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James Burke: A Career in American Business (A)

James Burke's tenure as chief executive officer of Johnson & Johnson was drawing to a close in 1989. His career at the company began when he became brand manager for Band-Aids in 1953. At first he doubted whether Johnson & Johnson was the place for him. Soon, however, he committed himself wholeheartedly to the company and was quickly promoted to important positions within it. In 1976, he became chairman and chief executive officer. With Burke at the helm, the company grew smartly in terms of both sales and earnings. (See **Exhibit 2**.)

One reason for this growth was an increase both in the number and the variety of products the company marketed, as well as in the vigor with which they were managed. Tylenol, for example, was still a specialty product in 1976—little known outside the hospital setting. By 1981, it had become the leading analgesic in the country by a wide margin. (See **Exhibit 8.**)

Not all the company's products fared so well, however. Some, such as CAT scanners, met with failure.

James Burke's Early Life

James Edward Burke was born on February 28, 1925, in Rutland, Vermont. He spent his formative years in Slingerlands, New York, a small town near Albany. His father had served as an army officer before becoming an insurance and bond salesman. "My father had a wonderful view of the world," Burke said.

> He was an optimist from the word go. He knew exactly what he believed in, and I never had any doubts to speak of about right and wrong because my father had no doubts. And I had no doubt that if I didn't behave in the way he saw the world, I'd learn of his displeasure, which was something I didn't want to learn about. My mother loved intellectual ferment. She taught us to challenge everything. Our dinner table was constant arguing over anything and everything. My father didn't enjoy the arguing so much—he sometimes would get up and excuse himself—but my mother did, and all of us children enjoyed it.

Burke attended Bethlehem Central High School through the ninth grade. Bethlehem Central was testing new educational methods while Burke was there. "It drove my mother and father crazy," he

Note: A profile of all individuals in both the (A) case and the (B) case is provided in **Exhibit 1**.

Professor Richard S. Tedlow and Research Associate Wendy K. Smith prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

said, "but I loved it." When Burke's father realized that his son was doing very little work and getting A's, he decided to send him to the Vincentian Institute, a strict, Catholic high school. "It turned out to be the greatest favor my family ever did for me," Burke recalled. "Many of my friends from Bethlehem Central didn't make it into college, and the state eventually threw out the whole experiment."

The United States had been at war with Japan and Germany for nine months when Burke entered the College of the Holy Cross, in Worcester, Massachusetts, in September 1942. Holy Cross participated in the Navy's V-12 program, which required almost all its students to enlist in that service. After completing the school's NROTC program, Burke was commissioned as an ensign and spent a year in the South Pacific on a landing craft. "We were kind of spectators in the war," Burke recalled. "We used to bring material and manpower from ship to shore because the harbor at Naha [on Okinawa] had been bombed to pieces. The only way you could get things in was through landing-craft tanks like ours. Sometimes our craft were mistaken for aircraft carriers—they had the same lines, but were much smaller—but we weren't worth anyone's ammunition."

When the war ended, Burke returned to Holy Cross, and in 1947 he graduated with a B.S. in economics. Burke was uncertain what direction to take upon graduation, but his brother-in-law convinced him that the Harvard Business School would be invaluable to his future career. "I was not even sure I wanted to be in business," Burke recalled. "I got in with relatively modest marks. I probably couldn't get in now. In those days you had three interviews, and you were accepted on the basis of those. In any case, I got in, and it was the most liberating experience I can think of."

The Harvard MBA Program in the Postwar Years

The Harvard Business School was undergoing many changes in the late 1940s. During the war, it became a virtual military academy. In June 1943 the school suspended all regular civilian instruction. From 1942 to 1945 eight officer training programs were set up for the Army, Navy, and Air Force. The programs, which varied in length from five weeks to one year, were (1) the Army Air Forces Statistical School, (2) the Army Supply Officers Training School, (3) the Navy Supply School, (4) the Army Air Forces War Adjustment Course, (5) the Midshipmen Officers School, (6) two Navy Industrial Accounting courses, and (7) a Navy War Adjustment course. With the exception of the Navy Supply School, instruction for the wartime courses was provided at least in part by members of the business school faculty, who used the case method of instruction.[1]

The business school resumed civilian instruction in February 1946. In order to accommodate the three-year backlog of applicants who had been serving in the armed forces, the school began operating on a three-term basis, with continuous programs and no vacations. New first-year classes were admitted in June 1946 and February 1947, as well as in the fall of each of those years. In September 1948 the regular two-term prewar program was resumed, with admission of a first-year class each autumn.

The wartime suspension of civilian instruction provided an unusual opportunity to re-examine the MBA program. A committee on educational policy was appointed to prepare recommendations for revision of the curriculum. As a first step, a subcommittee on objectives composed a statement concerning "the abilities and understandings which the educational program of the School should be designed to help the students develop." These included:

[1]Melvin T. Copeland, *And Mark an Era: The Story of the Harvard Business School* (Boston: Little, Brown and Company, 1958), pp. 119–120.

- Ability to analyze business situations, recognize problems and determine issues, seek pertinent facts, develop alternatives, and reach reasoned decisions
- Ability to organize
- Ability to use oral and written communications
- Ability to deal with people
- Ability to train subordinates
- Ability to use figures effectively for administrative purposes
- Ability to establish standards and to control and judge performance
- Ability to execute selected operating tasks, including those involving severe time pressures
- Acquaintance with sources of business information
- Understanding of the useful generalizations of political economy and ability to develop at least the beginnings of an integrated social and economic philosophy
- Understanding of ethical considerations as an integral part of business administration and ability to develop a unified set of ethical concepts for personal guidance in administration
- A spirit of vigorous and courageous enterprise[2]

The committee also proposed a new program of instruction for all first-year students. Previously, first-year students were required to take several common courses but had a choice among certain electives. In the new program, just one course—Elements of Administration (E.A.)—was required of all MBA candidates. E.A. was divided into six "subjects": production, marketing, finance, control, administrative practices, and public relationships and responsibilities. In addition, "E.A. General" was required for instruction in report writing.[3] The more noteworthy innovations in the first-year program came about through administrative practices, which focused on the problems of executives in promoting teamwork and effective action in business organizations; control, which combined accounting principles and business statistics for the first time; and public relations and responsibilities, which dealt with the relationship of business administrators to government and public institutions.

Burke at the Harvard Business School

Burke entered the Harvard Business School with the class of 1949, which was later to become famous for generating so many leading figures in the business world.[4] For example, Burke's roommate at Harvard, Peter McColough, eventually became the chairman of Xerox. Other well-known classmates included Sumner L. Feldberg, chairman of Zayre; Vincent L. Gregory, Jr., chairman of Rohm and Haas; Thomas Murphy, chairman of Capital Cities/ABC, Inc.; and John Shad, former head of the Securities and Exchange Commission.

[2] Copeland, *Era*, pp. 124–125.

[3] Ibid., p. 126.

[4] Marilyn Wellemeyer, "The Class the Dollars Fell On," *Fortune*, May 1974, pp. 224–229, 340–352.

"We were a bunch of exuberant and ambitious young veterans," Burke recalled, "trying like everyone else after the war to catch up with life in all respects. We were older than most when we went to the Harvard Business School, and we had seen more of the world than most of the students of today."

Burke enjoyed his years at the business school for a number of reasons:

> First of all, everyone I met I liked. Secondly, it was intellectually a real turn-on. I never worked so hard in my life and enjoyed every minute of it. And finally, the thing that amazed me, and was totally unexpected, is that in everything we did, we were reminded of the moral values—the importance of the moral values in our decision making. We all spent a lot of time talking about it, and many had the same doubts. It was not just me. I guess partly because of the way I was brought up, I had a set of values that I knew I was going to have difficulty compromising ever. And whether we like it or not, in our educational system, even at a place like Holy Cross, there is an underlying doubt about the enterprise system. I got the feeling from what I read in the papers and saw in the media that there was something a little bit corrupt about business. But the business school was a remarkable experience for me, and I was convinced, or almost convinced, when I got out that what I believed in was going to work.

