**INTRODUCTION**

Based in London, AstraZeneca (AZN) ranks among the world’s leading Big Pharmaceutical firms. This case is a comprehensive look at the strategic process executed by the international company to address major transformations occurring in the pharmaceutical industry. Research and development has traditionally been the lifeblood of drug manufacturers, and AstraZeneca’s comprehensive strategic review could not explore the company’s value chain too deeply without squarely fixing on the R&D function.

After a brief introduction to the company, the case examines key drivers in the world-wide pharmaceutical industry, including research and development, patents and generic drugs, health care reform, the formation of biological medicine, and competitive rivalry. The focus of the case then shifts internally to examine AstraZeneca’s strategy, financial performance, and operations. This profile is structured around the formulation of CEO Brennan’s new business strategy and the major overhaul of the company’s R&D strategy, both launched in 2010. It provides an in-depth look at implementing the critical elements of the R&D strategy – capabilities, culture, governance, and portfolio management.

According to case content, the key to AstraZeneca’s strategic competitiveness is sustainable and consistent research and development achievements. The company’s new strategy depends upon replenishing the product development pipeline to offset downward pressure on revenues and to earn above-average returns. The following analysis uses the facts of the case to evaluate strategic fit with existing conditions, to assess potential sources of innovation, and to highlight the competitive ramifications of AstraZeneca’s approach.

* Summarize the major changes in the pharmaceutical industry which are likely to impact AstraZeneca’s profitability and future success. With knowledge of these conditions, what response is required of the company to strengthen performance and reinforce its position in the marketplace?
* Consider the strengths and resources of AstraZeneca’s internal organization. Review the company’s new R&D strategy and the financial performance of the company prior to adopting the new strategy. Does your review raise any areas of concern?
* Discuss the components of Brennan’s new strategy. Evaluate potential sources of innovation embedded in his approach. Can you make any suggestions to strengthen expected outcomes?
* Using the comparative information provided in the case, assess the competitive risks associated with AstraZeneca’s strategic moves. Determine the likelihood of competitor responses within the company’s strategic group.

**ANALYSIS**

* ***Summarize the major changes in the pharmaceutical industry which are likely to impact AstraZeneca’s profitability and future success. With knowledge of these conditions, what response is required of the company to strengthen performance and reinforce its position in the marketplace?***

As is the status of most industries in today’s business environment, the pharmaceutical industry is filled with uncertainty and is significantly impacted by weak economies around the world. Several major trends are reshaping the industry; and for AstraZeneca to achieve market success, the firm must ensure that its strategy is aligned with these shifting conditions.

Substantial changes in the general and industry environment threaten the company’s profitability and future. They are associated with patent protection and the value of branded drugs, productivity and costs of new product development, discovery and exploitation of “blockbuster” medicines, consumer confidence, and distribution and sales channels. These threats require that AstraZeneca devise effective ways to:

* lengthen or maximize revenue windows on brand name drugs,
* replicate or substitute the revenue of expiring patented drugs,
* differentiate branded drugs to reduce the appeal of generics,
* reduce the cost of acquiring safety data and meeting heightened government standards,
* increase productivity and speed in the R&D pipeline,
* increase the rate and pace of blockbuster developments,
* broaden market reach as health care coverage expands in the U.S.,
* maintain margins as cost control measures take hold in the U.S., and
* establish new distribution networks as the restructuring of the U.S. health care system evolves.

Even as these industry developments unfold, AstraZeneca has enormous opportunities to discover new scientific breakthroughs. Not only does biopharmaceutical research offer great promise to explore high value treatments for chronic and terminal illnesses, the complexity of the science reduces the likelihood of generic replication of patented products. The new Health Care Reform Law extends patent protection to new biologic drugs; and indications by market researchers suggest that half of the drugs being developed are biologic. Failure to pursue this exciting but costly new field could be a significant disadvantage to any major firm in the industry.

