

Johnson and Johnson Analysis

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The Industry

Johnson and Johnson is involved in the health care industry through three distinct business segments: consumer, medical, and pharmaceutical.

Consumer

Johnson and Johnson produces various products for the consumer health care industry. These would be items that consumers purchase at store locations. Many of these consumer products are designed for baby, skin, oral, wound, nutritional, and women's health care and are made under the Aveeno, Band-Aid, Clean and Clear, Listerine, Tylenol, Splenda, Sudafed, Stayfree, and Neutrogena, brand names, as well as many others.

Johnson and Johnson's major competitor in the consumer health care industry is Procter and Gamble. Procter and Gamble produces health care items for the consumer market such as deodorants, cosmetics, hair care, etc. under the brand names of Oral-B, Gillette, Olay, Pantene, Pampers, Bounty, and more. Novartis also provides competition by produces various consumer items such as over the counter medicines, CIBA vision products, and veterinary products.

Pharmaceutical

Johnson and Johnson develops a wide variety of pharmaceuticals. Included is Risperdal, which treats schizophrenia, Remicade which treats Crohn's disease, Procrit which stimulates the production of red blood cells, Topamax to treat epilepsy and migraines, and several more.

Merck's pharmaceuticals serve as competitive products to those by Johnson and Johnson. These products include: Singulair for asthma, Vasotec for heart failure / hypertension, Fosamax for osteoporosis, Primaxin for antifungal purposes, and more. Merck also produces vaccines to prevent various health issues such as measles, mumps, rubella, and others. Novartis also produces pharmaceuticals. These are used for treating cardiovascular, respiratory, neurological, arthritis, pediatric, and other issues.

Medical

Johnson and Johnson's medical segment includes various products. These resolve issues circulatory disease management, joint reconstruction, spinal care, insulin delivery, and diagnostics. Merck's medical devices are made up of diagnostic equipment. This includes blood testing and molecular diagnostics

Core and Distinctive Competencies

Johnson & Johnson's core competency is the manufacturer of products to enhance health. Three business segments make up their organization. To better define their core competency, we would look at each separate business segment. In the consumer segment, the focus would be the manufacturer of consumer health products. In the medical devices and diagnostics segment, the focus would be the manufacturer of medical health products. And in the pharmaceutical segment, the focus would be the manufacturer of medications to sustain or promote health.

Johnson & Johnson's distinctive competencies also are unique to each business segment. In the consumer segment there are many products with patents. Some have expired patents that are being replicated by competing companies. In the medical and diagnostics segment, there are products with current and expired patents also. Also, in the pharmaceutical segment there are many medications that have current and expired patents. Johnson & Johnson currently uses legal measures to protect their products and their brand names against intrusive, competing companies.

Competitive Forces

Level of Competition

The level of competition in the health care industry is fairly high. This is because there are several large companies

that have a good hold on the current market. This includes companies such as Johnson and Johnson, Merck, Novartis, Pfizer, and more. However, there are organizations which may be able to enter the industry because of an already established business. One example of this would be Wal-Mart's entry into providing pharmaceuticals.

Threat of New Entry

The level of difficulty involved in entering the health care industry varies depending on the particular business segment. Medical and Diagnostics are difficult to enter due to the high overhead costs and the importance of investing heavily into research and development for new advances. Pharmaceuticals are also difficult to enter due to the research and development required for this segment as well. In addition, the current leaders in the pharmaceutical industry have an established brand and have a certain level of customer loyalty. A new company in the industry would have to sway customers to try their pharmaceuticals rather than the established brands. The easiest level of entry is in the consumer segment. This segment relies more on marketing towards the brand recognition rather than a high level of research and development for cutting edge medical treatment. There is a high level of competition in this segment, which is the most difficult aspect for a new firm to overcome.

Availability of Close Substitutes

For the health care industry, there are few substitutes that an average consumer would have access too, especially regarding pharmaceuticals and medical/diagnostics. Consumer products that Johnson and Johnson offers do have close substitutes; there are generic brands which customers may purchase, as well as alternative methods of health care, such as drinking tea or eating soup to ease headaches rather than taking a Tylenol.

Bargaining Power of Suppliers

Johnson and Johnson relies on a majority of their supplies to be provided by unique and small suppliers. These include: small and large minority owned businesses, small and large women-owned businesses, small disadvantaged businesses, small veteran-owned businesses, and small HUBZone businesses. This allows Johnson and Johnson to have more power when bargaining with suppliers because the proportion for which and individual supplier is responsible is much lower than the proportion of business that Johnson and Johnson provides for that business. Therefore, the supplier relies more on Johnson and Johnson than they rely on the supplier. However, because Johnson and Johnson has been using suppliers for several years in a row, it can be assumed that both parties have an equally beneficial stake in the success of the other.

Bargaining Power of Customers

The amount of power that individual customers have with regard to Johnson and Johnson is small. Because Johnson and Johnson is so diversified, customers rely on a large number of Johnson and Johnson products on a daily basis. In addition, the medical and pharmaceutical segments have a lower level of competition and therefore do not allow customers to have many options. Therefore, when it is necessary for someone to use these devices, they are required to use one of Johnson and Johnson's products or one of the few competitors.