Procter & Gamble

After graduation from the Harvard Business School, Burke went to work for Procter & Gamble as a sales representative. After a year on the road, he became an assistant brand manager for a new product called Lilt home permanent, which had been introduced in 1949. The president of Procter & Gamble was Neil McElroy. McElroy had made a name for himself by proposing the basic principles of brand management that came to be widely used in marketing packaged products.

P&G's introduction of Camay soap in the 1920s first suggested to McElroy that marketing responsibility for each P&G brand should rest in the hands of a specific executive who would concentrate on that brand exclusively and manage it as a separate business. Camay's early performance was disappointing. It did not become the great challenger to Ivory that company officials had anticipated. McElroy believed that it was being held back by "too much Ivory thinking." Camay was handled by the same advertising agency as Ivory, and McElroy saw that Camay's advertising was being weakened so as to avoid negative reflections on Ivory.[5]

It was in May of 1931 that McElroy wrote his historic memorandum to P&G's president. The memorandum clearly defined McElroy's vision of the duties and responsibilities of a brand manager, as well as those of the team of assistants and field "check-up people." He predicted that brand managers would eventually take over a large part of the sales manager's ancillary work, leaving the sales team free to sell.[6] He was so persuasive that P&G's president agreed to implement a system that would dismantle a hundred-year-old way of doing business.

The concept of brand management was new at the time. No American company encouraged such competition among its own brands. This concept necessarily changed the definition of job responsibilities within P&G. Brands such as Ivory, Camay, Crisco, Duz, and Oxydol became profit centers with their own budgets. Many outside the company believed P&G would be shattered by the

[5] Oscar Schisgall, *Eyes On Tomorrow: The Evolution of Procter & Gamble* (Chicago: J.G. Ferguson Publishing, 1981), pp. 159–161.

[6] Ibid., p. 161.

new system. Many insiders saw their chances for advancement threatened as the traditional avenue for promotion was supplanted by the new organization.[7]

When Burke joined P&G in 1949, brand management was a decade and a half old and was being adopted by every major marketing company in the country, but P&G was still the leader in the field. Many other top business executives spent their formative years at Procter & Gamble, including Robert Beeby, president and CEO of PepsiCo International; James McManus, founder/president-CEO of Marketing Corporation of America; William E. Phillips, chairman-CEO of the Ogilvy Group; and James Schadt, president-CEO of Cadbury Schweppes North America.[8]

Burke stayed at P&G for three and a half years but eventually decided he wanted freedom to pursue some of his own ideas for marketing consumer products. "When I left Procter & Gamble, I left with considerable restlessness," he recalled, "but without a very clear idea of what I was going to do with my life. I decided to leave without a job, because I had several things I wanted to do on my own. I went into three separate ventures after I left, and I was still hanging on to two of those in my spare time even after I joined Johnson & Johnson in 1953." None of these products proved successful.

Burke's Early Career at Johnson & Johnson

Burke was offered a position at Johnson & Johnson in 1953 as product director for Band-Aids. A friend had warned against joining "a family company," however, so before accepting the job, Burke looked into several positions at advertising agencies. The advertising jobs were exciting from a financial point of view—Burke's salary would double if he accepted one of the offers. They also seemed to allow him more authority over his own destiny. However, he felt there was something wrong with all of them:

> I remember coming out to New Brunswick on the train with a lot of confusion in my mind. Johnson & Johnson offered me $10,000 a year to start, which was less than any of the advertising agencies offered, and I wasn't very excited about going there. Finally, I decided to screw up my courage and tell them I'd come to work there if they gave me $12,000. They did, and so I did. I did it in part because I felt it was the right thing for me to do, rather than with any great enthusiasm; but I can't say I did it with any great logic, or even common sense.

Johnson & Johnson's Early History

Johnson & Johnson was founded in New Brunswick, New Jersey, in 1886 as a medical products company by two brothers, James and Edward Mead Johnson. Later, a third brother, Robert Wood Johnson, joined the company and provided not only necessary capital but the kind of strong leadership the young company needed. Robert Johnson had been impressed by the theories of Joseph Lister, the English surgeon who founded modern antiseptic surgery. Antiseptic surgical dressings were among Johnson & Johnson's first products. Another early specialty of the company was the medicinal plaster, precursor of one of Johnson & Johnson's most famous products, the Band-Aid, which was first marketed in 1920.[9]

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[7] Schisgall, *Tomorrow*, p. 162.

[8] Editors of *Advertising Age, The House That Ivory Built* (Lincolnwood, IL: NTC Business Books, 1988), pp. 91–99.

[9] Lawrence G. Foster, *A Company That Cares: One Hundred Year Illustrated History of Johnson & Johnson* (New Brunswick, NJ: Johnson & Johnson, 1986), pp. 9–15.

During his first year at Johnson & Johnson, Robert Johnson made the acquaintance of Fred Kilmer, a pharmacist at a New Brunswick drugstore. The two men shared an interest in Lister's ideas. In 1888, Kilmer compiled a booklet, which Robert Johnson published, entitled *Modern Methods of Antiseptic Wound Treatment.* "In many respects, it was a 'how to' manual, and soon it was being proclaimed as the most authoritative treatise ever presented on the subject. [W]ithin months, 85,000 copies were in distribution . . . and in time over four million copies were in distribution all over the world."[10] That same year, Kilmer joined Johnson & Johnson as the director of Scientific Affairs.

Johnson & Johnson quickly gained a reputation as a major health products company. It was constantly searching for new products, and over the years sutures and ligatures, insect fumigators, dental specialties, and maternity and obstetric kits were introduced. In 1890, Johnson's Baby Powder was introduced. This was used originally to soothe skin irritation resulting from medicated plaster. The company expanded internationally shortly thereafter, signing on agents in Canada, England, Australia, and New Zealand.

Kilmer pursued his interest in surgical and first-aid products and techniques, making several scholarly contributions to medical literature, while Robert Johnson focused his attention on advertising. Shortly after the company was formed, Johnson retained the services of a young advertising man by the name of J. Walter Thompson. Every advertisement had to be approved by Johnson personally, and although he had a keen instinct for what would sell, his meddling was often trying on his agency staff.[11]

Johnson involved himself in every aspect of the business. He began each day by presiding over the opening of the company's mail and often responded personally to customer complaints. He worked long hours and expected the same of others. Despite his sometimes dogmatic ways, he was well respected by his employees, and his enthusiasm was widely admired.[12]

Robert Johnson's sudden death in 1910 left a void in the company. Many of its 2,500 employees feared that it could not continue to be successful without his leadership. Johnson's younger brother, James, became the new president, but it was with Robert Johnson's eldest son, Robert, II, that the future of the company lay.

Robert Johnson, II was just 16 when his father died, but he had already shown interest in the business. Upon graduation from high school, the young Johnson joined the company full time. He started in the factory power plant and moved from department to department, staying just long enough to learn each one's function. Johnson eventually specialized in sales and marketing, areas for which he, like his father, had a natural affinity.

Following the First World War, Johnson exerted increasing influence on the company's policies. He staunchly supported the development of international manufacturing operations. It took several years of persuasion, but he eventually won the company over to his point of view. The first international plant was opened in 1924 in England, just outside London.[13]

Johnson became vice president and general manager of Johnson & Johnson in 1930 and president in 1932. He soon gained national prominence as a creative industrialist. In 1926, Johnson built the "world's most modern textile mill," a showplace of technical excellence and beauty at a time when

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[10] Foster, *Cares*, p. 21.

[11] Ibid., p. 32.

[12] Ibid., pp. 34–35.

[13] Ibid., pp. 84–85.

most textile mills were bleak and dingy places with oppressive and unsafe working conditions. In 1933, Johnson wrote a letter to President-elect Franklin Delano Roosevelt calling for a federal law increasing wages as well as reducing the workweek.[14]

In the 1940s, Johnson criticized the National Association of Manufacturers for advocating a labor management philosophy that, he felt, entailed "a return to the hands-off economics of the 1880s which would reduce labor to a commodity that can be sold, bought, and scrapped like so much machinery."[15] During the Second World War, he served as a brigadier general in charge of the New York Ordnance District. Thenceforth he was often referred to within the corporation as "the General."

