Rose-Hulman Institute of Technology

Team Case Study Project

Eli Lilly and Company

SV351-01

Instructor: Professor Christ

November 18, 2013

Michael Barrett, Cody Bostic, and Neven Frazee

Table of Contents

**Background and Description**

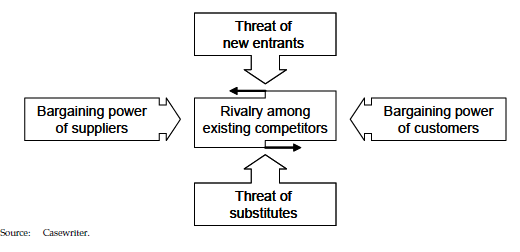
Eli Lilly and Company was founded in 1876 by Colonel Eli Lilly in Indianapolis, Indiana. His motivation for creating the business was the lack of effectiveness of medicines during his day in both society and in the Civil War. To improve the testing of Lilly’s products, Eli Lilly brought in Lilly’s first scientist to lay the foundation for Lilly’s tradition of improving the quality of current products and expanding that tradition into developing new and improved pharmaceuticals. As management was passed down in the family, a culture was established that viewed the employees as the most valuable asset to Eli Lilly and Company’s firm.

As a result, Lilly has developed into the tenth largest pharmaceutical company in the world with about thirty-eight thousand employees worldwide and research and development facilities in eight countries. While Lilly’s headquarters are located in Indianapolis, Indiana, Lilly has manufacturing plants in thirteen countries, and clinical research is conducted in over fifty-five countries.

* Analysis of Firms economic returns
  + Should draw on both accounting and market data to provide a picture of absolute and relative performance.
    - Excel File : Have a 20 year timespan and 10 year timespan

From this excel file we can find the MRET, which tells us the monthly percentage change. With this we can find the Volatility of the stock to determine how risky the stock is.

* Annual Reports and 10-Ks
  + - From balance sheets we can evaluate the firms overall performance from both an accounting approach and economic approach. Check Lilly’s Website under “Investor Relations:
    - Profit Margin, Asset turnover, Financial leverage gives us Return on Equity.
* **Analysis of the competitive environment**
  + Market structure
    - Buyers:
      * Drug companies such as Wallgreens , Kroger, Walmart, CVS, drug stores, health companies and hospitals
    - Sellers: MERC, Johnson and Johnson, and other companies. (Find more competitors and talk about size of maket)
  + market analysis using **Porters five forces**



**Threat of new entrants:** There are larger barriers of entry in the pharmaceutical market. Government regulations , high start-up costs and a need to generate supplier relations produce these high barriers of entry.

**Bargaining Power of Suppliers:** Patents currently in Lilly’s procession give them a degree of monopoly power. We suspect the suppliers of chemicals to Lilly has market power over Lilly because of high regulations of these chemicals. Also we suspect a chemical supply company to be much more concentrated than Lilly’s business. These regulations produce high costs to the seller.

There is not a lot of product differentiation from the supplier, as in Lilly knows what its getting. There are very little substitutes to what the supplier group provides.

Suppliers have a medium-high amount of power over Lilly, assuming the a majority of chemical supply companies profits come from other markets.

**Rivalry Among Existing Competitors:**

***Factors:*** Size of competitors firms. Number of competitors, Industry growth (slow), Price Reductions in the form of Generics gives back wealth to the consumers. Price discounting, new product introduction.

If exit barriers are high than there is a greater rivalry among competitors. Since Lilly has more specialized assets and the management is devoted to the pharmaceutical business specifically, we suspect exit barriers to be high and there to be a high degree of competition. High Fixed costs.

**Threat of Substitutes:** Patents restrict other companies from making, producing or selling the patented medicine. 20 years is the typical life for a patent, but long product testing and government regulation usual decrease the life of the product on the market. Once these patents run out, substitutes in the form of Generics limit Lilly’s product profit potential by placing a price ceiling on the product. Getting new Patents on drugs and it products seems like it should be Lilly’s main goal.

* **Details about challenges that the firm faces**
  + Technological constraints
    - Lilly is involved in the R&D of these products. So development of techniques, production, and recipes are thought of by Lilly. They have to invent a product with certain health benefits, so they are the ones making the new technology.
    - They have to constantly test the product
  + Strategic interation,
    - There isn’t a lot of interaction expected.
  + Forecasting problems
    - Forecasting may be difficult because of randomness of illnesses or demand of a particular product. (Swine Flu Example)
  + Issues of corperate goverance
    - Is there any problems with management?
    - Do the values of the company affect its profit margin
  + Or regulatory restrictions
    - There are a lot of regulatory restrictions. Drugs are tested for long periods of time before allowed on the market by the FDA. This reduces the profit that can be gained from the particular patent because the time the product is on the market is effected by this.
* **An appraisal of the firms strategy and execution during a chosen period**
  + Companies Strengths and Weaknesses

Where does the company stand versus buyers, suppliers, entrants, rivals and substitues?

* + - Strengths:
    - Weaknesses:
  + Competitive Forces
    - Managers within the company want to position the company in the best way to combat these forces, or want to find a position where the forces are the weakest.
  + Industry Change
  + Shaping the Industry Structure
    - Is Lilly innovating in a way that can benefit more by shifting competition in directions where it can excel?