



Department of Economics and Business

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INTRODUCTION:

Robert Wood Johnson is considered as one of the 20th century's most innovative and brilliant businessman.

He was, jointly with his other two brothers, the co-founder of the Johnson and Johnson when he was only thirty-five years old and promoter of the new meaning to the need for corporations to serve the public interest.

In 1943 he crafted out Johnson and Johnson's Credo, just before the company became a publicly traded company.

The Credo is more than just a moral bearing and it is considered as the fundamental tool for the company's business success.

The fact that Johnson & Johnson is one of only a fistful of companies that have flourished through more than a century of change is proof of that.

JJ's Credo is probably the best know ethics statement in the world and for that reason the notoriety brought added responsibility and made the company more vulnerable to criticism.

Company's employees evaluate how management was performing in the four areas of responsibility: consumers, employees, communities and the stockholders.

The principles expressed in the document are appealing to the type of person the company wants to attract.

Some other companies subscribe to similarly high standards of conduct, but few are as overtly committed to a written set of guidelines as Johnson & Johnson.

The behavior associated with the Credo take into account values such as honesty, dignity, respect and integrity, to finalize the improvement of a business.

In order to make universality to the Credo message, it was translated in various languages.

The JJ's Credo looks different from country to country, but no matter what the language, its enduring principles remind us the values that make up the character of the company.

His perspicacious and his innovative ideas often became milestones of progress in his areas of endeavor.

He enjoyed his wealth and the pleasures it brought him, but the creation of wealth for him represented a greater objective than merely acquiring money.

Result of his extraordinary feelings is represented by the disposition of his great fortune (more than 1\$ billion) he had left to the Robert Wood Johnson Foundation¹ to improve health care in the United States.

His politics fluctuated continuously from conservative to liberal, according on the issue and made him unpredictable.

He was the only one in the history of New Jersey's turbulent politics to be offered the nomination for the US Senate by both the Republican and Democratic parties in the same election year.

Johnson's willpower and optimism make possible his extremely high success in his life, which allowed him to pursue his dreams with energy and passion.

Robert Wood Johnson's Credo², now nearly sixty years olds, continue to thrive.

¹ It is the United States' largest philanthropy focused solely on health; it is based in Princeton, New

² It is crafted in 1943 by Robert Wood Johnson, former chairman from 1932 to 1963 and a member of the Company's founding family. Available at: <http://www.jnj.com/about-jnj/jnj-credo>

CHAPTER 1:

1.1

Historical Overview:

Johnson & Johnson was founded in 1886 by Robert Wood Johnson and it is one of the largest consumer goods providers in the world, who was inspired by the theory about infections caused by germs in the surgeries developed by doctor Joseph Lister.

The company, who was founded in 1886, provides a variety of goods and extensive product lines to fit the needs and demands of consumers all around the world.

The company was established in New Jersey (US), with only fourteen employees, producing barren medical products, beginning very soon the leader brand in the sector, due to the trust obtained in medical environment.

Johnson and Johnson have made it a point to offer a variety of products in a variety of industries since their founding and this strategy has paid off greatly.

When was 1910, Robert died and the leadership of the company succeeded his brother James W. Johnson, which began the process of internalization and diversification of products.

In 1932 the leadership was in the hands of Robert Wood Johnson, the Credo's author, which still today represents the benchmark of the JJ's management.

The following 80 years meant incessant activities enlarge in wealth's field, expansions, productivity optimization, but especially medical research and technological innovation.

Then the firm expanded itself onwards in the pharmaceutical sector, in the area of chirurgical and diagnostic equipment.

Nowadays Johnson & Johnson's is a public company, listed in USA the stock exchange.

The ownership of the group is in the hand of many stockholders, which permit a higher and continuously control over them and over the activities of the Group.

Moreover it is an incessant incentive to raise management's performance and the productivity processes' quality.

In 2012 worldwide sales were \$67.2 billion, while the total investment in research and development was approximately \$7.7 billion.

Today around 128000 people in the world work for JJ, which interacts with more than 275 firms situated in 60 world's countries.

J & J's corporation generates about half of its revenues outside the United States, through its

network of 190 operating companies in 51 countries and its marketing organization that sells in more than 175 countries.

Nowadays is one of the most admired companies, one of the largest healthcare firms in the world and one of the most diversified.

Its operations are organized into three business segments: pharmaceutical, which generates 39 percent of revenues and 61 percent of operating income; professional, which accounts for 36 percent of revenues and 27 percent of operating income; and consumer, which contributes 25 percent of revenues and 12 percent of operating income. J & J's pharmaceutical products, which are sold under such brands as Janssen Pharmaceutica, Ortho-McNeil Pharmaceutical, and Centocor include drugs for family planning, mental illness, gastroenterology, oncology, pain management, and other areas.

1.2

Commercial segments of Johnson & Johnson's operation: Consumer/Medical device/Pharmaceutical:

Interviewing Doctor. Salvo Cunsolo, manager director at Johnson and Johnson, I get many information relative to the commercial segments of JJ and how each one is important for the firm.

The company focuses on the innovation of new products that bring value to people, healthcare professionals, and health systems around the world.

The company operates 134 manufacturing facilities and eight innovation centers across the globe. In the US, there are eight manufacturing facilities for the Consumer Products segment, eight for the Pharmaceuticals segment, and 26 for the Medical Devices and Diagnostics segment.

The most important advantage (deriving for the completeness of its business model) that JJ gets from the market it is represented by the ability of operating in the health care sector at 360 degrees. Johnson and Johnson serves the health market in three different sectors, which are: consumers, medical device and pharmaceutical.

The Consumer segment, introduced various products such as moisturizers, body lotions, body wash, skin care products for sensitive skin, and pain relieving creams.

Pharmaceuticals segment is mainly focused on developing and improving drugs in order to maintain the revenue stream from this business segment

Medical Devices and Diagnostics segment is primary focused on orthopedic products for joint reconstruction and trauma.

Apart from this, the company introduced various products for oncology, cardiovascular care, surgical care, diabetes care, and vision care.

Moreover, any of its competitors could reach its magnificent position and the services, which it provides to the health care market.

Many financial analysts, especially those one write articles on the wall street journal, complain the idea according to which JJ should be focused more on pharmaceutical sector instead of splitting its strengths in the other two sectors (consumer and medical device), which are considered less richer.

The main reason why pharmaceutical world should be taken more into account, derived from the bigger revenues which it generates by selling products, while on the medical device area, the process is longer and finding products which could generate similar revenues would be harder.

So the solution provided by those analysts will be the one where the three different sectors will be divided into 3 different firms.

Nevertheless Johnson & Johnson wants to operate and maintain those 3 specific sectors for the reason why it will be less exposed to the risks (in fact it should be possible that one area going bad, but the two others take care of the lacks of the latter).