* ***Consider the strengths and resources of AstraZeneca’s internal organization. Review the company’s new R&D strategy and the financial performance of the company prior to adopting the new strategy. Does your review raise any areas of concern?***

The external analysis reveals that AstraZeneca must find ways to discover, develop, produce, and market more quickly and less expensively, while maintaining high product quality. The company operates in 100 countries, which breaks down accordingly:

45.6% ► Europe

30.5% ► Americas

23.9% ► Africa, Asia, Australasia

AstraZeneca has a record of success in multiple areas of medical specialty, worldwide research and development capabilities, and rising levels of employee engagement and leadership competency. A review of the company’s new R&D strategy and the financial performance which prompted the change are conducted in the following sections.

Research and Development

Underscoring the importance of R&D in the value chain, Brennan’s 2010 strategy redefined the key capabilities of this crucial function. New success requirements are compared to the traditional R&D competencies in the boxes below. With this new direction, AstraZeneca has begun to dispense new pipeline products to the market at the targeted pace of two per year. In addition to improving output, the new R&D strategy is focused on shortening the cycle time and lowering investment costs associated with the development of new drugs.

New R&D

* Tools to use previous knowledge and data to predict upstream development results
* Diagnostic skills to analyze specific patient effects
* Effective and safe clinical trial design
* Consideration of payer and regulator expectations earlier in the development process

Target per Drug:

$\_\_\_\_\_\_\_\_ investment

\_\_\_\_\_\_\_ years to reach market

Traditional R&D

* Sophisticated knowledge of human biology and chemistry
* Instinctive exploration and ability to theorize about disease causes
* Multidisciplinary teamwork involving scientists and clinicians

Actual per Drug:

$1.3 billion investment

10-15 years to reach market

New investment costs and cycle time results are not reported.

Figure 9 in the case presents AstraZeneca’s new operating model, which overlays governance mechanisms to distinguish investment opportunities with the greatest potential, monitor and steer progress of late-stage development processes, and elevate oversight of the company’s product portfolio. [The cost of these structural changes to R&D was $200-300 million over 3-5 years, or less than one percent of one year’s sales.] While this structure provides full coverage of the discovery and development stages of the value chain to reduce cycle time and investment costs (refer to Figure 2 in the case), there may be room for improvement over the commercial portion of the value chain (including manufacturing, sales/marketing, and distribution).

Financial Performance

In recent years, AstraZeneca has experienced declining sales growth. At a near 25-year low in 2010, this important metric was a mere 1%. At the same time, gross profits had decreased from the previous year, and net income from operations was flat. Gains in CGS from 2008 to 2009 were nearly lost the following year. In 2010, SGA and R&D were both down from the previous year. While this reduction can be a sign of an improved cost structure, it could also be an indicator that the company is failing to invest in key strategic areas. Since 2007, SGA has dropped from 34% of net sales to 31%. R&D has fallen from 17% of net sales to 13% during the same timeframe. Consequently, net income is up 5 points since 2007. See the figures in the table below.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Income Statement** | | | | | | | | | | | | | | |
|  |  |  |  |  | |  |  | |  | | |  |  | |
| (in millions of dollars) |  |  | 2007 | % Chg | | 2008 | % Chg | | 2009 | | | % Chg | 2010 | |
| Net Sales | |  | 29,559 | 7% | | 31,601 | 4% | | 32,804 | | | 1% | 33,269 | |
| Cost of Goods Sold | |  | 6,419 | 3% | | 6,598 | -12% | | 5,775 | | | 11% | 6,389 | |
| Gross Profits | |  | 23,140 | 8% | | 25,003 | 8% | | 27,029 | | | -1% | 26,880 | |
| Selling, General and Admin | | | 10,134 | 7% | | 10,894 | 3% | | 11,227 | | | -8% | 10,376 | |
| Research & Development | | | 5,089 | -1% | | 5,013 | -13% | | 4,341 | | | -3% | 4,219 | |
| Depreciation/Amortization | | | 0 |  | | 84 |  | | 79 | | |  | 59 | |
| ***Interest Expense (Income) Net Operating - - - -*** | | | | |  | | |  | |  |  | | |  |
| Unusual Expense (Income) | | | 543 | 6% | | 578 | -4% | | 557 | | | 180% | 1,561 | |
| Other Operating Expenses, Total | | | -528 | 12% | | -592 | -15% | | -502 | | | 65% | -829 | |
| Operating Expenses | | | 21,465 | 5% | | 22,457 | -5% | | 21,261 | | | 2% | 21,775 | |
| Net Income from Operations | | | 8,094 | 13% | | 9,144 | 26% | | 11,543 | | | 0% | 11,494 | |
| ***Interest Expense - - - -*** | | |  |  | |  |  | |  | | |  |  | |
| Income Before Taxes | | | 7,983 | 9% | | 8,681 | 24% | | 10,807 | | | 2% | 10,977 | |
| Income Taxes | |  | 2,388 | 8% | | 2,580 | 27% | | 3,286 | | | -11% | 2,924 | |
| Net Income | |  | 5,595 | 9% | | 6,101 | 23% | | 7,521 | | | 7% | 8,053 | |

