



Smithkline Consumer Products – The Contac® Relaunch

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1. About Smithkline

1830 John K. Smith opens his first drugstore in Philadelphia; 1875 name changed to reward salesman Mahlon Kline), John Francis Marion (1980).

(SmithKline Beecham - 1842 Thomas Beecham launches the Beecham's Pills laxative business in England; 1989 -SmithKline Beckman merges with The Beecham Group plc; 2000 - SmithKline Beecham merges with Glaxo Wellcome), Anne Francis (1968).

SmithKline acquires Allergan, an eye and skincare business, and merges with Beckman Instruments Inc, a company specialising in diagnostics and measurement instruments and supplies. The company is renamed SmithKline Beckman. John Vane of the Wellcome Research Laboratories is awarded the Nobel Prize, with two other scientists, "for their discoveries concerning prostaglandins and related biologically active substances."

1.1. About Smithkline/Beechan Group

The merger in 1989 of SmithKline Beckman and the Beecham Group to form SmithKline Beecham created a new company with one of the world's biggest research and development organisations.

The combined product portfolio, pipeline and geographic networks positioned SmithKline Beecham at the forefront of the global healthcare industry.

The new company reasserted its goal to become an integrated human healthcare company, covering prevention, diagnosis, treatment, cure and disease management, and creating customer healthcare solutions.

In the 1990s, with the promise of "Striving to Make People's Lives Healthier," SmithKline Beecham continued to launch new drugs such as Seroxat/Paxil (paroxetine hydrochloride) for the treatment of depression and Relifex/Relafen (nabumetone), an anti-inflammatory drug for the treatment of rheumatoid arthritis.





1.2. About Contac®

For more than 39 years, the Contac brand has been a trusted name in America's medicine cabinets.

Contac was introduced in 1961 as a revolutionary cold medicine which provided up to 12 hours of extended relief from cold/flu and allergy upper-respiratory symptoms. Contac is the cold remedy brand that delivers long lasting congestion therapy.



The Contac line offers a variety of formulas for relief of cold/flu and allergy symptoms. All are multi-symptom remedies; each is designed to relieve a specific group of symptoms. Because symptoms can occur either alone or together, different ailments require different formulas.

1.3. About the happenings in 1986

Contac capsules have helped millions of Americans endure the sniffles, but in 1986 every store in the U.S. that carried the popular cold remedy was ordered to get it off the shelves. Manufacturer SmithKline Beckman of Philadelphia was forced to recall Contac and two other fast-selling encapsulated products, the antihistamine Teldrin, for allergies, and Dietac, for appetite control. The reason was familiar and chilling: a murderous blackmailer intent on intimidating a corporation by poisoning its products. A man calling himself Gary telephoned ABC News claiming he had placed 25 tainted Contac capsules in stores throughout the country. ABC Anchor Peter Jennings tipped off SmithKline while judiciously holding the story off the air. The next day, SmithKline got more calls, apparently from the same man. All capsules were unsafe, he said, and he wanted to get them off the shelves.

The caller named stores in Houston and Orlando, where he said he placed capsules laced with cyanide or rat poison. Investigators initially found capsules spiked with sugar and cornstarch. The adulteration was easily detected. The man had crudely cut into the plastic blisters encasing the capsules.

At first the company stopped short of a recall, telling retailers only to stop selling the drugs until further notice and warning consumers against using any of the capsules purchased after March 15. At week's end, however, laboratory tests found nonlethal





doses of warfarin, an anticoagulant used in rat poison, in two Contac and three Teldrin capsules. SmithKline was frightened into acting.

The recall came barely six weeks after a 23-year-old woman from Westchester County, N.Y., died of cyanide poisoning after taking an Extra-Strength Tylenol capsule. In 1982 seven people died from cyanide-laced Tylenol capsules, but it was the most recent death that persuaded Johnson & Johnson to stop making capsules altogether and to reissue the remedy in a tamper-resistant "caplet" form. Whether SmithKline will also abandon capsules was not clear. Unlike Tylenol, the SmithKline products are "time-release" medicines, which break down slowly and work best in capsule form. Besides, Contac accounts for some \$50 million in SmithKline's sales, half of its over-the-counter drug business. Despite the drug's wide popularity, it could conceivably fall victim to a single unbalanced terrorist.

2. Strategic Analysis

2.1. External Environment

Most of its benefits Smithkline earns in the season between September and May, because most colds occur in the mentioned time. Especially in winter, when more time is spent in closed areas among persons who are carrying a virus, a increasing possibility of an susceptibility to infection is given.