Moreover, the experts consider that a synergy should be established between costumer and medical device area, giving to the firm a value added (such as the situation happened in the past, where the introduction of the “stent”³ (medical device), covered with heparin, gave very less possibilities of rejections (so it gave an improvement of the services provided to the patient).

Furthermore the advantage gained from JJ is its attitude to be simultaneously ample and complementary, even if its tree sectors do not operate at the same speed (nowadays pharmaceutical goes well while the other two suffer more).

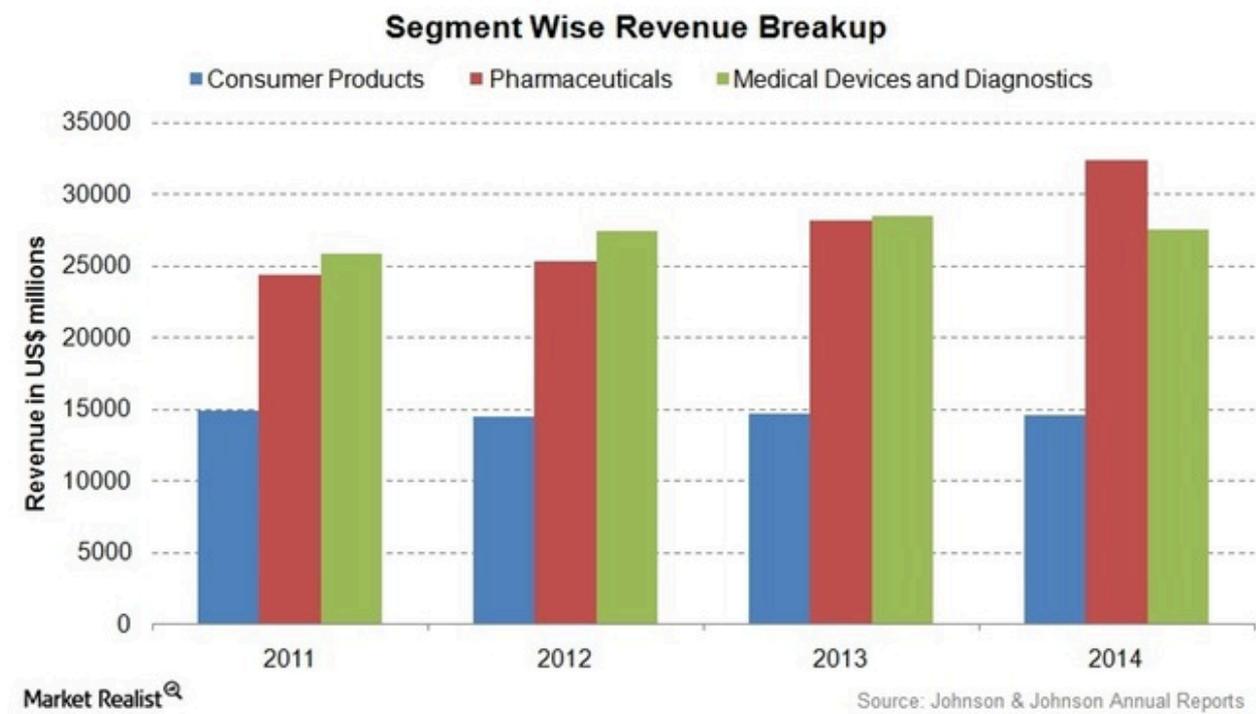


FIGURE 1: SOURCE: JOHNSON AND JOHNSON ANNUAL REPORTS

³ A metal or plastic tube inserted into the lumen of an anatomic vessel or duct to keep the passageway open, invented in 1856 by the **English** dentist Charles **Stent** (1807–1885) Available at: <https://www.nlm.nih.gov/medlineplus/ency/article/002303.htm>

CHAPTER 2

2.1

Define vision and mission:

Vision is considered as an aspirational description of what an organization would like to achieve or accomplish in the mid-term or long-term future.

It is intended to serve as a clear guide for choosing current and future courses of action.

Caring for the world, one person at a time... inspires and unites the people of Johnson & Johnson.

We embrace research and science, bringing innovative ideas, products and services to advance the health and well-being of people. Employees of the Johnson & Johnson Family of Companies work with partners in health care to touch the lives of over a billion people every day, throughout the world.

JJ's *vision* assumes that the firm wants to make easier and better every patient's day life, developing products that could improve wellness and safety.

Johnson and Johnson wants to reach this goal by totally respecting local rules and laws helped by compliance body, which allows that there is conformity between JJ's behavior and what the rules imply.

The firm's vision is built through the will to continuously create new products, which could improve quality and service.

The firm's motto to enforce its vision is "rebuilding the joy for life", which remarks its attitude to improve client's quality of life.

Mission is a statement, which is used as a way of communicating the purpose of the organization, made by the parent company (corporate) aimed to create pleasure to the patient and animates to work in order to make products to make people's life easier.

JJ will please greatly our consumers, dealing each person who contacts us as if they are our only consumer, providing them with a response which is clear of our interest and that leaves them with the transparent understanding that they are important to us.

An important service, which Johnson and Johnson provides to its costumers is represented by its Consumer Service Centre staff, which is committed to provide exceptional service to our consumers:

contactable 24 hours a day, 7 days a week either personally or by voicemail, empowered to resolve any dissatisfaction that consumers have about our products and service, provide consumers with replacement or alternative product or monetary refund in instances of product dissatisfaction.

In some cases, you will be asked to return the product (at our expense) so that we can conduct an appropriate review and take any necessary corrective action to the monitoring procedures in an endeavor to eliminate a repetition of the problem in the future.

Also, it is important that we better understand your requirements to assist us in delivering products that meet your needs.

JJ strategies of business plans organizational structures and everyday decisions recognize the need to focus resolutely, then execute with excellence.

2.2

How SWOT and 5 Porter's forces influence a firm's business plan:

SWOT⁴ analysis is considered as the tool used by a firm to recognize its strengths and weaknesses (internal factors) and to evaluate opportunities and threats that could be found in external situations.

It is usually adopted by a company structure, but it could be useful also for individuals or co-operations, which want to reach a scope.

The analysis could regard both internal (organizational factors which could benefit or harm the achievement of firm's goal) and external factors (those external conditions useful or dangerous to reach the firm's performance), which influence decision-making programs and business plan.

Evaluating internal analysis, we can primarily say that is the way by which a firm gains competitive advantage over its competitors, which is reachable implementing a strategy so that competitors are unable to duplicate or find too costly to try to imitate it.

Competitive advantage leads to generate returns: average returns, when returns are equal to those an investor expects to earn from other investment with a similar amount of risk; above average returns, are returns in excess of what an investor expects to earn from other investments with a similar amount of risk.

In order to sustain competitive advantage over time, a company's strategies enable it to maintain above average returns longer as possible by identifying and evaluating as better firm's resources, capabilities and core competencies.