10 blockbuster drugs account for over $1 billion in sales each, which represents at least 30% of total sales. As patents expire for these high impact drugs, the company stands to lose significant income. For instance, the exposure for Seroquel’s expiration in 2012 is $4.9 billion. Since less than a third of new drugs become major successes, even a pipeline of 2 new drugs per year replenishes blockbuster drugs perhaps every other year. AstraZeneca’s dependence on the release and success of new drugs cannot be overstated. But relying on that alone may not be enough. The company benefits from any actions that extend the life and value of existing drugs in the marketplace, such as lowering prices or retaining customers through differentiated features, services, or programs. Alternatively, the company might consider forming its own generic division or purchasing a generic drug company to extend the life of its investments and to discourage other imitators from replicating its branded drugs when patents expire.

Looking to the Balance Sheet, fluctuations in asset and liability accounts over the 3-year period can be difficult to assess. See the following table for detailed calculations.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Shareholder’s Equity; Long-Term** | | | | | | | |
|  |  |  |  |  |  |  |  |
| (in millions of dollars) | 2007 | % Chg | 2008 | % Chg | 2009 | % Chg | 2010 |
| ***Assets*** |  |  |  |  |  |  |  |
| Cash | 5,867 | -27% | 4,286 | 131% | 9,918 | 12% | 11,068 |
| Net Receivables | 8,224 | 11% | 9,161 | 16% | 10,584 | -6% | 9,961 |
| Inventory | 2,119 | -23% | 1,636 | 7% | 1,750 | -4% | 1,682 |
| Other Current Assets | 786 | 0% | 786 | 92% | 1,508 | 60% | 2,420 |
| Current Assets | 16,996 | -7% | 15,869 | 50% | 23,760 | 6% | 25,131 |
| Property, Plant & Equipment, net | 16,835 | -13% | 14,614 | 4% | 15,168 | 3% | 15,583 |
| Accumulated Depreciation | -8,537 | -11% | -7,571 | 4% | -7,861 | 10% | -8,626 |
| Goodwill | 9,884 | 0% | 9,874 | 0% | 9,889 | 0% | 9,871 |
| Long Term Investments | 182 | -14% | 156 | 18% | 184 | 15% | 211 |
| Intangible Assets | 11,467 | 7% | 12,323 | -1% | 12,226 | -1% | 12,158 |
| Deferred Long Term Asset Charges | 1,161 | 45% | 1,685 | -8% | 1,554 | 16% | 1,799 |
| Total Assets | 47,988 | -2% | 46,950 | 17% | 54,920 | 2% | 56,127 |
| ***Total Liabilities*** |  |  |  |  |  |  |  |
| Accounts Payable | 1,983 | -2% | 1,940 | 19% | 2,316 | -3% | 2,257 |
| Accrued Expenses | 2,606 | -14% | 2,249 | 21% | 2,715 | -3% | 2,620 |
| Note Payable/Short Term Debt | 4,280 | -77% | 993 | 94% | 1,926 | -94% | 125 |
| Other Current Liabilities | 6,349 | 30% | 8,233 | 30% | 10,683 | 10% | 11,785 |
| Current Liabilities | 15,218 | -12% | 13,415 | 31% | 17,640 | -5% | 16,787 |
| Long Term Debt | 10,876 | 0% | 10,855 | -16% | 9,137 | 0% | 9,097 |
| Total Debt | 15,156 | -22% | 11,848 | -7% | 11,063 | -17% | 9,222 |
| Deferred Income Tax | 4,119 | -24% | 3,126 | 4% | 3,247 | -3% | 3,145 |
| Minority Interest | 137 | 8% | 148 | 9% | 161 | 22% | 197 |
| Other Liabilities | 2,860 | 22% | 3,494 | 17% | 4,075 | -9% | 3,688 |
| Total Liabilities | 33,210 | -7% | 31,038 | 10% | 34,260 | -4% | 32,914 |
| ***Shareholder's Equity*** |  |  |  |  |  |  |  |
| Common Stock | 364 | -1% | 362 | 0% | 363 | -3% | 352 |
| Retained Earnings | 12,526 | 8% | 13,504 | 34% | 18,117 | 11% | 20,189 |
| Additional Paid-In Capital | 1,888 | 8% | 2,046 | 7% | 2,180 | 23% | 2,672 |
| Shareholder's Equity | 14,778 | 8% | 15,912 | 30% | 20,660 | 12% | 23,213 |