Ingredients were available as single-ingredient remedies or combinations of ingredients, and in a variety of dosage forms. Liquids and elixirs are usually thick. Solids are densely compacted product, often coated with sugar to enhance appearance and aid swallowing. Solid dosage forms include tablets, which are shaped as thick circular disks, and caplets, which are shaped as thick oblongs to resemble capsules.

Smithkline produces its product CONTAC in tablets and capsules.





2.1.1. Demand on the Product

The cold is one of the most infectious illness among humans. Cold viruses attacked most people several times a year, but there could no effective vaccine be developed because a cold could be caused by any of about 200 kinds of viruses. These viruses could survive on hands and hard surfaces for several hours, healthy people could become infected by first contracting a virus on their hands and then touching their eyes or nose.

Most colds occurred between September and May, especially in winter, when people spent more time in closed rooms or quarters among persons carrying a virus.

2.1.2. Features of the Product

The 12-Hour Relief Contac has been specially developed to provide up to 12 hours congestion relief from cold, flu and allergy symptoms.

The capsules were designed to provide continuous therapeutic effect by releasing medication into the bloodstream at uniform time intervals.

2.1.3. OTC – Over-the-Counter

Over-the-counter (OTC) drugs play an increasingly vital role in America's health care system. OTC drug products are those drugs that are available to consumers without a prescription. There are more than 80 therapeutic categories of OTC drugs, ranging from acne drug products to weight control drug products. As with prescription drugs, CDER oversees OTC drugs to ensure that they are properly labeled and that their benefits outweigh their risks.





Cost and Profit as a Percentage of Sales for an Average Division in the Over-the-Counter Products Industry

Manufacturer's Selling Price	<u>100%</u>
Cost of Goods Sold	27%
Gross Margin	73%
Advertising/Promotion	38%
Distribution	8%
Selling	6%
General and Administration	4%
Pretax Profit	17%

OTC drugs generally have these characteristics:

- their benefits outweigh their risks
- the potential for misuse and abuse is low
- consumer can use them for self-diagnosed conditions
- they can be adequately labeled
- health practitioners are not needed for the safe and effective use of the product



One of the oldest OTC drugs is aspirin. Sometimes some OTC drugs are further restricted to require prescriptions. Cocaine and various opiates, for instance, were once sold freely OTC, but now are highly restricted. On the other hand, diphenhydramine hydrochloride (Benadryl, for instance) once required a prescription, but now is available OTC

Other over-the-counter drugs are sold, but not marketed as drugs. Morning glory seeds are sold for their gardening purposes, but can be used recreationally as a hallucinogenic drug due to the LSA it contains. Nutmeg has also been used to some extent as a hallucinogenic drug, but is considered undesirable to most recreational drug users.





2.1.4. Competition on the market

Sandoz–Dorsey Corporation

Sandoz–Dorsey Corporation is a leading global supplier of high-quality generic pharmaceuticals. Headquartered in Vienna, Austria, are a Retail Generics company operating also two Business Units with specific strategic focus – Anti-Infectives and Biopharmaceuticals.



The Retail Business produces finished dosage forms, which are sold to wholesalers, pharmacies, hospitals and other healthcare outlets. The Biopharmaceutical Business Unit, drawing on the company's rich experience in biotechnology, is expanding to meet growing demand. The Anti-Infectives Business Unit manufactures active pharmaceutical ingredients and their intermediates for internal requirements and industrial partners.

Triaminic 12, a 12-hour cold relief caplet, which has an ingredient formula almost identical to CONTAC's, except that it contains a higher level of antihistamine than CONTAC. The product is well-positioned but not selling as well as it is expected by Dorsey Lab..



Eli Lilly Corporation

Eli Lilly and Company is a global, research-based company, founded in May 1876 by Colonel Eli Lilly in Indianapolis, Ind. A 38-year-old pharmaceutical chemist and a veteran of the U.S. Civil War, Colonel Lilly was frustrated by the poorly prepared, often ineffective medicines of his day.



Although his business flourished, Colonel Lilly wasn't satisfied with the traditional methods of testing the quality of his products. In 1886, he hired a young chemist to function as a full-time scientist, using and improving upon the newest techniques for quality evaluation. Together, they laid the foundation for the Lilly tradition: a dedication that first concentrated on the quality of existing products and later expanded to include the discovery and development of new and better pharmaceuticals.