As president, Johnson emphasized the advertising and marketing of consumer products, as well as the research and development of new products. During his 25-year tenure as head of Johnson & Johnson, he became well-known for such creative advertisements as "Modess . . . because" and a series of children's paintings commissioned from noted artist Gladys Rockmore Davis for use in a first-aid products advertising campaign.[16]

In the 1940s the General developed a credo for the company, which represented a formalization of his views on corporate public and social responsibility. He was a strong believer in decentralization. Decentralization demands trust, which was a fundamental tenet of the credo. Just as top executives must be trusted to balance the interests of the company's constituencies, top executives must trust middle management to make the right decisions from both a business and an ethical point of view.[17]

The far-flung "family" of Johnson & Johnson companies grew out of this management philosophy. Decentralization came about in several ways, and there was no set formula for accomplishing it. Companies in the family were managed as separate entities, each with its own president and board of directors and each having its own research, marketing, and production departments.

By way of example, Ethicon, Inc., resulted from an acquisition in 1918, and eventually it was made an affiliate company because of the General's strong belief that managers would be more successful if they were given full responsibility and credit for all decisions concerning their company. Ortho Pharmaceutical Corporation grew out of research in Johnson & Johnson's own laboratories in the field of family planning. It, too, became an affiliate when strong management had been established.[18]

Many of Johnson & Johnson's top executives received their early training rising through the ranks of one of the corporation's numerous affiliated units. Philip B. Hofmann, who became chairman of the corporation in 1963,[19] got his start as a salesman for Ortho. Hofmann was responsible for

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[14] Foster, *Cares*, pp. 90, 97.

[15] *The New York Times*, July 10, 1947, p. 14.

[16] Foster, *Cares*, pp. 112–113.

[17] Laura Nash, "Johnson & Johnson's Credo," in *Corporate Ethics: A Prime Business Asset* (New York: The Business Roundtable, 1988), p. 80.

[18] Foster, *Cares*, p. 101.

[19] During Robert Johnson's tenure, the division of Johnson & Johnson that manufactured and sold products with the name "Johnson'*s* "on them (mainly baby products and Band-Aids) was known as the "operating company." Johnson & Johnson as a whole was referred to as the "corporation."

building Ortho during the 1930s and 1940s, selling contraceptive jellies at a time when many people considered such a business improper.[20]

The General was also concerned with balance—between manufacturing and marketing, between financial and operating people, and especially between consumer and professional products. As a result, no single product during his tenure accounted for as much as 5% of total sales.[21]

The credo brought together Johnson's belief in fair employee treatment, decentralization, and product quality, and it underscored what he viewed as his company's responsibilities to its customers, to its employees, to the communities in which it operated, and finally to its stockholders. In time, the principles embodied in the credo, and particularly the strong emphasis on decentralization, came to represent major factors shaping the Johnson & Johnson way of doing business. In the words of one consultant who has studied Johnson & Johnson's credo:

> The Credo is an extremely powerful document . . . [because it] is at all times tied in to the regular concerns of business management: product choice, delivery times, costs, employee compensation, corporate taxes, maintenance of company property, research and innovation, new equipment, and financial reserves. Equally important, profit is not a dirty word. The Credo puts forth a world view in which profit is obtainable through just and ethical behavior.[22] [See **Exhibit 3**.]

A Rising Star

In Burke's view, his first year at Johnson & Johnson was not very productive, in part because he was still working nights and weekends trying to salvage his own new products, which were in the process of failing. In addition, he was discouraged because no one paid much attention to the consumer brands with which he was involved. "Nobody would show up for the Nielsen meetings," he said, "and we were losing share in 92% of our product categories. It was really a very small consumer business—and I didn't think it was going anywhere. I also wanted to start a new-products division, but I couldn't get anyone interested. I was bored. Finally, after a year of frustration, I quit."

A few days after he left, Burke got a call from Ed Gerbic, his boss's boss. Gerbic offered Burke a chance to set up a new-products division along with a 50% raise in salary. Despite his resolution to leave the company, Burke could not turn down this opportunity. He realized only later that he had been caught in a political battle between his immediate boss, John McLaughlin, and Gerbic. Gerbic had offered Burke the position because he wanted to prove to management that he could hold good people and that McLaughlin could not. (A few years later, both McLaughlin and Gerbic had left the company, and Burke was promoted to Gerbic's job.)

Burke returned to Johnson & Johnson and went to work establishing a new-product development plan. He quickly discovered that very few models existed in other companies. Burke recalled:

> I did find HBS classmates of mine [Sam Johnson at S.C. Johnson, and Conrad Jones at Booz, Allen] who were interested in doing exactly what I was doing. So we had a lot of fun getting together and comparing ideas. There was also an advertising agency—now out of business—that had done a study on the life span of new products, and I did some research on my own to

[20] Lee Smith, "J&J Comes a Long Way from Baby," *Fortune*, June 1, 1981, p. 60.

[21] "Prescription For Growth," *Forbes*, June 26, 1978, p. 97.

[22] Nash, *Ethics*, p. 83.

> add to it. The study did a lot to remind people that there weren't too many new-product successes—you had to take a lot of shots before you had any successes. That was important to me and important to this company because most people believed if a person tries twice and fails twice with a new product, they're a failure as a manager. Now people are more sophisticated and realize that only about one out of ten of these efforts ever work, but it was helpful in the beginning to give courage to the organization to take the chances that I sensed needed to be taken.

One of Burke's notable successes from this time was a line of athlete's foot remedies, which eventually sparked the work in R&D that created the product now marketed under the name "Micatin." Also during this period, Burke began to upgrade the line of baby products to encourage more adult use. One product line in that category failed for an unexpected reason. As Burke explained:

> A friend of mine, an entrepreneur, had come out with a liquid product for children. It was a substitute for aspirin, but in a liquid form. I thought the concept was good, so I bought the product—for $15,000, think of it!—and called it Liquiprin. To go along with this product, we designed the first-ever safety container. There was a stainless steel spring inside the bottle, with a plastic plug on top. The mother could put the dropper in and push the plug aside and take out the dose for the child, but if the child pulled the dropper out, the plug filled the bottle and the child couldn't drink it. That product was fairly successful, and it gave us the idea to design a line of children's medications which would be safer and easier to use. We added a nose drop, a cough medicine, and a chest rub, and marketed the entire line under the "Arrestin" trademark.
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> All three new products failed, and in essence the entire concept was lousy, but it took me a long time to understand why. Basically, even with children, while safety is important, and "easier to use" is important, what the consumer is really looking for is results. And under the name Johnson's, no matter how good the product performed, mentally the consumer is making the decision, "This probably isn't as strong as what I'm used to using." So if the child is coughing, and nobody can get any sleep, the consumer is more inclined to rationalize and say, "I'm sure Vick's is safe, and I know it's stronger because it doesn't have the name Johnson's on it."

As a result of this experiment, Burke also had his first real encounter with the General. Burke had come into the office at 9:15 one morning to find a message that the General had called him half an hour earlier. Burke knew right away the meeting would be about the failed product line. He went over to the General's office convinced he was about to be fired.

Much to Burke's surprise, the General congratulated him on his attempt to create the new product line. He said, "What business is all about is making decisions, and you don't make decisions without making mistakes. Now, don't ever make that mistake again, but please make sure you make other mistakes."

"That incident was extremely important to me," Burke related, "and the General became important to me—first of all because he was tougher than hell; he was egocentric, but he was very creative. He loved to argue, almost as much as I do. On anything. I don't know that he was a mentor of mine, but he loved young people and he was very close to what was going on in the company."

During his tenure as director of new products, Burke was supervised by Robert "Bobby" Johnson, III—the General's son—and the two young men became friends. Burke's enthusiasm, his ability to attract bright young marketing people, and his knack for conceptualizing successful consumer products impressed Johnson. After two years, Bobby recommended Burke for the job of vice president of product management of the operating company. George Smith, then president of the operating company, had reservations about Burke and expressed them forcefully to both Bobby Johnson and to Burke himself. Burke was too young, he believed, and not prepared to assume the responsibilities that the job entailed.

