Pharmaceutical - Image from Pixabay, C.C.

Crafting Organizational Strategy

# BUSINESS AND ORGANIZATIONAL STRATEGY OF TEVA PHARMACEUTICALS

A Project By: Mosi Dorbayani

## Executive Summary:

Teva pharmaceuticals industries ltd. is one of the leading global pharmaceuticals industries that offer high-quality patient-centric health care services to millions of patients globally. Additionally, the company is based at Israel with over 1800 molecules to generic producer products covering a myriad of therapeutic areas. Teva combines its specialty and generic capabilities to develop innovative treatments for chronic respiratory illnesses and central nervous system disorders as well as a range of generic products that alleviate human suffering. Primarily, Teva specializes in five main categories including the central nervous system, respiratory, women's health, oncology, and respiratory systems.

Moreover, the company operates a distinct distribution system including B2B and B2C businesses. Teva is a member of pharmaceutical research and manufacturers of America (PhRMA). This membership gives them the power to influence regulations and monitor pricing through collision with other critical players in the market.

The followings address four strategic questions about this leading pharmaceutical company.

## 1. Give a short analysis of how macro environment trends and industry conditions have impacted the 'pharma' sector in the 21st century:

Teva Pharmaceutical Industries Ltd.'s **PESTEL** analysis is a strategic tool to analyze the macro environment of the organization. PESTEL stands for - **P**olitical, **E**conomic, **S**ocial, **T**echnological, **E**nvironmental & **L**egal factors that impact the macro environment of any organization. According to Holienka (2016), the external business environment describes the general environment of business as well as factors that affect the operations of the company. In this context, Teva pharmaceutical is subject to all variables of the external environment given the nature of the business and its global expansion. Notably, changes in the macro environment have a direct impact not only on Teva pharmaceutical but also on other players in the drug sector. (Holienka et al, 2016, pp. 79-95)

The following chart shows a snapshot of Teva's PESTEL, followed by a brief analysis on each factor:

| | |
|---|---|
| Political: | • Political wars on generic and branded drugs have dominated the US market, creating stiff competition. US-FDA has reduced its regulations on entry barriers of generic drugs, hence invalidation of branded medicines. |
| Economic: | • The cheaper cost of manufacturing drugs in developing countries such as China and India poses a threat to international 'pharma' markets. |
| Social: | • Teva is subject to socially accountable and ethical policy scrutiny. |
| Technological: | • Adopting appropriate technology in operations reduces costs to remain relevant in the market domain, is an important factor for Teva. |
| Enviroumental: | • Teva categorize risks based on severity andlikelihood to assist our facilities in the analysis and prioritization of environmental risk reduction activities. |
| Legal: | • Teva Pharmaceuticals has lost litigations on Copaxone drug patents which is due to expire in 2030. |

PESTEL Chart for Teva Pharma Ltd.

**Political Factors:** They play a critical role in determining the success of Teva Pharmaceuticals. This is because trade regulations, pricing, taxation and wage legislation among others are made through political influences. Notably, an increase in the number of generic drugs approvals by US food and drugs administration has resulted in price wars among generic drug companies in United States. President Trump has focused on reducing drugs prices to make health care affordable. Also, US-FDA has reduced its regulations on entry barriers of generic drugs which in turn have to lead to invalidation of branded medicines. For this reason, political wars on generic and branded drugs have dominated the US market thus creating stiff competition between companies producing generic and branded drugs. (Bakker, 2017) Arguably, this kind of environment is not conducive for business operations to take place thus restricting expansion opportunities.

**Economic Factors:** Economies are rapidly changing their regulations; quality standards and operating procedures as far as generic drugs are concerned. For this reason, keeping up with the pace of operating business in eighty countries is challenging. Macroeconomic fluctuations in international markets pose a challenge to domestic markets due to stiff competition in the export market. In addition, a limit on foreign direct investments hinders expansion opportunities. However, the cheaper cost of manufacturing drugs in developing countries such as China and India poses a threat to international 'pharma' markets.

**Social Factors:** Pharmaceutical companies have a social responsibility of integrating environmental and social concerns with the goals of the business. Due to technological innovation and the emergence of social media networks, consumers are more informed than ever before. Also, consumer's income is rising, and the problem of obesity is prevalent in the general population. On a similar note, pharmaceutical companies should be socially accountable and respond to environmental policies and ethics initiatives to operate profitably. In this context, Teva is currently restructuring plans on how to maximize social impacts to consumers and community at large.

