

Evaluation Of The Various Business Strategies Of Bayer In Their Quest For Success

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Abstract—Bayer, a German company, which deals primarily in pharmaceutical and chemical business, is renowned worldwide for its products and research expertise. Bayer has been involved in a set of acquisitions, mergers and sales of business. Bayer acquired Sagmel Inc, leading to involvement with over the counter medication in commonwealth countries thereby boosting its sales. The acquisition of the over the counter division of Roche further boosted Bayer's market share. Bayer also acquired Aventis crop science to form Bayer crop science. In order to reduce its debt and increase its credit rating, Bayer sold its diagnostic division to Siemen AG in 2006. Bayer has also been a sponsor of a football club, Bayer Leverkusen.

Being a large pharmaceutical company, Bayer has concentrated on its ethical issues in order to meet its social responsibilities. The company stands strongly against corruption in all its dealings. Sustainability management is one of its core activities and The Bayer corporate sustainability board monitors this.

Over the past few years, there have been some cases of chemical accidents and drug contaminations including those where Bayer had been proven guilty and received warnings. Bayer has subsequently developed its safety measures to a high standard.

In the future, Bayer would have to focus on investment in innovative technology and areas for expansion, particularly rapidly developing areas such as Europe and Asia. It should also plan the development of new products and aim to replace older products with safe and efficient products for users and the environment.

Keywords—Bayer, Mergers, Acquisition Strategy.

I. INTRODUCTION

Bayer is a German company that deals in Pharmaceutical and chemical Business. Its revenue and profit for 2009 was recorded as €31.168 billion and €1.359 billion respectively (Bayer 2009). It operated as a single company until 2003 after which it was reorganised into a holding company. The company is renowned worldwide for its strength and

product offering, and its research expertise. Bayer collaborates with the public sector research institutes, partner companies and some universities, to develop new products, through which it strengthens its businesses hold and improves its manufacturing process and product portfolio. In doing this, the company improves its image to the community. The Bayer group has three core businesses; Bayer Crop science, Material Science and Healthcare, and it produces almost 5,000 different products; (Bayer 2010) it is managed by a board chaired by Werner Wenning. Its headquarters are located in Germany but it operates 350 companies in more than 150 countries (Bayer AG 2010).

Bayer is one of the most successful companies in the world. This is due to the fact that it minimizes its risks by spreading its business all over the world. Its success may have been as a result of the range of products they produce and sell like opioids, levitra, suramin etc. and it is also involved in the service sector. The company is also known for the ownership of the Aspirin trademark in certain parts of the world. The company did have some trouble in America and Canada where they lost control of their trademark but due to their expertise and knowledge they bounced back.

• Bayer's Mergers and Acquisition Strategy

1.1 Acquisition 1

Within the last 8 years Bayer has been involved in a set of acquisitions, mergers and sales of business. In 2008, Bayer agreed to acquire the portfolio for over the counter (OTC) division of a privately owned company Sagmel Inc (<http://www.sagmel.com/images/sagmel> 2010). Sagmel is a US based company that deals in over the counter medication in countries like Russia and Belarus, which are independent commonwealth countries.

1.1.1 Main Reasons of the Acquisition of Sagmel Inc

The major reason for acquiring this company is the fact that the population in these countries is increasing and their economies are growing rapidly, which will

boost the company's healthcare sales and market share in the region.

In addition, the population ages over 65 have been increasing rapidly in these countries, and the requirement for medication will increase three-fold due to the prevalence of chronic diseases in this age group. It is estimated that in 2050, 22% of the world population will be aged 60 and over (Bayer AG 2010), so this potential market will play a significant role for the company.

Another major reason for this acquisition is the economically efficient cost of labour as compared to most of the other European countries. Since these countries are part of the European continent, their political views and cultural behaviours are similar to those of developed countries, and therefore there will be no lack of communication, cultural clash and political boundaries. As a result, the company does not have to change all its strategies except perhaps a few. The acquisition was hugely profitable to Bayer simply because Sagmel's sales of their OTC medication brought a net sales of 80 million euro in 2007 (<http://www.sagmel.com/images/sagmel> 2010). This acquisition will allow the company to play a major role in the OTC portfolio in the commonwealth independent states.

