

Business Strategy and Risk Analysis in Healthcare Economy: A Case Study of Johnson & Johnson

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Abstract. Johnson & Johnson is the world's largest diversified healthcare and consumer care company. Listed as one of the world's top 500 companies in 2022. The researchers found that JNJ was one of the most successful companies to grow from a startup, and Johnson & Johnson remained at the forefront. However, there is still a research gap in the analysis of the specific reasons behind the success and the business problems faced in recent years. Therefore, this study first introduces the development of Johnson & Johnson, reviews the existing research literature and combined with charts to elaborate the views and results. Analyzing JNJ's business strategy and risk measures, make suggestions on future development prospects or proposed solutions to problems faced by the company in recent years. Finally, the study holds the viewpoint that Johnson & Johnson is still the most potential pharmaceutical company in the future development of the medical industry.

Keywords: Business strategy; risk analysis; healthcare economy.

1. Introduction

In the past two years, COVID-19's worldwide rampage has greatly changed the pattern of the world economy. Compared with the obstacles of other industries in the epidemic, the medical industry has sprung up because of the particularity of the industry. The medical products market exceeded \$20 billion in 2019 and from 2020 to 2026, it is expected to increase at a Compound Annual Growth Rate of more than 6%. During the anticipate period, the global consumer healthcare market is also expected to US \$301.4 billion in 2027 and grow at a CAGR of 7.2%. In addition, taking the Dow Jones American Health Care Index as a reference, the net growth rate of stock price from the beginning of 2019 to the beginning of 2022 is about 67 percent. In this case, the current medical and health care products and consumer care products market development situation is quite considerable. Procter & Gamble (P&G) is a good example of one of the world's largest manufacturers of medical and healthcare products, which currently adopt a "hub-and-spoke" to solve the problem of fragmented research and development departments. From multiple national information systems to a unified global information structure [1]. Despite the ongoing challenges posed by the COVID-19 pandemic, P&G continues its upward trend globally. P&G reported net sales of €16.2 billion in the second quarter of fiscal 2021, which up to 8% from the previous year. Net profit for the quarter was €3.16 billion, up 4 percent from the previous year. By the third quarter of 2022, P&G had a market share (9.41%) relative to its competitors, which only ranking behind Pfizer and PepsiCo.

Johnson & Johnson Company (hereinafter referred to as JNJ), as the largest and most diversified company of healthcare products and consumer care products in the world, has unquestionable influence in this field. It can be concluded that the development of this company has a strong reference significance for forecasting the trend of the medical industry. However, there is still a research gap in the analysis of the commercial development of JNJ. As a result, this study proposes the following reasons for the success of JNJ in business strategy and risk analysis in healthcare economy.

2. Literature Review and Analytical Method

Johnson & Johnson's pharmaceutical products mainly come from the fields of autoimmune disease, tumor, anti-infection, pulmonary hypertension and so on. Based on JNJ's 2022 quarterly report, it is clear that the increase in turnover was especially driven by a few products, such as Usinumab, daletuzumab, and rivaroxaban [2]. In the autoimmune disease segment, JNJ illustrated total revenue

of \$8.53 billion in the first half of 2022, up 4.7% from the same period last year. The global market for Infliximab continued to decline under the impact of biologic drugs, reaching \$1.31 billion in the first half of 2022, down 21.4% compared to last year. Guseizumab continued to show a strong growth rate of 32.3% in the psoriasis and psoriatic arthritis segment, with sales achieving \$1.187 billion. The market performance of unotuzumab is bright, especially in Crohn's disease and ulcerative colitis, with sales reaching \$4.887 billion, up by 10.5% year-on-year. It is still the highest-selling variety among all Johnson & Johnson products.

Table 1 shows JNJ's actual revenue from 2020 to 2022. Hu using Free Cash Flow for the Firm model to forecast the revenues of JNJ in the next two years. Based on that forecast, the research puts the company's weighted average cost of capital at 7.30% (JNJ's average debt-to-capital ratio for 2016-2019 is 58.78%, and its average equity ratio is 41.22%). This figure is far higher than that of other companies in the industry, which definitely acknowledged the competence of corporation [3].