AstraZeneca’s long term investments have risen during the past 2 years. Since 2007, assets are up, but the increase is greater in short-term assets. (Current assets are up 10% as a percentage of total assets, from 35% to 45%.) PP&E has fallen from 35% of total assets to 28%. (Again, this can be a signal that advisable cuts in overhead have been achieved, or it can indicate a reduced value of structural investments has occurred.) Inventory is steady, signifying continuous throughput of manufactured product. Total liabilities are down for the same period, with a short rise in current liabilities (from 46% to 51% of total liabilities) and a decline in long term debt. Finally, retained earnings and shareholder equity are showing healthy increases throughout the time period.

From this review, it is evident that flat revenues and expected losses of patented income are the company’s greatest concerns. (Returns will be discussed later in the competitor analysis.)

**STRATEGY**

* ***Discuss the components of Brennan’s new strategy. Evaluate potential sources of innovation embedded in his approach. Can you make any suggestions to strengthen expected outcomes?***

Based on the external and internal conditions described in the analysis above, Brennan devised a strategy to (1) secure a pipeline of new drugs with differentiated benefits to patients (2) fuel global growth (3) streamline operations and optimize efficiencies and (4) build an effective and innovative culture. The goal of the strategy is to deliver more valuable, cutting edge medicines to patients while shortening development cycle times, improving the probability of success, and reducing costs.

Results achieved by AstraZeneca suggest that its new strategy, organizational structure, and leadership were a success. The company was growing in emerging markets by 2012, had achieved $1.6 billion in savings, and was operating with a lower cost point. But given the dynamics and needs of the marketplace, AstraZeneca must create internal conditions that continually produce new technological capabilities and competencies. Ongoing success requires the discovery of radical technological breakthroughs, continuous creation of new knowledge, and insightful determination of what to do with them.

AstraZeneca is concurrently seeking to satisfy this innovation requirement through internal measures, acquisitions, and alliances. The sections below review each of these innovation strategies and make suggestions for potential areas of concern which arose from the review. Additional discussion and recommendations to support an entrepreneurial culture, international expansion, and balanced controls follow.

Internal Innovation

Designing and fueling an effective pipeline of new drugs is critical to producing sustainable and consistent results; and making R&D a strategic priority is one way that AstraZeneca is attempting to create value through internal innovation. The revised R&D strategy is clearly described in the case material and in the internal analysis above. Based on this information, the following suggestions can made.

