

Merck case study essay

Business



**ASSIGN
BUSTER**

Case Study GoalThe goal of this case study is to examine the current operations of Merck & Co. Inc. and determine areas of potential concern, evaluate the effectiveness of the current business model, and propose a plan of action to grow Merck & Co. Inc. to be the largest pharmaceutical company in the world.

Methods of AnalysisThis case study will strive to identify areas of concern and opportunity, offer solutions, and make projections based upon historic data related to Merck and its competitors. The information utilized will be derived from sales figures, patents, balance sheets, cash flow statements, and income statements. Historical information including any past issues with drug recalls, lawsuits, management miscalculations, executive vision, or other issues will be examined. Proposed upgrades, solutions, and corporate direction will be offered; and a plan to fuse the existing business plan with a revised, more current business plan will be paramount. Key

FindingsWillingness to innovate.

The willingness to innovate in order to offset an empty drug pipeline proves Merck has moved beyond the stigma of being a traditional pharmaceutical company that uses an in-house research strategy. Dr. Turner, Merck's Chief Strategy Officer, correctly identified the challenges facing Merck in a highly competitive field and gathered a diverse strategy team ranging from MBA apprentices to experienced executives (Rothaermel, 2013, p. c228). Dr. Turner explained the vast challenges facing Merck and the entire pharmaceutical sector, but then proposed a brilliant plan to grow by expanding on the 1% of world's biomedical research performed by Merck and incorporating knowledge from all sources including universities, research

institutions, and various other companies around the world (Rothaermel, 2013, p.

c228). This decision by Merck was historic because it signified the end of utilizing only research performed in-house; but it ultimately showed investors that Merck is willing to change an outdated business model in order to introduce new drugs at an increased rate, which ultimately provides maximum value for shareholders. Building investor value. Merck may be considerably undervalued based upon a Price to Earnings ratio that is in decline from 18.

72 to 6.61, but yet the Book Value has steadily increased from 8.1 to 19.0. The increase in Book Value is the reassurance that investors need to place the correct value on the price per share if the company were liquidated. It is very important to note the drastic increase in value because it shows a disproportionate increase in tangible value, which is in stark contrast to the recent decline in share price. The swinging pendulum of true value versus actual stock price is extremely positive for both current and prospective investors. Stock price appreciation is a more accurate reflection of the actual value, which in turn would cause the Price to Earnings Ratio to increase, but the Book Value should remain constant or continue to appreciate.

Problems/Solutions Declining revenues have been a major issue of concern at Merck and that concern will continue. There are three major drugs (Cozaar, Singulair, & Maxalt) currently protected by patents that are set to expire in the next three years (Rothaermel, 2013, p. c229). This poses a perplexing situation because of a prior incident in 1999 when Merck's Vioxx was

recalled due to health complications. The company cannot afford another botched drug rollout since the Vioxx recall cost Merck over \$27 billion in market value (Rothaermel, 2013, p. c229). Therefore, although there is a need for additional products in their drug pipeline, Merck must take the requisite time needed to test new drugs properly before introducing them to the public. Conclusions Merck & Co.

Inc. is showing an evolving business model and a willingness to step outside the constraints of historical practice. The main issue of an aging and dried up drug pipeline has been properly addressed and a new infrastructure has been put in place to grow the company and create value for the shareholders.

Dr. Turner has done a fantastic job of assembling and utilizing both the exuberance of young MBA interns with the valued knowledge and expertise of established managers and executives (Rothaermel, 2013, p. c228).

Shareholders are benefitting from a continual increase in book value, while share prices have been in a perpetual decline. While a declining share price is an area of short-term concern for investors, the extended outlook is promising with a rejuvenated drug pipeline and tangible assets to offset the risk of owning company stock. In addition to increased book value, the company is adding stock stability by increasing their liquidity levels from a current ratio of 1.2 in 2006 to 1.8 in 2009.

This indicates a drastic increase in cash reserves and an increased ability to withstand economic turbulence. Recommendations Merck is in a much-improved position compared to before the “reverse-merger” with Schering-

Plough. Drug pipelines are strong, Merck has reestablished its valued name as a leader in the pharmaceutical world, and the company remains open-minded concerning ways to grow their business safely and efficiently.

Merck has developed a business that has delivered on its promise to become a “ more innovative, more customer-focused, leaner, and more agile” company (Rothaermel, 2013, p. c236). While Merck has done exceptionally well rebuilding their brand following the Vioxx debacle, every business needs to redefine itself periodically.

In Merck’s case, customers, public image, shareholders, and a continued commitment to integrity should all be carried over and included in any reformed business plan. The ever-changing face of technology offers some challenges and concerns, but Merck is well positioned to take advantage of the quicker turnaround times and advantages of modern technology, rather than fall behind its competition. Merck needs to focus on the strength of its brand name, but increased competition, stricter drug laws, and a faster pace of business all indicate a need for a commitment to a new vision and mission statement, and for all executives, managers, and employees to communicate effectively in order to remain viable and competitive in a fast-moving economy. Existing Mission, Objectives, and Strategies Merck & Co., Inc.

is a global pharmaceutical company focused on providing innovative products that facilitate medical solutions. The company’s mission is to provide life-enhancing products and services that positively impact lives around the world. Their mission is dedicated to improving health and well-being through innovation. The company’s philosophy is based on placing the customers

first; once the customers' needs are met, the profits will follow (Rothaermel, 2013). Merck & Co.