Eventually, Colonel Lilly's son, Josiah K. Lilly Sr., and two grandsons, Eli Lilly and Josiah K. Lilly Jr., each served as president of the company. And each contributed a distinctive approach to management. Together, these management styles





established a corporate culture in which Lilly employees were viewed as the company's most valuable assets, a belief that is still the cornerstone of our corporate philosophy.

McNeil Laboratories (Johnson & Johnson)

McNeil Laboratories are the producers of Tylenol and a division of parent company Johnson & Johnson, nowadays Ortho-McNeil.



In 1982 it would get victimized by a tamperer, who painted in “*Tylenol Extra Strength Pain Reliever*” not with medicine but with cyanide. All seven victims died and the incident caused fear and confusion on consumer-side. At this time, Tylenol was the nation’s number one analgesic.

2.1.5. Tampering Incidents

In 1982 most of the tampering threats were aimed at packaged name-brand pharmaceutical products. In 1986, threats against packaged food began to emerge in the tampering threats data. This chart illustrates the change in the threat pattern over the past few years.

In the United States in 1982, seven people died after swallowing Johnson & Johnson Tylenol capsules that had been laced with cyanide. This product tampering incident brought home the horror of a product being used as a weapon of terror. No one claimed responsibility or was arrested for the Tylenol tampering incident. News coverage focused on what the company was doing to make the manufacturing process safe and on the changes being made to create tamper-resistant packaging.

Localized coverage, rather than national reporting of threats and incidents, became the norm in news coverage from 1982 to 1986. Tampering incidents and threats were mainly directed against name-brand packaged pharmaceutical products. In 1986 a wave of fraudulent complaints, copycat incidents, product-seeding problems, tampering threats and incidents flooded the United States as the problem moved from packaged pharmaceutical products to the food industry. There were 1,706 tampering complaints that year. Coverage of tampering incidents again hit the





national wires. Because the problem was so widespread, companies took a number of defensive steps: They formed crisis teams, purchased tampering insurance and began using tamper-evident packaging for a large number of food and pharmaceutical products.



2.2. Firm Internal

The corporation's Consumer Health Care Division, SmithKline Consumer Products, marketed OTC medicines including several in the cough/cold, allergy and specialty analgesic field. Most of SKCP's medicine is available only in capsule form. Contac, which accounted for \$ 59 million of the division's total sales in 1985, is sustained release capsule product.





2.2.1. Finance

SKCP, a division of SmithKline Beckman Corporation, had \$ 120 million in U.S. sales and an additional \$ 26 million in international sales in 1985. The partnership of John Smith and John Gilbert was the start of a growing international health care company with over 34,000 employees worldwide and sales of over \$ 3 billion in 1985.

This corporation is distinguished in three business segments: Therapeutics (division of Ethical Pharmaceuticals), Consumer Health Care and Animal Health Care.

Table A

Share of Contac Volume Sold According to Ailment

<i>Ailment for which the product was bought</i>	<i>Contac (%)</i>	<i>All brands in cold category (%)</i>
Cold	78.0	51.6
Sinus	12.0	28.2
Allergy	10.0	20.2
Total	100.0	100.0

3. Suppliers

3.1.1. Marketing strategies

In the over-the-counter cold remedy business, unless you're Johnson & Johnson's ubiquitous Tylenol brand, or Bayer's Alka Seltzer Plus, it's no easy feat to keep your brand high on consumer's radar screens. With no new breakthrough technology to squawk about and private label brands selling three times that of any branded product, most players without heavy advertising wind up floundering, or being relegated to niche status.

Long past its prime as a groundbreaking cold and allergy medication in the '60s and '70s, SmithKline Beecham's Contac brand found itself with shrinking sales over recent years--just one of dozens of options in a drug aisle cluttered by larger rivals.





4. Strategy Formulation

4.1. Business Level

Smithkline is one of the leading companies in producing and saling OTC-products. In 1985, consumers purchased over \$800 million worth of OTC medication.