* While AstraZeneca’s portfolio is growing at the targeted 2 new drugs per year, the system is also experiencing a nearly equal number of late-stage failures. Management should take actions to lower the failure rate of new drugs, or at least to develop the capability to identify potential for failure earlier in the process to reduce related costs.
* It is unclear how the new operating model enhances flexibility. It would be worthwhile to determine if it steers customized product development efforts to match unique core competencies and needs of the market throughout the process. Permitting informal horizontal processes to evolve is a critical method for improving strategic flexibility.
* Structural flexibility can be built into formal reporting relationships, procedures, controls, authority, and decision-making processes. It enables exploration of competitive possibilities and allocation of resources to activities that can shape competitive advantages the firm needs for future success. The company should ensure that in its intent to align structure, processes, and systems with the firm’s strategy, governance mechanisms do not hamper effectiveness or flexibility. Rigid oversight and management systems can impede autonomous strategic behavior within the firm or reduce the willingness of employees to take risks.
* Autonomous strategic behavior is essential to internal innovation and can be encouraged when members of development teams have a voice in deciding which projects to commercialize. The operating model depicted in Figure 9 of the case does not signify that this type of involvement occurs when selecting projects to pursue. It appears that the Portfolio Investment Board, chaired by Brennan and other high level leaders, unilaterally determines which internal and external development projects will receive investment funds.
* Mechanisms for continually diffusing new knowledge throughout the company are also essential to foster and encourage effective autonomous strategic behavior. Where they are lacking, AstraZeneca has an opportunity to improve working processes.

Like most large, established firms, AstraZeneca has significant resources and capabilities to exploit identified opportunities. However, newer firms are often more effective in the identification of entrepreneurial opportunities and produce more radical innovations due to strategic flexibility and the willingness to take risks. Because younger entrepreneurial firms tend to excel in opportunity-seeking and more established firms tend to excel in advantage-seeking dimension, strategic entrepreneurship can be enhanced by seeking partnerships and acquisition targets with complementary skills and resources.

AstraZeneca’s search for innovation through acquisitions and cooperative strategies is discussed further in the following sections.

Innovation through Acquisitions

Using acquisitions to gain access to innovations and innovative capabilities should always have a strategic rationale. AstraZeneca has recently acquired both exploration drugs and companies to reduce the cycle time for drug discovery and development, seeking promising new compounds that can move quickly through exploration, discovery, and clinical trials. Since only 5% of experimental medicines that enter the development phase are approved as new drugs, this strategy offers rapid product and revenue growth, increased market power, defrayed product development costs, increased speed to market, lower new product development risk, and the opportunity to learn new capabilities that the company lacks. If successful, it broadens the company’s knowledge base and strengthens the new product pipeline. An edge in increasing new drug success rates or reducing drug development time is a competitive boon in the pharmaceutical industry.

The key risk associated with this strategy is that the ability to buy innovations can become the firm’s primary skill set, substituting the ability to produce innovations internally. Research shows that firms engaging in acquisitions introduce fewer new products into the market. Therefore, it is recommended that AstraZeneca use this strategy with caution and for the right purposes. Other risks include difficulties integrating acquired company resources with the existing organization, overpayment for actual value offered by the acquired firm, negative impact on company debt, and inability to achieve synergy or to manage increased organizational size.

To improve the likelihood of acquisition success, AstraZeneca should target firms that have complementary assets and resources with the company’s core business, avoid making unfriendly takeovers, perform effective due diligence when selecting target firms (fully evaluating the health of the company’s financials, culture, and human resources), and only make purchases when financial slack is available for the transaction to maintain a low or moderate debt position. Perhaps most importantly, the company must sustain its emphasis on R&D and internal innovation and work to ensure that the organization remains flexible and adapts well to change.

