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Paper 2

Study of Organizational Strategy through Company Analysis - ABBOTT INDIA

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Abstract

Abbott India Ltd is one of the fastest growing Pharmaceutical companies in India. It is the Indian subsidiary of Abbott's Global Pharmaceutical business along with 12 other subsidiaries spread over 34 countries in the world growing Pharmaceutical market. Through its international R & D support, Abbott India has wide range of drug products in major areas of health supporters covering many therapeutic categories. In this case study, we have studied the operational strategy, business strategy, corporate strategy, and international business strategy of this company and analysed its strategies using SWOC framework as research case study.

Keywords : Company Analysis**,** Abbott India, Research case study, Organizational Strategy.

1. INTRODUCTION :

The pharmaceutical industry engaged in discovery, development, manufacturing, and marketing pharmaceutical drugs for use as medications for needy patients. Pharmaceutical companies are subject to a variety of laws and regulations from the government that monitors the patenting, testing, safety, efficacy, and marketing of such drugs. The purpose of the pharmaceutical industry is to develop new innovative new therapies to the patients that help them to live healthier and longer lives. Presently millions of people work for the pharmaceutical industry, including over 650,000 in the U.S., a similar number in the EU, 1.6 million in China, over 4,00,000 in India, nearly 100,000 in Brazil and hundreds of thousands more around the world [1]. During the last 50 years, the pharmaceutical industry has solved some of the leading causes of diseases, dangerous, and life-threatening illnesses. With the slogan of “the right medicine, at the right dose to the right patient, at the right time,” efforts on discoveries of new innovative medicine are underway that will enable the industry to continue to fulfill the delivering lifesaving medicines to the needy people. The pharmaceutical industry has two major responsibilities in managing the safety of medicines:

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This include (1) to collect, investigate and proactively evaluate information relating to side effects of medicines during the clinical trials phase and (2) to monitor health outcomes and find out all evidence of possible "adverse events," or negative side effects, that some patients experience once the medicine is marketed to the patients.

India is the world's third largest pharmaceutical industry in terms of volume and world's 13th largest pharmaceutical industry by value. The top 8 to 10 companies including Sun Pharma, Lupin, Dr. Reddy's Labs and Cipla occupy 70 to 80 percent of the Indian pharmaceutical market space. It is estimated by a Fitch Group company named India Rating that the Indian pharmaceutical industry will grow at a rate of 20 percent during 2015-2020. Among other top pharmaceutical companies, Abbott India is a leading pharmaceutical company established on 22nd August, 1944, is a subsidiary of Abbott Laboratories. The original Laboratory was founded by Dr. Wallace Calvin Abbott, who was a young physician from Chicago in the year 1888, is a famous company in the healthcare industry. This healthcare company aims at transforming science to care. In this paper, we have studied the operational strategy, business strategy, corporate strategy, and international business strategy of this company and analysed its strategies using SWOC framework as research case study.

2. ABOUT ABBOTT INDIA :

Abbott India Ltd is one of India's fastest growing pharmaceutical companies and part of Abbott's Global Pharmaceutical business in India.
Headquartered in Mumbai, Abbott India Ltd, a publicly listed company and a subsidiary of Abbott Laboratories, enjoys strong brand equity in multiple therapeutic categories such as Women's Health, Gastroenterology, Neurology, Thyroid, Diabetes & Urology, Pain Management, Vitamins, Anti-Infectives & other therapy areas.
Abbott India Ltd's success is driven by a combination of a highly competent and motivated commercial team, R&D backed products, aided by strong alliances and partnerships. Abbott India Ltd employs over 2,600 people and reaches customers through a wide network of 35 distribution points, catering to over 4,500 stockists and 150,000 retail outlets.
The company has over 100 employees at a state-of-the-art formulation plant at Verna, Goa. The manufacturing plant is designed to produce high quality, high volume formulations using cost efficient processes and has well equipped laboratories and trained personnel to ensure compliance with international quality standards.