**Technological Factors:** Most Pharmaceutical companies have experienced Technological and scientific advances, and Teva pharmaceutical is not an exemption. To this end, technology is disrupting the functionality of the companies. Technological innovations have a profound effect on company's value chain structure, product offering, and competition. For this reason, a firm must adopt appropriate technology in its operation to reduce costs to remain relevant in the market domain. The pharmaceutical industry is not only defined by the product it offers but also by the technology it incorporates in its processes and operation. In this vein, Teva Pharmaceuticals has invested hugely in research and development technologies that ensure that customers get value for their money through delivering high-quality products that meet the customer's needs.

**Environmental Factors:** Further, there is an increased need for business to be proactive in environmental agendas and incorporate marketing and business plans with ecological issues. Notably, pharmaceutical companies emit solid waste in the environment due to chemicals used to manufacture drugs. For this reason, pharmaceutical companies should be conscious of environmental conservation to enhance community wellness.

"Teva categorize risks based on severity and likelihood to assist our facilities in the analysis and prioritization of environmental risk reduction activities. As part of an industry coalition, we contributed to the development of the Eco-Pharma Stewardship approach to study and address pharmaceuticals in the environment. Teva's policy on environment states that its goal is to reduce, reuse and recycle and its aspiration is to achieve zero waste." (www.tevapharma.com)

**Legal Factors:** Pharmaceutical companies are subject to a broad array of legislative and regulatory restrictions. In this context there is a change in advertising laws, increased litigation, and global inconstancies. These laws do not only apply to Teva pharmaceuticals but also the entire pharmaceutical industries worldwide. For instance, Teva Pharmaceuticals has lost litigations on Copaxone drug patents which is due to expire in 2030.

### From Industry Point of View:

We can examine Teva's impact through Porter's Five Forces Framework/Model. It consists of those forces close to a company that affect its ability to serve its customers and make a profit (Porter, 1979). This model provides a detailed impact of the external environment on the firm's ability to outshine the rivals in the market.

**Porter's Five Forces include:**

- Threat of New Entrants
- Bargaining Power of Suppliers
- Bargaining Power of Buyers
- Threat from Substitute Products
- Rivalry among the existing players.

Now let us briefly analyse Teva's industrial condition with the help of Porter's Model:


Porter's Five Forces Model
Source: Designed by Author

**Threats of New Entrants:**

New entrants in drug manufacturers, inevitably brings new way of productions and innovation. This adds pressure on Teva to lower pricing strategy, reducing costs, and coming up with new values to the customers. Teva not only has to manage the threats of new entrants, but also build effective barriers to safeguard its competitive advantage. Teva can address this through:

- Innovating new products and services. New products brings new customers and encourage old customers to try the new products
- Building economies of scale in order to lower the fixed cost.
- Increasing capacities and investing money on research and development.

By continuously defining the standards, a well-established firm like Teva, can significantly reduce the opportunities for profitability for the new entities, discouraging them to enter or stay in the industry.

**Bargaining Power of Suppliers:**

Suppliers in dominant position in the market can decrease Teva's the earning margins.

Dominant suppliers in Healthcare sector often use their bargaining power to earn higher prices from the firms. Teva can tackle this through:

- Building a cost-effective supply chain with multiple suppliers.
- Experimenting with product designs, using different materials to shift and maneuver over various raw material for its products.

**Bargaining Power of Buyers:**

Naturally buyers are demanding. They want to buy the best with the minimum price as possible. This may add pressure on Teva's profitability in the long run. The smaller the market, the stronger bargaining power of the buyer forcing Teva to provide discounts and reduced prices. Teva can face this challenge through:

- Building a large customers-based market place. A) It will reduce the bargaining power of the buyers B) It will give Teva an opportunity to streamline its sales and various production processes.
- Innovating new products. Customers often ask for discounts on established products; however, so if Teva rapidly comes up with new products, it can reduce the bargaining power of the customers.

**Threats of Substitute Products or Services:**

Profitability for a firm often gets threatened when a new product or service by competitors meets a similar customer needs in different ways. Teva can tackle these threats through:

- Adding services and not just products.
- Tapping into the future needs of the buyer as opposed to what they currently purchase.