Innovation through Cooperative Strategies

It is virtually impossible to perform or excel at all of the activities needed to internally develop sufficient innovations that meet the needs of the market and keep the company competitive. Using strategic alliances to gain access to innovations and innovative capabilities recognizes that the breadth and depth of R&D resources can be substantially enhanced by building strategic partnerships. It can also lessen uncertainty that surrounds rapidly evolving technologies; and knowledge from alliances can help the firm develop new capabilities precisely suited to changes occurring in the industry.

AstraZeneca has not only been open to using external resources, but the company has expansively employed cooperative alliances to move aggressively into the field of biopharmaceuticals. In addition to mitigating the risks of not diversifying into new areas of consumer health, the strategy has enabled AstraZeneca to secure one of the world’s largest biologics pipelines (which is expected to support 25% of product development in the future). It has established AstraZeneca as a leader in biotechnology amongst its Big Pharmaceutical peers.

The strategy absolutely fits with existing external conditions and internal capabilities and is a bold, strong statement of the company’s intent. Industry-wide, large molecule pharmaceutical products are expected to comprise the bulk of sales growth by the end of the decade; and AstraZeneca is internally and cooperatively building the right tools to pursue a large stake in biologics.

To strengthen the execution of its cooperative strategy, AstraZeneca should focus on identifying proper fit with the company’s existing portfolio – aligning complementary assets and skills with an eye on their potential to lead to future innovations and seeking partners with compatible strategic goals. Being aware of risks commonly associated with partnership arrangements can also improve the likelihood of their success. Partners must be selected carefully. In strategic alliances, firms risk technology being appropriated by a dishonest partner. If contracts are inadequate or partners misrepresent their competencies, the value of the alliance can decline significantly. The failure to properly align or effectively use complementary resources can have a similar effect. And managing multiple alliances simultaneously can be extremely challenging.

AstraZeneca can reduce these risks by establishing appropriately-defined contracts and developing trusting relationships. The goal should be to maximize the partnership’s value-creating opportunities and be prepared to take advantage of unexpected opportunities. Foregoing formal contracts and detailed monitoring mechanisms reduces stifling partner constraints and creates an environment where joint resources and capabilities can be explored in new ways for optimal mutual value. But relinquishing them requires a high level of trust between partners. As with acquisitions, the company also needs to be careful when using external resources to ensure that internal capabilities which expand knowledge do not suffer. To improve the likelihood of success, AstraZeneca should use high level managers to oversee alliances and avoid focusing only on the tangible assets of cooperative arrangements.

Entrepreneurial Culture

The strategic priority to mold an entrepreneurial culture within AstraZeneca is embedded in Brennan’s R&D strategy. Effectively shaping organizational culture depends on the presence of strong leadership and shared values.

When executing his strategy, Brennan promoted AstraZeneca’s best internal talent to the leadership ranks of R&D, and he recruited from outside of the organization 52 new leaders with the appropriate leadership skills to achieve the company’s goals. The internal promotions emphasized the elevated importance and focus being given to the R&D function. Using the external managerial labor market to infuse leaders from outside of the organization is a valuable tactic to use when the organization is instituting strategic changes.

AstraZeneca’s organizational values foster the development of new ideas and creative processes that contribute to innovativeness. This involves thinking beyond existing knowledge, technologies, and parameters to find novel ways to add value.

The company is also proactive. This involves clearly communicating its intention to be a market leader, anticipating market needs, and attempting to satisfy them before competitors do. However, promoting an entrepreneurial mind-set within the organization also requires a high degree of autonomy, or the freedom to act beyond organizational constraints. This requires groups to be self-directed. And given the governance and portfolio oversight described in the internal analysis, autonomy may be hampered by the company’s decision making structure. Another shortcoming may exist in applying some of AstraZeneca’s innovation tools to the commercial aspects of the value chain.

International Expansion

International strategy can be a source of strategic competitiveness, improved performance, and enhanced innovation for firms competing in global markets. It can increase market size, extend product life cycles in secondary markets, provide opportunities to integrate operations globally, and open up access to consumers in emerging markets. Economies of scale and learning can be achieved; and location advantages in the cost of labor, energy, or natural resources can be realized.

