantage with competing retail brands. The healthy financial position of the company also ensures unrivaled cash flows (Data Monitor, 2006).

Johnson & Johnson can compete through acquisitions of smaller competing companies while maintaining promotions and seeking opportunities in new sectors. Weaknesses Despite experience in the health care sector, Johnson & Johnson still suffers from three key weaknesses: (a) lack of original pipeline products, (b) limited distributor concentration, and (c) misleading advertising. In the short term, the company is forecasting declines in sales from 2006 onwards. Much of that is attributed to limited evidence of successors for its aging products. Although a few products are expected to launch in 2008, the company will need to continually boost research and development expenditures to remain competitive in our current health-conscious environment.

Sales to the company's three largest distributors accounted for nearly thirty percent of total revenues (Data Monitor, 2006). By relying heavily on a few distributors, the company is susceptible to competition seeking market share. Johnson & Johnson must pursue more distribution channels to remain an industry leader. One final weakness, misleading advertising, is common in the health care market. In 2005, Johnson & Johnson's arthritis drug Remicade was reportedly misleading because of claims of the drug's effectiveness and omission of some of the health risks (Hensley, 2006). A system of checks and

balances within the advertising community at Johnson & Johnson is a long-term solution to advertising disasters.

Immediate corporate response to placate public concerns is mandatory during such unforeseen advertising blunders. OpportunitiesA company that wishes to gain market share and distance itself from competitors must pursue calculated opportunities. Some of the opportunities for Johnson & Johnson are: (a) the acquisition of developing pharmaceutical companies, (b) capitalization of rising health care spending, and (c) development of in-licensing and alliances. One of the companies that Johnson & Johnson recently acquired is TransForm Pharmaceuticals, a drug research company. By continuing to acquire technologically advanced smaller companies, Johnson & Johnson can increase employee intellectual capacity as well as expand its ability to create new drugs. The United States continues an upward trend in health care spending as the age of the population rises.

The predicted costs in both Medicare and Medicaid by the year 2015 are \$1.2 trillion. With over half of the Johnson & Johnson revenues coming from the domestic market, the company must continue to influence the homeland health care providers (Data Monitor, 2006). One final area of opportunity is through in-licensing and alliances.

Johnson & Johnson, currently a leader in the health care products market, can force their way into new markets through key acquisitions and alliances. With the current financial position and historic brand image that the company carries, gaining a strong alliance in new markets will further improve the product pipeline. Threats The biggest threats to Johnson &

Johnson are underperformance or safety hazards of designer drugs and price regulation in various markets. There are considerable risks in a drug manufacturing business, from loss of financial capital to loss of human life.

If rival companies can cheaply manufacture a drug that remedies similar ailments as Johnson & Johnson drugs, then they will steal away market share. As long as generic pharmaceutical brands exist, Johnson & Johnson will need to influence consumers through (a) advertising, (b) proven performance, and (c) limited mistakes. Recent reporting suggests that patients with schizophrenia preferred (and found more tolerable) a Pfizer drug, Geodon, over a Johnson & Johnson company drug, Risperdal (Data Monitor, 2006). Price regulation of health care in the future could permit a pharmacist to substitute an original Johnson & Johnson brand-name drug for a less-expensive generic brand. Johnson & Johnson must monitor the changing regulations in all growing economies in order to effectively adjust strategy.

Benchmarking With over 230 companies, Johnson & Johnson has numerous competitors across all three of its business segments. The company is diversified enough to mitigate a devastating collapse at the hands of a competitor gaining market share. Losses over a broad range of Johnson & Johnson companies can affect the bottom line. Some of the biggest competitors in Johnson & Johnson's consumer segment are Procter and Gamble, and Pfizer. In 2006, Johnson & Johnson acquired Pfizer's consumer products division and approximately forty brands, including Sudafed and Listerine mouthwash (Park, 2007).

In the Pharmaceuticals segment, a few major competitors are (a) Merck, (b) Switzerland's Novartis, (c) Procter and Gamble, (d) Bristol Meyers-Squibb, and (e) GlaxoSmithKline (Thomaselli, 2005). In the Medical Device and Diagnostics segment, Boston Scientific and Medtronic are major competitors. In 2004, Johnson & Johnson partnered with Guidant Corporation to protect its lead against Boston Scientific in the \$3 billion stent market (Abelson, 2004). By partnering with a smaller company like Guidant to sell the Cypher stent, Johnson & Johnson shows respect for the upward mobility of its competitor Boston Scientific.

However, in 2006 Boston Scientific emerged as the victor in the pursuit of Guidant, agreeing to pay \$27.2 billion for the company (Weintraub, 2006). Johnson and Johnson will always see strong competition for potential acquisition from other wealthy pharmaceutical companies. With over a century of experience in health care products and services, Johnson & Johnson is a proven competitor for a globally-based market place. The experience, diversity, and scholastic aptitude of the Board of Directors make the corporation capable of leading the industry. Employees in all of Johnson & Johnson's over 230 companies are bound by the Credo and develop themselves through continued educational initiatives.

Through a division organizational structure the company seeks further growth and expansion. The internal analyses using both a resource based view and SWOT shows that the company is poised for tomorrow's challenges. As the company expands and acquires new companies, the household of the future may contain more than just a first aid kit with Johnson & Johnson products. As strong as Johnson & Johnson is today, the company will be an

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even greater force in the future with more brand-name products and services improving human lives.

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