, Inc. recognizes that innovation is the future of the pharmaceutical industry and seeks to capitalize on their intellectual property and human capital by embracing a closed-innovation philosophy. In this closed-innovation model, Merck seeks to become self-reliant by maintaining control of all ideas, marketing, manufacturing, distribution, service, and development of new products (Chesbrough, 2003). Although focusing on internal research has produced value for the company in the past, changes in technology and industry trends are cause for a strategic shift. In order for Merck to restore their position as a leader in the pharmaceutical industry, the company must adapt to the changing environment.

Pharmaceutical companies no longer have the luxury of relying solely on internal research or governmental aid. The rise in the biomedical sector may provide Merck with the opportunity to diversify their portfolio while sustaining their core competency of internal research. For Merck to stay ahead of competition and relevant in the industry, the company must strategically adapt to market trends. In 2009, Merck and Schering-Plough (SP) conducted a reverse merger to position the joined companies strategically. This joint venture gives Merck the ability to capitalize on the talents and research conducted by SP and utilizes their clinical development pipeline along with the early stage development that Merck is known for. The collaboration of these firms diversifies platform technology and increases the number of products that are developed (Rothaermel, 2013). Although risk is

involved in this merger, Merck stands to make significant gains by embracing an open-innovation model. New Mission Statement Merck & Co.

, Inc. is a life-enhancing pharmaceutical company that delivers revolutionary products and services to customers around the world. Through open-innovation, partnerships, and excellent human capital, we aim to build a reputation built on trust and integrity. We will not compromise our moral and ethical standards for profit. Our company is devoted to creative innovation that bridges the gap between ideas and customer satisfaction. Together, we will bring monumental value to customers, employees, and stakeholders by developing innovative and affordable products that enrich lives. Merck's Nine Mission Statement Components

1. Customer: We service customers in need around the world delivering value every way possible.

2. Products and Services: Our commitment to scientific innovation delivers medical solutions that range from vaccines, medications, to animal health products.
3. Markets: We strive to be a global leader in the pharmaceutical industry.

4. Technology: Our state of the art facilities foster an environment of research and productivity. Merck personnel are provided the assets and resources needed to create the highest quality products for our customers.

5. Concern for survival, growth, and profitability: Merck is committed to providing value to all stakeholders. We aim to offer advanced medical solutions at an affordable price, while reinvesting profits for research and development.

Our profit maximization philosophy is based on the premise of maximizing the value for the customers and investors. 6. Philosophy: Merck believes in providing quality medical solutions developed by creative and innovative research. Our goals are to ensure quality, pioneer new medical technologies, adapt to needs of the market, and grow our reputation as a moral and ethical company.

7. Self-Concept: We hold a competitive advantage of being a research powerhouse with world-class human talent. 8.

Concern for Public Image: We will maintain and grow our public image of being a responsible company that holds high standards of our employees, leadership, and products. Our moral compass is centered on our customers and stakeholders. 9. Concern for Employees: Our employees form the foundation of this company.

We are committed to treating them with dignity and respect. We are devoted to promoting a work environment that encourages freedom of thought and the opportunity to be heard. Existing Business Model Merck & Co., Inc.

fosters an environment in which recruiting and retaining the best employees drive innovation. Researchers at the company are given the freedom and resources to develop new products. The company's existing business model is heavily dependent on internal research with the belief that if the idea is not generated within the company, it may not be worth pursuing. The existing business model is based on the concept of closed-innovation, where everything from idea to delivery is contained within the company. Merck was

formed on the foundation of being a scientific-led company that encourages researchers and scientists to explore individual interests (Rothaermel, 2013).

The value that this creates is that Merck is able to control the flow of activities and maintain constant supervision of all primary and support functions. Although Merck is known for being a research powerhouse and has accolades of five Nobel Prize winners, the company's business model may be lacking focus and direction in the pharmaceutical industry (Rothaermel, 2013). The change in the industry environment is cause for an updated business model that enables the firm to grow at a rate that is congruent with industry trends. In order to accomplish this feat, it is recommended the Merck explore the possibility of creating a hybrid model that stays true to the core competence of innovation and internal research, while collaborating with academic institutions that specialize in relevant topics.

Developing a customer centric business model that outsources some of the primary and support activities in the value chain process may enable the company to focus on the research and development of new products. SWOT Strategy Analysis, Matrix, and Competitive Forces Strategy Analysis Strategic Questions Strengths Weaknesses Opportunities How can managers use strengths to take advantage of opportunities? How can managers overcome weaknesses that prevent the firm from taking advantage of opportunities? Threats How can managers use strengths to reduce the likelihood and impact of threats? How can managers overcome weaknesses that will make threats a reality? From Strategic Management by Rothaermel (2013, p.

