Pfizer Case Analysis – Strategic Management

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Strategic Profile and Case Analysis Purpose

The purpose of this case analysis is to determine if, with the patent expiration of Lipitor, is Pfizer able to maintain delivering a sustainable pipeline of profitable drugs or should they reassess and make significant changes to strategic management. Key factors presented in the case study are aspects like the decrease in revenues, a recent drop in short-term investments, regulations and increased costs associated with research and development of new drugs to bring to market, and complex manufacturing operations for pharmaceuticals.

Situation Analysis

General environment analysis

Technological Trends

To bring a new drug to market Pfizer must invest a significant amount of funding into Research and Development (R&D), which utilizes cutting-edge technologies in science. However, in response to expanding costs to bring a drug to market due to increased regulations, Pfizer has cut R&D budgets. Some experts believe that there are few areas of medicine in which breakthroughs can be made. Thus, Pfizer has stopped focus on in house developments of innovation and instead pushed towards acquiring through mergers and acquisitions.

Demographic Trends

An increased population and an aging population lead to the consideration that more drugs are needed to sustain longer lives. In the last 70 years the population has more than doubled, (pg 43.) This increase in population means that there are more customers

worldwide that will rely on pharmaceutical manufacturing to provide treatments needed for any potential health problems. The average age of the population is increasing. It, too, has doubled and is predicted to double again in the next 20 years (page 44).

Economic Trends

Economic stability in the world is not certain at all currently due to the worldwide strain from Covid-19. However, Pfizer stands to gain from this economic crisis, due to it being one of a medical nature. The need for treatment drugs and vaccines for Covid-19 goes hand in hand with the reopening of countries worldwide. Thus, if Pfizer is capable of creating effective, safe, and well-tested treatments or vaccines for Covid-19, they could effectively influence the stability of certain economic regions.

Political / Legal Trends

In 1906 the Food and Drug Act was passed. This act gave the authority to regulate all pharmaceutical manufacturing over to the Food and Drug Administration (FDA). Thus the costs associated with manufacturing, testing, and distributing drugs to market have significantly increased over the years since.

Sociocultural Trends

Society's outlook and attitudes toward Pfizer are not always positive. They have, in the past, created an adverse reaction in shareholders and consumers due to their bribing foreign officials to secure regulatory approval. Though they reported the incident, it has soured some social outlook on the company.

Global Trends

Pfizer operates on a global scale from an operations and supply chain perspective. Within this supply chain, there are many points of cross over between global and regional

facilities. They have, "64 internal manufacturing facilities, 200 supply chain partners, and 134 logistics centers," as of 2015.

Industry analysis

The threat of new entrants

Pfizer is engaging in investment in strategic startup companies that are in "early state scientific innovation in immune-oncology, gene therapy, and other cutting-edge fields." These investments not only serve to advance the scientific innovation of the medical industry but also to increase the footprint of Pfizer through diversification. Thus they lower the threat of new entrants to the industry. While Pfizer is lowering the barrier to entry by providing investment into small startups in the sector, they are also controlling any new potential entrants.

Power of suppliers

Pfizer is currently reliant on "its R&D pipeline to consistently develop and launch high volume drugs." However, the supply for new drugs to effectively treat ailments on the market is far less than the demand due to the difficulty associated with manufacturing. Other companies in the industry also suffer from this same dilemma.

Power of buyers

Most pharmaceutical companies focus on several "blockbuster" drugs under patent that are needed in highly specific treatment options. Because of patents, the manufacturers of those drugs hold the keys to supply, and there are no or few satisfactory substitutes for their stars and cash cows. Thus, buyers are at a disadvantage in creating a competitive environment amongst manufacturers of drugs to drive down prices. The rust is that the pharmaceutical industry has increased prices on drugs nearing the end of their patent.

The threat of substitute products

In the pharmaceutical industry, the biggest threat to any particular drug is in the production of a generic version. ACA expedites the manufacturing of biosimilars, though the manufacturer must prove that the new version of the drug is "highly similar in effectiveness" to an already approved drug. Because of fast-tracking medications through the system, they can be produced and distributed at a vastly reduced cost.

The Intensity of Rivalry among Competitors

Competition in the pharmaceutical manufacturing industry is intense. Companies must invest large amounts of capital to be the first to patent a new and innovative drug on the market with the hopes that they will not be locked out due to regulations or other companies getting there first. Once a product is on the market and under patent, they control all other production of that drug. This creates mini monopolies for years on specific products and drives up prices. Because of the sheer amount of regulation, the industry is slow to grow. Since they are unable to create the same drug due to patents and regulations, if they are not first in on the market, they must attempt to battle for the market share by creating a product that treats the associated ailment as effectively.

