

CCDE Story – DermaCorp

Story Focus, highlight all that apply:

Merge/Acquire **Divest** Tech-Insert Scale

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DermaCorp is a US-based dermatology pharmaceutical manufacturer of skin care medication. The company is one of few that researches, produces, markets, and sells medication to treat a wide variety of skin conditions and aberrations. All of their competitors are either only in the business of drug research/production or marketing/reselling. For years, DermaCorp dominated the industry by streamlining operations, removing “middlemen”, and controlling all of their own supply-chain management. Recently, their margins have shrunk since the digital age has streamlined the communication between independent drug researchers and resellers, negating DermaCorp’s competitive advantage. Modularity within the company, potentially by splitting up operations, is beginning to look like an attractive option for DermaCorp to remain competitive.

Today, their product portfolio includes both oral and topical medications, which have very different regulatory laws that govern their production, sale, and distribution. The method in which these drugs are researched also varies greatly since the study of side-effects is done in different laboratories of the company. For compliance with Government regulations, oral and topical medication research must be conducted in separate laboratories to prevent the accidental confusion of lab results. In the past, drug researchers creating oral medications have overwritten the side-effects of the topical drug designed to treat the same condition (and vice versa) within the results database. Whether these activities were malicious or accidental remains unknown, so new regulations leave no room for discussion or deviation.

Maintaining separate laboratories for oral and topical medications is proving to be a large cost center for DermaCorp which has been troubling the CEO. The cost comes mostly from staffing of professional researchers, network communication, and HVAC; most of the research equipment such as microscopes, test tubes, and centrifuges were procured years ago. They have hired network consultants in the past to help merge laboratories and maintain logical separation between network resources, which in their mind, would meet the intent of the Government regulation. However, the Government rejected this idea as they believed it would set a precedent for other companies to merge laboratories even if they were creating competing drugs as a cost-cutting measure.

Overall revenue from oral medications has increased recently within the US since middle-age Americans are becoming increasingly interested in “the golden pill” as a solution to their skin problems. This is likely due to having a lack of time, raising multiple children, and generally working too much. Topical ointment and cream margins have been on a steady decline as a result to the point where DermaCorp is considering spinning off this piece of the business. The CEO wants to retain control over Topical LLC, the new company, and wants to ensure a seamless transition when executing their exit strategy. Business continuity is critical for DermaCorp and they have a skilled IT staff to realize this goal. Research shows that younger Americans tend to be healthier and more likely to consume topical medication over oral medication, which implies lower quantities of topical medication being sold in general. Re-staffing the corporate leadership of the spin-off to develop topical drugs to include younger leaders is the vision. DermaCorp intends to continue marketing and selling drugs produced by

Topical LLC but has not yet identified a way to stream-line the supply chain operations. The new company will not legally be allowed to use the same road, rail, sea, or air transport vessels as DemaCorp per Government regulation.

Although the Government did not allow the two laboratories to merge, DermaCorp has three datacenters in total, each of which house applications and services for both the oral and topical laboratories. Logical separation of shared application services within the DCs was permitted by regulation provided the separation existed both in the control and data planes. One of the DCs also has a large campus LAN connected where most of the administrative and corporate staff work; this includes marketing, finance, and sales. The laboratories themselves are the only non-shared resources between the topical and oral medication business verticals and are physically separate. DermaCorp is looking to spin-off the topical laboratory at minimal cost. The CEO is willing to create one new small office for Topical LLC headquarters where their C-suite executives and administrative staff can work, but the finance/marketing team will remain shared for the foreseeable future. The same is true of the IT staff with the exception of 1 or 2 individuals at the new small office. Any DermaCorp retails sites will continue to sell the same products with the new brand name so as to minimize the effect on customer experience. Services within the DC that are specific to each laboratory are kept isolated but both of them are able to communicate with a central arbiter that coordinates billing, pricing, and marketing functions for the company as a whole.

DermaCorp currently has a logistical channel partners connected via extranet links from its main campus. TruckyTrailer Inc provides logistical transport for road delivery, which is the primary method used by DermaCorp for safely transporting drugs from laboratories to retail stores. This company has a policy that any drug manufacturer must directly coordinate its deliveries with TruckyTrailer using their automated system hosted in their local datacenters. TruckyTrailer has no connectivity limitations and, like DermaCorps, is interested in keeping costs down to stay competitive.