Smith decided to give Burke a one-year trial in which to prove himself. Burke was named acting director of advertising and merchandising, and Smith suggested that he see him whenever he had any questions or difficulties. "He was always available," Burke recalled, "and that year with him I learned as much as I think I've learned from most people."

A short time after this new arrangement was agreed upon, Burke found himself in personal financial difficulties as a result of his previous personal marketing ventures. "In those days," Burke remarked, "you weren't allowed to sell Johnson & Johnson stock. So I went to Bobby Johnson and I laid it all out. I told him I hadn't been paying attention to my finances, I couldn't pay the interest charges on loans I had taken out, and I was in real trouble. Bobby went to Gus Lienhard, who was chairman of the executive committee, argued my case, and asked him to help me out."

Lienhard not only helped Burke reorganize his financial affairs, he arranged for Burke to sell his stock and to take out a $30,000 loan from the corporation. He also made it clear that if Burke ever got into that kind of trouble again, he would be fired. Burke said:

> First of all, it was remarkable that the company would do this, but secondly, it taught me a lesson I never forgot as to the importance of managing your own personal affairs. And I subsequently became quite close to Gus Lienhard. He was very good for me because he was very oriented to the bottom line. He was an auditor by background, and he later became president of the corporation. He was a tremendous president. In 1965, I became the youngest member of the executive committee he chaired, so I used to see him then almost every night. He spent a great many hours of his life trying to help develop me.

At the end of a successful year working under Smith, Burke was promoted to vice president of product management for the operating company. At this time, Smith was thinking about moving the corporation into the pharmaceutical business. He wanted to market a broad range of pharmaceuticals—branded generics, in effect, under the name Johnson & Johnson. Burke felt that this was a flawed idea for two reasons. First, the company would be selling products with no improved end benefit, and Burke was concerned that this might injure the Johnson & Johnson name. Second, Burke's experience with children's medications had taught him that the Johnson's name suggested gentleness rather than potency and that the name would be more hindrance than help.

Bobby Johnson agreed with Burke's reservations. After two years of indifferent performance in pharmaceuticals, the corporation came around to their point of view, which was also shared by others in the company. Johnson & Johnson decided to purchase a pharmaceutical company in the United States and a research laboratory in Europe. The regulatory process in Europe allowed drugs to gain approval more quickly than in the United States, and a research laboratory in Europe would provide the corporation with an income stream. An established U.S. pharmaceutical company would provide a marketing channel once a compound had been approved by the Food and Drug Administration (FDA).

Johnson & Johnson acquired McNeil Pharmaceutical in the United States and the Janssen Company in Belgium. McNeil had a good reputation. It was a family company, run by two brothers who joined the board of directors at Johnson & Johnson. Janssen proved to be a boon for Johnson &

Johnson. Through 1988, it had created more successful new compounds than any other comparable company in the world. Pharmaceuticals were among the many products that became independent of the operating company in the 1950s and 1960s.

Burke advocated separating the marketing function of the operating company into baby products and first-aid products. The two would still share manufacturing, but Burke believed that the companies would grow faster if the marketing and research functions were independent of one another. In 1962, Burke was named president of the Baby and Proprietary Products Company.

Shortly after this reorganization took place, the General let it be known that he thought results were so weak that he was considering putting this business back into the operating company and removing the managers in charge, including Burke. Burke felt that his team had been doing a superb job and that the General did not understand the investments that the company was making in advertising and new products.

“I was furious,” Burke recalled. “I went to Gus Lienhard and told him I wanted the opportunity for my people to show the General what we had been doing. The General agreed, and we took about two months to prepare for that presentation. I was really convinced that the story we had to tell would put him away. I was super-confident.” The presentation was for the General and the entire executive committee. It started at 9:00 a.m. and was to last throughout the morning. At 10:15 a.m. the General got up and walked out. “I almost followed him, I was so mad,” Burke recalled. But he finished the presentation, and it was well received. Once the executive committee fully understood the nature of the investments, the numbers spoke for themselves.

Burke was too angry to speak with the General, so he went to see Lienhard. Lienhard had already questioned the General on his sudden departure from the meeting. “It was perfectly obvious that the business is in complete control and very well managed,” the General responded. “Why waste any more time on it? You know,” the General continued, with a twinkle in his eye, “I don’t think it really hurt Burke, do you?”

“That made me start thinking,” Burke related. “Not only didn’t it hurt us, the business was much better managed as a result of the General’s challenge. We got rid of things we were doing as we started studying the business. We redid our advertising, and we changed prices. We did a whole series of things that never would have happened if the General hadn’t challenged us, and I never forgot it.”

In 1964, Burke was promoted to executive vice president for consumer products, with both the divisions reporting to him, and in 1965, he was selected to run the domestic operating company, a position formerly held by Smith. He also became a member of the executive committee. One particularly memorable occurrence during these years was the attempted introduction of a new product called Baby Liquid Cream—a skin lotion that was to be marketed for both baby and adult use. Burke remembered it as “a beautiful product, beautifully packaged.”

This became a special project for Bobby Johnson. He was its manager and its champion. He wanted to introduce it nationally without test-marketing it because of his confidence in it. Shortly before it was to be shipped, the company received the results of clinical tests from a nearby women’s college. The tests revealed a slight level of irritation in about 5% of the subjects.

The clinicals suggested, however, that unless the lotion was used on a very intensive basis by women with preexisting skin problems, the irritation did not occur. There were arguments within the company about what to do with the product. Some members of the executive committee rationalized that the problems were not severe, but Burke remembered Bobby Johnson saying, “We’re not going to go ahead. Dump it in the Raritan River if you have to.”

"What he meant," Burke explained, "was get rid of it. And he did. He made the decision like that, and it cost the corporation a lot of money. I thought at the time that this was the kind of thing that made Johnson & Johnson different, and that thought returned many times over the years."

The Credo Challenge Meetings

In 1975, Burke caused a stir when he decided to "challenge" the credo. At the time, he was president of the corporation and had already been named as the successor to Chairman and CEO Richard B. Sellars. Burke had worked closely with the General over the years and had inherited his strong belief in the credo. But the document was now over 30 years old, and Burke wondered if it was still a meaningful statement of responsibility for all of Johnson & Johnson's managers, as the General had intended it to be. It bothered Burke to think that the document might lose visibility and significance at Johnson & Johnson over time. If the credo were no longer meaningful, Burke felt it would be better to "tear it off the walls" than to have it stand for nothing. He decided to hold a series of discussion meetings with top management to get their opinions on the usefulness of the credo in their own decision-making processes.

Public Relations Vice President Lawrence G. Foster wanted to film the first of these credo challenge meetings, but Burke felt that cameras would ruin the atmosphere and discourage managers from revealing their true feelings. Foster prevailed by promising to turn the cameras off after half an hour if they were impeding the discussion. As Burke recalled, however, 15 minutes into the meeting the cameras were forgotten as the focus turned toward challenging the fundamental beliefs of the corporation as well as those of the individual executives.

When Sellars heard about the meeting, however, he "went bananas." It was the only time Burke could recall Sellars losing his temper. Sellars said, "You're not about to challenge the credo as long as I'm here. I'm chairman, and no one has the right to challenge that document." However, after he saw the tape, and as he began to think about what was happening, he gradually became a supporter of the challenge idea—particularly since what came out of the meeting was a rewording and a reaffirmation of the credo by management (see **Exhibit 4**). Burke and Sellars then made a tape together and launched further meetings throughout 1979, and all employees of the company took part.

The Chief Executive Officer

When Burke became CEO in November of 1976, his vision of Johnson & Johnson's future called for strengthening the company's commitment to science and technology and broadening its base in the health-care field. Eventually the company would market products or services in all 23 disciplines of medicine, ranging from anesthesiology to urology.

One of the early challenges that Burke faced was the moving of Tylenol from a prescription analgesic to an over-the-counter pain medication. To accomplish this, the company engaged in a head-to-head clash with Bristol-Myers and its Datril product and came out the victor.