Competitor analysis

Pfizer has several major competitors. These include Merck, Bristol Myers, Johnson & Johnson, and Novartis. Among these, Merck & Co. competes directly against Pfizer's best selling drug, Lipitor, with its cholesterol-lowering drug, Zetia. This direct competition has resulted in Zetia selling at a far higher price and netting Merck & Co. and an average of $1 billion more in sales than Lipitor a year.

One of the biggest challenges Pfizer faces concerning its competition is that several of its

high sales drugs are behind the curve and are no longer under patent. Several biosimilar products are produced for many of their top sellers. In comparison, Merck has several patented drugs that are at the top of the market. Looking forward, Merck likely assumes that Pfizer will engage in substantial R&D to catch up with Merck on blockbuster drugs to add to their pipeline (Speights, 2019). This could result in Merck and other companies responding by increasing their R&D in the coming year. With politicians pushing for a vaccine and effective treatments for Covid-19 and decreased regulations on rapid testing for vaccines, the following year will prove to be profitable for the company that succeeds at a response to the virus.

Internal analysis

Pfizer has several core competencies that tie into one another. They have an extensive global supply chain that is managed through the system known as the Highly Orchestrated Supply Network (HOSuN). HOSuN allows Pfizer to communicate across the entirety of its supply chain effectively. Because of HOSuN, the highly trained individuals needed for Research and Development of new products can connect to every other portion of the business for its needs. An example, as stated in the case study, one vaccine requires the "participation of 1700 employees, 678 quality tests, 400 different raw materials, and 580 steps in manufacturing." Pfizer excels at managing the complex systems and the development of its employees that is required to quickly and efficiently bring new drugs to the market.

Identification of Environmental Opportunities and Threats and Firm Strengths and Weaknesses (SWOT Analysis)

Strategy Formulation

Strategic alternatives

There are two distinct strategies that Pfizer could choose from to differentiate itself from its competitors. One is the cost leadership strategy, and the other is the differentiation strategy. Both strategies address different issues Pfizer is faced with.

Alternative evaluation

If the cost leadership strategy is chosen, Pfizer will be required to revamp their entire business model and drastically change their pricing model. The cost leadership strategy would require Pfizer to focus on creating value for customers by lowering prices to the lowest cost possible for drugs that are about to lose their patent. This strategy could then

be applied to all aspects of the drug production business. This would require Pfizer to reassess and evaluate where in the supply chain they could operate more efficiently, determine how to standardize their pharmaceuticals, and potentially engage in the production of drugs in regions where manufacturing costs and human resources cost less.

With the differentiation strategy, Pfizer would need to engage in massive diversification. They are partially already doing this through investments into innovative startups that focus on niche treatments and highly innovative science. However, unlike their competitor Johnson & Johnson, they currently have no stake in the areas of personal health and beauty products. They sold their entire consumer healthcare business to Johnson & Johnson in 2006. If Pfizer were to invest in health and beauty startups similar to the ones they are investing in for specific areas of health science, they could increase the amount of revenue created without having to spend heavily on inhouse development of those products. This would allow them to break back into the market and use their brand to bring notice to innovative products.

Alternative choice

With the current social negativity associated with drug pricing and the increased cost of healthcare, Pfizer cannot maintain its current pricing strategy. Thus, this makes a cost leadership strategy the most beneficial choice.

Strategic Alternative Implementation

Some issues with this choice are that while they would increase competition and drive down prices of drugs, thus increasing social attitudes toward them, they would also potentially give up the quality of the drugs they choose to make due to cutting costs. They would also still need to invest heavily in R&D and political outlets to navigate

through the red tape associated with bringing a drug to market. Eventually, competitors would be forced to come up with cost leadership strategies or risk being pushed out of the industry.

Action items

- Lowering prices on near to patent ending drugs
- Evaluate and assess the supply chain for more efficient ways to do things at a lower cost.
- Standardize manufacturing where possible
- Move production facilities out of high-cost regions
- Increase marketing on reduced cost initiatives

Action plan

With the action items mentioned above in mind, it is vital to assess each element in relation to how it will affect the business as it is being implemented. After lowering the prices on drugs near to the patent end, it is essential for managers to then do competitive and industry analyses to see how competitors are responding to lower drug pricing. This action has the potential to increase consumer trust and brand awareness, so marketing the new pricing and cost initiatives should be increased. Where possible, manufacturing should be standardized, to increase the efficiency of production, this includes potentially moving production facilities out of high-cost regions. Managers must ensure that despite this change, the quality of products is not vastly compromised.

References

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