Internal analysis provides a comparative look at a firm's capabilities to comprehend firm's strengths and weaknesses, comparing those with competitors.

An internal analysis is comprised of looking at several factors needed, to understand what a firm can do.

Matching what a firm can do with what it might do, allows the firm to develop vision, pursue its mission and select and implement its strategies.

Resources, defined as the source of capabilities in internal analysis drive a fundamental role, because are those inputs, which give rarity, costly difficult to imitate and valuable characteristics to the final product produced within a firm.

In economical words, resources are visible under three main forms, which are:

-Tangible, which are those resources that can be observed and quantified through financial statements.

⁴ It was developed by Albert Humphrey in the 60s. Available at: <http://www.investopedia.com/terms/s/swot.asp>

It includes financial resources, which is the firm's borrowing capacity and its internal funds, and physical resources, that are the set of production possibilities and impact its cost position, where the main features are represented by size, location, equipment and reserves of raw materials.

-Intangible are those resources that include assets that are rooted deeply in the firm's history, accumulating over time and those ones, which are difficult to analyze or imitate from competitors.

An example is expressed by technological resources (patents, copyrights, trademarks) or by reputational resources (the impression that external environment gets from the firm).

Those technological resources are defined as the legal protection of intellectual property and present different characteristics, more specifically: patents give the exclusively rights to a new product, process or design, it is a document given by the government who gives the ownership exclusive rights to a new and useful product.

Secondly, copyright gives the exclusive right to an artistic, dramatic and musical property.

It gives the exclusive rights on intellectual creation given since the moment of work's creation and finally allows the owner to reproduce, modify, distribute and commercialized it.

Lastly trademarks confer the exclusive rights to words, symbols or other marks to distinguish goods and services.

Human resources is the field where assume importance the knowledge, education and qualifications of employees.

Capabilities are activities carried out in a more skillful business compared to its competitors.

They exist when resources have been purposely integrated to achieve a specific task or set of tasks, furthermore they develop over time through complex interactions among resources.

The most important one are dynamic and distinctive capabilities; dynamic are those one that use both internal and external competencies; better known as the ability to achieve new forms of competitive advantage.

We can recognize four main factors, which qualify a firm's dynamic capabilities: process, that is an internal mechanism established in order to take over the global market.

By leveraging the power of supply side, the company, through technology, obtains know-how, product life cycle, predictive skills, product engineering and investment timing.

Positions are established among its suppliers and end-users markets, to build up position capabilities.

Paths means guarding itself from the perpetual pressure of capability erosion, by adopting changes, where changes could be effectively applied.

Finally repetition is contrasted by using intellectual property protection in order to avoid imitation of its technological capabilities.

On the other side, distinctive capabilities are those ones needed to obtain competitive advantage, allowing the firm to distinct itself from its competitors.

We can furthermore introduce the importance of core competences, which are capabilities that serve as a source of competitive advantage for a firm over its rivals.

Managers, to better and easily understand the nature of resources and capabilities by using the useful theory of value chain analysis, which allows the firm to understand the parts of its operations that create value and those that do not.

Value chain is divided into primary and support activities.

Primary activities are involved within a product's physical creation, sale and distribution to buyers (inbound logistics, operations, marketing, service).

Support activities provide assistance necessary for the primary ones to take place (procurement, technological development, human resources, management, firm infrastructure).

Additionally, VRIO framework⁵ is one of the way through which managers should asses the quality of resources and their potential to generate superior rents.

VRIO is the acronym of Value, which allows the firm to exploit opportunities or neutralize threats in its external environment.

Rarity is the quality of those resources and capabilities, which generate competitive advantage.

Imitability is considered as capabilities that other firms cannot easily develop due to the high cost to imitate them.

Finally Organization concerned with firm's structure and control mechanism designed to give to the people ability and incentive to exploit firm's resources.

By doing the external analysis, to reach the best evaluation as possible, managers use PEST analysis, which describes the relationship among Political, Economic, Social and Technological parameters.

Due to external analysis it is possible to recognize the opportunities (that are conditions in general environment) that if exploited, helps a company to achieve strategic competitiveness.

That analysis also allows discovering threats, which are those conditions where the company's effort should be hindered.

Moreover there are tools to improve external analysis recognized into scanning (which means identifying early signals of potential changes in the general environment, to understand which are incomplete or ambiguous data.

⁵ It is an analytical technique, which for each type of resource considers several evaluation dimensions for the organization as well as for its competitors. Available at: <https://managementmania.com/en/vrio-analysis>.

Monitoring, that is useful for the company to observe environmental changes and trends, especially regarding technological ones.

Forecast, that develops predictions of anticipated outcomes based on previous monitored changes and trends.

Finally, assessing, that determine timing and the importance of environmental changes and trends for firm's strategies and their management.

Industry's profit potential is the sum of five Porter's forces⁶, which are:

1) The threats of new entrants: the entrance in the market of new potential entrants derived from barriers to entry; the higher they are the more difficult will be for competitors enter.

Those barriers may discourage competitors from entering a market and they would be generate by:

-Government policy, which includes all the rules, licenses and authorization needed to perform an activity, through which government could control entry into an industry.

Examples are given by liquor retailing, radio and TV broadcasting and so on and so forth.

Governments, also restrict entry in some industries because of the need to provide quality service or the need to protect jobs.

-Investments mean that competing in a new industry require a firm to have resources to invest and big initial investments discourage new entrants to enter into the market.

Capital is required in order to make inventories, marketing activities and other critical business functions.

Moreover, due to the complexity of knowledge requirements, a firm might enter this industry through the acquisition of an existing firm.

-Brand: when the product's leadership is very high it is suggested to remain far away from the business due to the high differentiation that it offers.

-Economies of scale is a phenomenon reached by firms in terms of production, which allow to tear down costs and lead to generate difficulties in new rivals to insert themselves into the market.

2) The power of suppliers: increasing prices and reducing quality potentially means used by suppliers to exert power over firms competing within an industry.

⁶ It is a framework, developed by Michael E. Porter, attempts to analyze the level of competition within an industry and business strategy development. Available at:

<http://www.investopedia.com/terms/p/porter.asp>

A group of suppliers is strong, when it dominates a large company and no substitutes products are available in the market.

Additionally, suppliers could influence firm's choices on the basis of the two following elements: exclusivity and uniqueness of the supplier for a specific good, which inevitably entail firm's dependence on him, giving him the highest contractual power.

Secondly improvement's cost means that, if a supplier's change implies a cost, as higher will be, as more the supplier could impose its conditions.

- 3) The power of buyers: firms try to maximize the return on their invested capital, on the contrary, buyers want to buy products at the lowest possible price.

Buyers could exercise a contractual power on the firm's decision, which drive a change into firm's behavior, depending on 2 conditions:

Number and size of commercial order, mean that the much higher will be the number and/or the size done by every single client, relative to the total turnover, the much higher will be his capacity to gain lower costs or convenient conditions.

