

Vyaderm case study – harvard

Business



Waders Pharmaceuticals Waders Pharmaceuticals is a pharmaceutical company that was founded in 1945 from the result of the postwar healthcare system.

The company both developed their brand name and earned a majority of their initial revenues from the manufacturing of drugs such as penicillin. Their former CEO, Thomas E. Finn, led Waders to financial success with a business strategy focused solely on earnings per share.

The main issue with the earnings per share approach in this case is that there was very little interest in helping build synergies across the company's fifteen subsidiaries to support corporate strategy. In 1997, Wader's new CEO attempted to solve this issue by moving away from the old earnings per share business strategy in order to implement an Economic Value Added Approach (EVA Approach). The reason for this shift from one business model to another was to provide a solution to conflicting management priorities caused by competing financial measures.

In the beginning months of 2000, one of Wader's major competitors, PIG Laboratories, was required by the FDA to recall all initiating cream. It was from this FDA recall in which Waders was able to temporarily experience a price increase within their dermatology department. A price increase in these products was followed by a considerable boost in the dermatology business's profit margins. With such a sizable increase to profit margins in 2000, the company significantly exceeded their EVA target. The one downside to experiencing such an unexpected business event is that all of the financial

budgets and predictions for the current year and the bequest years were now going to be tougher to evaluate.

With this one-time anomaly, Waders had to decide whether to keep their target bonus the same or adjust the target bonus to reflect the change in profit margins.

While keeping the target bonus the same would mean a large bonus payout this year, it would create the potential to wipe out next year's bonus if underperformed. On the other hand, if the company were to adjust the target bonus to reflect the increase to profit margins, they could eliminate the psychological impact of worrying about performing poorly ext year after such a big win this year.

The 2000 EVA for the north American Dermatology division is \$31 , 360. 60 with a bonus payout to the manager of \$251 , 465; however when profits fall back to historical levels, the 2001 EVA will be (- \$4, 002. 26) with no bonus payout. As a recommendation to Waders, I would suggest testing out quarterly bonuses rather than strictly year-end bonuses.

With four different bonuses throughout the year workers will not only be highly motivated year-round but also it will help to alleviate that constant worry of underperforming.