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FIRM

CASE DESCRIPTION





Pillsens

CASE COMPANY DESCRIPTION

COMPANY HISTORY

In 1865 Erik and Anni Pillsen founded a company producing medicines. They believed in the validity of both "traditional" cures and formal medical research. Research and development were the founding principles on which they based their company's future. They invested heavily on product development and all their 8 children were educated in either medicine or pharmacology.

Having located Erik's notes historians found out that Erik had envisioned discovering the "General Health Tablet". The tablet would be produced from fruits and vegetables, which he was very fond of.

Erik was also a marketing-guru. He developed relational marketing, benchmarking, database marketing, integrated marketing communications, customer value analysis, maxi-marketing, micro-marketing, harmonised marketing channels, marketing models, and he also envisioned automated marketing. Anni, on the other hand, was specialised among other things in ABC-costing. It is not surprising that their company quickly developed into a leading pharmaceutical company in its home turf.

In the 50's the company expanded into OTC (Over the counter) drugs to France and the USA. Simultaneously Pillsens concentrated heavily on exporting prescription drugs. In foreign markets the company is not as strong as in their home market.

The company's current CEO Katrine Pillsen, a direct relative of Erik and Anni, wants to ensure that her company is more profitable in the future. She was named CEO a year ago and began to streamline the organisation immediately. She is delegating responsibility of the painkillers and antioxidants for Finland, USA and France to you. The CEO expects quick results from the new management.

FINANCIAL POSITION OF THE COMPANY

During the recent years Pillsens has not been performing particularly well. Company is quite leveraged and the profitability is not at a satisfactory level. One big reason for that is the unfavourable development in the exchange rate between euro and USD, but there are also internal factors that require attention from the new management team.

THE MARKET

Market analysts forecast tougher competition as European national companies expand their focus to the international market. Small companies may merge combining to form stronger and more competitive companies.

Pillsens is not mulling over a merger. The company has a strong position in a few niches such as painkillers and antioxidants. It is one of the leading manufacturers in these areas. The markets of the management team (Finland, France, USA) are markets where Pillsens has good potential.

In the domestic market the buying power is rising slowly but surely. Furthermore, Pillsens situation in the Finnish market is so strong that they have difficulty increasing market share. Their current share of the market is, however, under attack and needs to be defended.

Customers in the Finnish market rely Pillsens' strong quality. An image stressing a strong tendency towards quality management is critical in Finland but has the possibility to be successful also abroad. Price elasticities of demand vary from market to market.

In Finland demand is not expected to rise significantly with a lower price. The management must find out how price affects demand in the company's other markets. In the USA painkillers and antioxidants are sold in most shops. They can be purchased in department and grocery stores.

MARKETING

Advertising has turned out to be a critical element in the demand for painkillers and antioxidants. The right amount of advertising has a strong correlation with the success of the company. Customer care is directed to retailers and gives them incentives to favour Pillsens' products over the competitors'. In France and especially the US the company can increase the number of retail outlets with strong customer care. In Finland sales promotion will lead to sustaining the current retailers. It is also important that OTC drugs be "household" brands since this increases the retailers desire to stock the product. This kind of effect can be created only through advertising.

The combined efforts of the industry regarding marketing and quality control act to increase total market size in the antioxidant market. This effect is weaker for painkillers. The painkiller markets are also less influenced by price.

PRODUCTS

The demand for painkillers will grow steadily. The sales of Pillsens have grown steadily in France and the US as long as price increases have been moderate. The level of demand will not grow very much in Finland. What little growth there is in the market seems to be going to the new entrants. The markets for painkillers are relatively easy to predict and are not expected to cause problems for the management team.

The Antioxidant market has emerged in the 90's, although in some cases like c-vitamin they have existed for a long time. Antioxidants prevent oxidising in the human body. Their effectiveness is as yet unsure. According to research done in China, antioxidants decrease the probability of illness. Critics argue the amount of antioxidants in the daily diet is sufficient and the effect of increasing the dose is negligible. The antioxidant market is, however, growing and it remains to be seen whether or not they are just a passing fad. A challenge to the company is to be able to develop new products to fulfil the demand brought on by new research results in the field.

The future of the market is also heavily dependent on what research turns up and how the products are treated in the media. The demand is thus difficult to forecast.



PRODUCTION

Pillsens manufactures painkillers and antioxidants in Finland and in the USA. There is no production in France and products are exported to the country from either Finland or the USA. The company follows strict hygiene regulations in its production.

There is still a great deal of development involved in manufacturing antioxidants and learning effects are to be expected. Decreasing production costs are expected in the near future. Forecasting the development of raw materials prices is more complicated. The production of painkillers is already very efficient and costs are expected to develop steadily.

UNITS OF DECISION MAKING

The production and sales unit is 1000 tablets. The sales and production figures are reported in thousands of units (= 1000 x 1000 tablets). The wholesale level uses the same units. All prices are for one unit i.e. 1000 tablets. Prices are denominated in local currency. The company can invest in buildings and machinery in 10 000 unit capacity steps.