When the number of clients is restricted, it implies that their power inside the company will be very high.

Customers are powerful in the following cases; when they purchase a large portion of an industry's total output; when sales of a product purchased, represent a significant portion of the seller's annual revenues.

Moreover buyer's power is exercised in the case in which the customer is able to backward integrate and the relative ability to obtain information.

- 4) Product substitutes: if in the market exist some producers of substitutes goods, which outperform similar characteristics, with similar quality and price relative to the product/service produced within the firm, that will generate a threat that will be taken into account when formulating a strategy.

As a consequence, the client will be more likely to change if the correlation between quality and price will be more or less equivalent; on the contrary the client remains loyalized in the case in which he will concerned the characteristics of the good as unique, rare and non-replicable.

- 5) The intensity of rivalry among competitors is intensified when a firm is challenged by a competitor's action, or when a company recognizes an opportunity to improve its market position.

The most prominent factors that show the intensity rivalry of firms are:

-Concentration of numerous or equally balanced competitors, which means that the higher will be their number, the more will be the difficulty to control prices, leading to a reduction policy.

On the contrary, a single firm could adjust autonomously prices, creating a situation of monopoly.

-Differentiation: similar products or services persuade the client to choose according to the price they perceive more convenient.

By differentiate their goods from the competition, it would be possible get a competitive advantage in fixing prices, resulting to earn an higher gross margin.

-High fixed and storage costs, the higher they are, the more the firm is forced to produce high quantity, to distribute the good to a higher range of sales.

-Excess capacity and exit barriers: in some cases companies continue serving an industry even if the returns on their investment are equal or below.

Many are the emotional, strategic, economic factors that drive a firm to remain in the industry.

Moreover barriers to exit are costly when associated with capacity of leaving an industry.

2.3

How complex is the Johnson & Johnson's business cycle: Complex sales (3 actors)

The concept of complex sales is referring to a method of trading used by organizations when producing large contracts for good or services, where the customer takes control of the selling process by issuing a Request for proposal and requiring a proposal response from previously identified suppliers.

In complex sales, the one who buys the product is not responsible for the use of the latter, for that reason the manager is responsible for the sale but not for the usage of it (while the clinic is directly responsible).

Complex sales, differs from easy sales (where there is an easy meeting between who wants to buy and who wants to sell), because it involves long sales cycles with multiple decision makers (multiple stakeholders contribute to every complex sale).

Complex sales is largely present in pharmaceutical and medical device industry and involves 3 main actors:

- 1) The buyer, which he will not buy the outcome with his own money, but he utilizes government ones.
- 2) The doctor, which utilizes it and which is not the one who managed the selling phase.
- 3) The patient, which he will have the enjoyment.

As a consequence of what is said before, this commercial activity must satisfy contemporary those three actors according to their different interests.

In that particular aspect we can recognize the big difference between easy and complex sales.

It is not sufficient that the firm will have sellers, which negotiate with governments, but also it is requested that those sellers will be able to explain to the buyer the advantages relative to costs and benefits of the product sold.

Another important aspect is identified in the complexity of making the 3 actors jointly agreed, because the parameters that have to be considered are multiple.

For that reason JJ has built a line of expert employees, which speaks with governments, trying to convince them of determined aspects (tendering, problems relative to financial aspects, calls for tender), but also speaks with clinics in other terms (explaining them the benefits of a product instead of another).

Regarding Health Economics⁷ (which is a branch of economics concerned with issues related to efficiency, value and behavior in the production and consumption of health and healthcare), Johnson and Johnson is devoted in respecting it.

In fact JJ makes many researches to understand how is better pay more today to reduce costs for the society tomorrow.

Let's suppose that we want to nurse someone who is affected by hepatitis C; if I will cure him with a 50k treatment destroying the ill, I will spend more today, but on the other side, I will spend less tomorrow regarding social impact.

Moreover health economics needs parameters that have to be analyzed and studied thanks to those specialists that that firm has educated, which allow them to be able to adopt their competences to every situation possible in the market.

Taking into account what it is said before, JJ builds its sell system, where it will have product's experts, administrative experts and perhaps in the future there will be a third entity, which speak with the patient, explaining him the advantages which a product could bring him instead of another one (because today the patient has no voice in the matter).

Analyzing medical device sector, it comes out how Johnson and Johnson consider its primary goal serving its consumers (doctors) as better as possible, seeking the excellence.

Before the doctor was the one which chose the product to utilize and determine if it was better or not than others, while today this kind of choose it is more associated

The advertising's world, according to the law is prohibited because pharmaceutical products are considered as consumer goods.

As a consequence, products should be advertised if and only if to the doctors, on the other side, patients have the "right to cure" that is the general right to decide which cure to adopt.

Taking into account the obesity, J&J makes many awareness advertising ventures, where it wants to solve that macro problem in our today society, by aware patients of the risks which the obesity present and about what are the possible repairs to adopt.

Clearly, everything should be done respecting the laws and the compliance rules.

Moreover in order to allow that, those new cure's technology should be known by more people which guarantee a bigger result in terms of knowledge, which will allow that therapeutic cures, which will support innovation (such as laser therapy to reduce myopia) will be used in health care sector by more patients.

⁷ Kenneth Arrow, gave rise to health economics as a discipline, drew conceptual distinctions between health and other goods. Available at: https://en.wikipedia.org/wiki/Health_economics

Nowadays, the rule driven by the person who will buy the medical device starts to cover a more important position than before for the reason why (especially in Italy where the health care costs is restricted), he has to choose accurately regarding budget constraint.

On the contrary the doctor wants to have the best quality product, but even he is not the one who finance the economic operation, the non-clinical stakeholder has to make a compromise regarding medical's needs.

2.4

How competitors react:

Competition ensures the provision of better products and services to satisfy the needs of customers. Within the health care industry, competition impacts several relational perspectives; with numerous studies reporting the impact of increased competition.

For example, several studies have examined the relationships between competition and quality of health care, between competition and health care system costs and between competition and patient satisfaction.

These studies show that competition is capable of increasing value for customers over time, where quality and process improvements lead to decreased costs, which in turn results in increased customer satisfaction.

Specific consideration is given to the impact of competition, in the context of a volatile external environment, on the health care organization's strategic mission and goals and its internal environment in terms of health care quality and health care system costs, and how these relate to customer satisfaction.

This research attempts to provide direction for the advancement of knowledge and practice in the field based on a number of considerations: first, it is possible to provide a more consistent definition of competition in health care in relation to patient satisfaction.

Second, it is important to identify and understand the mechanism of competition in the health care industry if premium services and products are to be offered to patients.

Third, it is possible to apply theories, concepts, and principles from other disciplines to gain insight concerning competition in health care.