Table 1. Johnson & Johnson revenue forecast (Unit: Billion dollars)

Year	2020	2021	2022	2023	2024
Operating income	853.89	888.54	924.59	962.11	1001.15
Growth rate	4.058%	4.058%	4.058%	4.058%	4.058%

Source: Data from the operating income of Johnson & Johnson and scholar's forecast.

In a research report from Guotai Junan, its investment advisory department noted that "the company anticipates full-year 2022 revenue to be \$94.8-95.8 billion, up +1% to +2% on-year, and non- Generally Accepted Accounting Principles Earning Per Share to be \$10.15-10.35, growth +4% to +6% on-year" [4]. At the same time, Guotai Junan also recognize JNJ's innovation ability in medical resources and maintained a purchase rating on JNJ for four consecutive months. Due to some incidents occurred in patients who rejected JNJ's coronavirus vaccine, the US Food and Drug Administration is appealing for people to stop getting JNJ's coronavirus vaccine. People who reject the COVID-19 vaccine may suffer from a rare disease called CVST, which can trigger multiple risk factors, malignant tumors is a good example. In spite of this, although patients are fear of these possible sequelae after vaccination, they are willing to take the vaccine to prevent the invasion of coronavirus [5]. To overcome the challenges posed by regulatory markets to user participation, Magistretti et al. reveal the importance of executing design-based method to promote innovation in highly regulated markets [6].

For this study, based on the analysis and interpretation of existing literatures on JNJ's business strategy and risk analysis, the research results, conclusions and suggestions on JNJ's strategy when facing risks are added. At the same time, the study also analyzes JNJ by combining the third quarter report chart of multinational pharmaceutical companies in 2022, the liquidity ratio chart of Johnson & Johnson in 2021, the consolidated balance sheet of Johnson & Johnson and its subsidiaries in 2021 and the overall financial results of Johnson & Johnson: the first quarter statement.

3. Business Strategy and Risk Analysis

JNJ, the world's largest diversified medical and healthcare products multinational corporation, was listed and traded on the New York Stock Exchange in 1944. With its outstanding R&D capabilities, JNJ has always been at the forefront of pharmaceutical companies in the world. Since the global outbreak of COVID-19 epidemic, the R&D of COVID-19 vaccine has become a top priority for the global pharmaceutical industry.

During this period, JNJ has been actively involved in vaccine development by the Biomedical Advanced Research and Development Authority (BARDA). Meanwhile, JNJ's COVID-19 vaccine received emergency authorization from the US Food and Drug Administration (FDA) on February 27, 2021. However, according to the survey, JNJ does not proposing to make the novel coronavirus vaccine as its primary development goal. In the United States, as of March 11th, 2022, a total of

556 million doses of COVID vaccine have been vaccinated. Including 328 million doses of vaccines from Pfizer (59.0%), 209 million doses of vaccines in Modona Company (37.6%) and 19 million doses of vaccines in JNJ Company (3.4%) Although Pfizer with Covid-19ases seems to have greater advantages in medical treatment in the short term (the period of rapid increase of Covid-19ases), according to the status quo in 2022, the vaccine industry in COVID-19accine already weak.

Based on this, Johnson & Johnson has more advantage in the overall medical industry. As shown in Table 2.

Table 2. Multinational 2022 the third quarter report (Unit:100 million dollars, %)

Number	Company	Q3 revenue	Growth rate	Net margin	Growth rate
1	JNJ	237.91	1.94	44.58	21.57
2	Pfizer	226.38	-6	86.08	6
3	Novo Nordisk	170.1	25.8	76.16	—
4	Merck	149.59	14	32.48	-28.88
5	AbbVie	148.12	3	39.5	24
6	Roche Group	146.92	-14.49	—	—
7	NVS(Novartis)	125.43	-4	15.75	-43
8	Sanofi	122.45	3.96	20.36	-22.17
9	BMS	112.18	-3	16	6.67
10	GSK	89.09	-26.86	29.64	3.13
11	Gilead Sciences	70.42	-5.11	17.89	-30.98
12	Eli Lilly and Company	69.42	2.5	14.52	31

Source: Date from 2022 Q3 reports of the above 12 companies.