- Employs over 2,600 people
- Wide network of 35 distribution points
- Catering to over 4,500 stockists and 150,000 retail outlets
- As of September 2014, total assets stood at Rs 787.86 crore (US$ 126.5 million)

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Abbott India Ltd: A promise for life Through its Growth Saga :

2014 - Abbott India has reported a sales total income from operations of Rs 588.71 crore (US$ 94.56 million) and a net profit of Rs 63.74 crore (US$ 10.23 million) for the quarter ended September 2014.
2013 - Awarded Frost & Sullivan "MNC Pharmaceutical Company of the Year" for the third consecutive year.
2012 - Certificate of Marketing excellence from IPHMR in collaboration with CMARC for resurgence in Thyroid market in India.
2010 - Abbott India has acquired Piramal's Healthcare Solutions business (Domestic Formulations) for an up-front payment of US$ 2.12 billion and an additional US$ 400 million annually for the next four years.
2009 - Abbott has acquired Solvay's pharmaceutical business and the deal is said to be valued at US$ 6.6 billion.

Products of Abbott available in Indian Market : Tables

Abbott in India develops and distributes over 600 products for healthcare professionals that promote health and well-being for Indians in all stages of life. Search by all products, business area or pharmaceutical therapy area below.

Table 1 : **ANTI-INFECTIVES**

S. No.	**Name**	**Molecule**	**Form**
1	Azro	Azithromycin	Suspension/ Tablet
2	BACTRIM D.S./ Syrup	Sulfamethoxazole and Trimethoprim	Tablet/ Suspension
3	Cefi DT/ Syrup	Cefixime	Tablet / Syrup
4	CEFIRONE - T Injection	Ceftriaxone and Tazobactam	Injection
5	CELEX OD	Clarithromycin IP	Tablet

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3. Strategic Business Framework of Abbott India

3.1 Operational Strategy at Abbott India :

Operations strategy is the total pattern of decisions which shape the long-term capabilities of any type of operation and their contribution to overall strategy, through the reconciliation of market requirements with operations resources.

Thus operations strategy is concerned with the reconciliation of market requirements and operations resources. It does this by two ways :

(1) Satisfying market requirements (measured by competitive factors) by setting appropriate performance objectives for operations.
(2) Taking decisions on the deployment of operations resources which effect the performance objectives for operations.

Using a **market based approach** to operations strategy an organization makes a decision regarding the markets and the customers within those markets that it intends to target. The organization's market position is one in which its performance enables it to attract customers to its products or services in a more successful manner than its competitors. Competitive factors are how a product/service wins orders (for example price, quality and delivery speed).

A **resource –based view** of operations strategy works from the inside-out of the firm, rather than the outside-in perspective of the market-based approach. Operational decisions for planning and implementing operational strategy are of two types as (1) Structural decisions (2) Infrastructural decisions. In structural decisions, physical arrangement and configuration of resources are covered. In infrastructural decisions, activities that takes place within the operation's structure are considered.

Operational managers are the backbone of a company, overseeing day-to-day operating activities and ensuring that personnel perform required tasks adeptly. Managers often face challenges in various corporate areas, including information technology, finance and human resources. Strategy and operations are inextricably connected: strategy is a plan to reach an objective and operations is the means of getting there. Operations management involves the planning and coordination of work. Strategically, this involves the long-term planning and structuring of work.

The functions of the business (e.g. operations, marketing, finance) make long-range plans which support the competitive advantage being pursued by the business strategy, - How does the function contribute to the corporate and business strategy? This is also called **operational Strategy**.

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Indeed, the task of operations strategy is to design the operating system, which is the joint configuration of resources and processes, such that its resulting competencies are aligned with the organization's desired competitive position. Tactically, the task of operations management is to utilize the operating system and provide the best match of supply with demand.

Viewing operations as a bundle of real assets is most useful when deciding on the amounts and types of
resources the operation needs. This investment or capital budgeting decision, along with the allocation
of resources to activities, is undoubtedly a major task of management.

To configure its resource portfolio, the organization must make (at least) four key decisions:
1. **Capacity sizing** is deciding on how many resources to invest in for each resource type. The resource type with lowest resource capacity is the bottleneck and determines the capacity of the entire operations system. Strategically, capacity sizing involves investment in processing resources: capital and labor. Tactically, one adds buffers and must size their desired inventory to accommodate scale economies (e.g., for batch processing or quantity discounts) and buffer processing resources against supply or demand variability and uncertainty.
2. **Capacity timing** is deciding on when to increase or reduce resources. It specifies the availability of capacity and the timing of capacity adjustments, both expansions and contractions.
3. **Capacity type** decisions characterize the type or nature of each resource. For example, is it a human (labor) or capital resource? To what extent can a capital resource operate unsupervised; i.e., what is the level of automation? What is the range of tasks that it can handle, from single-task (specialized) to multi-task (flexible)?
4. **Capacity location** decisions specify where to locate resources. Capacity location deals with finding appropriate geographical sites and assigning roles to them. Indeed, location decisions are part of network strategy. Network strategy also includes topology or configuring connections between locations. For example, many airlines use a hub-and-spoke or star topology for airplane routing, while most automobile companies use a tiered supply network or tree topology. Interconnections also specify the logistics (transportation) arrangements.