Finally, there is a need for greater comprehension in delineating the impact of increased competition via the use of a more precise definition as well as the knowledge from other disciplines. Governmental regulations, political dynamics, changing social and demographic characteristics and ever-advancing technology are driving a major shift in the health care industry resulting in the disintegration of health care networks and intensified competition and cost pressures.

Competitors in order to reach JJ's position makes different strategies, for example, the small ones try to be more unprejudiced and try to keep cheaper prices.

Furthermore, since the moment the world health care system is considered as corrupted, those ones, which act according to the laws, regulations and respecting compliance try to sustain the competitiveness with the price (smaller companies have less fixed costs).

But on the other side, the quality offered by Johnson and Johnson is perceived and it compensates the cheaper prices provided by the competitors (for the reason why the calls for tender take into account two different parameters, which are quality and prices).

Johnson and Johnson represents the leader in the sector and we can recognize the most valuable competitors in :Ovidian Electronic, Med Tronic, Zimmer/Biomet and others new competitors from China, which had built their approach on price policy instead of quality one.

Those competitors try to reach JJ's position mostly by using the aggregation relative to acquisition, which it means that many small groups of firms are absorbed in big teams (studies foresee just 5-6 big firms in the future) which could better contrast JJ's power.

Those mergers make easier contrasting high cost, which won't be able to provide alone, by adopting the stocks proliferation and the price war.

We can compare that aspect, assuming that in a future, analyzing car market, there will be just firms such as Audi Bmw... and where the small producers (such as Citroen) disappear or join big groups. Johnson & Johnson is the biggest firm in the industry and differentiate itself from competitors due to its attitude to be the most powerful one in many areas.

In fact JJ, considering engine sector, produces tractors, trucks, motorcycles, machines, cars and it is considered to be the biggest, not because it is the best in all sector (in fact it could be that some competitors are better than it in producing trucks), but because it covers all the areas in the market.

According to recent statistics, Johnson and Johnson is placed in the first three positions in every ranking.

JJ's strength is its ability to cover all the market and gain a competitive advantage over the health economics, but it had built its leader's position providing to consumers a great service and efficiency.

As we said before, there are firms, which on one hand, obtain advantages in specific but restricted fields, but on the other side they cover just 1/5 of the areas covered by JJ.

Earnings Growth (2016)



TAB 1: SOURCE: WWW.NASDAQ.COM

CHAPTER 3

3.1

Johnson and Johnson's Business model:

A business model is considered as the plan adopted by a company to generate revenue and make a profit from operations.

The business model changes from country to country, due to this attitude to adapt itself to the market.

JJ strategic principles are set according and along with the Credo, which is the font of inspiration for the firm and it allows achieving advances in health care for our patients and costumers.

For example in Italy the business model is composed by agents, which are salesperson that work in operating theaters, where help and support the doctor, by employees, which coordinate agent's operations, and finally by those one who manage the relationship with the public administration.

Moreover there is a pyramid chain in marketing and sales sector, divisional directors and finally a CEO.

Johnson and Johnson's sales forces, is organized as franchise, where the principal business units are represented by general surgery, electrophysiology and orthopedics.

Johnson and Johnson's sales structure has more aptitude to serve clinical stakeholders, but the firm also has a board, which serves the private sector.

JJ serves the market utilizing a system of sales, where we have two different steps, in which the first regards the product's promotion to the clinics and the other is about the complex relationship with the hospital's management.

Focusing on Italy (which is just a commercial branch), we have a commercial structure where the most important activities driven, are sales and marketing.

The sale sector is organized as franchise where we can define 3 different levels:

- General surgery
- Electrophysiology
- Orthopedics.

On the contrary in Italian sites we do not have product development and no production processes.

Johnson & Johnson Strategic Framework

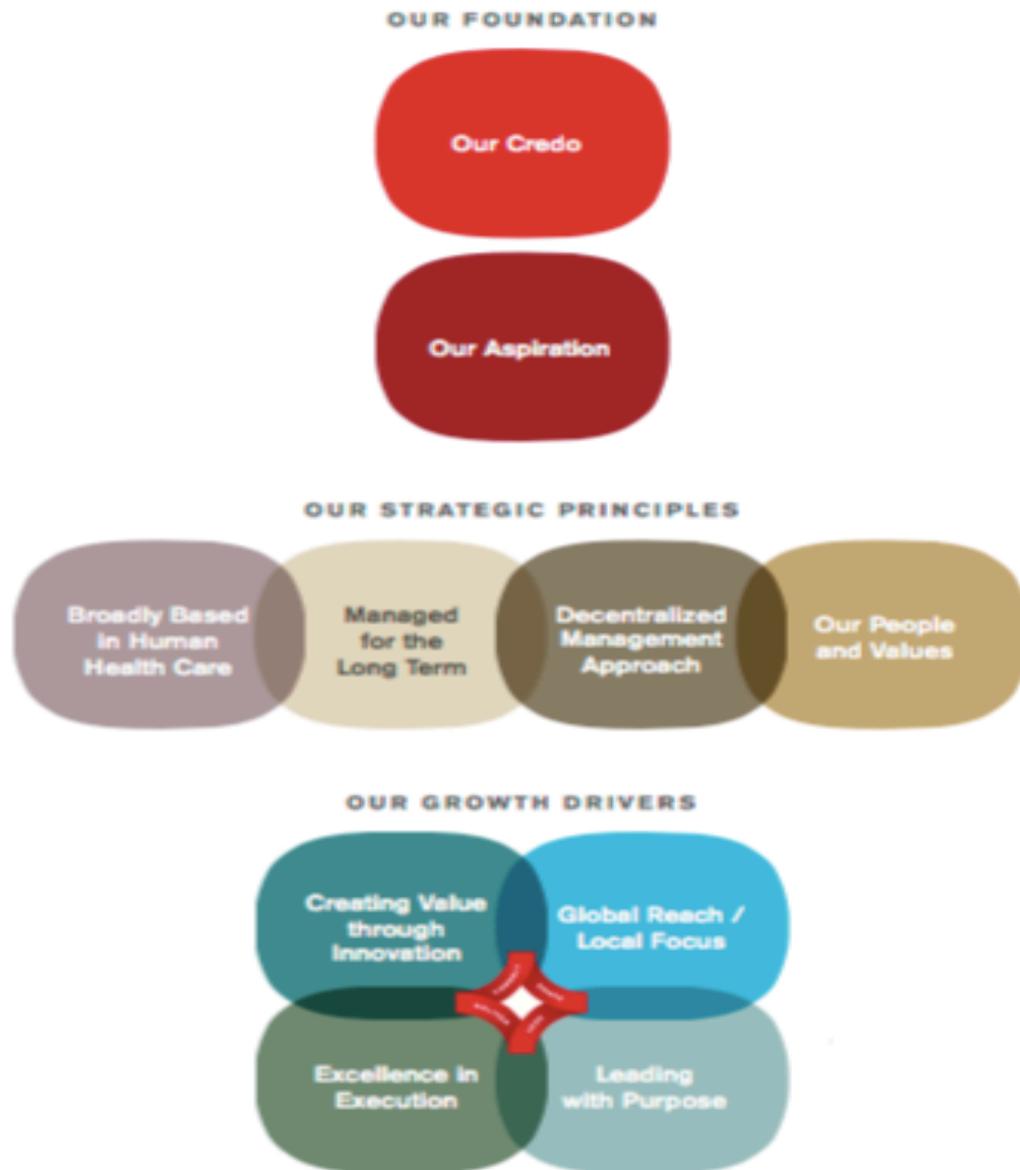


FIGURE 2: SOURCE: WWW.JNJ.COM

Interviewing Doctor Patrizio Fatale (who is the director of strategic affair EMEA for Johnson and Johnson) I could get many data about his department position inside the firm's position.