Burke pushed Johnson & Johnson's disposable diapers to sales of over $100 million in 1977.[23] Stiff competition from Procter & Gamble's Luvs and Kimberly-Clark's Huggies—both of which adopted stretch diapers more quickly than did Johnson & Johnson—eventually drove Johnson & Johnson out

[23] *Forbes*, June 26, 1978, p. 97.

of the U.S. market, but the company continued to sell diapers overseas. In 1977, largely as a result of Burke's earlier efforts with the product, Johnson & Johnson's baby shampoo became the best-selling shampoo in the country.

The year 1980 saw the introduction of a new painkiller called ZOMAX, thought to be as effective as injected morphine but nonaddictive. It was an early success, but McNeil, which marketed the product, found that some patients suffered allergic reactions, some of them fatal, and in 1983 ZOMAX was removed from the market.

Burke also planned to lead the company into some high-technology health-care fields, which he viewed as the wave of the future. In 1978, Johnson & Johnson acquired a manufacturer of kidney dialysis machines for $35 million and a heart valve laboratory for $26 million. In 1979, the company acquired Technicare, a failing manufacturer of computerized axial tomography (CAT) machines and ultrasound scanners, for $75 million in stock and assumed its $50 million in debt.[24] The technology allowed the creation of "a three-dimensional image of an object by taking multiple X-ray measurements of the object from different angles, then using a computer to reconstruct a picture from the data contained in hundreds of overlapping and intersecting X-ray slices."[25] The image could be used by a physician to make a diagnosis without the need for exploratory surgery. But Technicare never reached its full potential, and Johnson & Johnson had difficulty managing it. In 1986 Johnson & Johnson withdrew from the business and sold what assets there were to General Electric.

In 1981, Johnson & Johnson ranked 74 among the 500 largest U.S. industrials. It was made up of 150 subsidiaries manufacturing such disparate products as dental floss, blood analyzers, drugs to control parasites in cattle, and $800,000 CAT scanners. Nearly half the company's sales and more than half of its after-tax earnings were derived from its overseas markets.[26] The corporation owned some of the best-known brands in the world and was regarded as a blue-chip growth stock on Wall Street. In the words of a former colleague at Johnson & Johnson, "Burke evolved from being a packaged-goods salesman to a man with a mission in health care."[27] (See **Exhibit 5**.)

The Tylenol Poisonings

On the morning of Wednesday, September 29, 1982, Mary Kellerman, a 12-year-old girl, and Adam Janus, a 27-year-old postal worker, both living in neighboring suburbs of Chicago, died of mysterious causes. Later the same day, Janus's brother died from the same mysterious cause, and his brother's wife fell into a coma from which she never recovered. Medical authorities were considering quarantining the entire area when two paramedics noticed a strange coincidence. In all cases, the victims had recently taken Extra-Strength Tylenol. A spot check quickly confirmed authorities' worst fears. Cyanide, one of the most rapidly acting and deadly of poisons, had been placed into capsules of Extra-Strength Tylenol, and people were dying from taking the product.

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[24] *Fortune,* June 1, 1981, p. 66.

[25] Christopher A. Bartlett, "EMI and the CT Scanner (A)," HBS No. 383-194 (Boston: Harvard Business School Publishing, 1983).

[26] *Fortune,* June 1, 1981, p. 58.

[27] Ibid., p. 61.

History of the Product

Tylenol's rise was one of the headiest marketing success stories of the 1970s, and Burke was regarded as the man most responsible for it. The product was developed by McNeil Laboratories, a pharmaceutical company that had been acquired by Johnson & Johnson in 1959. Until 1960, Tylenol was sold exclusively as a prescription drug. Its only active ingredient, acetaminophen, was a compound any drug company could make.

Throughout the 1960s and early 1970s, Tylenol was advertised only through medical trade journals and directly to doctors and pharmacists as a gentler-to-the-stomach alternative to aspirin. It was not until the mid-1970s, however, that the drug really began to take off.

Although Tylenol fell outside of Burke's purview as general manager of the domestic operating company, he closely followed the brand's growth during the 1960s.[28] By 1970, he was convinced that Tylenol could present the company with a superb marketing opportunity if McNeil would lower its price and advertise to the public.

"What we really wanted to do," Burke recalled, "was take that professional heritage and use it to build the business with the consumer. The pharmaceutical people told me they were doing very well on their own, and they were. Tylenol was growing 20% to 30% a year, and it was forecast to be a $60 million business by 1974 or 1975, which was very substantial for a pharmaceutical specialty which in effect was a generic compound."

In the early 1970s, a series of highly publicized studies questioned consumers' uncritical dependence on aspirin. Tylenol was ideally positioned to take advantage of this turn of events. Sales of acetaminophen increased from 5% of a $550 million over-the-counter painkiller market in 1972 to 13% of a $680 million market in 1974. Tylenol accounted for approximately 90% of those sales.[29]

"Hospitals trust Tylenol" became a major selling point for the brand. By 1975, two-thirds of Tylenol consumers had been referred to the drug by their doctors, and 25% of those consumers had been advised by their doctors to switch from an aspirin brand because of possible side effects such as upset stomach, stomach and intestinal bleeding, or irritated ulcers. These symptoms were especially problematic in arthritis sufferers and others who took large daily doses of aspirin.[30] Another reason for Tylenol's popularity with the medical profession was McNeil's hospital distribution policy. McNeil made sure that hospitals consistently obtained its product more cheaply than that of the competition. The combination of these two factors led McNeil to advertise Tylenol as the drug most used (and by implication, most trusted) by doctors.[31]

Meanwhile, Bristol-Myers, hoping to capture a share of the lucrative acetaminophen market, quietly went into test market for its own acetaminophen brand, Datril, in Albany, New York, and Peoria, Illinois. Part of this test was a television advertisement claiming that Datril was just as effective as Tylenol, while costing one dollar less. At the time Datril began this campaign, Tylenol

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[28] Tylenol was controlled by the pharmaceutical arm of the corporation, at McNeil. The domestic operating company controlled all U.S. products with the Johnson's name on them. Although Burke did not have line responsibility for Tylenol, he did have information concerning its progress due to his position on the executive committee.

[29] "A Painful Headache for Bristol-Myers?" *BusinessWeek*, October 6, 1975, p. 78.

[30] Dennis Kneale, "Remedy Ruckus: Tylenol, the Painkiller, Gives Rivals Headache In Store and In Court," *The Wall Street Journal*, September 2, 1982, p. 12.

[31] William Power, "A Judge Prescribes a Dose of Truth to Ease the Pain of Analgesic Ads," *The Wall Street Journal*, May 13, 1987, p. 33.

held 10.6% of a total over-the-counter analgesics market worth close to $700 million at retail prices. Tylenol had just edged ahead of Bristol-Myers' Excedrin (8.5%) but still trailed American Home Products' Anacin (15.3%), Sterling's Bayer (12.3%), and Bristol-Myers' Bufferin (12.3%). (See **Exhibit 6**.)

Burke first learned of the Datril test market not from McNeil but from his brother Dan, who was then manager of the Albany station of Capital Cities Broadcasting Corporation. Burke raced to Albany as soon as he heard the news, but by that time Datril was well into its test and had already cut Tylenol sales in the Albany area by more than a third.

Burke returned convinced that the company had to move aggressively. He told CEO Sellars that Tylenol simply had to be managed as though it were a consumer business, starting right away, and the price had to be cut by one-third. That would mean a $20 million reduction in profit—a lot for any corporation to swallow.

To Burke's surprise, Sellars agreed instantly. Even before the Datril advertisements broke nationwide, Johnson & Johnson organized "Operation Teamwork" to blunt their effect on Tylenol. Although a small group of McNeil sales specialists was already working with supermarkets on expanded distribution, the product was quickly taken on by Johnson & Johnson's Health Care Division, which marketed Band-Aid bandages, Micrin mouthwash, and Shower-to-Shower body powder, among other products. At McNeil, Wayne Nelson was selected to establish a new consumer products division to handle future sales of an expanded Tylenol line.