3.1 Differentiation Strategy

Johnson & Johnson, founded in 1886, is the world's largest, diversified and international medical and health care products and consumer care products company. The sign of JNJ diversification is reflected in different products. Such as the personal health, medical technology and pharmaceutical products etc. Vertical and horizontal integration are the unique characteristics of the supply chain, which JNJ pursued. Vertical merger, which means the merger of two firms in different parts of the same supply chain. The relationship between the two companies is not competitive, but probably cooperative. JNJ acquired Centocor, one of the first U.S. biotech companies, in 1999 to boost the company's research and development capabilities [7]. That is a good example of vertical expansion, and the sign of vertical integration. In 2017, from Fiercepharna, Pfizer, the No.1 healthcare company in the world, sued Johnson & Johnson, the No.6 company in the world, for alleged unfair market competition. JNJ is requiring patients to take Remicade, an anti-inflammatory jointly developed by JNJ and Merck, before using alternatives to similar drugs, such as Pfizer's Inflectra, in order to receive after-market benefits [8]. By "setting minimum retail prices" and "exclusive sales" intended to cause anti-competitive effects. JNJ used exclusive contracts to prevent new entrants from surviving.

In addition, sharing the market by taking advantage of geography and socioeconomic conditions, this is because JNJ is one of the most comprehensive and widely distributed healthcare products manufacturers. Its products are sold in 175 countries and have subsidiaries all over the world. In conclusion, JNJ basically has a monopoly on the medical market. What's more, this company also takes a lot of attention to invent and develop new products. However, the reason why JNJ's business strategy is still based on horizontal integration is that some expansion can only raise the same segment of a whole supply chain. Horizontal merger refers to the merger of two competing companies in the same industry that produce and sell the same or similar products or operate similar businesses. Strengthen after-sales service and improve customer's satisfaction for consumer services are good examples of the horizontal integration. JNJ is a company that is primarily pursuing a horizontal integration and growth strategy. The main purpose is to improve production efficiency and increase

the total output as the main source of anticipate revenue. However, merged firms tend to combine with rivals to make money at the expense of customers and suppliers. Such a phenomenon tends to lead to market monopoly. The long-term control of the market situation by only one company has reduced the multiple choices of goods for customers, who have no opportunity to pick different brands in the same kind of goods. For example, Coca-Cola almost monopolizes the entire beverage market. Nestle, the world's largest food manufacturer, reported total sales of nearly \$93.3 billion in 2021. If the monopoly were effective, production will decrease, and prices of goods will rise sharply. As a result, merged firm will be benefited but the interests of customer will be damaged [9].

For the development of company, alliances may not the best strategic choice for JNJ. If the firm is a member of alliances, then it not only acquiring research and knowledge but also sharing profits and dividends. On the other hand, JNJ focus on tech-medical equipment and it is dominant in medical industry. Therefore, an alliance strategy is unfeasible for JNJ. What's more, JNJ may face a challenge that means it will follow the cultural consistency. This is contradicted to the diverse culture of corporation. Nonetheless, the diverse culture of JNJ is restricted, because it only playing a crucial rule on medical treatment and health. Currently, JNJ adopt a differential strategy in order to satisfy multiple consumers' needs. Differentiation strategy, also known as characteristic advantage strategy, is to satisfy the unique needs of different customers in a special way. In order to meet the growing demand for medical products and medicines due to the global coronavirus outbreak, JNJ has recently turned its focus on product innovation into medicine, especially in the aspect of pharmaceuticals. The development of COVID-19 vaccine represents a new stage in JNJ's medical and health products.

3.2 Risk Analysis

Risk score means a measure of the stock risky level. JNJ got a risk score of 9.00, which means it has significantly less risky than other competitors in the same industry. Moreover, the risk level of a corporation is determined by four indicators, which are liquidity, volatility debt level and capital structure. Liquidity is defined as the ability of assets can be transferred to cash successfully as a reasonable price. According to Table 3, the current ratio of JNJ is 1.35, quick ratio 1.04, and cash ratio 0.70.