His department serves the market by using a sell's system by which they sell their products through a product's promotion destined to the clinics, which use those devices.

Moreover that department drives a fundamental rule in the relationship with the hospital's management.

Focusing on Italy position in the global market, we can easily say that Italy is a commercial structure principally oriented to serve sales and marketing instead of product development or production site.

According to sales department, in Italy is organized by franchising, which means an arrangement where one part (the franchiser) grants another part (the franchisee) the right to use its trademark or trade-name as well as certain business system and processes, to produce and market a good or service according to certain specifications.

Specifically on JJ franchising structure we can find out three different levels, which are: general surgery, electrophysiology and orthopedics.

Generally speaking, nowadays there is a constant need to improve health, principally for the reason why the average population age is old.

That aspect causes an increase in all the illnesses such as cancers, cardiovascular illnesses and problems relative to orthopedic diseases.

In Italy the health's need is highly but it is too costly and difficult to reach due to the many restrictions of the last years regarding the sanity budget.

In particular Italy cuts too much on health spending and the consequence that the phenomenon bring is relative to an inevitable change to make health, in order to be able to provide all the costs.

An example that explains how to reduce costs is given by the research of the efficient areas, which allow better treatments of the patients.

The way, by which the problem could be restricted, is represented by utilizing more and better the available resources (imagine that yesterday in operating theaters we made 2-3 major operations, today you will be able to make 4-5).

Seeking that way, with the same amount of resources, you will be able to nurse more patients.

The other main problem that emerges in Italy is represented by the high percentage of sanitary expenses (around 85%) paid for employees and other managing costs.

The rule that JJ exercises is to help hospitals to reduce those kind of costs and to improve prevention, trying to cure the patient in stage 1-2 of the illness instead of stage 3-4 for two main reasons which should be recognized in less cost and higher probability to win against the illness.

An example should be given by the obesity's treatment; an obese person has a high set of costs, while if you treat him before reach the obesity's level, the patient could have more chances to heal and resources will be saved.

So let's summarize the tree areas in which JJ medical operates:

- Efficiency reached by doing more with less and consolidating resources that we have on stock.
- Prevention, which entails treating patient better and before the illness become more dangerous.

-Trying to encourage innovation, which bring real advantages to the patients and which reduces costs.

Innovation reduces cost because if you are able to cure the patient easily and rapidly, he could go home and the bed for a new patient will be free sooner.

At Johnson and Johnson, the primary goal is to sustain over time for the long term, building the long-term equity of our brands, building sustaining customer loyalty and building shareholder's value over time.

This should be possible by using a disciplined portfolio management, which maintains its attention on specific therapeutic areas and their relative innovations.

JJ to maintain its leader position in the industry invested \$7.5 billion euro in R&D in 2011 and have one of the strongest new product portfolios in the industry over the past 10 years.

Moreover it is certified that JJ has gained mostly of its growth from innovation, with the balance from licensing, partnerships and acquisitions.

The decentralized management approach allows JJ to belief that its leaders (those one which are closest to patients and costumers) are in the best position to understand and address their needs.

3.2

How Johnson and Johnson sustain its leadership position:

JJ is the world leader in pharmaceutical world, the biggest firm in health care, principally in the medical device sector.

Johnson and Johnson has 3 different sector in which it operates:

- Medical device
- Medicines
- Consumer

JJ has the biggest product's portfolio, which has been built since the birth of the firm (125 ago).

Johnson and Johnson has a long innovation process on its own products, so that we can say that the critical success are represented by:

- The excellence on their products, given by the high investments, which JJ done on technological innovation (a number around 11-12% of the annual turnover invested in R&D).
- Education given to all surgeries and clinicians (an example is represented by Laparoscopy, technique, which was introduced by Johnson and Johnson, which has less invasive characteristics.
- Professionalism and competencies of the human resources, which help clinicians in daily activities (training, operating theatre's assistance).

To seek our Growth Drivers⁸, JJ has to follow the Leadership Imperatives: Connect, Shape, Lead and Deliver.

Since the birth of the firm, JJ had sustained its leadership position basing his strengths on: history, the Credo, complex sales, compliance and the business model.

According to the principles of the Credo, there are specific areas of focus for JJ, which guarantee prosperity for the future and robust growth.

Creating value through innovation, for Johnson & Johnson denotes products, but it could be intended as solutions for problems.

Innovation it is considered as a core component of the business success for the reason why a quarter of its revenues comes from products introduced within the past 5 years.

Valid innovations come out from the insight spirit of our employees and their relative ability to anticipate and understand the needs of our patients.

⁸ It is a strategic marketing consultancy that is focused on helping our clients grow their business in a sustainable and profitable way. Available at: <http://www.growthdrivers.ie>

So, while Johnson & Johnson will delay a leader in Research & Development, due to its attitude on being innovative in how it brings products to market, the kinds of partnerships it develops and how it operates its business.

Johnson and Johnson is truly a global company, it manages facilities in more than 60 countries, and sells products in about 200.

JJ mindset is global, they're focused on new products, new technologies and new business models that truly connect with the way our customers live.

JJ focus is on expanding presence to help more people and delivering health care in a sustainable way.

For a big pharmaceutical company like Johnson & Johnson, R&D plays a vital role in maintaining a healthy revenue stream.

These expenses relate to the process of discovering, testing, and developing new products and improving the existing range of products and also ensure product efficacy and regulatory compliances before the launch.

The firm is inspired by the Credo (especially referring to the great leadership that JJ has in talent development programs and in obtaining leadership opportunities around the world), which drives the company to create innovations that really bump human health and well-being.

Since the world needs to serve more people than before, Johnson and Johnson had to foster innovations in its labs and improved its sustainability into its products and operations.

3.3

The importance of being Compliant:

Compliance⁹ is a complex aspect that must be respected by the firms to operate in fair terms.

Focusing on compliance in medical device sector, we can recognize the complexity of it due to the variety of compliances that drive the market.