Within weeks of the time Burke first learned of the Datril challenge, Tylenol had 90% distribution in food stores to go along with its 98% distribution in drug outlets. Datril, as a new item, had considerably less. In addition, a video presentation on Tylenol's new price policy was shown simultaneously to 700 sales managers and territorial salespeople in 16 cities. They were instructed to contact their customers immediately about the price change and offer them a rebate on their inventory.[32] The price to the trade for a 100-tablet bottle dropped from $1.69 to $1.19. If the trade took advantage of deals, the price would go as low as 69¢, compared with Datril's promotional price of 70¢.[33]

The fact that every Datril advertisement gave almost equal exposure to Tylenol, coupled with the medical profession's familiarity with the Tylenol brand, indicated to Burke that Johnson & Johnson would not have to outspend Bristol-Myers in advertising. Nevertheless, it was apparent that the Datril advertisement could do a great deal of harm to Tylenol's market share if allowed to continue running.

On June 3, 1975, shortly before the Datril advertisement was scheduled to run nationwide, Burke telephoned Richard L. Gelb, president and CEO of Bristol-Myers, to notify him that Tylenol's price to the trade had been reduced 30%, effective immediately, and that therefore any advertisement claiming that Datril was cheaper would be misleading.[34] "He thanked me for the call," Burke related, "hung up, and increased the advertising budget for Datril. The commercial aired the following day."

Burke faced weeks of difficulty trying to convince the major networks to discontinue the Datril price-comparison advertisement since, in the opinion of Johnson & Johnson, it was no longer true. Bristol-Myers took the position that while Johnson & Johnson may have made a decision to cut the

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[32]*BusinessWeek*, October 6, 1975, p. 80.

[33]Nancy Giges, "J&J Readies Effort to Protect Tylenol; New Datril Spot Airs," *Advertising Age*, July 28, 1975, p. 61.

[34]*BusinessWeek*, October 6, 1975, p. 80.

price of Tylenol, the decision had not yet been implemented. As long as this was true, Bristol-Myers felt the advertisement's claims were justified.

Johnson & Johnson submitted price-comparison surveys to the National Advertising Division (NAD) of the Council of Better Business Bureaus showing that in stores where both Datril and Tylenol were sold, pricing patterns were erratic. Neither Datril nor Tylenol was consistently cheaper. Bristol-Myers, on the other hand, found in mid-July 1975 that the nationwide average price of Datril was $1.57, while Tylenol's nationwide average price was $2.23.[35]

In an official complaint to the NAD, Johnson & Johnson's associate general counsel George S. Frazza wrote:

> When Bristol-Myers conceived its advertising scheme, it obviously concluded that Johnson & Johnson would not match its prices. It is undeniable that Johnson & Johnson has done so, but Bristol-Myers refuses to abandon its preconceived marketing plan of "cost less" advertising. It is indisputable that this campaign does not square with the realities of the marketplace, misleads the consumer, and causes irreparable damage to our business.[36]

CBS ultimately decided to discontinue the advertisement entirely, while the editors at NBC and ABC forced revisions that resulted in the weaker claim, "Datril can cost less, depending on where you shop."[37]

One year after Bristol-Myers began its campaign to enter the acetaminophen field, and after an estimated expenditure of $20 million, Datril had a 1% market share, while Tylenol's had increased to 11.5%. Bufferin and Bayer both showed slight declines.[38]

When Burke became chairman and CEO of Johnson & Johnson in 1976, Tylenol took the offensive. Over $4 million was spent that year to advertise it as a safer alternative to aspirin. The following year the figure tripled to over $12 million. (Tylenol had an advertising budget of $142,000 in 1975 prior to the Datril offensive.)[39]

Tylenol sales did not drop from $60 million to $40 million with its price cut, as the McNeil people had feared. Burke explained:

> The wonder and beauty of all this is that it's just another description of how the free-enterprise system works. Our business just took off, and our units made up for all the loss in dollars. Now we weren't making any money. We were spending a great deal of money. But it was obvious during all those early days that we had a winner, and it was going to remain a winner.

Johnson & Johnson introduced Extra-Strength Tylenol after the results of a 1976 survey showed that consumers did not believe Tylenol to be as efficacious as other brands because it had no side effects. Extra-Strength Tylenol was the first over-the-counter analgesic to contain 500 milligrams of painkiller per tablet. (Regular dosage for analgesics was 325 milligrams of painkiller per tablet, while

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[35] "J&J Slashes Tylenol's Price, Objects to Datril Ad Approach," *Advertising Age,* July 14, 1975, p. 1.

[36] *Advertising Age,* July 28, 1975, p. 61.

[37] *BusinessWeek,* October 6, 1975, p. 80.

[38] "A Pained Bayer Cries 'Foul,'" *BusinessWeek,* July 25, 1977, p. 142.

[39] "Advertising Expenditures of the Top 200 American Brands," *Marketing & Media Decisions,* July 1979, p. 116.

"extra-strength" was defined as 400 milligrams of painkiller per tablet.)[40] Johnson & Johnson had to file a new drug application with the FDA in order to increase the "extra-strength" dosage for Extra-Strength Tylenol.

Extra-Strength Tylenol was heavily advertised as "the most potent pain reliever you can buy without a prescription," and sales surged. Year-end audits in 1976 by A.C. Nielsen put the Tylenol brand[41] in the number one position with 18.2% market share. Regular-Strength Tylenol just edged out Bufferin for the number one spot in the $300 million regular-strength segment of the analgesics market, while Extra-Strength Tylenol lagged only Anacin and Excedrin in the $150 million "extra-strength" segment.[42]

By 1979, the Tylenol brand had captured 25% of the over-the-counter analgesics market, with the extra-strength version accounting for 70% of all Tylenol sales. As the success of Extra-Strength Tylenol became apparent to its competitors, several tried to copy the product. American Home Products and Bristol-Myers introduced their own "extra-strength" versions of Anacin and Excedrin with little success, while Sterling's attempt to introduce a nonaspirin (read, acetaminophen) version of Bayer flopped.[43]

To Burke and the rest of the top executives at Johnson & Johnson in early 1982, Tylenol seemed unstoppable. Johnson & Johnson had spent over $155 million since 1976 to advertise the brand and, in the words of a *Wall Street Journal* article in September 1982, had "resorted to knuckle-buster lawsuits to beat down competitors' attempts to catch up." From 1976 through 1981, Johnson & Johnson had won four lawsuits against American Home Products' Anacin, preventing the company from advertising what it asserted were Anacin's benefits over Tylenol. Johnson & Johnson also sued Sterling Drug in 1981 to prevent it from advertising that its regular-strength Bayer aspirin was as effective as Extra-Strength Tylenol.[44]

Johnson & Johnson's tactics were not unique. Analgesic companies often sued one another, and most analgesic companies advertised heavily. The major analgesic companies' advertising expenditures averaged 20% of sales and went as high as 66% of sales when a new brand was introduced.[45]

Tylenol's performance was nonetheless remarkable. McNeil succeeded where other companies failed and spent less advertising money to do so (see **Exhibit 7**). In 1981, Tylenol held a 35% share of market—as much as the next three brands combined (see **Exhibit 8**). Johnson & Johnson's sales revenue from all varieties of Tylenol in 1981 was estimated at over $400 million and was expected to reach $500 million by 1983. Tylenol was named one of 1981's top 15 marketing successes by *Marketing & Media Decisions*. In the words of a media planner for a competing aspirin product:

> You walk into a supermarket and go to the shelves with the over-the-counter pharmaceuticals and you come across what appears to be a million brands. Each brand claims to alleviate the same pain faster than the product next to it, which is made from virtually the same chemical substance as the first one.

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[40] *The Wall Street Journal,* September 2, 1982, p. 12.

[41] Includes all forms of over-the-counter medications bearing the Tylenol name.

[42] Nancy Giges, "Long-Awaited Tylenol Ad Drive Highlights Extra-Strength Tablet," *Advertising Age,* May 17, 1976, p. 2.

[43] *The Wall Street Journal,* September 2, 1982, p. 12.

[44] Ibid., p. 1.

[45] Ibid.