1.2 Acquisition 2

In 2004, Bayer bought the Over the Counter division of Roche, a major pharmaceutical company from Switzerland (Pharmacy New Perspective 2008). Roche is a worldwide company that operates under two divisions; pharmaceutical and diagnostic.

1.2.1 Main Reasons of the Acquisition of Roche

This deal made Bayer the third largest Over the Counter consumer health company, increased their market share and led to owning 50% share in production sites like Germany and Argentina.

In 2004, the world was struck with a mighty economic depression. As a consequence, the unemployment rate rose, many high skilled employees had to accept work for reduced pay (<http://recentrecession.com/tag/recession-of-2004> 2010). From a pharmaceutical company's point of view, it is very difficult to find available funds for drug research programmes to maintain their development during the economic downturn. However, economic recessions like these have a major impact on the industry's players. For example, acquisitions and mergers have to be funded from cash, so the companies who can afford this huge amount of money are limited to exploit these opportunities if they arise (http://www.reportbuyer.com/pharma_healthcare/general_industry/recession_its_impact_pharmaceutical_ma_activity.html 2010). Utilising these opportunities, these companies can buy the companies who have

financial difficulties, have lost their value and are in danger of survival. In this way, acquisition is cost-saving, increases revenue and the value of the company and gives the opportunity of buying market shares at a low price.

According to H. Igor Ansoff, a decision to diversify raises the question of whether the new acquisition will be integrated into the firm's present strategy and organisation structure or whether the structure would have to be varied to take advantage of the synergy potential (Ansoff 2005). In support of this argument, the Roche acquisition fitted well with the corporate strategy as it was involved in the same type of business i.e. pharmaceutical.

The above deal will bring about synergies of between 100-120 million Euros per annum. Acquisition of such a strong brand company, which is based in one of the developed countries, will strengthen Bayer's reputation and it will not have to incur expenses to renovate Roche's facilities to compete with future demand. Besides, it will strengthen the company core with a track record of consistent market growth.

Further benefit of this deal includes achieving a critical mass in the OTC market & create a platform for expansion in terms of prescription medicine and over the counter (<http://www.medicalnewstoday.com/articles/10933.php> 2010).

1.3 Acquisition 3

Bayer has also involved itself in the agricultural field by manufacturing pesticides and insecticides. In 2002, it acquired Aventis crop science for 7.25 billion Euros including its debt and its own agrochemical division to form the Bayer crop science. This has become the biggest and most innovative crop Science Company in recent years in the area of crop protection. This acquisition has made it possible for the Belgian Biotech Company to become part of Bayer as this is part of Aventis.

1.3.1 Main Reasons for the Acquisition of Aventis Crop Science

It makes related diversification pretty easy for Bayer with cost savings, which will allow the company to gain competitive advantage and help reduce the risks associated with the business. In addition, it also makes it possible to gain access to intellectual knowledge from the Belgian company without having to incur extra costs.

Another major benefit of the Aventis acquisition is that it promises greater profitability, because, the opportunity is attractive to offset their inherently lower synergy.

In addition, agricultural products are mostly required in developing countries and this would be a big opportunity for Bayer to get into this market and improve its knowledge and skills for future medical investments. Also, these countries have rapidly growing economies and are becoming more developed by easing of their political boundaries and globalisation. Investing in expansion of this nature will create a huge growth opportunity for the company.

1.4 Divestment

On the other hand, Bayer did make sales of part of its business. In 2006, it sold its diagnostic division to Siemen AG for about 4.2 billion Euros (<http://www.investor.bayer.com/user> 2010).

1.4.1 Main Reasons for the Divestment of Siemen AG

This is in line with Bayer's healthcare business strategy and it will create an opportunity for Bayer to concentrate on its core activities like pharmaceutical products. Another major reason for divestment in the diagnostic division is to reduce the debt of the company and increase its credit rating. The divestment has also resulted from the fact that if Bayer were to compete in this area, it would have been outplayed by major rivals.

1.5 Sponsoring

Bayer has spread its wings in to sports as well and it has been a sponsor of Bayer Leverkusen, one of the famous football clubs in the Bundesliga.