106) Strengths Strengths refer to internal resources, capabilities, and competencies that in which a firm excels (Roethaermel, 2013, p. 106). Merck <https://assignbuster.com/merck-case-study-essay/>

& Co's (hereafter referred to as "Merck") strengths are its exceptional record of new product launches that have resulted in growth, its leading position in the worldwide vaccine market, and its improved pipeline and sustained leadership position due to its merger with Schering-Plough ("Merck & Co. Inc SWOT Analysis", 2013, p. 4). Because of its capability to bring its products to market rapidly, Merck has gained and sustained a competitive advantage over its competitors.

Hereupon Merck's merger with Schering-Plough (SP), Merck Chairman and CEO Dick Clark echoed these strengths: "[T]he combined company will benefit from a formidable R&D pipeline, a significantly broader portfolio of medicines, and an expanded presence in key international markets (Rothaermel, 2013, p. C233). Since 2006, Merck has successfully introduced 10 new therapeutic products. The widespread success of these products helped Merck weather maladies such as the global recession of 2008-2009 and the expiration of several of Merck's patents. The company's strong late-stage R&D pipeline productivity has allowed it to continue to expand its ever-increasing vaccine portfolio. In FY 2012, one of its vaccines alone recorded a worldwide increase in sales of 35% to \$1.6 billion (B) ("Merck & Co. Inc SWOT Analysis", 2013, p.

5). Weaknesses In contrast to strengths, weaknesses refer to internal deficiencies in resources, capabilities, and competencies (Rothaermel, 2013, p. 105). Merck's central weakness is the cost and reputational damage it has incurred due to its 2004 recall of the arthritis and acute pain medicine Vioxx. Merck continues to face litigation due to its voluntary withdrawal of the drug.

Moreover, the company is facing a dearth of class-action lawsuits. Merck paid the U. S.

government over \$300 M in a settlement in November 2011; nevertheless, it still faces lawsuits in many U. S. states and abroad (“ Merck & Co.

Inc SWOT Analysis”, 2013, pp. 5-6). Opportunities Opportunities refer to potentially beneficial factors in a firm’s external environment.

Firms must utilize their strengths to capitalize on their opportunities. U. S. marketing approval of Merck’s products has imbued it with the opportunity to expand its product line (and thus, its sales, gross revenues, and economies of scale/scope) in the U. S. In March, the FDA approved Merck’s sale of Liptruzet, a medicine that treats a form of cholesterol. Earlier this year, the FDA approved Merck’s Oxytro, a unique drug that treats female overactive bladder.

Further, the Merck-SP merger has granted Merck the opportunity to restructure its operations across the globe. By FY 2016, the company expects the restructuring to net over \$4. 6 B in cost savings. The company’s growth in Southeast Asia provides the impetus for its expansion into two huge emerging markets: China and India (“ Merck & Co. Inc SWOT Analysis”, 2013, p. 6-7). Threats In contrast to opportunities, threats refer to potentially hazardous factors in a firm’s external environment. Threats may be either overcome by strengths or enhanced by weaknesses.

The primary threats that Merck faces are generic competition, troubles in the U. S. healthcare system, currency instability in emerging markets, and poor

EU economic conditions (“ Merck & Co. Inc SWOT Analysis”, 2013, pp. 7-9). Merck’s loss of market exclusivity patents on several of its major products have already cost the company tens of millions of dollars in sales and it will lose patents on a few more products before the end of the year. U.

S. healthcare reform has created an uncertain economic climate for many companies in the pharmaceutical industry: Medicare rebates for most of Merck’s branded products have already risen by 8%. Currency devaluation is a constant issue that emerging markets encounter. Further, the EU sovereign debt crisis means will likely force Merck to increase its credit terms and collection period within the EU. An increased collection period leads to lesser free cash flow (FCF) and more sunk costs (“ Merck & Co. Inc SWOT Analysis”, 2013, pp. 7-9). Analysis Merck should use its strength of late-stage R&D pipeline productivity to capitalize on the opportunity to expand in the U.

S. and emerging markets by being the first to bring a series of useful medications to market. By launching a line of successful new products in rapid succession, Merck will easily be able to permanently overcome the fiscal burden of its weakness and focus on image restoration. If Merck properly uses its improved pipeline and continues its record for new product launch success, it will be able to stave off the threats caused by patent expiration, currency devaluation, U. S. healthcare reform, and the EU debt crisis. The author of this section believes that if managers take advantage of company strengths and opportunities, they will mitigate its weakness, thereby not making threats a daunting reality.

Financial Ratio and AnalysisThe financial data presented in Exhibit I shows the some key financial ratios from 2006 to 2009 for Merck & Co., Inc. Information presented in Exhibit I was derived from the company financial statements for year-end 2006-2009 (Rothaermel, 2013). The quantitative analysis completed here demonstrates the financial health of the company and provides key information to investors when making investment decisions. Understanding the profitability, efficiency, and advantage a company provides indicators of a company's current and future performance potential (Hsu, 2010).