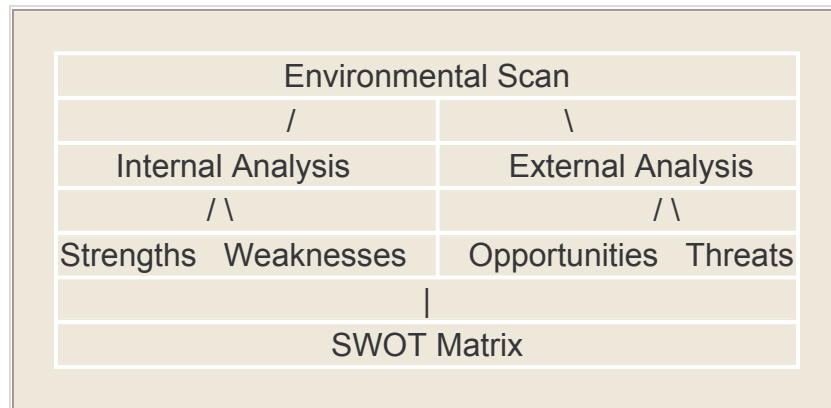
Contac's market share reached a peak of 33% in 1986. By 1984, Contac's share had fallen to 10.2%. During this period, combination cough/cold remedy products such as Comtrex and CoTylenol, which provided relief from multiple symptoms, were introduced. Also private label "Contac imitators" entered the market. In 1985, prescription-baesd 12-hour formulas such as Actifed, Sudafed, Drixoral, and Dimetapp brands were introduced.

Smithkline Beckman's President and Chief Executive Officer Henry Wendt described Contac as a "old and dying" brand.





4.2. SWOT Analysis



4.2.1. Strength

The Brand – it is specifically associated with “The Pill Spill”, a familiar television image of Contac pills, also with “Nobody ever says just *Contac*. It’s always *Contac* capsules!”

In 1968, it’s market share reached a peak of 33%, the following years the market share was climbing down to 10.2% in 1984. In this time cold remedy products like Comtrex and CoTylenol were introduced.

Contac capsules were introduced in 1961 and named for their “continuous action feature”. Each capsule contains over 600 sustained release pellets and provides 12 hours of relief.

After 18 months of its introduction Contac became the largest-selling cold product in the U.S.; and remains to one of the best known cold medications for over twenty years. 78 % of these capsules were bought to relieve cold symptoms, so the product stands for “long lasting” and surely “good for colds”.





OTC Cold Remedy Market and Contac Sales Over Time

Year	OTC Cold Remedy Market	Contac Sales
1964	94	21
1965	99	27
1966	100	30
1967	101	31
1968	109	36
1969	109	29
1970	117	29
1971	115	30
1972	123	33
1973	121	31
1974	123	34
1975	128	32
1976	152	32
1977	153	31
1978	175	34
1979	174	30
1980	191	29
1981	190	28
1982	187	27
1883	208	25
1984	215	22
1985	220	22

4.2.2. Weakness

Now, Smithkline's Contac stands for an unsure, poisoned pharmaceutical product which was glut with bad publicity. Nationwide the company received awful headlines which are worse than the stop of production for Contac pills.





After the poisoning, a perfect managed advertising message has to convince the consumer that there is no longer risked suggestion of easy tampering and has to emphasize the capsule, which might no longer be the only dosage form available in the future. There are some possible messages which could be chosen, but it depends on the consumers attitude to the product and how the consumers would react to either the acknowledgement of the tampering or the conversation of it. The consumer has to be convinced about a safer product and has to be taught, how he/she can be sure that he/she is the first opener of the capsules-packaging,

4.2.3. Opportunities

The focus has to offer Contac in both capsule and solid (caplet) form. Also important is the determined time, in which Contac comes to a relaunch. A favourite one would be the time for the opening of the autumn cold and allergy season, so many consumers depend on these products. To miss the upcoming season would mean losing too much ground to competitors ready to occupy the shelf space that Contac once possessed.

Consumers should do an extra-careful label check of their over-the-counter cold medicines and diet pills, even though some of the largest US drugstore chains have begun to remove products that the government warns contain an ingredient linked to a slight risk of stroke in young women.



The new capsules should have a transparent coat and should be sealed with f.e. red gelatin, which will make it more difficult for anyone to tamper with them. For those who are still wary, Contac should also be available for the first time in elongated tablets called caplets.





Detecting Tampering

Product tampering complaints are received every day by law enforcement agencies everywhere. The vast majority pose no risk to the consumer. Fewer than one in four complaints are serious enough to warrant toxicology analysis, and only about ten percent of those analyzed could represent danger to a consumer.

This breaks down to a local agency receiving a complaint every four hours. The US Food and Drug Administration (FDA) receives notification of about ten a week; one of those represents a threat to the health of the consumer.