AstraZeneca’s global growth strategy is a transnational strategy aimed at simultaneously achieving global efficiency (which requires close coordination) and local responsiveness (which requires flexibility). These conflicting goals can interfere with implementation of the strategy, but the company’s combined use of global cross-functional product development teams, a single Global Medicines Development Group, and focus on meeting local medicine needs is designed to efficiently deliver the drugs needed in all world markets while effectively integrating disparate functions. AstraZeneca’s new strategy emphasizes information sharing with integrated data and tools. And Brennan’s simplified geographic organization reduces the company’s cost base while streamlining its delivery systems.

This type of strategy is increasingly necessary as viable global competitors challenge firms to reduce costs. International markets are growing in their sophistication with information flows and the desire for specialized products to meet their unique needs. This applies pressure on firms to differentiate their products in local markets. As different cultures and environments require firms to adapt their strategies to local conditions, another advantage of a transnational strategy is the opportunity to learn new technologies and practices which can be diffused throughout the company while it extends its geographic reach. The geographic breakdown noted above indicates that approximately 70% of AstraZeneca’s sales are outside of America. It would be helpful to understand the margin performance of different regions to determine market preferences or the need for corrective actions.

Advantages of and recommendations for employing cross-border strategic alliances and acquisitions are similar to those stated above. However, these strategies can be more complex and risky in international environments, especially in emerging markets.

Integration, performing due diligence, and achieving synergies are more difficult when an acquisition of a foreign firm takes place. In international cooperative strategies, trust is more difficult to establish than in domestic ones due to different trade policies, cultures, laws, and politics.

Balanced Controls

A combined use of strategic and financial controls establishes an appropriate balance between past performance and value-creating potential for future gains. Brennan’s simplified metrics (DT compounds and NMEs for patients) fall into the strategic category. They are intended to clarify AstraZeneca’s strategic direction and measure key R&D outputs. He has adopted excellent decision making criteria to evaluate the attractiveness of projects in the portfolio and strategic options. In addition, performance management systems and rewards are aligned with strategic outcomes. Brennan’s eye on internal business processes and measurements of accountability and learning (People Engagement Score) further contribute to oversight of strategic controls. And of course top management will indeed continue to monitor the company’s financial performance.

If any area could benefit from heightened focus, it is in the measurement of the ability to anticipate customer needs, the effectiveness of customer service practices, retention of customers after generics hit the market, and the quality of material support to customers who depend on AstraZeneca’s drugs. Recall in the analysis above that the commercial portion of the value chain may be neglected as the development portions receive heightened attention. Without a focus on the consumer end, AstraZeneca will be unable to attain the *differentiated benefits* that are a prominent component of the company’s strategy.

To achieve leadership in emerging brands, the company must not only identify and exploit opportunities, but do so while achieving a competitive advantage. Without a competitive advantage, success will only be temporary. Introducing new drugs to the market is a competitive action that can provoke a response from rivals. AstraZeneca must anticipate consequential responses to protect the company’s position against competitors. It follows that an understanding of the competitive rivalry the company will encounter in the marketplace is essential to maintaining a competitive advantage.

* ***Using the comparative information provided in the case, assess the competitive risks associated with AstraZeneca’s strategic moves. Determine the likelihood of competitor responses within the company’s strategic group.***

Competitive rivalry is the ongoing set of competitive actions and responses that occur among firms as they maneuver for an advantageous market position. Especially in highly competitive industries, there is a constant battle for advantage through strategic actions and reactions to the moves of rivals. The cycle of action and response between and amongst a firm and its competitors can be dynamic and very complex.

A high level of rivalry already exists in the pharmaceutical industry, and this rivalry tends to intensify when an industry’s average profitability is declining. The strategic steps AstraZeneca is taking to address the importance and challenges of replenishing the pipeline of new drugs are likely to trigger a competitive response in the dynamic pharmaceutical environment.