Merck's return on assets, which indicates the company's ability to use assets to generate earnings, has gradually increased from 9.9% in 2006 to 11.5% in 2009. Furthermore, the company's liquidity, measured by the current ratio, has also increased from 1.20 to 1.

80 during that same period. The asset turnover ratio for Merck decreased from .506 in 2006 to .344 in 2009; this may be an indicator that the company is moving toward a change in pricing strategy in order to receive a higher profit margin. Based on Merck's price to earnings ratio of 6.61 in 2009, the company may be poised for a significant increase in appreciation due to the stock price being overvalued in 2006. Although the company is not likely to dissolve, investors also benefit from the rise in book value per share.

Competitor Ratios and AnalysisValuation MeasuresMerck's largest competitors are Johnson & Johnson and Pfizer (Rothaermel, 2013, p. c233). Each company has various strengths and weakness, but a detailed

examination of financial ratios gives great insight into the true competitiveness between the three companies. The PEG ratio indicates Johnson & Johnson is the most undervalued, followed by Pfizer and then Merck. This is not a surprise if a person reads the rest of the financial ratio comparisons. However, it does show that Merck's stock price is not positioned as well as its competitors.

The price/sales ratio does not give much insight since the three competitors are all closely lumped together. A more telling story can be told by looking at the price/book ratio because once again Johnson & Johnson has a better ratio if a person is concerned with share price. However, since Merck has the lower share price in comparison to its tangible book value, that criteria may indicate it is slightly undervalued in comparison to Johnson & Johnson.

ProfitabilityIn one of the most important categories, profit margins, Merck once again trails its direct competition. Pfizer handily outpaces both Johnson & Johnson and Merck by achieving an impressive 45.

78% profit margin compared to just 18. 26% for Johnson & Johnson and 10. 19% for Merck. Operating margins mirror profit margins with Pfizer leading with 32. 14%, Johnson & Johnson with 26. 73%, and Merck with 20. 03%.

Revenue showed Johnson & Johnson firmly in control of the revenue war with \$70.

52 billion. Merck is able to be middle of the pack when examining revenue per share, but since there are many factors involved in that percentage, it is not a reliable indicator. The most telling percentage concerning income is the fact that Johnson & Johnson was the only company to post a positive

percentage of quarterly revenue growth or quarterly earnings growth. In fact, Pfizer lost 19.

30% in quarterly earnings and Merck was the worst of the three at a loss of 35%. Balance Sheet Johnson & Johnson is the runaway winner when comparing balance sheets between the three competitors. Although Pfizer has the most cash and Merck has the least, Johnson & Johnson has the most cash per share. The most impressive component of Johnson & Johnson's balance sheet is the relatively low amount of debt they have in comparison to Pfizer and Merck. That is also a contributing factor in Johnson & Johnson having the highest book value of the three, but Merck does possess the second highest book value, which is a great reassurance for investors.

Competitor Ratio Conclusion The clear winner in the comparison of the three competitors is Johnson & Johnson, but Merck is fighting for control of the second most dominant pharmaceutical company. Merck has some clear issues, particularly in the areas of profit margins and growing earnings year over year, but they manage to split the difference in most other categories.

Competitor ratios reaffirm the progress that Merck has made since changing their business model and yet shows the need to shore up other areas of concern such as profit margins and earnings. BCG Analysis Merck & Co., Inc. is organized into four strategic business units (SBU). They allow the firm to operate in a diverse realm of industries that are able to capitalize on the knowledge and skill set of others across the firm. Performance Materials, Merck Serono, Merck Millipore, and Consumer Health all bring distinct experts and products to the firm.

This allows Merck to operate in more than one industry and through diversification, balance its failures with successes in other areas. Exhibit K shows the BCG in a matrix form. When categorizing the four SBUs of the firm, the “cash cow” is Performance Materials. As none of the SBUs in the firm are classified as a “dog”, the amount of profit to sales shows how Performance Material leads the firm in cash flow. Performance Materials “provides high-tech performance chemicals for applications in fields such as consumer electronics, lighting, coatings, printing, plastics, and cosmetics.... [and] has been the market leader in liquid crystal mixtures for many years” (Merck Annual Report 2012: The road to tomorrow, 2013, p.

33). This unit in the firm is responsible for 16 percent of the firm’s sales but 23 percent of the operational cash flow. By increasing the profit margins of the SBU, management is able to operate with high earnings and cash flow. The strategy of the firm should be to maintain the SBU in the same manner while seeking out ways to continue to improve the position of the unit with new markets or products. Merck has two SBUs classified as “star” units.

The first is Merck Serono creating 56 percent of the firm’s sales and operational cash flow. While it is the largest division of the firm, it does not achieve the same level of profit margins that Performance Materials does. The firm is working toward streamlining some areas of their product pipeline to enhance profit margins.

