

Eli Lilly and company: the global pharmaceutical company



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Analysis Methods Porter's Five Force in relation to Eli Lilly Threat of New Entrants Threat of new entrants is relatively high. Companies forming alliances are potential rivals. Even if earlier such company was not considered to be a threat, after merging with some research and development company or forming alliance with another pharmaceutical company it would become a rival to Eli Lilly.

The threat is however weakened by significant research and development costs necessary to successfully enter the business. Eli Lilly's focus on a relatively narrow market of sedatives and antidepressants weakens the threat of new entrants, but other products that form lesser part of company's sales such as insulin and others are exposed to high threat of new entrants. The need of obtaining certificates and licenses also weakens the threat of new entrants. Discussed above leads to the conclusion that threat of new entrants is medium. Bargaining Power of Buyers It tends to be high in pharmaceutical business as main sales are done using whole sales. Institutions that purchase drugs in large quantities are considering the discounts that drug producers are willing to give and therefore are able to influence price.

As long as Eli Lilly have competitors with similar products it is obvious that bargaining power of buyers is high for the industry. Buyers with smaller volumes of purchases do not influence price policy, but such buyers are outnumbered by wholesale buyers. It is also important that people purchasing drugs for themselves are usually covered by healthcare insurance and therefore are not interested in pulling price down. Yet the volumes of sales to such buyers are not significant. Bargaining Power of

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Suppliers It is relatively not high. There exists possibility to switch supplier at low cost and supplier brands are not powerful.

There exists a little possibility of forward integration. All of the above makes the bargaining power of supplier low. In Eli Lilly's case it is true that the power of suppliers is reversal of the buyer's power. **Threat of Substitute Product** The threat of substitutes is not very high. Traditional medicine using drugs as a curing remedy is a main mean for treatment used by almost all healthcare institutions. Substitutes such as sport, yoga, alternative medicine are not very popular and unlikely to become such.

However for the main product Prozac, which is an antidepressant drug, alternatives are possible because treating depression using alternative medicine, psychologist's help and other means is more probable than treating of physical disease by similar means. The threat of substitutes is low, which is a significant advantage. **Rivalry Among Competitors** The rivalry is tense in this business. However the competitiveness is rather unique in pharmaceuticals. High costs of research and development hold the appearance of new rivals. It is also true that rivals are usually focused on a rather small market of specific medication.

The main rivals Novo Nordisk A/S, Pfizer and Smithkline are narrowly oriented companies which however give Eli Lillys hard time producing such products as Zoloft - Prozac alternative. The competitive rivalry in the business is medium. **SWOT MATRIX STRENGTHS-OPPORTUNITIES** 1Eli Lilly & Company should join strategic alliance to develop and market a blood substitute product on its ethical products. 2Use cooperation joint ventures &

alliances to lower down costs of R expenditures, increase research capabilities and seize economies of scale, thereby protecting future profits.

3 Offer wide spectrums of products 4 Make research in other therapeutic benefits from a previously marketed drug. 5 Identify and develop treatments for future wide spread maladies. **STRENGTHS-THREATS** Find innovative ways to extend patent on Prozac through marketing it in other forms. **WEAKNESS-OPPORTUNITIES** 1 Consider joint ventures and alliances with generic-producing pharmaceutical to protect earnings from patent losses. 2 Make research on the pricing policy in other markets around the globe to make wise market entry decisions.

WEAKNESS-THREATS 1 Find creative ways to extend patent protection and differentiate it from those of competitors by creating a brand name and customer loyalty. **SWOT ANALYSIS Strengths** 1. Success of their anti-depressant Prozac 2. Many Strategic Alliances 3. Patent protection of company's products 4.

Heavily involved in Alliances to perform research 5. Top 10 contender in the Pharmaceutical Industry 6. 1st pharmaceutical firm to market a genetically engineered drug the Humulin 7. Pharmaceutical products are widely distributed in 200 dependent wholesale outlets in U. S. 8.

It had R & D facilities in 9 countries including North America, Europe, and Japan 9. It had manufacturing facilities in 20 countries including locations in Australia, South America, China, Middle East, Europe & in U. S. **Weaknesses** 1.

Unfavorable exchange rates in overseas sales 2. Decline of sales of anti-infective due to strong competition from generics in the U. S. and overseas Opportunities 1. U. S.

market offering great growth potential 2. Trends of globalization 3. Aging of worldwide population 4. Longer life expectancy 5.

Opening of new markets 6. Increased demand from Third World nation experiencing rising standards of living 7. Merge agreement with Sepracor

Threats 1. Expiration of Prozac patent 2. Emergence of Generic Drugs 3.

Under investigation by the Federal Trade Commission (FTC) for alleged antitrust activity due to its agreement with Sepracor 4.

Unresolved case with Barr Laboratories, Inc. from manufacturing generic versions of Prozac 5. Lawsuit with Zeneca Inc. regarding its product Evista claiming that it is a breast cancer treatment 6. Market outside U.

S. are less attractive with socialist governments and price controls INDUSTRY

ANALYSIS The industry consists of the product organizations such as drug companies and product and supplies organizations. The size of the global industry was \$250 billion in 1999 and 6 to 7 percent annual worldwide sales growth for 1999 to 2003. The pharmaceutical industry ranks as the number one industry in the world in terms of return on assets, return on revenue and number three in terms of return on equity for year 1997 among Fortune 500 companies. Among the 14 pharmaceutical companies in the Fortune 500 for 1997, Merck was ranked 1st, Pfizer 5th, Abbot 6th, and Eli Lilly 7th in terms of revenues. Rivalry among competitors is intense as brand recognition has become increasingly important as an approach to capturing market share.
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Companies are increasing advertising budgets to promote the therapeutic benefits of their drugs in an effort to differentiate their products from competitors. Many existing pharmaceutical compounds are standardized formulations that vary little in efficacy among manufacturers. The search for a differentiated product that will lead to blockbuster sales is one reason R & D, advertising and sales force budgets have increased in recent years. Risk is high in the pharmaceutical industry as expenditures for research and development for each drug typically last through a period of 10 to 15 years before a compound makes it to the market. FDA approvals generally take 16 months which is down from 32 months in 1987. It is very unlikely that a compound developed by a pharmaceutical company will ever be used in the retail market.

Only 1 in 5000 compounds will eventually be sold and less than one third of all marketed drugs will provide a return to recoup R & D expenditures. The average costs associated with bringing a drug to market is \$500 million while the product life of a prescription drug averages 10 years. There are several underlying trends in the world that are contributing to the demand for pharmaceutical drugs. The aging of the baby boom generation and increasing life expectancy rates are expected to increase the demand for prescription drugs over the next 25 years. The number of people between 45 and 64 years old will increase 41% by 2015.

Given the rise in age population and life expectancy rates around the world and the level of pharmaceutical use by aging individuals, growth in the industry should remain in an upward trend. The pharmaceutical industry is relatively immune from the effects of economic cycles. Demand for the <https://assignbuster.com/eli-lilly-and-company-the-global-pharmaceutical-company/>

industry's product remains constant in up and down economic cycles as market demand is a function of the overall health of the population. However the globalization of the pharmaceutical industry increases the risk associated with foreign investments and exchange rates.

The firms in this industry seek to minimize risks by using hedging practices such as foreign currency forward-exchange contracts, borrowing in foreign markets, and using currency swaps.