Financial Analysis

The revenues of Johnson & Johnson have grown consistently in their three business segments. In the consumer segment, sales for 2007 totaled 14.5 billion or 24%. In the medical devices and diagnostics segment, sales for 2007 totaled 21.7 billion or 35%. And, in the pharmaceutical segment, sales for 2007 totaled 24.9 billion or 41%. In comparison to sales in 2006, consumer business sales were up 48.3%, medical devices and diagnostics business sales were up 7.2% and pharmaceutical sales were up 6.9%. Total sales for the 3 business segments were up 14.6% over sales in 2006. Total assets for 2007 were up 9% from 2006, which would be considered a green light for J & J. However, total liabilities were also up at 9% signifying a red

light. Another red light for J & J would be a 30% decrease in their cash flow from investing activities. This could be directly related to the current state of the economy. Johnson & Johnson has announced a restructuring plan to illicit cost savings for 2008. This will be directed towards their pharmaceutical segment and is anticipated to help offset the negative impacts of generic drug competition.

Ratios

Ratio analysis is used to analyze and monitor a company's performance.

ROA

13% or 13 cents of earnings of every dollar of invested assets; this figure represents the effectiveness of management in generating profits with their available assets. The higher the number the better return on assets.

ROE

19% or 19 cents of earnings of every dollar of common stock; generally, the higher this return, the better off the owners are.

Liquidity

1.5%-Johnson & Johnson have a fairly good liquidity ratio. This would be considered an acceptable percentage.

Debt to Equity ratio

46% or almost $\frac{1}{2}$ of Johnson & Johnson's assets are almost $\frac{1}{2}$ financed by debt.

SWOT Analysis**Strengths**

Strengths include a long, established record of good faith in the name of the organization. They have a good financial record and a growing market. In addition, consumers are becoming more concerned with a healthy lifestyle, allowing a broader market reach and customer base. Johnson and Johnson also has a wide variety of products allowing them to have a diverse market.

Weaknesses

Johnson and Johnson's weaknesses include expiration of patents and an overdependence on sales of these patented products. In addition, there is a lack of novel pipeline products. There is little marketing towards younger markets.

Opportunities

There is currently an opportunity to restructure, allowing a cost savings which will be used to offset costs in pharmaceuticals. Johnson and Johnson may market towards the untapped 25-45 year old market. Also, marketing opportunities exist for the organization to follow the "Going Green" concept, which may be implemented in the Credo. Furthermore, the

organization may supply dietary supplements for oncology patients or health conscious consumers. Finally, Johnson and Johnson may utilize the internet to combine wholesale and retail avenues for internet customers.

Threats

Threats exist in the potential reorganization of the company. This may alter the culture of the work force and cause some long-time employees to find other organizations. Also, there are several side effects and health risks involved with many of Johnson and Johnson's medical and pharmaceutical products. In addition, there may be an increase in the anti-bacterial market with respect to dalbavancin and telavancin.

Recommendations

Recommendations for Johnson & Johnson include:

1. Further clarify within each business segment the core competency using the Hedgehog concept.

Who: This project will take a multi-disciplinary approach and include a selection of members from the executive management team, and from each business sections operations. There should be a total of 3 teams each representing one of the business segments.

What: Each team should identify utilizing the Hedgehog concept the core competency for their specific business segment.

Why: By clarifying core competency then the focus would be refined to what Johnson & Johnson can be the best in the world at within each business segment. This will allow the other departments such as research & development, marketing and sales to streamline their operations and should promote the concept of a great company. Ultimately, this concept should show an increase in revenue.

How: Expenses allocated for the budget of each member on a team would be around \$3,000. This would include a total of 3 months work at \$50 an hour. Total cost would be determined on how many team members were included on each team.

2. Refresh products in the consumer goods segment.

Who: The Research and Development department should begin to renew and refresh some of their older products to get them more in line with today's trends. Marketing would also be included with the project when the informational material has been gathered.

What: Survey's should be conducted in the general population to see what products they use the most in their everyday activities. The surveys should also identify what

the most common brand names the public purchases and what age group purchases these. Also, identification would be needed to what is the past time activities of this particular population.

Why: By gathering this information, then the Research and Development team can apply this information to some of the trusted brands within Johnson & Johnson's consumer product lines. Marketing can then develop new packing, refreshing the look of some of the products that are already offered. This will help to diversify the products even more by appealing to the contemporary population. This should increase sales.

How: Expenses allocated for this project should be \$6,000. This would include a 5-person team made up of member's of Research and Development and Marketing. The hourly rate would be \$20 for a total of 3 months time.

3. Use of technology as an accelerator in the pharmaceutical department to produce medications to alleviate the side effects of some of the mainstream medications.

Who: Research and Development would be the team to accomplish this task. Many medications on the market today cause side effects so severe those patients become non-compliant and do not take their medications. This

action then causes greater risk to the patients. Also, this creates a negative effect on the sale of the medications.

What: By creating new medications that would alleviate the side effects of some of the other, mainstream medications then patients would be more compliant in taking what their physician prescribes for them.

Why: This would create an increase in health of the patient. This would ultimately cause an increase in sales of the mainstream medication and new sales of the medications that decrease the side effects and would increase revenue.

How: Expenses for these projects would vary depending on how many different mainstream medications are being looked at. For instance: 1 medication would have expenses of perhaps \$100 an hour for each employee over a 6-month period (1040 hours x \$100 hour=\$104,000). This would not include the laboratory expense and supplies.

References

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