Financial Management Controls

- Operational managers must ensure that financial accounting and reporting mechanisms are adequate and functional. Dysfunctional mechanisms typically cause a company to report inaccurate financial statements, including balance sheets,

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statements of profit and loss, cash flow statements and statements of retained earnings.

Information Technology

- A sound operational management policy helps manufacturing department heads and segment chiefs ensure that a company possesses adequate computer software and hardware to meet business requirements. Absent this policy, a firm may be unable to effectively operate and meet profitability goals.

Regulatory Compliance

- Operational managers generally must ensure that corporate policies and operating guidelines adhere to top leadership's stipulations, human resources procedures and professional standards. These policies also must conform to industry practices and government regulations.

Safety Management

- Safety management is a key challenge that operational managers must confront when performing duties. Managers typically implement safety guidelines to prevent occupational accidents and operating losses resulting from litigation and regulatory fines.

Strategies for Operation Management Improvement :

Definition

- Operation management deals with standards a business sets to monitor and improve the way it produces goods and services, as well as how well it delivers such items to individual and corporate customers. To improve this work stream, operation managers work in tandem with department heads to come up with sound, easy-to-implement strategies. These run the gamut from establishment improvement metrics in production and logistical processes to modifying the way a company administers its financial accounting procedures and human resources policies.

Production Overhaul

- A company struggling to make manufacturing ends meet may need to overhaul its production processes, requiring operating changes on a scale never seen before. The objective is to completely modify the way the business produces items without losing

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sight of the factors that previously threw the corporate strategy off kilter. Changing production processes is key to improving operation management because it has a direct effect on the company's bottom line -- that is, it reduces expenses and therefore increases net income.

Logistics Improvement

- Logistics relate to how a company delivers goods and services, as well as tools and business partners it relies on to reduce the risks of loss and obsolescence during material conveyance. Charting a proper logistical strategy enables the firm to make good on its promises of prompt delivery and high-quality products. Logistical improvement is integral to productivity maintenance in such long-term infrastructure projects as build-operate-transfer (BOT) contracts and construction initiatives in the naval and airline sectors. In a BOT agreement, a business builds an infrastructure project -- such as a bridge -- operates it and transfers ownership to the government depending on contractual terms.

Personnel Management

- If there is one form of improvement that operation management engenders, it's an acute awareness that the corporate work force remains an essential piece of the modern-day operating tool kit. A personnel management strategy improves a company's operations by instilling in employees the notion that the firm's success is also theirs. The blueprint can help set such policies as employee hiring and training, performance evaluation, compensation management and retention tracking.

Financial Strategies

- Establishing proper financial strategies can improve operation management. These include budgeting procedures and cost-monitoring techniques along with financial accounting and reporting methodologies.

Operating Budget

- Budgeting is an important part of operations management.

  One of the key areas in any organization is the finance operation. The continued existence of the organization is contingent upon having enough money to fund resources when they are needed. A standard finance tool is the operating budget for all units that support the business directly and indirectly. This requires not only skill in manipulating figures but also productivity analysis to create baselines and to

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establish bonuses and pay increases. In addition, costs must be calculated annually that allow the organization to identify direct and indirect costs, which then are used to establish costs of good manufactured and sold.

Productivity Enhancement Tools

- Productivity in operations is an ongoing activity.

  Keeping costs down to increase profits while making products less expensive for customers is an ongoing job for everyone in production operations. Productivity enhancement is a frame of mind. Tools like flow charts, ratio delay charts, quality circles and lean manufacturing methods help identify ways to improve production, but the attitude of all employees is also a tool. Continuous improvement approaches require the employees to be on the lookout for ways to do things differently. It is not enough just to come to work and follow directions. Employees must learn to interact with their work.