One of those areas is research and development (R&D). By streamlining the pipeline while simultaneously creating partnerships, Merck hopes to reduce the high operating costs it faces in this SBU. When described, Merck Serono’s

areas of expertise explain why the SBU maintains such as high operating cost.

“ It markets innovative prescription drugs to treat cancer, multiple sclerosis, infertility, growth disorders, and selected cardiovascular and metabolic diseases. Merck Serono’s products are primarily prescribed by specialists and largely manufactured using biotechnology” (Merck Annual Report 2012: The road to tomorrow, 2013, p. 33). The second “ star” SBU under Merck is Merck Millipore.

This division creates 24 percent of the firm’s sales and generates 19 percent of the firm’s operational cash flow. Merck Millipore was on the only division that did not have a decline in organic sales Europe in 2011. While its acquisition has been good for the firm, additional long-term investment is needed to ensure continued profitability for the firm. This SBU is currently “ the world’s third-largest supplier of products and services for the life science industry. These are used by customers working in research and analytical laboratories as well as in pharmaceutical manufacturing” (Merck Annual Report 2012: The road to tomorrow, 2013, p. 33). The fourth division of Merck classifies as a “ question mark”.

Consumer Health is creating 4 percent of the firm’s sales and only 2 percent of the operational cash flow. This is a part of the firm where anticipated growth over the next decade could be high. By increasing the marketing of its products and reducing costs, Consumer Health could become a “ cash cow” for the firm in the future. This division of the firm “ offers over-the-counter pharmaceuticals and focuses on a range of well-known brands that

primarily address health themes such as mobility, women's and children's health, cough and cold, as well as everyday health protection" (Merck Annual Report 2012: The road to tomorrow, 2013, p. 33). Due to its lower than industry average profitability, the division must make several improvements to avoid becoming a "dog" for the firm. Competitive Forces The competitive forces devised by Harvard Economist Michael Porter are the bargaining power of buyers, the bargaining power of suppliers, the threat of new entrants, the threat of substitutes, and rivalry among existing competitors (Rothaermel, 2013, p. 65).

Within any given industry, the weaker the five forces are, the stronger the profit making potential in the industry; the reverse is also true. The bargaining power of buyers is moderate because hospitals and other health companies buy pharmaceutical products in bulk and prices have steadily increased on generic products. The bargaining power of suppliers is low because of the small amount of large players in the industry that offer similar payment terms to suppliers. The pharmaceutical industry has high barriers to entry: there is high R&D cost for drugs and high government regulation. Thus, the threat of new entrants is low. As new generic drugs enter the market annually, the threat of substitutes is relatively high. Finally, rivalry among existing firms is high: pharmaceutical firms spend large amounts of advertising dollars attempting to convince consumers that their drugs are better than their competitors' drugs. A great example of this rivalry is the fierce competition in the erectile dysfunction (ED) market that exists between Bayer & GlaxoSmithKline's Levitra, Eli Lilly & ICOS's Cialis, and Pfizer's Viagra.

Overall, the pharmaceutical industry is attractive because of its profit making potential, new entrants must enter with a bevy of capital and patience if they wish to succeed. Alternative Strategies Merck & Co., Inc. maintains itself with four strategic business units (SBU). The firm is currently facing several critical decisions relating to its innovation strategy. By defining its long-term strategy, the firm's leadership may be able to transform the firm as it merges with Schering-Plough (SP) into the benchmark for the industry. By aligning the old closed innovation model with the new business model of open innovation from SP, Merck could capitalize on the best of each model. Merck's leadership could pursue several alternative strategies.

Three courses of action the firm may take are, combining the open and closed innovation models used by Merck and SP, acquiring a firm that operates in the generic drug market, and increasing investment in the consumer health market. Combining Business Models While SP gains research projects from outside the firm, it has been Merck's belief that only the research projects that they develop are worthy of investment. Globalization and the proliferation of knowledge through technology have allowed the research culture to change. Merck's closed system however, has not changed and therefore has left them behind when it comes to capitalizing on open sources.

The firm has moved towards this model in some ways. At Merck Serono, they streamlined the " R&D organization and started to realign [their] ... development pipeline. Apart from focusing on the most promising internal projects, the efforts also included in-licensing agreements" (Merck Annual Report 2012: The road to tomorrow, 2013, p. 28). These allow for external <https://assignbuster.com/merck-case-study-essay/>

inputs to research and create a larger pool of compounds in which to move into pre-clinical trials. Conducting closed business research is no longer a competitive business model.

The larger the pool to choose from, the more products the firm will get to market. Entering the Generic Market By acquiring a firm that already has a market share in the generic drug market, Merck could reduce competition by providing what the consumer needs. While the recoupment of the R&D costs for the parent company may take some time, not capitalizing on every opportunity to profit from their own research is costing the firm money. There are profits to available in the generic drug market.

