STRATEGIC COST MANAGEMENT IN NEW DRUG DEVELOPMENT

Rainer Lueg, Leuphana University (Germany) and University of Southern Denmark (Denmark)
- case study -

dx.doi.org/10.18374/IJBR-24-3.2

ABSTRACT

This case study examines a pharmaceutical division of a major healthcare corporation, and its strategic use of management accounting concepts in the development of a new geriatric drug. With a focus on quality, cost-effectiveness, and market alignment, the company implements target costing and the Balanced Scorecard (BSC) in its new drug development (NDD) process. The study explores strategic objectives, including the development of a skilled R&D team, fostering a culture of continuous learning, and integrating cutting-edge technology into the drug development pipeline. These objectives are mirrored in the BSC through various measures, although some may inadvertently promote dysfunctional behavior. Additionally, the case details the company's quality-related costs, and analyzes these in relation to prevention, appraisal, internal and external failure costs. The case provides a platform for discussing the integration of a sustainability-focused BSC and offers recommendations for enhancing strategic alignment and cost management. This case does not only serve as a practical example for educational purposes but also as a discussion point on the implementation of management strategies in the highly regulated pharmaceutical industry.

Keywords: *Target costing; Balanced Scorecard; cost of quality; instructional case study.*

1 INTRODUCTION

VITAHEAL is a division of a major global healthcare corporation based in Germany. Specifically, VITAHEAL is engaged in the development, manufacturing, and marketing of pharmaceuticals. It has gained recognition for its innovative geriatric health products (i.e., for elderly people). The division has recently developed a new drug “CuraGran,” aimed at addressing specific geriatric health issues, building on the success of a previous blockbuster drug. VITAHEAL has established a dedicated production facility for CuraGran, equipped with state-of-the-art technology. This facility involves substantial fixed costs, overshadowing the variable costs of raw materials and the salaries of its specialized workforce. The division pursues a strategy of affordability and superior quality for CuraGran, with market-driven pricing and limited scope for differentiation through branding. Facing competition from alternative treatments like herbal remedies, supplements, and hormonal therapies, it is imperative for VITAHEAL to accurately determine customer willingness to pay and accordingly tailor the development, production, and distribution of CuraGran.

2 TARGET COSTING (APPROX. 40 MINUTES)

The division manager, Dr. Lena Müller, is tasked with preparing CuraGran for market launch. She has been leading a target costing initiative with a cross-functional team to tailor CuraGran to market needs. Using focus groups of potential users, the team gathered insights.

In the development of the drug CuraGran, the marketing team at VITAHEAL, undertook a comprehensive approach to understand customer requirements. Participants were asked to rate their needs on a scale from 1 to 7. Using factor analysis, the team distilled these responses into three primary factors that influence customer decisions. The first factor identified was the importance of minimal side effects, a category in which the current formulation was considered to have moderate severity, scoring an average of 5 points. The second factor focused on the drug’s effectiveness in addressing specific symptoms,