Peripheral Operations

- Good time management skills are important tools.

  Every organizational group has some accountability and responsibility for effective operations management. Peripheral operations like New Accounts and Sales must also use tools to improve their effectiveness. Sales representatives should utilize effective time management and planning skills in carrying out customer contacts and establishing effective working relationships. Duplication of travel plans and use of unnecessarily extravagant sources of transportation are two wasteful activities in sales organizations.

Open Lines of Communication With Marketing Staff

- Marketing staff needs to establish effective communications tools.

  What marketing staffers do and how they do it can impact virtually everyone in an organization, from the shipping department to the customer. In order to do their job, marketers need to know about new products being developed, old ones being eliminated, delivery issues, cost changes, legal ramifications inside and outside the industry, possible labor unrest and any other items that might affect the product and getting it to the customer. In order to establish and maintain this scope of activities, marketing staff should have very effective communication skills either one on one or in group meetings. Team skills are very important.

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Total Quality Management & BPR :

Total Quality Management is an improvement system for maintaining quality, to reduce/eliminate wastage and to improve the efficiency and effectiveness.

3.2 Business Strategy :

Here the concern is with the products and services that should be offered in the market defined at the corporate level – How do we compete in this business ? Business Level strategy is also sometimes called **competitive strategy**. The term that is often used in relation to business strategy is Strategic Business Unit (SBU). SBU means a unit within the overall corporate entity for which there is an external market for its goods and services which is distinct from that of another SBU. For example, Ford's Motor Co.'s car division an SBU launched its Mondeo model, aimed at fleet car buyer, who had not favoured the Sierra its predecessor.

A business strategy is the means by which it sets out to achieve its desired ends (objectives). It can simply be described as a long-term business planning. Typically a business strategy will cover a period of about 3-5 years (sometimes even longer).

A business strategy is concerned with major resource issues e.g. raising the finance to build a new factory or plant. Strategies are also concerned with deciding on what products to allocate major resources to - for example when Coca-Cola launched Pooh Roo Juice in this country. Strategies are concerned with the scope of a business' activities i.e. what and where they produce. For example, BIC's scope is focused on three main product areas - lighters, pens, and razors, and they have developed superfactories in key geographical locations to produce these items.

Two main categories of strategies can be identified:

1. Generic (general) strategies, and
2. Competitive strategies.

The main types of generic strategies that organisations can pursue are:

1. Growth i.e. the expansion of the company to purchase new assets, including new businesses, and to develop new products. The Inland Revenue has expanded from being just a tax collector, to other functions such as collecting student loan repayments and paying tax credits.
2. Internationalisation/globalisation i.e. moving operations into more and more countries. For example companies like Gillette, Coca-Cola, Kellogg's, and Cadbury Schweppes are major multinationals with operations across the globe.
3. Retrenchment involves cutting back to focus on your best lines. The Americans refer to this as 'sticking to the knitting' - i.e. concentrating on what you do best.

Competitive advantage

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Competitive strategies are also important. Competitive strategies are concerned with doing things better than rivals. To be competitive a firm shouldn't just copy the ideas of rivals. They should seek to out compete rivals. There are two main ways of being competitive.
1. By selling goods at lower prices than rivals. This is possible when a firm is the market leader and benefits from economies of scale.
2. By differentiating your product from those of rivals - which enables you to charge a higher price if desired.
The airline industry is divided into two main segments. At one end of the market are the premium price category firms such as British Airways that concentrate on differentiation. They offer better service to passengers, more legroom, in flight entertainment, and more individualised attention. At the other end of the market the emphasis is on being the low cost producer and is exemplified by 'no frills' airlines such as Ryanair. Ryanair focuses on short haul destinations and keeping its planes in the air as frequently as possible in a 24 hour period.
Economies of scale - The advantages that large firms have from producing large volumes of output enabling them to spread their costs over more units of output.
Differentiation - Making a product different from rival offerings e.g. through packaging and labelling, customer care, additional extra features, etc.