Merck could counter the threats it faces from these other firms by competing against them while still maintaining its patented products within their current SBU. Increasing Consumer Health Market Share“ Strengthening profitability and focusing on strategic brands are the main objectives of Consumer Health” (Merck Annual Report 2012: The road to tomorrow, 2013, p. 29). These two areas should be included in the scenarios that Merck analyzes for the future of the firm. The success of prevention-based medical services is poised to grow in coming years. By focusing efforts in the this division so that Merck can compete with current over the counter medication, it may breath life back into this SBU and provide the firm with a long-term strategy in the consumer health markets. By developing these future scenarios and applying the drivers that may change the industry, Merck can make strategic decisions based on fact-based assumptions. “ There are, of course...many different scenarios that could be crafted based on deeper research into the industry” (Osterwalder & Pigneur, 2010, p.

<https://assignbuster.com/merck-case-study-essay/>

186). The long-term objectives of the firm should involve emphasis on its core competencies of each SBU. Allowing each division of the firm to focus on these competencies while sharing best practices with each of the other divisions would allow for increased efficiencies. Standardizing the outsourcing of duties for specific jobs that involve another division's core competencies will ensure a more efficient operation within the firm. Specific Strategies and Long-Term Objectives Specific Strategies Merck possesses a bevy of unique strengths that provide a platform for the achievement of its goals. In its current markets, the company should use the launching of its new products to drive growth in these markets. For example, in the U.

S., Merck has already been approved to sell two new patents; one of these patents (a drug for overactive bladder for women) appears to be particularly promising because of its lack of generic competitors. Merck should also continue its unilateral operational restructuring plan that has already resulted in the company saving several billion dollars (" Merck & Co. SWOT Analysis, 2013, p. 5). Merck should be able to utilize its new R&D plant in Beijing, China to bring many of its products to market with relative ease in emerging markets such as China and India. Not only is this logistically easy, but the company also stands to gain political cooperation in these markets due to its foreign direct investment (FDI).

Merck should take a portion of either the earnings it gains in emerging markets or the savings it recoups from restructuring to end its litigation issues via settlements. The aforementioned product launches will likely counterbalance the decline in sales caused by the expiration of several of Merck's patents and exclusivity agreements. Further, Merck should use its <https://assignbuster.com/merck-case-study-essay/>

two new product launches in the U. S. to ebb the expected drop in sales caused by healthcare reform. As the global economy is still unstable, Merck should proceed with caution as it enters emerging markets.

Long-Term ObjectivesThe following is a list of suggested long-term objectives for Merck: Earn \$4. 6 in cost savings by FY 2016 with operational restructuring. Establish dominant market share in China and India by FY 2023. Obtain new exclusivity agreements in Western markets for new patents. Have sales in emerging markets represent at least 20% of all sales by FY 2023. Launch at least two new products per year for the ensuing 10 years. **Net Present Value Analysis**In 2006, 101 drugs each sold more than \$1 billion worldwide.

Of the drugs 18 were biotechnology innovations, this can be compared to only three biotech products in 2000. The rapid rise of the biotechnology industry seemed to promise a solution to the R&D drought in pharmaceuticals companies' pipelines, attracting more than \$40 billion of venture capital to date (Rothaermel, 2013, p. C239). The recommendation is for Merck to collaborate with other pharmaceutical firms in an effort to discover medical breakthroughs that can be applied to current competencies in development, distribution, and marketing in an effort to maximize profit potential. These mergers and/or acquisitions should be done in an effort for the organization increase diversification and build joint long-term capabilities.

We are investing 1.2 billion for each new product; the investment will incorporate four new products and six billion into R&D. Initial investment will be 10.8 billion.

The downside to the large investment needed to get new biotechnical products is that it keeps profits at a minimum. To offset this, many organizations are cutting back costs. These cuts would include sales, production, and promotion. It would be essential not to cut back in R&D since this is the apparent future of the industry. By utilizing these organizational changes, Merck will be able to leverage the potential growth in the market fully. Conclusion Merck has faced unfathomable obstacles since its fall from dominance in the 1990s. However, the daunting challenge of building Merck into the formidable juggernaut it once was is today becoming a reality. Corporate vision and willingness to innovate are changing the complexion of the company and reestablishing it as a dominant player in a highly competitive pharmaceutical field.

Vision The vision of Merck continues to focus on customer loyalty while placing ethics and integrity above the allure of financial profits. Creating as much value as possible for Merck shareholders is the ultimate financial goal of the firm. Merck also believes the betterment of humanity through a continued commitment to excellence and a diversified drug pipeline is as important as financial profits. Merck evolved through the many years of the old business model, but contribution to the field of medicine has always been the ultimate form of contribution to humanity (Rothaermel, 2013, p.

c229). Keys to Success Forward thinking and innovation are the keys to success at Merck & Co. Inc. Merck has historically placed its customers and quality control as foremost importance in a highly pressurized sector. These characteristics have always served Merck as core competencies and have proven to be highly effective in building the Merck name and brand.

However, due to a fast-paced pharmaceutical environment, there needs to be a shift from developing technology and a viable drug pipeline from being solely in-house, to becoming a leader based on an inclusive development model. Merck has already taken great strides in this direction and every effort should be made to continue gleaning useful data from any legitimate available source.