**Rivalry Among the Existing Competitors:**

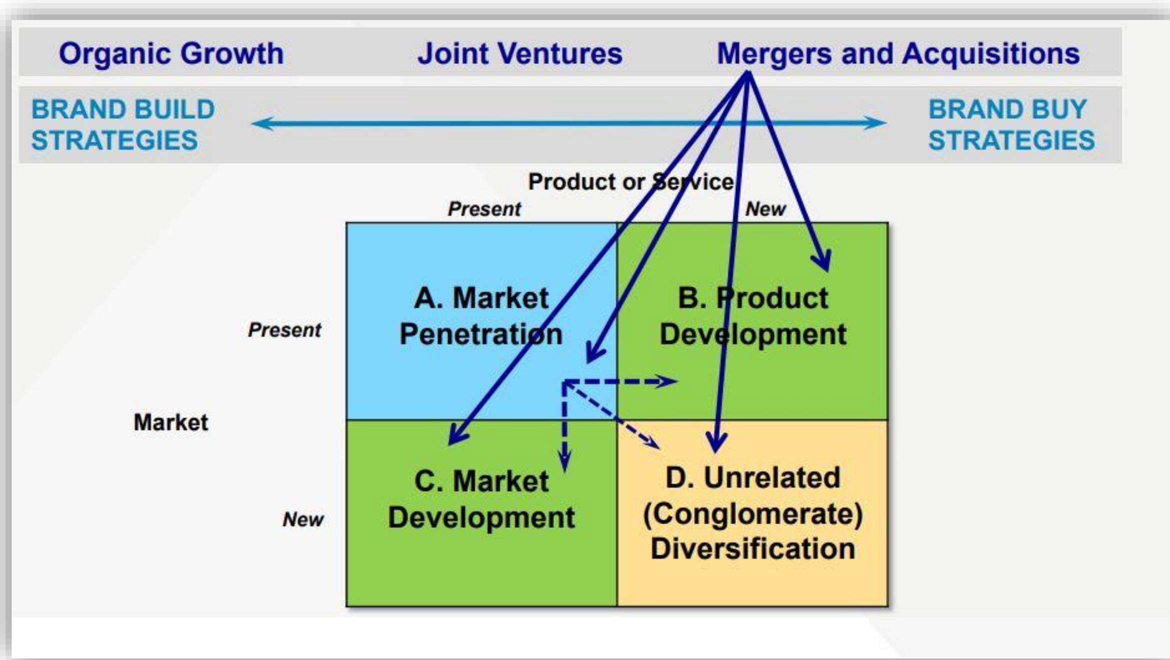
An intense rivalry amongst firms push the prices down and decreases the overall profitability of the industry. Teva can manage this through:

- Expanding its scale so that it can compete stronger
- Collaborating with major competitors to increase the market size.

2. **Analyze the strategic directions followed and strategic methods chosen by Teva over the course of the cases study and give summary of your findings. In particular you should discuss the rational for choosing M&A rather than organic methods or growth via alliances and joint ventures:**

Teva pharmaceutical has a long history of mergers and acquisitions. Moreover, the primary benefits of M&A include enhanced value generation, increased cost efficiency and increase in market share.

Figure 1: Ansoff Matrix in Relation to Mergers




Source: Aston Business School, MAP, Module BMK490 – Also avail from: https://www.slideshare.net/tutor2u/buss4-2012-research-bullet-1

Mergers and acquisition increase value generation in the sense that the total of shareholders value of M&A would be more than the shareholder value of the parent companies. M&A achieves cost efficiency through economies of scale. As the parent company joins to form a new firm, the scale of operations of the new firm escalates, thus reducing the cost of production. Key to mergers and acquisition strategy is to increase market share. In case a financially distressed firm is acquired by a financially stable firm, the resultant company experiences a significant increase in market share. Therefore, the new firm is more competitive and cost-efficient than the weak parent company. Be that as it may, in 2015, Teva acquired Allargan pharmaceutical company for $ 40.5 billion. Also, the deal was one of the largest in Israel's corporate history. Of course, M&A is not a new practice for Teva and it often has the confidence in its strategies with certainty.

Following the acquisition of the Allergens company, Teva appeared to have shifted its focus from generic pharmaceuticals expansion to more aggressive acquisition of rival companies as initially proposed by Eli Hurvitz. While joint venture is one strategy of a corporate alliance, joint venture companies are formed to achieve limited objectives. Also, joint venture companies are managed by management teams representing two or more parent companies. For this reason, there would be a conflict of interest in terms of management. In my view, this is the reason why Teva preferred acquisitions to manage the firm as one big company with centralized management.

### 3. Evaluate the drivers for internalization that have underpinned Teva's rapid growth in the 21st century. Comment briefly on Teva's selection of market and market entry modes:

Teva Pharmaceuticals is one of the leading pharmaceuticals companies in Israel. Teva incorporates different segments of the medicines in its marketing mix product portfolio. Additionally, Generic drugs constitute 56 %, branded 35% and others 9%. One of the Teva's market entry modes is the <u>acquisition of rival companies</u> for example brand Cephalon that dealt with branded drugs . Also, nearly 80% of the company's revenue emanate from sales of generic drugs.

