

## OTC Drug Maker to Shut Down Unprofitable Product Line

Case Type: improve profitability.

Consulting Firm: IMS Health Consulting Group first round full time job interview.

Industry Coverage: healthcare: pharmaceutical, biotech, life sciences

Case Interview Question #00737: Your client Perrigo Company (NYSE: PRGO) is a pharmaceuticals product manufacturer for over the counter (OTC) drugs headquartered in Allegan, Michigan, United States. Through its wholly owned subsidiaries, the company engages in the manufacture and sale of consumer healthcare products, generic prescription drugs, active pharmaceutical ingredients (API), and consumer products primarily in the United States, Australia, Israel, Europe, India and Mexico.

The client has two major products: big line and small line. Overall, the trends in the over-the-counter pharmaceuticals industry are uninspiring. The client is experiencing flat growth in revenues and costs are creeping upward. You have been hired by the CEO of Perrigo Company to help them improve bottom line. How would you go about this case?

Possible Answer:

Interviewee: So I assume that means we're seeing a decline in the client's profitability?

Interviewer: Yes, that's a good assumption.

Interviewee: OK, then I will do a profit tree.

### Market and Customer

- customer preferences
- client's share of the market
- anything new in the pipeline
- competitors in the OTC market

Asked about products themselves. What is the total market size and our client's market share.

- Product A – \$1.2 Billion
- Product B – \$700 Million

Our client's market share is one third of product A, and \$150 Million of product B.

At this point, the interviewee may use Porter's five forces to understand pressures.

- Competitors and their sizes
- Market growing
- How has our client's market share been changing

Answers were all things were constant. Total market size is flat and client's share is also flat.

At this point, the interviewee should then analyze costs.

Suggested that fixed costs are R&D, production, labor, Manufacturing. Variable costs could be raw materials and distribution.

The interviewer can provide the following additional info:

- Product A has gross margin of 40%, fixed costs of \$180 M
- Product B has gross margin of 60%, fixed costs of \$70 M

Using this information, the interviewee could calculate total margins by multiplying percentages by total revenue.

- Product A: Profits = revenues – costs =  $40\% * (1/3) * \$1.2 B - \$180 M = -\$20 M$
- Product B: Profits = revenues – costs =  $60\% * \$150 M - \$70 M = \$20 M$

We see that Product A is netting -\$20 M, and Product B is netting \$20 M.

To improve profits, the client could either try increasing revenues or decreasing costs. Possible options: sell more, increase prices, diversify product line, synergies between the two products, increase geographic scope, acquire competitor, etc.

The interviewer would reveal that none of the options were good, but the final recommendation is to shut down Product A. This answer was the last resort option and could only be reached by exhausting all possible avenues.

How much additional revenue would you need to make Product A profitable? Calculated that and concluded that an extra \$50 M in revenue would break even.