Financial Ratios Merck is making great strides from a financial standpoint in achieving growing capitalization and increased stability. Liquidity has improved from a current ratio of 1.2 in 2006 to the present level of 1.8. Profitability has been a bit mixed with return on assets increasing slightly, but return on equity has fluctuated from year to year, settling marginally lower than 3 years prior.

An alarming trend has been a drastic reduction in the receivables turnover, indicating that the company has not been doing an effective job collecting monies owed to the company; this should be addressed with an appropriate plan of action. Stock prices have been dropping while book value has been increasing, so investors are receiving undervalued stocks with expectations for acute appreciation. Merck & Schering-Plough is now the fifth largest pharmaceutical company in the world. Among direct competitors, Merck is second only to Glaxo Smith Cline in highest P/E ratio, which indicates

<https://assignbuster.com/merck-case-study-essay/>

investors expect more growth from Merck than its competition (Rothaermel, 2013, p. c234). Dividend yield is extremely competitive at 4.

12 % with only Glaxo Smith Cline edging them at 4.99% and Astra Zeneca at 8.65% (Rothaermel, 2013, p. c234). Although Merck is slightly behind on dividend yield, many factors to be considered in addition to the current yield such as the year over year growth rate and pertinent information can swing dividend yield several percentage points. Net Present Value Analysis There are several challenges facing Merck and one of the most daunting is balancing the requisite research and development with its formidable cost structure.

However, it is clear that the way to delineate Merck from its competition and ensure continued growth is to focus on research and development as core competencies and cut costs in other areas such as advertising, production, and promotions. Evidence points overwhelmingly to continuing the cooperative efforts started by Dr. Mervyn Turner (Rothaermel, 2013, p. c228). Sharing information among rivals was once unimaginable, but now it is essential to expedite drug development and ensure longevity for all pharmaceutical companies. The goal of mergers, cooperatives, and participation in university studies all should help Merck to increase diversification and build long-term capabilities. Long-Term Goals Long-term goals at Merck should capitalize on its renewed drug pipeline and lack of competition in areas such as geriatrics. Goals should include \$4.

6 in cost savings by FY 2016 with operational restructuring and establishing dominant market share in China and India by FY 2023. Merck

should capitalize on world markets by obtaining new exclusivity agreements in Western markets for new patents and strive for sales in emerging markets to represent at least 20% of all sales by FY 2023. In addition to bolstering its drug pipeline and embellishing its overseas dominance, Merck should also endeavor to launch at least 2 new products per year for the ensuing 10 years.

Obtaining the listed goals would ensure both short-term stability and long-term longevity for the company and its employees, investors, and customers. References Chesbrough, H. (2003).

The era of open innovation. MIT Sloan Management Review, 44(3), 35-41. doi: 224970683. Hsu, H.

C. (2010). Using MSN money to perform financial ratio analysis. Journal of College Teaching and Learning, 7(9), 25-35. doi: 751262328. Merck Annual Report 2012: The road to tomorrow.

Darmstadt: Merck KGaA, Group Communications. Retrieved November 13, 2013, from www.merckgroup.com/annualreport2012 Merck & co., inc. SWOT analysis. (2013).

Merck & co., inc. SWOT analysis, 1-9.

Osterwalder, A., & Pigneur, Y. (2010). Business Model Generation (1st ed.).

Hoboken, New Jersey: John Wiley & Sons. Rothaermel, F. (2013). Strategic management: Concepts and cases. (1 ed., pp. 105-C233).

New York, NY: McGraw-Hill/Irwin. U. S. Securities and Exchange Commission (2013). Retrieved from [http://www. sec.](http://www.sec.gov/cgi-bin/viewer? action= view&cik= 310158&accession_number= 0001193125-12-084319&xbri_type= v)

gov/cgi-bin/viewer? action= view&cik= 310158&accession_number= 0001193125-12-084319&xbri_type= v
 Exhibit A: Consolidated Income Statement. Exhibit B Consolidated Balance Sheet. Exhibit E Proforma Income Statements. Exhibit F. Net Present Value. Investment in four new products and 6 billion into R&D; each product costs 1.

2 billion. Initial investment will be 10. 8 billion. Rate of Return: 12. 5%
 $C_0 = -10,800$ (millions)
 $C_1 = 9,338$
 $C_2 = 10,528$
 $C_3 = 11,774$
 $NPV = C_0 + \frac{9338}{(1+.125)^1} + \frac{10528}{(1+.125)^2} + \frac{11774}{(1+.125)^3}$
 $NPV = \$14,089$ (millions)
 Exhibit F.

EPS/EBIT. Exhibit G. Forecasted

Ratios Merck 2010 2011 2012 2013 2014 2015
 Current Ratio 1. 92. 01. 91. 91.

81. 6 Quick Ratio 1. 51. 71.

51. 41. 31. 2 Long Term Debt to Equity 0. 30. 30. 30.

30. 30. 3 Inventory Turnover 7. 87. 77. 26. 46. 56.

8 Total Assets Turnover 0. 40. 50. 40. 50.

50. 5 Accounts Receivable Turnover 4. 25. 86.