Table 3. Johnson & Johnson's liquidity ratio

Liquidity Ratio	Current ratio	Quick ratio	Cash ratio
Ratio	1.35	1.04	0.70

Source: Data from Stock Analysis on Net.

Volatility means the variability of financial assets during a period of time. In Table 4, The recent volatility of JNJ is 0.1841. Debt level is an indicator of the debt which be not to pay back. The total current liabilities of Johnson & Johnson in 2021 is 45226 million dollars.

Table 4. JNJ and subsidiaries consolidated balance sheets (2021)

	Loans & notes payable	Accounts payable	Accrued liabilities	Accrued rebates, returns & promotions	Accrued compensation & employee related obligations	Accrued taxes on income	Total current liabilities
Million	3,766	11,055	13,612	12,095	3,586	1,112	45,226

Source: Data from U.S. Securities and Exchange Commission.

Capital structure is the particular combination of debt and equity, which finance to the whole company growth. The optimal capital structure refers to the comprehensive cost of a firm is the lowest, while the enterprise value reaches a maximum. However, there are still many tough risks in recent years. In the 1970s, baby powder made by JNJ was found that was contaminated with asbestos at the

first time. Because it contains asbestos, a carcinogen, many female customers suffer from lung damage and even ovarian cancer. In both 2017 and 2018, JNJ have to compensate for cancer which caused by baby powder. By 2022, JNJ issued a statement that it will stop selling asbestos-containing baby powder worldwide in 2023. It can be considered that the risk is contributed to the product quality which is not satisfied the regulatory requirements. According to Reuters, the company's raw talc sometimes could be tested positive for small amounts of asbestos from 1971 to early 2000. Company senior executives and each department have been noticed it but did not report it to regulators [10]. Consequently, regulators may unaware about that. The omissions in regulatory screening is the most important reason for this serious risk. In April 2019, it was revealed that one of its baby shampoo products contained formaldehyde, a carcinogen. From Table 5, compared with 2018, it is clear that JNJ's Q1 2019 earnings report that its net income fell 14% to \$3.75 billion, while overall sales continue to rise.

Table 5. JNJ overall financial results: First Quarter

	2019	2018	Change
Reported sales	20,021	20,009	0.1%
Net earnings	3,749	4,367	14.2%
EPS (diluted)	1.39	1.6	13.1%

Source: Data from Johnson & Johnson Reports 2019.

The reason why Johnson & Johnson has encountered such risks maybe related to its indifferent attitude. As a world-known medical enterprise, JNJ should admit its mistakes in time, apologize and compensate for a loss, physical and mental damage of consumers, instead of escape from the reality. Company will lose the trust and loyalty of consumers.

4. Conclusion and Discussion

This study investigates the world's largest multinational pharmaceutical company, Johnson & Johnson), with diversified production of medical and health care products through documentary analysis, and analyzes its business strategy and risks. This research introduces the current development of the healthcare products and consumer care products market with the global outbreak of COVID-19, and also summarizes the total revenue of JNJ in 2021 and points out the undesirable impact on the overall medical industry. The study analyzes JNJ's business strategy from two perspectives of vertical integration and horizontal integration, which helps to analyze JNJ's decision to deal with risks and its future expectation. As mentioned above, JNJ lost many loyal customers because of its dry-eyed view to the talcum powder scandal. As a result, sales of baby powder dropped, and will stop selling talcbased baby powder around the world in 2023. Although JNJ is focused on the R&D of health care products, losing the baby powder market is a severe blow and a profound lesson for JNJ.

However, there are still some research gaps in this study. The study holds that the analysis of JNJ's business strategy and risk response is not very comprehensive, and there are still some loopholes. For example, JNJ's main horizontal merge strategy is a long-term strategy and the measures taken by JNJ to face risks are in line with the current development situation of the company can be confused. JNJ is a multinational corporation with great influence in the world. Since its establishment, JNJ's market value index ranking the world's 20th and into the world's top 500. Although JNJ has encountered many risks, most of them can be effectively solved. According to the situation that JNJ's revenue is increasing year by year, JNJ will remain a pharmaceutical company with great potential in the next several years, even decades.

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