



MBA501: Dynamic Strategy and Disruptive Innovation

Assessment 3

Organisation Case Study – Millennium Health Sciences (MHS)

Company

MHS was established in 1968 by two scientists who wanted to develop dermatologically tested skin care products. They came out with several skin care products that were ahead of its time. The innovative spirit of the founders can still be seen throughout the company, but significant changes have taken place over the years. Today it is a \$2.2 Billion revenue company with 800 staff spread across the country.

Currently, there are two business units within the MHS group. Neutrino manufacture Vitamins and Dermatech produces advance skin care products. Each business unit is headed by a General Manager, and they report to the MHS CEO and the Board of Directors. The GMs have significant autonomy and tightly control each business unit. The managerial structure is 'top-down' meaning that all decisions such as project appraisal and selection are made by the GM and senior executive team of each business unit and then filter down to the lower levels in the organisational hierarchy. Both companies compete for resources from the holding company MHS which is listed in the stock exchange. According to one insider “, *each unit is trying to outdo the other, and I feel the Board likes it that way, competitive, secretive, divide and rule.*”

The company culture is such they believe senior executives should come up through the ranks. Therefore, most of the top executives have worked at MHS for an extended period and in most cases worked at only one business unit. The average age of the senior management team (the executive committee – fifteen executives) is 53 years and the next level leadership is also not far behind. Junior executives call the executive committee, the senior citizens club. Experience at MHS is seen as one of the key criteria for promotions irrespective of your experience elsewhere.

Most of the senior staff (60-70%) have a Degree in pharmacology or microbiology. Even those who head the marketing functions have been scientists first and then moved into marketing and sales. It is a standard practice that the Human Resources department when hiring staff, considers anyone coming from pharma or microbiology background as having an advantage. According to an executive who joined recently “*first few months at MHS is difficult, but after you learn to ask less questions and follow order, life becomes easier and honestly you can stick around for a long time.*”

MHS has consistently given dividends to shareholders since listing ten years ago. Even during low profit years, MHS did not miss out on dividends. The new CFO

is of the view that the company should build a better relationship with the shareholders so that some of the dividends can be directed towards high-potential long-term R&D projects. However, the executive committee and the board of directors are worried to upset the status quo thinking that it would send the wrong message and impact the share price. *“last thing we want is the stock price to go down, it will take ages to pick up and by that time we will be retirees with stock options, so, why upset the Apple cart?”* was the response given by one senior executive.

MHS products are available over the counter. However, doctors may recommend certain skin care products and vitamins to patients. Similarly, skin care clinics, spas, and specialized beauticians also play a major role in promoting the products.

About the two businesses

Neutrino

Neutrino research, develop, and manufacture vitamins and supplements. The Neutrino R&D is known for their research and commercialisation of different herbal extracts. The R&D centre is located in Adelaide; the staff at the centre are older than most other R&D staff at MHS but experienced in vitamins, supplements, and regulatory requirements. Recently they developed and commercialised a new product that can be orally administered to enhance the vitality of the skin. Although years of research into a known seaweed costed the company \$12.0 million, this new product range *Poseidon* is expected to generate \$350 million a year in revenue from 2023 onwards.

Dermatech

This is the oldest product group of the company and demonstrates tremendous potential. In recent years, export markets have done well where Australian made products are received positively. The state-of-the-art R&D centre is in Sydney. According to the company website, Dermatech defines their operating domain as “Cosmetic Dermatology” and “Cosmeceuticals.”

Export markets are handled through distributors, and few staff are familiar with the export operations. The marketing manager only visited two of the main export markets (China and Indonesia) last year although 30% of the profits and 20% of the revenues are coming from export sales. According to a senior executive, *“export markets are good, but we don’t have the expertise, or the energy to run around Asia. We are an Australian company and our primary focus should be Australia. If we do well here, then the distributors will come to us.”*

The company has received several offers to set up a R&D joint venture that target the Asian market. Several companies are keen on collaborating and setting up an R&D centre in Singapore where the government regulations are favourable for this kind of R&D and the government is proactively promoting such investments. In fact, some of the products that are not performing well in Australia seems to have found a good market in some of the Asian countries. For example, according to Dermatech marketing manager, the CLEO product range is doing well in Indonesia, Malaysia, and even China though the sales

are stagnating in Australia. The product is appealing to Asian skin types and the consumers are willing to pay a relatively premium price.

Poseidon product range

Years of research and \$12 million after, Neutrino developed and commercialised the Poseidon product range successfully. The active ingredient was developed based on a seaweed extract. Neutrino R&D managed to develop a synthetic version of the active ingredient for which they are seeking a patent (some believe they should keep the process as a trade secret). The product comes in liquid and tablet form. The project was code-named Poseidon and kept top secret; along the way, sketchy details were also given to the Board of Directors.

Simultaneously Dermatech was also developing a skin cream based on the same know seaweed. The company spent close to \$8 million on the project and research is still on-going. Presentation of field trial results from Project Poseidon to the Board was a joyous occasion for Neutrino especially given the potential of the new product range. However, all were taken by surprise when Dermatech GM presented the partial results of their seaweed project.

It was evident that there were significant overlaps in the research with unnecessary duplication. Neutrino head of R&D charged a trainee lab technician who moved to Dermatech might have revealed the existence of the project. For their part, Dermatech vehemently denied the allegations and contested some of the field results presented by Neutrino.

The situation has raised some serious concerns for the senior executives of MHS. According to the CEO *“it is time we reflect critically on how we operate and plan to progress as a company.”* The questions were raised as to why R&D effort was not consolidated.

R&D and Marketing

Traditionally, MHS has been an R&D driven company. The scientist conceptualizes and develop products. Then the marketing team is expected to do the rest. Although most marketing staff coming from a pharma or microbiology background helps, for most part, these two departments work independently. As noted above (Poseidon case), the two R&D teams work separately and so does the two marketing teams. Most of the insights from the market (customers, pharmacists, doctors, skin care clinics, beauticians, etc.) are recorded by the marketing team and presented during the monthly marketing meetings; none of the other departments take part in these meetings. Two sales teams (Dermatech and Neutrino) approach the same customers. Majority of the customers do not know both companies belong to MHS.

Note: *This is a hypothetical case study with hypothetical market situations. You are not expected to research the different industries mentioned in the case study. The focus should be on researching, analysing, and applying disruptive innovation, and organisational innovation capacity related theories, concepts, and scholarly views.*