The challenge for an agency is to identify whether a claim of possible product tampering indicates an actual violation. Law enforcement agencies have higher priorities for their time than placing all their resources on any single claim of product tampering, unless a violation is definitely indicated.

The problem isn't going to go away. Local law enforcement agencies need to prepare to respond to complaints of possible product tampering. Their quick response can lead to arresting perpetrators and protecting consumers. And when in doubt, local agencies can always turn to either the FBI or the FDA for help.

4.2.4. Threads

It might be difficult for Contac because of its lost dominating position on the market and there is not enough time to develop a solid dosage form or a technique to make capsules safer. To return to the upper level, the only way would be, sitting together with the competitors and negotiate about techniques of safer packeting, which will be offered by at least a couple of americans biggest pharmaceutical companies.

The financial interest of all parties might be served, because tampering is an industrywide problem and every companie could be the next.





4.3. Corporate Level

For the relaunch of new and improved Contac 12-Hour Cold Capsules, SmithKline Beecham could kick off a major multi-market promotion earlier this month. Maybe a Contac Contest, where the company tours a couple of cars filled with jumbo-sized Contac capsules through U.S. cities that were among the hardest hit by last year's cold and flu season. Consumers are invited to guess how many capsules are in the car for prizes--the one closest wins the car, first runner-up wins a personal computer, the next 10 win Contac shirts.

5. Strategy Implementation

5.1. Adapt Structure to Strategy

To relaunch Contac after withdrawing it from the market, the management team had to present a plan of action to the corporation board. They knew CONTAC's 25 year-old brand franchise was built on its image as a capsule with "tiny time pills" inside, yet also recognized that media reports were turning public sentiment against all capsules. Technology that would reduce capsule vulnerability or produce a solid caplet alternative was available only through competitors. Consumer and trade promotions decisions also had to be made, and the pricing implications of the relaunch costs addressed.

5.2. Strategic Leadership

5.2.1. Detecting and Resisting Tampering

Under product liability laws, manufacturers have a responsibility to protect consumers against "foreseeable possibilities." Product tampering is a foreseeable possibility. It has occurred many times. Attorneys specializing in packaging law, say manufacturers have a legal responsibility to protect consumers against such acts.

No package is tamperproof. If a package is meant to be opened by a consumer, it can be opened and restored to a condition appearing to be the original. The true measurement of a package's effectiveness is its ability to resist violation and the





difficulty a potential violator encounters in trying to restore the package to its original appearance.

Improving the effectiveness of the package to resist violation begins during the package design stage. All features under consideration must be tested, either in-house or by outside consultants, for effectiveness before being used on a specific product. Every package has a weakness, and the manufacturer's responsibility is to make sure the package has fewer weaknesses than any other package that could have been used.

All classes of features are not equal in the degree of protection they afford. The same item from different manufacturers may have different levels of resistance and require different methods to get around them. Only objective testing can provide the answer.

A manufacturer whose product is the subject of a claim of possible product tampering should cooperate with law enforcement agencies. If the firm has tested the package properly, it can provide information on the known methods of violation.





6. Glossary

6.1. PPA (Phenylpropanolamine)

Phenylpropanolamine (PPA) is a nasal decongestant that is used in many over-the-counter and prescription cold and allergy products. It is also used in some over-the-counter appetite suppressants.



6.2. Mystery of the poisoned Contac

The mystery of the poisoned Contac has apparently been solved. The alleged culprit, it turns out, was not interested in killing people but merely wanted to make a killing in the stock market. The FBI arrested Edward Marks, 24, of Temple City, Calif., and charged that in March 1986 he tampered with capsules of Contac and two other over-the-counter drugs manufactured by SmithKline Beckman. Nonlethal doses of rat poison were found in nine pills in stores in Houston and Orlando.



Before lacing the capsules, Marks, a former stockbroker trainee with Merrill Lynch, bought so-called put options in the stock of SmithKline. He knew that if the company's shares dropped in value, he could sell the options at a profit. Marks then called SmithKline and several news organizations and, identifying himself as "Gary," pointed them to specific shops in Orlando and Houston where the tainted capsules could be found. When the contamination was confirmed, SmithKline quickly recalled the products from the market at a cost to the company of \$8 million. Ironically, Marks made no money for all his efforts because the price of the company's shares took only a two-day dip of 1/ before rising later that month. He was caught because his fingerprints--on file with the FBI as a result of an unspecified prior arrest--matched those found on a capsule bottle.





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