In fact compliance should be accountant (which means making sure that a company's financial matters are being handled in accordance with federal laws and regulations) fiscal (which utilizes tools, including financial statements analyses and onsite fiscal compliance reviews) regulatory (it describes the goal that organizations aspire to achieve in they efforts to ensure that they are aware of and take steps to comply with relevant regulations and laws) and finally a compliance, which is relative to health workers.

Analyzing health workers compliance, we can see how it is regulated by a behavioral compliance in which all the employees must respect guidelines derived from rules (coming from legislations) or rules, which the firm gives to it through procedures.

Focusing on those rules resulted from procedures, which the firm gives itself, Johnson and Johnson has built its value added, which included internal regulation that allow to keep under control everyone employee's behavior, but principally the role that differentiate JJ from the competitors that is the "Credo" which is the source for every activity done within the firm.

More specifically, JJ adopts a series of general principles, which have global validity and are called health care business integrity.

Those principles regulate the interactions between health care professionals (that are individuals who provides preventive, curative, promotional health care services in a systematic way to people, families or communities) and governmental officials (those individuals which declared a state of emergency).

Due to those policies and regulations, it is possible to control relations and interactions such as: the opportunity to hire health professionals (private or public) regarding professional performances, to shower with the firm's lacks.

In order to sustain transparency, Johnson and Johnson gave itself a set of rules, which allow the fairness of the contracts

⁹ In medicine it describes the degree to which a patient correctly follows medical advice. Available at: [https://en.wikipedia.org/wiki/Compliance_\(medicine\)](https://en.wikipedia.org/wiki/Compliance_(medicine))

This should be reached foreseeing an external evaluation in order to understand if business rational stand up to examination and if the expected revenue could be a revenue that should be considered fair within the market (so if the performance should be considered as fair).

Therefore the performance should not be overpaid, to avoid the phenomenon called “corruption” by paying something more to obtain something in change.

In medical sector we have other policies and regulations regarding support health professionals in their educations and professional training.

Employees formation is reachable through courses, which enable and improve the professionals and give them a better professional competencies aimed to bring advantages directly to the patients.

Also in that case, JJ works hard to introduce an internal regulations address to make as clear as it can the venture (in order to avoid competitors attacks).

Those rules allow managing the relationship with the intermediaries, to permit that the behavior should be oriented to respect transparency.

As we said before, Johnson & Johnson serves two kinds of markets (public and private) and for that reason two are the different processes involved with the respective regulations:

1) Private negotiations, where is in force the negotiation with the group.

Here it happens that the two parties meet themselves, trying to understand which are the parties interests by establish prices, quantities, contract’s duration and which are the value added services that the firm could give to its counterpart.

Inside that negotiation prices are established and so we can define that market as negotiation by the parts, where they established which is the level at which one part is willing to buy and the other to sell.

2) Public sector, where is in force the “call for tender”¹⁰, so it is not possible to establish a direct trading between the parties, but it is necessary the notice of competition’s presence.

That notice of competition defines which are the intentions of the contracting authority inherent to the purchases he wishes to perform (recently each call for tender has a specific number which identifies the products that they wish to purchase).

Moreover, minimum threshold are established, over which firms must not offer products with superior prices.

Thereafter, which of the rivals will make the best offering, it becomes the winner of the tender.

During the phase in which the rules are defined, in order to identify the one who had win the call for tender, we have to consider two parameters, which are prices and quantities.

¹⁰ It involves a party’s (often referred to as the owner) requesting the submission of bids to complete a particular project. Available at: <http://www.duhaime.org/LegalDictionary/C/CallForTenders.aspx>

Given a product, the contracting firm expresses its will not to spend over a certain price, which advantage everyone is willing to offer a minor sum of the one established by the contracting firm.

By speaking with Armando Alesi (compliance director for Johnson and Johnson) it emerges that his department works with the respect of the procedures established during the manage of the calls for tender, doing that by using the departments in which Johnson and Johnson is subdivided (marketing, support, pre and post selling).

Moreover in JJ medical an important rule is managed by the customer service, which collects the orders and tries to solve problems of its costumers.

In costumer service sector, the rule of the compliance is fundamental, due to the reason why it is considered as one of the departments, which verify if prices are compliant and if are accepted by the clients.

Call for tender office formalized the offer to our interlocutor and he behaves different according if he refers to a private entrepreneur (by presenting an offer for negotiation) or answer to the call for tender by producing the necessary documentation which allows that prices and quantities are accepted by the contracting firm.

Analyzing finance sector, it is also regulated by the compliance, which has to evaluate if private offers reflect specific parameters (in order to avoid to fall below market value or to establish prices too low in order to contrast competition).

Let's now introduce a difference that is relevant when analyzing compliance in different Johnson & Johnson's sectors: when speaking about general surgery, the market is largely composed by big firms, while in orthopedics world the market is powdered, where small firms have an important rule due to the high percentage of them in that market (more than 60%, while big firms contributed for 40 %).

Saying more about compliance, we can say that it is not just the result of individual behaviors but also regulated by internal rules that the firm gives itself.

Through the establishment of those rules, the firm tries to defend its reputation and safeguards the good respectability of its own brand.

In particular, JJ gives itself more rules than the competitors, because it wants to be as clear as possible, due to the danger derived from the possible error, which could cause a fail in the market, which could damage irremediably its name.

Trade association, also known as business association, is an organization founded and funded by businesses that operate in a specific industry.

More specifically an industry trade association participates in public relations activities, but its focus is collaboration between companies (in particular adopted by big firms).

Those associations give advantages to firms by offer services, such as producing conferences, networking.

Agreeing or not to those association is up to the firm, for that reason those firms which do not participate do not imply illicit aspects, however they just have less duties to be respected.

Compliance also implies the segregation of duties, which implies that no one should do an activity from the beginning to the end.

That because in business operation, the separation by sharing of more than one individual in one single task is an internal control intended to prevent fraud and error.

Respecting compliance means a cost for the firm on a side, but on the other hand, if it is completely respected, it will be a significant competitive advantage for the firm.

When compliance is reached by the firm, the compliance itself gives the value added to the firm, but more specifically it represents an advantage for the worker because it safes him since the moment he began working for a firm which follows ethical principles established by the law.

If and only if, all the activities are inspired following compliance and without having any other second scope, it will mean having an advantage, not only for the firm, but also for the ones who use the product (surgeon).

On the contrary, not respecting compliance means that firms try to support their products in unlawful methods obtaining unfair results (by using corruption).

There are organs, such as FCPA¹¹ (Foreign Corrupt Practices Act) that is an American law, which renders illegal for an American society, independently where its affiliate is placed, to offer to a non American public official, directly or indirectly any amount of value, which is directed to corrupt an act or a decision and punish corruptive behaviors located in extra-American fields done by American firms.

