Merck pharma case analysis

Business, Industries

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Beginning as a small scale manufacturer of chemical in the United States, Merck Research Labs (MRL) became the top notch research institution in the pharmaceutical industry by World War II. By attracting the top talent in chemistry, biology, and pharmacology, MRL emerged as the leader in human pharmaceuticals with the release of highly necessary drugs to treat infections, and tuberculosis. MRL focused their strengths on three key areas: vitamins, antibiotics, and hormones.

With the best scientists in their industries, MRL developed a reputation of being the best and their profitability put them at the top of their own industry. By the 1970’s, pharmaceutical research had advanced dramatically and MRL expanded theirleadershipin the market by providing “ breakthrough drugs to the market. ” In doing so, MRL tripled their bottom line by the 1980’s and were continually one of the most valuable companies on an annual basis. MRL’s profitability was hard to match by their competitors along with their innovations in the human therapeutic drug market while maintaining ascience-based business model.

MRL biggest core strengths was not only maximizing their top-talent to produce profits and cutting-edge drugs to be sold on the open market, but being very disciplined in their drug development process. Every one of MRL’s competitors put their newly designed drugs thru the same development process as they do, but the difference is post-marketing clinical studies (Phase V) makes sure their products are positioned correctly and they are utmost effective to whoever consumes their products for medical reasons.

Issues

In1984, the pharmaceutical business world was shook up with the passing of the Hatch-Waxman Act which tore down a barrier that MRL had created with their innovations for other competitors to enter the market. This new law enacted allowed generic drugs to be manufactured which made a big hit to market share for MRL and other competitors in the pharmaceutical industry. Collaboration could be used with smaller companies to replicate drug patents that recently expired which meant smaller R&D was needed to make generic drugs and the timeline for MRL to have exclusivity was depleted.

Another hit was a few years later when pricing restrictions were put in place hurting MRL and the industry even further. With the regulations and the FDA allowing businesses to advertise to potential consumers directly thru the mail, television, or print ads in the local newspaper, MRL had to re-think their own strategy and begin what the new CEO Ray Gilmartin called a “ New Reality. ” In his view, what made MRL the powerhouse in the past is not going to carry the company forward with the new business battlefield for market share.

The belief that the product quality and effectiveness would be enough to justify a premium price in the open market would not be a long-term solution for MRL since doctors and patients could get something very similar for a much cheaper price by using generic drugs. The biggest struggle for MRL currently is whether they could adapt to the new changes while maintaining their core values as being a “ science-led” or based company. Mr. Gilmartin felt the biggest obstacle for the company was bringing drugs to the new market while still using their larger research department while other competitors are focusing more on a larger sales force to bring their drugs to market.

Conclusion/Analysis

MRL and Mr. Gilmartin still struggle with adapting to the new market and it is obvious that Mr. Gilmartin isn’t quite sold on what the organization has done to be effective with selling their drugs in the market.

While not adapting to the drug industry changes, MRL is not leveraging external opportunities with other organizations like their competitors have along with not capitalizing on direct to consumer marketing with a minimal sales force. Now MRL should not forget what made them great by maintaining a top-tiered research staff, but it would be ideal for them start putting moremoneyinto other critical stages of the drug development process. As you can see in Exhibit 2, MRL’s puts 60% of their R&D expenditures in the target & clinical phases of the drug development process.

Now this helped them become a market leader in product differentiation and quality but today’s competitors are focusing more on phases III and IV to help drugs hit the market with a bigger impact. I feel MRL is on the path to change while adapting new strategies in response to the new market. However the bureaucracy that was created in doing so has inhibited this response to a minimal roar. All these extra teams that Mr. Gilmartin and MRL have created to figure out how to re-gain their market share have slowed down the progress that was intended.

I suggest that Mr. Gilmartin keep with his somewhat flat leadership organization but invest more time in working with marketing department to create drugs that are needed in the market place. I feel utilizing the marketing department's expertise and forecast of what the market will demand will help MRL develop drugs that can be sold in the market from the beginning will alleviate any wasted efforts for the company in those first few critical and expensive stages of drug development. In doing so, costs will be reduced and profits will be reflective of those efforts which would put them back down the same path that made MRL great in the first place.