Brennan knew that implementing his new strategy would mean going head to head with major rivals to beat them to the market, especially in the promising arena of biopharmaceuticals. Success will not be determined only by AstraZeneca’s strategic moves, but by the company’s ability to anticipate how its rivals will respond. Additionally, its global positioning will intensify forthcoming competitive dynamics.

AstraZeneca participates in a number of shared markets (industry segments) with direct and mutually-acknowledged competitors. It is a full understanding of these rivals, their mutual interdependence, and the patterns of moves and responses which will contribute to the company’s ability to predict their competitive behavior. In general, multimarket competition reduces competitive rivalry. The greater the market commonality, the less likely an attack will be initiated, but the more likely an aggressive responsive move will be launched when attacked. Also, the extent to which resources are comparable in type and amount leads to the use of similar strategies by rivals.

Evaluating the information provided in Exhibits 1 and 2 of the case reveals the following insights about how AstraZeneca’s resources compare to those of its major diversified scale competitors (see strategic groupings in Figure 1 of the case).

* AstraZeneca has a gross margin advantage over its rivals of 6-10 points and a 3-point ROS advantage over all of its competitors except Merck, who earns 25 points more on sales than any of the others.
* AstraZeneca’s asset turnover, ROA, and ROE are strong, but they are not top amongst the company’s peers.
* GlaxoSmithKline has a substantial lead in ROE, but more than twice AstraZeneca’s debt load.
* AstraZeneca is most closely aligned with Merck with regard to internal and external variables; but Merck relies more heavily on acquisitions (refer to discussion on disadvantages of acquisition strategy in the previous section) and its R&D expenditures are more than half the size of AstraZeneca’s.
* Globally, GlaxoSmithKline is probably AstraZeneca’s biggest rival. Its R&D expenditures are 77% higher than AstraZeneca’s. It is a drug product powerhouse, with 6 times the number of medicines on the market. However, the competitor’s focus strategy might limit its inclination to respond competitively to the company’s strategic moves.
* Novartis is the greatest competitor threat in terms of gross R&D dollars spent, but the company faces operational concerns at both ends of the supply chain (raw material supply and distribution channels).
* Compared to its rivals, AstraZeneca has the fewest pipeline products in the end clinical trial period and pending FDA approval.
* All rivals in this strategic group are engaged in legal proceedings related to product liability or patent protection.

Previous actions suggest the likelihood and timing of competitor responses to AstraZeneca’s strategic action. But there is limited information provided in the case about rivals’ past moves. AstraZeneca is considered a first mover in the industry, known for initiating competitive actions to build or defend its competitive advantage or market position. Being a first mover gives the company an opportunity over its rivals to capture customer loyalty and to hold onto early market share. Not all competitors have the capacity to be a first mover. Organizational slack is required. The organization’s size is an indicator of available resources. However, without raw sales figures, it is not possible to calculate the percentage of sales represented by R&D investment numbers, so the scope of organizational size cannot be determined. What can be gleaned from the case content is that R&D expenditures are an indication of the resources available by the firm to fight for market share. Also, competitor responses to AstraZeneca’s strategic actions are likely to be prolonged because they require a significant commitment of resources, are difficult to implement and reverse, and take time to implement and assess effectiveness.

Quality, or the ability to meet or exceed customer expectations, is also a determinant of expected actions. This competitive dimension is associated with the threat of generic brands that imitate AstraZeneca’s inventions and innovations. It is here that additional recommendations can be made for building defenses in the marketplace. In the commercial component of value chain, AstraZeneca will benefit from ascertaining the value for which customers are willing to pay, maximizing customer experiences, and optimizing drug efficacy. While consumers may judge the drug company on product qualities, payers may judge the firm on service quality dimensions (timeliness, convenience, system compatibility, or accuracy). So bolstering relationships plays a significant role in understanding payer objectives and meeting their expectations.