Let's suppose the situation in which in Poland happens an illicit, which have penal relevance due to a corruptive behavior; it will mean a violation of that rule for an American corporation, which generates penalty over the society, but also implicates the prohibition to sell in the public sector and the ban to exportations, which represent, for those firms who work in sanitary fields, remaining out of the market for many years.

As a consequence of what said before, act respecting rules and laws and following procedures; allow understanding strangeness on time, helping the firms to avoid sanctions or to get less onerous.

There was a precedent, where Johnson & Johnson was involved: JJ signed deferred constitutional agreement (a kind of legal sentence), where the state controlled periodically the actions of the firm.

¹¹ Introduced in the Senate as by William Proxmire (January 18, 1977) Available at: [http://www.business-anti-corruption.com/about/about-corruption/foreign-corrupt-practices-act-\(fcpa\).aspx](http://www.business-anti-corruption.com/about/about-corruption/foreign-corrupt-practices-act-(fcpa).aspx)

Moreover JJ has denounced illicit before it was discover by the public authorities, so that Johnson and Johnson during the next 3 years gives its best to understand the causes which provoke it and to improve its compliance system.

The state also commits to the firm the duty to present the results periodically, involving the management in the compliance's activities, implying all the directors to certify that the firm it was not involved in non ethical behaviors, or that it could operate against the law.

The compliance should be reached by firms through guidelines, which allow improving the control of transaction's activities control.

This would be possible by chase a monitoring program, which verifies periodically if all the activities respected the laws and that there wasn't any unfitting conduct.

Johnson and Johnson is one of the most careful firm to compliance's aspects; sure enough just for a little imperfection of its products, JJ is inclined to pull back the damaged product, due to the possibility that it could harm the patient.

3.4

The Credo, the guiding principle for the firm:

JJ Credo was written in 1943 by Robert Wood Johnson (then-Chairman of Johnson & Johnson and son of one of the company's founders).

It defines the common values of JJ employees in 60 countries and more than 250 operating companies as we seek to improve the health and well-being of people around the world.

JJ Credo is unique in defining our values and corporate character in terms of our responsibilities and unites the people of Johnson & Johnson in its mission.

Johnson and Johnson Credo has 4 main paragraph:

- 1) It is oriented to patients and surgeons (to everyone, which are our clients).
- 2) It is oriented to firm's employees.
- 3) It is oriented to the community where we live in.
- 4) It is oriented to the shareholders.

The first paragraph is referred to patients, doctors, nurses and costumers, which are defined by the firm's philosophy, the primary part that has to be satisfied.

Moreover the Credo helps those people to live better their lives, providing them high quality health care products, services and solutions through substantial investments in research and by developing new innovations.

Referring to the second paragraph of the firm's philosophy, the firm is aimed to enhance their employees by providing programs to help them to be healthier and safer (both mentally and physically).

Focusing on the health care world, it means focusing on the good training and development programs, which allow employees to have an opportunity to reach their full potential, safety and occupational health programs to prevent injuries and minimize workplace hazards and productivity.

If a pharmaceutical firm wants to sell a product, knowing that it won't work, it could be remunerable just in short period, while building the firm based on pure principles, allow the firm to be sustainable over long periods of time, satisfying commercial and ethics principles.

Applying the Credo into commercial activities could apparently imply less flexibility and less unscrupulousness respecting to the other competitors, but thinking in terms of lung run, it will generate a value added and built the reputation (which it is the most important thing for JJ).

As a consequence of what saying before, respecting the good principles provided by the Credo, any JJ's employee would be oriented in committing immoral acts, even if it could generate an advantage, for the reason why that illicit will entail the instantaneous lay off for him from the firm.

The philosophy adopted by JJ it is recognized by the market, principally in the health care sector, where every firm prefers to partner with Johnson and Johnson instead of establish a partnership with Chinese companies (for the reason why JJ covers a leadership position).

Finally in today's busy world, JJ also wants its employees to be successful in balancing their personal and professional lives by exploring new technologies, tools and approaches to work.

Thirdly JJ Credo speaks of the communities where we live and work and it focuses on the need to be responsible citizens.

Over the past 10 years, JJ has guaranteed over \$4.3 billion in grants, product donations and patient assistance.

JJ five year Millennium Development Goal aims to help 120 million women each year in 50 countries, and more than 650 other philanthropic programs build the skills of people who serve.

Johnson and Johnson is interested in sustaining powerful programs to reduce the environmental impact of our operations and products, working with nongovernmental organizations to protect valuable ecological resources around the world.

Finally the last paragraph is addressed to company's shareholders, stating that it is their final responsibility, where those shareholders should realize a fair return on their investment.

Shareholders expects to earn returns in outperforming competitive benchmark over 3 and 10 year periods, they had 50 consecutive years of dividend rises and 28 consecutive years of adjusted earnings increases.

Johnson & Johnson means its business in terms of multi-generational cycle by planning for the long term, using conspicuous investments, which permit to generate financial return and allow the firm to continue to invest for patients and consumers for generations to come.

JJ helps the ecosystem where we live in and we do many social activities, such as helping children, by the aid offered by Johnson and Johnson's foundation.

An example is provided by "operation smile", a venture through which we help children, which suffer of harelip.

Furthermore JJ supports environmental sustainability by adopting some ventures such as: saving water, saving raw materials, saving energetic resources needed to produce products (excellence area of JJ).

Moreover JJ tries to be sustainable on vehicle's fleet (strict rules on CO2 emission's reduction on their own vehicles). JJ improves life people's quality: in the location of "Pratica di mare" there is kindergarten, which facilitate those one who have children, to be a place closer to their own job place.

Our Credo

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

We must be mindful of ways to help our employees fulfill
their family responsibilities.

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 stockholders.

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.

Johnson & Johnson

Johnson & Johnson Credo

FIGURE 3: SOURCE: WWW.JNJ.COM

CONCLUSIONS:

In this thesis I have analyzed what are the factors that give the excellence to the firm and what are the main drivers involved into the relationship among competitors.

The study would be possible thanks to the possibility to interview many people, who work for the main departments of Johnson and Johnson.

During my work I had the pleasure to speak with Doc. Gianni Giorgi, Italian Johnson and Johnson's CEO, Doc. Armando Alesi, Italian Compliance Director for Johnson and Johnson, Doc. Salvo Cunsolo, manager director at Johnson and Johnson and finally with Doc. Patrizio Fatale, Italian JJ's strategic affair director EMEA.

We can basically find three main topics in my work:

First analysis concerned about JJ's completeness of its health care plan (where it serves contemporary consumer, medical device, pharmaceutical), which allow it to cover the leadership position in the industry.

Secondly, according to the business model adopted by Johnson and Johnson, I introduced the aspect, which has to be taken into account to realize its mission, basing its theory on the complex sales (that particularly in that case involved three main actors in the business cycle).

Finally the importance to maintain its leadership position, that JJ has built over time in the total respect of the compliance's rules and basing its firm's basis on "The Credo".

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