

Johnson and Johnson—secrets of success

- 100 year compound annual growth rate- 10.5%
- Dividend increased for 46 years in a row
- In the last 12 months (2008) J&J sales increased 4.3% and profits increased 22% (Profits of Fortune 500 dropped 85% in 2008)
- Grew faster in the last 50 years than the first 50 years
- Sixth most profitable and fifth most valuable in fortune 500

How do they do it?

Stays within- one broadly defined industry.

Is innovative:

Meeting between engineers from devices group and scientists from the Pharma group led to a ground breaking discovery: The tiny metal stems used to open blocked arteries could be coated with a drug to prevent the artery from narrowing again. The resulting drug –eluting Cypher stent has brought more than \$10B in sales since its 2002 launch!

R&D spending still highest in Big Pharma

Extremely conservative

Its ads for brands like Band aids, Tylenol and Splenda do not carry company name!

J&J borrows very little and does nothing that will endanger its AAA rating

Extreme decentralisation

Its divisions like Procurement, HR and IT are centralised but not operations.

Managed bottoms up

Stays financially disciplined –J&J excels at earning a return on capital that exceeds cost of capital- at a speed that beats 82% of companies in the Russel 3000. (The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.)

See how conservative they are:

- J&J bid for Scientific Guidant (maker of pacemakers etc)
- Boston made a higher offer
- In the bidding war, after 13 months J&J eventually withdrew
- Boston bought Guidant for \$27 B and this led to its decline as it could not earn sufficient return on this acquisition
 - (Shawn Tully called it one of the worst ever M&A deals)
- J&J also collected \$705M breakup fee from Guidant!

Sometimes winning is losing and losing is winning

They always follow the Credo.

The Credo (*like the Tata Code of conduct*) is a document that Robert Wood Johnson wrote in 1943 before the Company went public:

“ We believe that our first responsibility is to doctors, nurses, patients, to mothers and fathers and all others who use our products and services.”

J&J believes in tits Credo and always applies it.

For every real life problem the Credo is applied.

There is an open dialog about: how could this have happened?
Could it have happened in your area? What do you do to ensure it does not?

J&J turned itself in to the SEC and Justice dept. on unspecified violations of Foreign corrupt practices act in 2007.

A business proposal, regardless of whether you have the marketing or economics, has to wrap around the Credo or it does not happen!

What an amazing company!

Take aways: Are we the J&J of India? Are there any areas where we can improve?

Ramki

Source: Fortune mag.