> On top of this crowd of products, you've got to add the no-name brands that are gaining a foothold, especially in the supermarket chains. In that kind of cluttered, competitive field, Tylenol has somehow managed to establish itself as the generic term for a non-aspirin pain reliever.[46]

J&J's Response to the Poisonings

The news of the poisonings reached Burke on Thursday morning, September 30, 1982. That such a tragedy could occur was unthinkable. Nothing of the sort had ever happened in the industry. Burke realized immediately that the company was facing a very serious public health problem. His greatest fear was that the contamination had somehow occurred in one of McNeil's plants.

Thursday, September 30: Crisis and Confusion

Reports out of Chicago were sketchy at best. The Cook County medical officials refused to release any data until they had finished performing autopsies on all of the victims.

At 11:30 a.m., the news arrived that Mary Reiner, a 27-year-old housewife and mother of four, had died earlier that morning. Her purse contained six capsules of Extra-Strength Tylenol, four of which tested positive for cyanide.

Burke decided to take charge of the management of the crisis at the corporate level.[47] Nelson, a company group chairman with corporate responsibility for McNeil, was in Australia at the time of the poisonings. "One of my first reactions," Burke recalled, "was to get him on the phone and try to find out what could have happened. I remember him saying that he would bet his bonus and a year's salary that the contamination did not occur in the plant because of the controls they had there. That made me somewhat relieved, but I was still very concerned because we did not know at that point in time that the poisonings were isolated to the Chicago area."

At noon, the Cook County officials held a press conference at which they confirmed that cyanide poisoning was the cause of death in all of the victims. They noted that cyanide had been detected only in random capsules in the bottles of Extra-Strength Tylenol found near the victims. All bottles found had been coded with the batch number MC 2880. The batch originated at a McNeil plant in Fort Washington, Pennsylvania, and was made up of 93,000 bottles containing 4.7 million capsules.

David Collins, the 48-year-old chairman of McNeil Consumer Products, was on a helicopter heading for Fort Washington less than half an hour after learning of the crisis. Upon his arrival, he found managers were racing between banks of phones and the office of McNeil's president Joseph Chiesa. Collins's first mission at McNeil was to ascertain whether cyanide was used on the premises. Top executives assured him there was no cyanide anywhere in the plant, and he relayed this information to the corporate office. Later, however, Collins learned to his dismay that small amounts of cyanide were present as part of a quality-assurance process, required by the FDA, that tested the purity of raw materials used in the manufacture of Tylenol. The Johnson & Johnson public relations office later had to clarify this with the media because of the earlier contention that there was no cyanide in use at the manufacturing site.[48]

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[46] Craig Reiss, "How Tylenol Outslugs a Fierce Field," *Marketing & Media Decisions,* Spring 1982 Special, p. 167.

[47] Thomas Moore, "The Fight to Save Tylenol: The Inside Story of Johnson & Johnson's Struggle to Revive Its Most Important Product," *Fortune,* November 29, 1982.

[48] *Fortune,* November 29, 1982.

Exhibit 1 Guide to the Individuals in the Case

Daniel B. Burke. Brother of James Burke; was working for Capital Cities Broadcasting Corporation in New York when Datril began its comparison advertisements against Tylenol in the mid-1970s. Daniel Burke was first to alert his brother to the development.

Joseph R. Chiesa. President of McNeil Consumer Products at the time of the 1982 and 1986 Tylenol poisonings; member of the Tylenol Strategy Committee in 1986.

David R. Clare. President of Johnson & Johnson, 1976–1989; member of the Tylenol Strategy Committee in 1982 and 1986.

David E. Collins. CEO of McNeil Consumer Products at the time of the 1982 and 1986 Tylenol poisonings; member of the Tylenol Strategy Committee in 1982 and 1986.

Lawrence G. Foster. Johnson & Johnson's corporate vice president of public relations, 1973–1989. He helped create Johnson & Johnson's first public relations department in the late 1950s. Member of the Tylenol Strategy Committee in 1982 and 1986.

George Frazza. Johnson & Johnson's associate general counsel in 1975 at the time Datril was challenging Tylenol for the acetaminophen market; general counsel at the time of the 1982 and 1986 Tylenol poisonings; member of the Tylenol Strategy Committee in 1982 and 1986.

Dr. Thomas N. Gates. Medical director of McNeil Consumer Products at the time of the 1982 Tylenol poisonings; appeared in the first post-poisoning television commercial for Tylenol.

Richard L. Gelb. President and CEO of Bristol-Myers, the company that marketed Datril.

Edward Gerbic. Vice president of advertising and merchandising of the operating company[a] in 1953 when Burke first joined Johnson & Johnson. Gerbic convinced Burke to return to Johnson & Johnson after Burke quit in 1954.

Arthur Hayes. Director of the Food and Drug Administration at the time of the first Tylenol poisoning.

Philip B. Hofmann. Chairman and CEO of Johnson & Johnson, 1963–1973.

Robert W. Johnson, II. (d. 1968), usually referred to as the General. Chairman and CEO of Johnson & Johnson, 1932–1963; chairman of the finance committee, 1963–1968.

Robert W. "Bobby" Johnson, III. (d. 1970). The General's son; president of Johnson & Johnson, 1961–1965, and member of the executive committee from 1955 (the year it was formed) to 1965.

Gustav O. Lienhard. Burke's mentor; president of Johnson & Johnson 1963–1970 and member of the executive committee, 1955–1970.

John McLaughlin. Burke's direct boss when Burke first joined Johnson & Johnson in 1953; Burke was unknowingly caught in a political battle between McLaughlin and Edward Gerbic.

Wayne K. Nelson. First president of McNeil Consumer Products, which was created in 1976; company group chairman with corporate responsibility for McNeil at the time of the 1982 Tylenol poisonings; member of the Tylenol Strategy Committee formed in October of 1982.

Arthur M. Quilty. Member of Johnson & Johnson's executive committee since 1972; member of the Tylenol Strategy Committee in 1982.

Richard B. Sellars. President of Johnson & Johnson 1970–1973; chairman and CEO, 1973–1976.

George Smith. President of the operating company in 1957 when Burke was named acting director of advertising and merchandising of the operating company. Smith also made the decision to move the company into pharmaceuticals in 1958; this resulted in the acquisition of McNeil Pharmaceutical—which created Tylenol—in 1959.

William Webster. Director of the Federal Bureau of Investigation during the first Tylenol poisoning.

Source: Company.

[a]The operating company was the division of Johnson & Johnson that manufactured and sold products with the Johnson's name on them—mainly band-aids and baby products.

Exhibit 2 Johnson & Johnson's Sales and Earnings, 1976–1981 ($ millions)

Year	Sales	After-Tax Earnings
1976	$2,522.5	$205.4
1977	2,914.1	247.3
1978	3,497.3	299.1
1979	4,211.6	352.1
1980	4,837.4	400.7
1981	5,399.0	467.6

Source: Company.

Exhibit 3 Johnson & Johnson's Credo (as originally written by Robert W. Johnson)

We believe that our first responsibility is to the doctors, nurses, hospitals, mothers and all others who use our products.

Our products must always be of the highest quality.

We must constantly strive to reduce the cost of these products.

Our orders must be promptly and accurately filled.

Our dealers must make a fair profit.

Our second responsibility is to those who work with us—the men and women in our plants and offices.

They must have a sense of security in their jobs.

Wages must be fair and adequate, management just, hours reasonable and working conditions clean and orderly.

Employees should have an organized system for suggestions and complaints.

Supervisors and Department Heads must be qualified and fair minded.

There must be an opportunity for advancement—for those qualified—and each person must be considered an individual standing on his own dignity and merit.

Our third responsibility is to management.

Our executives must be persons of talent, education, experience and ability.

They must be persons of common sense and full understanding.

Our fourth responsibility is to the communities in which we live.

We must be a good citizen—support good works and charity, and bear our fair share of taxes.

We must maintain in good order the property we are privileged to use.

We must participate in promotion of civic improvement, health, education and good government, and acquaint the community with our activities.

Our fifth and last responsibility is to our stockholders.

Business must make a sound profit.

Reserves must be created, research must be carried on, adventurous programs developed, and mistakes paid for.

Adverse times must be provided for, adequate taxes paid, new machines purchased, new plants built, new products launched, and new sales plans developed.