1.5.1 Main Reasons for the Sponsorship of Bundesliga

Sponsorship deals are not necessarily due to corporate social responsibility but are serving as a method for promotion and advertisement. According to the German news paper (Financial times Deutschland June 2009), Bayer decided to divest from sponsoring all other sports and keep the football team because of its market value, popularity of the sport through the media and the cost benefit. Currently, with increasing globalisation, football matches are held and watched all over the world. For this reason, sponsoring plays a significant role in promoting the company's image.

• Business ethics and sustainability

2.1 Business ethics and sustainability policy

The concept of Business ethics applies to any business regardless of the nature of the business. According to the Laurie Haughey, an ethical workplace will pay high dividends of productivity, accountability, communication, confidentiality, stability, and predictability (L. Haughey and Caroselli. 2003).

The sustainability policy of a business is a form to reduce the negative environmental factors that it

produces and make it perform more environmentally friendly.

2.2 Ethics and Sustainability policy of Bayer

As a large chemical and pharmaceutical company, Bayer has concentrated more on its ethical issues according to the nature of its business, which helps to meet its social responsibilities as a company. Any company, which deals with research and development on chemicals and is directly engaged with pharmaceutical manufacturing, would have greater risks if the company failed to follow its guidelines with regards to business ethics.

The safety of the consumer and the quality of the product are some of the main issues that may affect the reputation of the company. Looking at the past few years, it is evident that the company has faced a difficult time due to some cases of drug contaminations, chemical accidents, and poisoning. In year 2008, a chemical accident was reported which involved the death of two workers due to storage of high volume of highly explosive chemicals such as Methyl Isocyanate –MIC (WSAZ News 2008) [Http://www.youtube.com/watch?v=yokbh8GpB3w&feature=related](http://www.youtube.com/watch?v=yokbh8GpB3w&feature=related) and there were several cases which have led to the company withdrawing some drugs off the market due to strong adverse effects (Trasylol in 2006), contamination (Liberty Link Rice 2006) and drug poisoning (Methyl Parathion 2001, Fluoroquinolones). Additionally, in 2008, Bayer had been accused for false advertising of Yaz, the birth control pills which were falsely advertised for use for symptoms of premenstrual syndrome. In the same year, there were some cases where Bayer had been proven guilty and received warnings for selling unapproved OTC Aspirin which has a risk of precipitating kidney failure (H.R.Gisel 2009).

However, looking at recent reports, it is understood that Bayer has learned from its mistakes and developed its safety measures to a high standard.

The company focuses on its ethical issues on several aspects including business integrity, fair competition, identification of concerns, animal welfare, privacy, and intellectual property. In relation to Bayer's suppliers, the company stands strongly against corruption and bribes which may take place between the company and the suppliers. It maintains confidentiality as a high priority in all its dealings with its clients and in the maintenance of records. Suppliers have been given the right to report any unethical or unlawful activity, which may take place and investigations, would be carried out in a confidential manner.

As the company undertakes a large number of animal studies as a part of their research and development, Bayer is bound with the legal requirements on using Non-Human Primates (NHP) for research and cooperates with the special ethics committee.

With globalisation and development of technology, population growth and consumption of natural resources and energy has been increasing rapidly and, hence resulting in pollution of air, water, and the earth. Bayer has identified the importance of getting involved with environmental protection and takes the responsibility to play its role on its sustainability policy to protect the environment. Sustainability management is known to be one of the core activities of the organisation and all the activities related to sustainability are monitored and controlled by The Bayer corporate sustainability board. (Bayer 2010)

It employs distinct strategies with regard to sustainability in each of the above-mentioned three activities. All of these activities connect the company to the society.

Bayer's other sustainability programs are to provide nutrition for a growing population, climate, and environmental protection. According to its official web site some of the targets that have been set for the year 2010 are as follows:

- Restriction of Global greenhouse gas emissions.
- Reducing the energy consumption by 15%.
- Reduction of the release of Total Organic Carbon and nitrogen into water.