27. 47. 26.

9 Average Collection Period 87. 362. 859. 249. 250. 753.

0Gross Profit Margin0. 60. 60.

70. 60. 60. 6Net Profit Margin0.

00. 10. 10. 10. 10. 1Return on Total Assets (ROA)0.

00. 10. 10. 00.

10. 1Return on Equity (ROE)0. 00. 10. 10. 10. 10. 1Exhibit H: Proforma
 Graphs – Pfizer/Merck Comparison. Exhibit I Financial Ratio Breakdown for
 Merck & Co., Inc. Performance Area2009200820072006Leverage: Debt to
 Assets. 451. 551. 574. 552Debt to Equity. 8221. 231. 351. 23Liquidity:
 Current Ratio1. 801. 351. 231. 20Current Liability Position. 141. 303. 254.
 285Profitability: Return on Assets (ROA). 115. 165. 067. 099Return on Equity
 (ROE). 209. 369. 159. 222Activity: Asset Turnover Ratio. 344. 499. 521.
 506Receivables Turnover5. 286. 436. 9613. 21Market: Price to Earnings
 Ratio6. 6110. 233. 618. 72Book Value Per Share19. 008. 98. 378. 1Note.

Data presented in Exhibit 1 was derived from Merck & Co., Inc. financial
 statement located in Strategic Management Concepts and Cases (pp. C228-
 C248), by F. Rothaermel, 2013, United States: McGraw-Hill Irwin Publishing.

Exhibit J “ Merck & Co. Inc. SWOT Analysis” (2013, p. 4)SWOT Strategy
 MatrixExternal OpportunitiesStrong pipeline likely to drive growthContinued
 savings from restructuring activitiesContinued growth in emerging
 marketsExternal ThreatsGeneric competitionU. S. healthcare reformCurrency
 devaluation in emerging marketsWeak EU economic conditions may extend
 avg. collection period Own StrengthsImpressive record of novel product
 launches driving growthMarket leaderSP merger stabilizes position as
 leaderStrategies to make use of opportunities through our strengths: Use
<https://assignbuster.com/merck-case-study-essay/>

new product launches to drive growth in current markets Continue restructuring to strengthen company financial position Use pipeline and product launch strength to expand to emerging markets Strategies to prevent threats through our strengths: Launch new products to counterbalance losses from patent expirations Large amount of new products may ease losses incurred by healthcare reform Tread carefully with entry into emerging markets with massive currency instability Offer fewer sales on credit in EU areas in which the avg. collection period has risen Own Weaknesses Vioxx litigation Strategies to make use of opportunities to minimize weaknesses: Use portion of earnings from growth to settle all lawsuits Strategies to minimize the potential dangers lying in sectors where our weaknesses meets our threats: Take advantage of opportunities so that the weakness will dissipate, leaving only the threats. Exhibit K Boston Consulting Group Matrix Exhibit L Competitor Financial Ratios Valuation Measures Merck & Schering-Plough Pfizer and Wyeth Johnson & Johnson Market Cap 140. 67b 213. 17b 266. 00b Enterprise Value 142. 42b 209. 60b 252. 98b Trailing P/E 32. 318. 88 21. 05 Forward P/E 13. 77 14. 06 16. 14 PEG Ratio (5 year) 6. 174. 992. 67 Price/Sales 3. 153. 773. 75 Price/Book 2. 952. 703. 79 Enterprise Value/Revenue 3. 23. 733. 59 Enterprise Value/EBITDA 9. 318. 47 11. 07 Financial Highlights Fiscal Year Fiscal Year Ends Dec. 31 Dec. 31 Dec. 30 Most Recent Quarter Sept 30, 2013 Sept. 29, 2013 Sept. 29, 2013 Profitability Profit Margin 10. 19% 45. 78% 18. 26% Operating Margin 20. 03% 32. 14% 26. 73% Management Effectiveness Return on Assets nanana Return on Equity nanana Income Statement Revenue 44. 45b 56. 25b 70. 52b Revenue Per Share 14. 878. 00 25. 11 Quarterly Revenue Growth -4.% -9. 5% 3. 10% Gross Profit 30. 82b 47. 65b 45. 57b EBITDA 15. 30b 24. 74b 22. <https://assignbuster.com/merck-case-study-essay/>

85bNet Income Avi to Common4. 53b10. 68b12. 88bDiluted EPS1. 493. 634.
48Quarterly Earnings Growth-35%-19. 30%0. 50%Balance SheetTotal
Cash18. 10b33. 78b25. 13bTotal Cash Per Share6. 185. 108. 92Total Debt28.
14b36. 94b14. 98bTotal Debt/Equity56. 1646. 7821. 51Current
RationananaBook Value Per Share16. 2311. 8624. 75Cash Flow
StatementOperating Cash FlownananaLeveraged Free Cash Flownanana*
Retrieved from <http://finance.yahoo.com/q/ks?s=MRK+Key+Statistics>
Exhibit M CPM Matrix