We must experiment with new ideas.

When these things have been done the stockholder should receive a fair return.

We are determined, with the help of God's grace, to fulfill these obligations to the best of our ability.

Source: Company.

Exhibit 4 Johnson & Johnson's Credo (revised version)

We believe our first responsibility is to the doctors, nurses and patients, to mothers and all others who use our products and services.

In meeting their need, everything we do must be of high quality.

We must constantly strive to reduce our costs in order to maintain reasonable prices.

Customers' orders must be serviced promptly and accurately.

Our suppliers and distributors must have an opportunity to make a fair profit.

We are responsible to our employees, the men and women who work with us throughout the world.

Everyone must be considered as an individual.

We must respect their sense of dignity and recognize their merit.

They must have a sense of security in their jobs.

Compensation must be fair and adequate, and working conditions clean, orderly and safe.

Employees must feel free to make suggestions and complaints.

There must be equal opportunity for employment, development and advancement for those qualified.

We must provide competent management, and their actions must be just and ethical.

We are responsible to the communities in which we live and work and to the world community as well.

We must be good citizens—support good works and charities and bear our fair share of taxes.

We must encourage civic improvements and better health and education.

We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

Our final responsibility is to our stockholder.

Business must make a sound profit.

We must experiment with new ideas.

Research must be carried on, innovative programs developed and mistakes paid for.

New equipment must be purchased, new facilities provided and new products launched.

Reserves must be created to provide for adverse times.

When we operate according to these principles, the stockholders should realize a fair return.

Source: Company.

Exhibit 5 A Snapshot of the Business: Johnson & Johnson in 1981

Sales to Customers in 1976	($ in millions)	Sales to Customers in 1981	($ in millions)
Consumer Segment[a]		Consumer Segment[a]	
Domestic	$448	Domestic	$1,238
International	414	International	1,125
Total consumer	862	Total consumer	2,363
Professional Segment[b]		Professional Segment[b]	
Domestic	491	Domestic	1,128
International	284	International	607
Total professional	775	Total professional	1,735
Pharmaceutical Segment[c]		Pharmaceutical Segment[c]	
Domestic	366	Domestic	511
International	257	International	497
Total pharmaceutical	623	Total pharmaceutical	1,008
Industrial Segment[d]		Industrial Segment[d]	
Domestic	188	Domestic	149
International	75	International	145
Total industrial	263	Total industrial	294
Worldwide Total Sales:	$2,523	Worldwide Total Sales:	$5,400
After-tax earnings on income	$205	After-tax earnings on income	$468

Source: Johnson & Johnson Annual Report, 1976.

[a]Toiletries and hygienic products, including baby care items.

[b]Prescription and nonprescription drugs, diagnostics, therapeutics, contraceptives, and veterinary products.

[c]Surgical dressings, ligatures and sutures, surgical instruments, surgical specialties, and related items.

[d]Industrial tapes and adhesives, textiles, paper products, and other related items.

Source: Johnson & Johnson Annual Report, 1981.

[a]Toiletries and hygienic products, including baby care items, first-aid products, and nonprescription drugs.

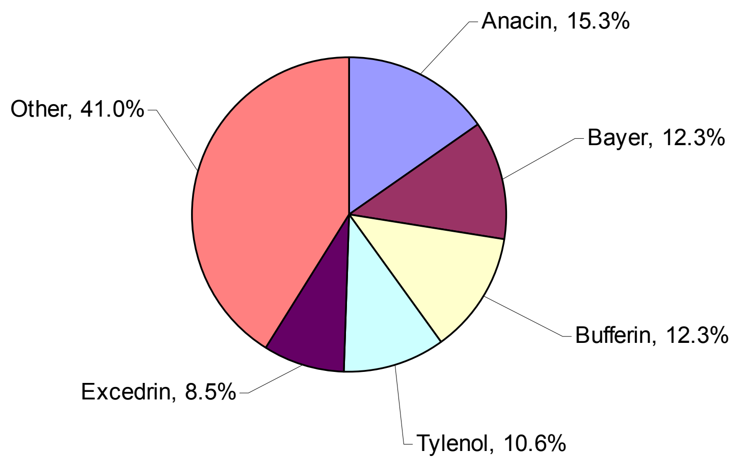
[b]Prescription drugs, including contraceptives and therapeutics, and veterinary products.

[c]Ligatures and sutures, medical wound-closure products, diagnostic products, dental products, medical equipment and devices, surgical dressings, surgical apparel and accessories, surgical instruments, and related items.

[d]Textile products, collagen sausage casings, and fine chemicals.

Exhibit 6 Brand Share and Advertising Expenditures for Five Major Analgesic Brands, 1975 ($000)

		In a $680 Million Retail Market	
Company	**Brand**	**Market Share (%)**	**Advertising Expenditure**
American Home Products	Anacin	15.3%	$27,685
Sterling	Bayer	12.3%	17,291
Bristol-Myers	Bufferin	12.3%	14,659
Johnson & Johnson	Tylenol	10.6%	142
Bristol-Myers	Excedrin	8.5%	15,576
Other	Other	41.0%	NA



Source: "A Pained Bayer Cries 'Foul,'" *BusinessWeek*, July 25, 1977, p. 142; and "Top 200 Advertised Brands Directory," *Marketing & Media Decisions*, July 1979.

Exhibit 7 Advertising Expenditures for Five Major Analgesic Brands, 1976–1981 ($000)

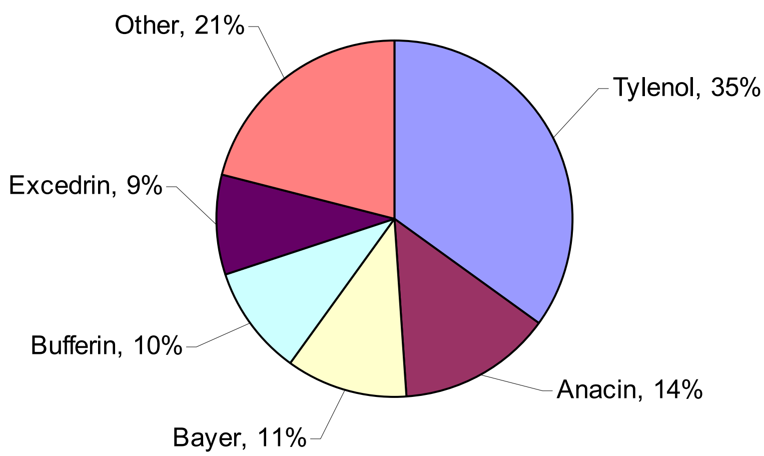
	AHP's	Sterling's	Bristol-Myers'		J&J's
Brand:	**Anacin**	**Bayer**	**Bufferin**	**Excedrin**	**Tylenol**[a]
1976	$29,889	$15,581	$14,233	$15,841	$4,204
1977	33,981	17,995	12,922	16,252	12,721
1978	34,290	22,510	14,183	16,196	16,988
1979	39,671	25,072	14,818	15,959	23,670
1980	43,513	23,519	14,430	17,297	26,495
1981	44,641	24,650	20,321	19,603	36,766
Total:	$225,985	$129,327	$90,907	$101,148	$120,844

Source: "Top 200 Advertised Brands Directory," *Marketing & Media Decisions*, July 1979, July 1982.

[a]Includes all products bearing the Tylenol name.

Exhibit 8 Brand Share and Advertising Expenditure for Five Major Analgesic Brands, 1981 ($000)

	In a $1.2 Billion Retail Market		
Company	**Brand**	**Market Share**	**Advertising Expenditure**
Johnson & Johnson	Tylenol[a]	35%	$36,766
American Home Products	Anacin[b]	14	44,641
Sterling	Bayer	11	24,650
Bristol-Myers	Bufferin	10	20,321
Bristol-Myers	Excedrin	9	19,603
Other	Other	21	NA



Source: "The Race To Grab Up Tylenol's Market," *Chemical Week,* November 3, 1982, p. 30; and "Top 200 Advertised Brands Directory," *Marketing & Media Decisions,* July 1982.

[a]Includes all products bearing the Tylenol name.

[b]Includes Anacin-3.