3. Opportunity and Threats

3.1 Key Opportunity

One key opportunity that Bayer faces in 2010 is engagement with wider interest groups to ensure standardisation and applicability across a broad stakeholder group. This opportunity can be justified from the reasoning given below:

Technological developments are an important aspect to ensure standardisation, which can be achieved by the development of an electronic 'sharepoint' facility which would give access to all project partners, allow rapid exchange of information, discuss ideas and create new approaches to individual sub-project activity. In addition, a public website will enable wider communication of the project's aims and objectives and encourage engagement with a broader range of stakeholders. With this technology, Bayer would gain a modular manufacturing platform - with broad applicability across the EU chemical and pharmaceutical industries. This would require a simultaneous and highly interdisciplinary approach where processes, products, methodology and infrastructure are developed in parallel (Buchholz 2010).

As outlined in its mission statement ("Bayer: Science for a Better Life"), the Bayer Group is focused on nutrition, healthcare and high-tech material industries which are driven by innovation and are currently undergoing rapid expansion. In order to achieve this

goal they would have to concentrate on developing their core competencies to allow investment in innovative technology and areas for expansion. In doing so they will also have to contain costs and improve efficiency so as to continue building the value of the organisation.

Bayer will have to maintain its focus on those areas wherein major potential exists for improvement in medical services including diseases for which there are several unmet medical requirements. Research and development are therefore the main driving factor for their pharmaceuticals business, and consequently account for the largest share of the HealthCare subgroup's R&D budget. This is evident in the agreements in 2009 relating to the MEK inhibitor RDEA-119 of Ardea Biosciences, Inc., United States, and the radiopharmaceutical Alpharadin™ of Algeta ASA, Norway, both of which are under development for tumour diseases (Bayer 2009). The main component of their pharmaceutical subgroup's strategy would be expansion in rapidly growing markets as evident in the in-licensing of an insulin product from Bioton S.A., Poland, for the Chinese market (Bayer 2009). Their Customer Care division would be aiming to improve their standing in the international over-the-counter (OTC) medication market and its strategy should be focused on taking advantage of the growth potential of popular brands including Aspirin, Canesten, Rennie, etc. (Bayer 2009). Their goal should involve expansion in rapidly developing areas including Europe and Southeast Asia. Bayer should continue to focus on external opportunities for growth such as in-licensing or important acquisitions; for example, they formed a licensing agreement with AstraZeneca PIC for the marketing of omeprazole as an OTC medicine in August 2009 (Bayer 2009).

The Medical Care Division should aim to improve its standing in the areas of the management of diabetes, systems for injection of contrast agents and systems for vascular intervention for e.g. thrombectomy systems. Their strategy should aim to focus on the management of the lifecycle of current brands and on countries and markets, which offer longer-term sales potential in order to achieve growth. Bayer should also plan on the development of new products in order to herald further long-term success and aim to replace older products with safe and efficient products with better performance and safety features for the user and the environment.

In addition, Bayer should participate in research in complimentary activities including plant health and develop new solutions in the fields of plant quality, nutrient absorption, pest control, stress tolerance etc. Also, Bayer's Polyurethanes business unit should aim to further improve their position in the field of isocyanates and ensure cost leadership in all areas. This is aimed to further consolidate their long-term success in Asia (Bayer 2009). Finally, Bayer will have

to successfully manage the risks of changing interest rates, currencies and cost of raw materials in order to further stabilise their income.

3.2 Key Threat

The key threat that Bayer would face is claims and court cases against the company. This can be justified from the recent examples as given below:

Bayer had to pay \$290,000 to settle a case involving eight plaintiffs from three farming operations. The company still faces thousands of claims, towards farmer's damages arising from the contamination of the product. In February, a jury ordered the company to pay \$1.5 million in damages to three farmers for losses due to contamination by Bayer's genetically modified rice. The company was ordered to pay \$2 million in a related case last December (Gillam 2010). Another complaint against Bayer was settled for \$1.165 million over claims that One A Day men's multivitamins reduced the risk of prostate cancer (The Associated Press 2010). An investigation by the states alleged that Bayer made promotional claims even though the company knew or should have known that this was now true.

Bayer Crop Science is a company that markets a class of insecticides, neonicotinoids, that some have suggested are a contributor to, or a cause of colony collapse disorder (CCD). This is key because Bayer is being sued by Beekeepers for losses claimed to be due to neonicotinoids; now they can point to infections as the culprit (Dearden 2010).

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