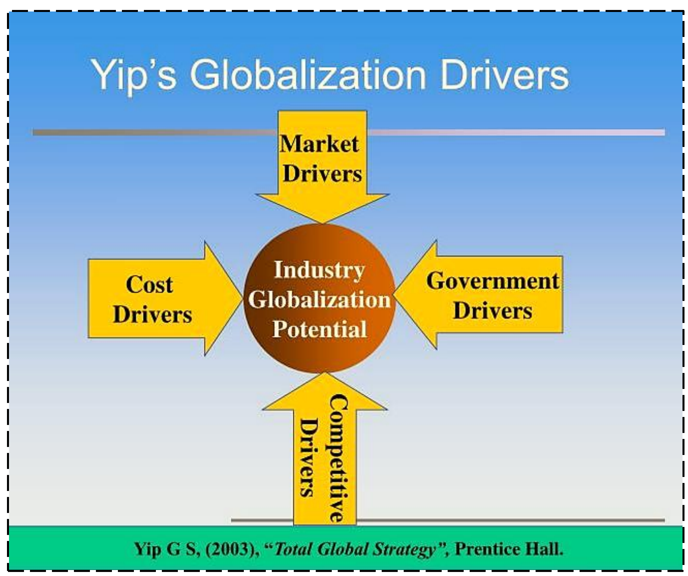



Figure 2: Yip's Framework

With view to Yip's framework (Figure 2), Teva has a broad portfolio of products thus a need for diverse pricing strategies. The generic category assists the company in achieving <u>cost leadership</u>.

Therefore, it seeks to maximize quantity by lowering the prices of generic drugs. Company's gains competitive advantage by selling an enormous scale. Thus, with an increase in online platforms, Teva market its products across different countries such as Australia, North America, Europe, and South America. Also, pharma dominates a strong presence in Russia, Japan, and Latin America.

Furthermore, the rapid growth of Teva is attributed to constant recommendation of physicians and chemists to customers. The effective way of reaching more customers is through referrals and advice by health care practitioners. Similarly, Teva has gained a lot of popularity among health care practitioners since it has a massive variety of drugs that address myriad of diseases. Due to lowered prices, it has become a choice for customers because branded medicines are quite expensive.

### 4. With reference to the Bartlett & Ghoshal model (of four international strategy types), discuss how and why Teva international strategy changed after 2011:

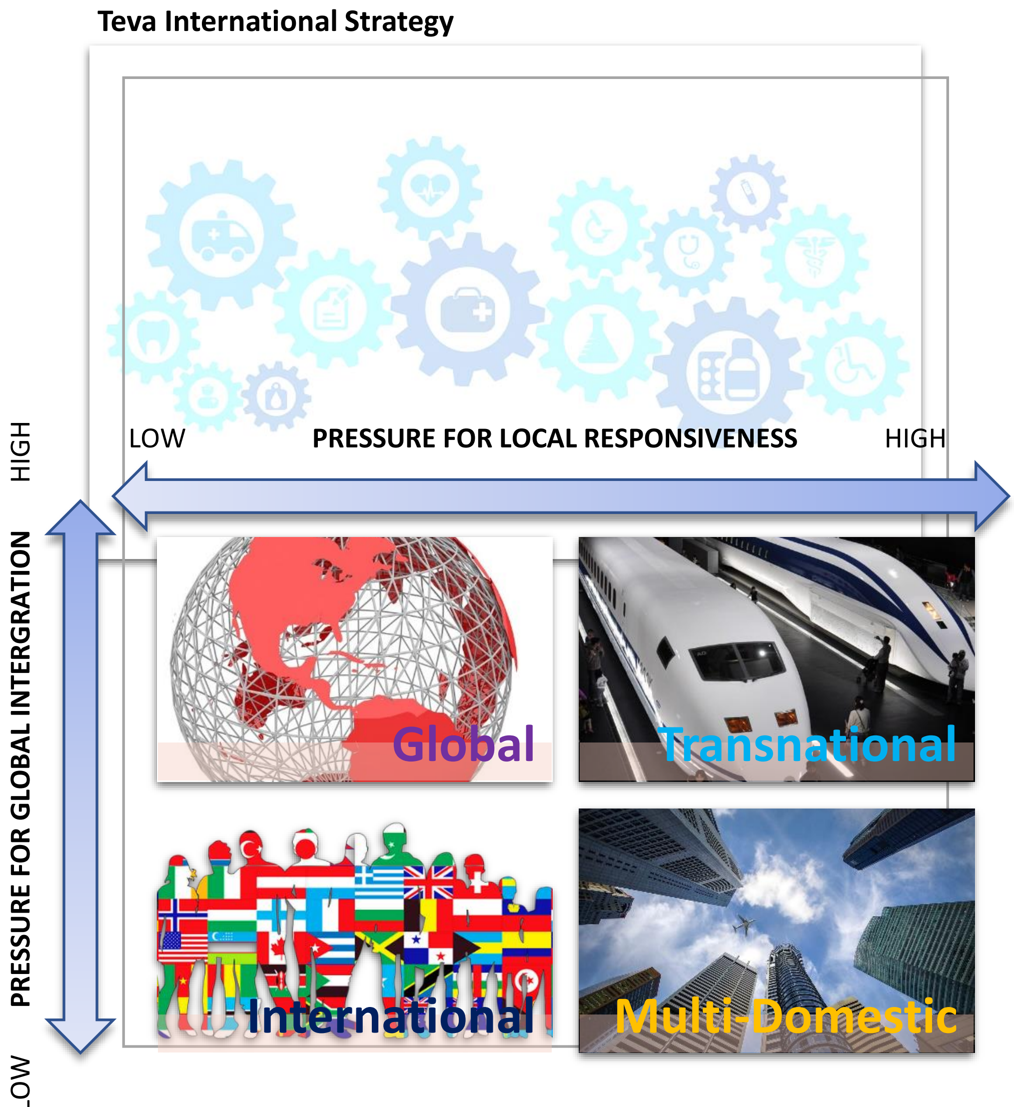
According to Williams (2018), Bartlett & Ghoshal Model highlights the strategic decisions for businesses focusing on internationalizing their operations which are determined by two central pressures; global integration and local responsiveness.