Developing a global strategy

Today we live in a global economy in which the time taken for people to move between continents has been significantly reduced and in which Internet and other connections make instant connections possible. The business response of large business organisations has to recognise that they now operate in a global market place and to develop appropriate strategies. A global strategy is an organisational plan that takes into account these new global realities.
For example, in food manufacture companies like Nestle, Kellogg's, and Cadbury Schweppes they have developed global distribution and marketing networks, based on powerbrands i.e. market leading brands that are recognisable in nearly every country in the world.
Key aspects of global strategy include:
1. Treating the global market as the domestic market.
2. Creating a global marketing mix, which at the same time recognises regional and national differences, such as differences in language and tastes.
3. Creating global production and distribution systems, e.g. superfactories covering major areas of the world.
4. Concentrating on powerbrands - the most successful brands and products. Because the global market is so large there are substantial benefits to be gained from economies of large scale production, marketing and distribution. Rather than producing thousands of different products it makes sense to narrow down the range to a much smaller number in order to support these brands across the globe.

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3.3 Corporate Strategy :

Corporate strategy is primarily about the choice of direction for the firm as a whole. This is true whether the firm is a small, one-product Company or a large multinational corporation.

In a large multi-business company, however, corporate strategy is also about managing various product lines and business units for maximum value.

Corporate strategy, therefore, includes **decisions regarding the flow of financial and other resources to and from a company's product lines and business units**.

Through a series of coordinating devices, a company transfers skills and capabilities **developed in a one unit to other units** that need such resources.

Corporate parenting:

- Corporate parenting views corporation in terms of resources and capabilities that can be used to build business value as well as generates synergies across business units.
- The corporate parenting strategies can be developed in following ways.
- 1. Examine each business unit in terms of its critical success factors.
- 2. Examine each business unit in terms of areas in which performance can be improved

Types of corporate level strategies :

- Corporate level strategy is concerned with the strategic decisions a business makes that affect the entire organization. Financial performance, mergers and acquisitions, human resource management and the allocation of resources are considered part of corporate level strategy.

There are **three types** of corporate level strategy that a business can employ.

1. Value-Creating Strategy

- A value-creating strategy is one in which the business seeks to edge out its competitors by gaining more market share. These strategies seek to add real and perceived value to the business' products and services by exploiting economies of scope -- the resources and capabilities of the business that can be shared across the entire organization to reduce costs and increase efficiency.
- A key idea behind value-creating strategy is diversification: offering more products to more consumers within the market in an attempt to dominate all of part of the overall market share.

2. Value-Neutral Strategy

- A business can employ a value-neutral strategy when the organization isn't so much concerned with allocating resources and manpower as it is with securing its current place within the market. In essence, value-neutral strategy helps shore up the business' operations plan.
- Initiating regulatory oversight, creating synergy between departments, working to reduce risk and securing a steady cash flow are value-neutral approaches.

3. Value-Reducing Strategy

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- Businesses also sometimes engage in value-reducing strategies. This happens on an organization-wide level when the stakeholders or customers perceive that the business is getting too big for its britches or that only the top-level executives are benefiting from diversification.
- In this case, value-reducing strategy refocuses the business' market, helps it define a target demographic and puts mechanisms in place to prevent unnecessary or harmful growth.
- **Q: What businesses are we in?**
- **How did we get there?**
- **Single Business**
- **Product line expansion**
- **Geographic expansion/Vertical Integration**
- **Diversification (Related/Unrelated)**

Diversification

- Offering more products to more consumers within the market in an attempt to dominate all of part of the overall market share.

Forms of diversification

- Vertical
- Horizontal
  - Related
  - Unrelated
- Global

Benefits & limitations of diversification

- Reduce earnings volatility
- Minimize risk
- Move firm into attractive industries
- Prolong "life" of firm
- Improve long-term performance
- Capture synergies and strategic "fit" between businesses
- Steer corporate resources

Evaluation of Diversified Firms

- Identify present corporate strategy
  - extent and type of diversification
  - geographic scope
  - new acquisitions
  - recent diversification
  - mode of new business entry

Evaluation of Diversified Firms :

4. Conclusion :

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Among other top pharmaceutical companies, Abbott India is a leading pharmaceutical company established on 22nd August, 1944, is a subsidiary of Abbott Laboratories. The original Laboratory was founded by Dr. Wallace Calvin Abbott, who was a young physician from Chicago in the year 1888, is a famous company in the healthcare industry. This healthcare company aims at transforming science to care. In this paper, we have studied the operational strategy, business strategy, corporate strategy, and international business strategy of this company and analysed its strategies using SWOC framework as research case study.

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