



**Institute of Administrative Management  
Level 5 Advanced Diploma in Administrative  
Management  
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**Case study 2**

**Scenario**



## MSC Medihealth

MSC was formed in 1995 and is a large British pharmaceutical company with about 2% of the world pharmaceutical market. It employs 40,000 people in 50 different countries with 12,000 working in sales and marketing, 8,000 in production, 6,000 in research and development with the rest spread across the other areas of the company. This in itself presents a particular challenge in managing a diverse workforce and ensuring an equality of opportunity within the company.

The pharmaceutical industry is of particular social and political importance because of its close connection with health as its products are likely to affect the lives of everyone. Drugs can be the difference between life and death and have a substantial influence on life style, particularly persons with chronic illness, many of whom, especially in developed countries, are elderly. Healthcare is expensive and demand for it is growing faster than the ability of governments and healthcare purchasers to pay for it.

This industry is highly regulated and new drugs must be approved before they can be made available. Products fall into two categories:

- prescription drugs that are only available to patients if they are prescribed by a medical professional
- generic drugs which patients can buy over the counter.

MSC whose business is medicine and healthcare discovers, develops, makes and sells drugs. Its portfolio includes vaccines as well as anti-virals and its successful drugs are sold all over the world.

MSC has adopted a new business strategy and operating model for these products. This strategy is carried out by sales and marketing staff operating as brand teams, each of which is responsible for developing and maintaining a brand. Each team is autonomous and has full responsibility for all aspects of the brand including innovation and marketing.

MSC has an operational excellence programme which is intended to encourage operational efficiency across the manufacturing sites. It is based on lean manufacturing, the use of technology and global procurement systems including the use of e-procurement techniques such as electronic auctions.

However, in the last three years MSC has come under severe pressure from competitors in terms of pricing, ethical standards, inefficiency and complacency. Chairman Louis Masson is acutely aware of the high cost attached to providing prescription drugs. Whilst the profit on these can exceed 30%, the research and development aspect can be enormous.

Prices for the same drugs differ across the world. In Europe where there is a government run health organisation, as the only buyer they have some bargaining power but elsewhere in the world, drug prices are much higher.

Not all prescription drugs are available worldwide as poorer countries cannot afford to buy. Some poorer nations have tried to manufacture a locally produced alternative but have been prevented from doing so because of international 'patent' law. The amount of marketing spent by MSC is large and this cost must also be factored into the selling price. Without advertising doctors may not prescribe the drugs.

Another aspect is ethical standards. MSC like its competitors does not release information about its drugs until just prior to launch. This has the effect of preventing new ideas being taken up by competitors. In addition, there has been considerable public criticism about sales representatives not being well enough informed about their medical properties and thus they cannot properly advise the doctors on their use. MSC has also received a bad press for concentrating their efforts on drugs to treat medical conditions prevalent in rich countries where they can charge high prices.

The cost for MSC to bring a new drug to the market is extremely high but as they can charge high prices for the drug there is no incentive for the company to be efficient. MSC is also finding it difficult to maintain a consistent supply of new drugs, especially ones which break new ground, so they now find themselves facing much greater competition with smaller, more focussed companies within the industry.

MSC has invested a considerable amount in ICT over the last five years. More use is being made of computer simulations to monitor administering drugs and their behaviour. All sales representatives have been issued with tablet PCs to enable them to answer questions from doctors more fully. They are also experimenting with the possibility of sending text messages to patients to remind them to take their medicine.

All MSC's sales and marketing staff are required to undergo training to support their development as brand teams - on the job, training by managers and web based learning. They would then gain certification to state that they understand the sales and marketing code. This is the when (is it appropriate), why (should a doctor consider it for a patient), how (to administer it properly) model when making sales calls to doctors.

MSC has also developed a team resilience toolkit to help teams manage risks and measure performance. It uses the term 'resilience' to describe the behaviours required to cope successfully with the pressures of a rapidly changing environment. In 2009, 150 teams worldwide used the toolkit as a way to combat stress among team members.

Louis and his directors at MSC are particularly concerned about the possible lack of growth in the future due to several of their most profitable drugs coming 'off patent'. They are seeking ways in which to reduce costs whilst maintaining their market share. However, they lack the information needed being presented in the form of important indicators of business performance. Also, they now have to interpret financial data for the past four years before taking a number of decisions about the future direction and operation of the company. (See appendix 1)

## Appendix 1

### MSC – Financial Data

	2009 (£m)	2008 (£m)	2007 (£m)	2006 (£m)
<b>Total turnover</b>				
Pharmaceuticals	7146	8181	7995	7205
<b>Cost of sales</b>	(4309)	(4544)	(4609)	(4733)
<b>Gross profit</b>	2837	3637	3386	2472
Selling, general & administrative expenditure	(861)	(897)	(841)	(840)
R & D expenditure	(839)	(791)	(900)	(651)
<b>Operating profit</b>	1137	1949	1645	981
Earnings per share	7.5p	7.7p	66.2p	50.3p

Current Market Price per share = £1.00