Due to globalization over the past few decades, companies have been able to cross national borders and continue with business in foreign countries. (Williams, et al 2018, p.51)

Teva Pharmaceuticals is a multinational company (MNC). Notably, the primary objective of the MNC's is to reduce costs through creation of economies of scale through standardized product offering globally. Also, locally responsive businesses have a new target of adaptation of products and services to suit local needs. The aforementioned two factors result in four types of strategies that MNCs can undertake; global, multi-domestic, international and transnational approach.

Let us next examine Teva's international strategy changes in more details by first looking at the following Matrix:

Figure 3: The Bartlett & Ghoshal Matrix




Source: Created by Author
Images: Creative Commons

As indicated in figure above, companies incorporating multi-domestic strategy are objectified towards meeting the needs of the local markets by tailoring products and services extensively. Additionally, these companies have minimal pressure for internationalizing operations. To this end, companies tend to be much decentralized, and subsidiaries operate autonomously from the head-quarter. Global companies differ significantly from multi-domestic companies. Additionally, global companies offer products that are standardized worldwide and objectified towards maximization of the efficiency of the goals as well as reduce costs as much as possible.

Transnational companies possess characteristics for both multi-domestic and global companies. In this context, they aim at maximizing local responsiveness but also benefits from global integration.  An international company has a little urge for local adaptation as well as global integration. Most of the value chain is run at the headquarters. Products are produced in the host countries and dispatched to customers worldwide.

In **2011**, Teva pharmaceuticals acquired Cephalon, Research-based pharmaceutical company which had over 4000 employees in a deal worth $ 6.8 billion.  In this context, Teva pharmaceuticals aimed at adopting a global strategy. The rapid growth of Teva is attributed to series of us and Europe mergers and acquisitions thus moving Teva's away from focusing on local Israeli market to eventually becoming the world largest generic pharmaceutical company. In the light of this evidence Teva pharmaceuticals embraced globalization strategy to exploit untapped markets in other parts of the world.

As noted above, Teva cherishes market leadership with 8% share in the generic market with CAGR of 5-10 % in distinct markets. Its diverse portfolio and ease of use have increased the customer base.  Notably, Teva taps the potential of growing markets while at the same time ensuring that its strongholds markets generate high revenue. The company's key markets include the US and Europe with a market share of 25% and 30% respectively.

## Conclusion:

Teva has maintained a robust global presence with penetration of 80 nations. Over the years, Teva has acquired various international firms that have stimulated the growth of the company globally. As seen in the case study, acquisitions commenced in 1977 with Teva acquiring Gorphahell Netherlands. Later, Teva acquired Cephalon, Allargan and Copley pharmaceuticals among others to strengthen its globalization goal. Also, Copaxone accounts for over 50% of Teva revenues. The Copaxone patent protection gave Teva competitive advantage in price and market leadership.

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