Week 6 External and Internal Environments Assignment

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McKesson Corporation is a company in the healthcare industry and offers technology and distribution services for pharmaceuticals, medical suppliers, and Health IT. The company's guiding mission is to improve healthcare to ensure better health for everyone. The company is concerned with promoting quality care at reduced costs and considers how it does business to be as important as its business. This paper will discuss McKesson Corp's general environment, Porter's five forces of competition, and SWOT analysis. It will also provide strategic recommendations the company can use to maximize its strengths, minimize weaknesses, and explore opportunities, and address threats. Finally, the paper will address the company's resources, capabilities, and core competencies.

**McKesson's General Environment**

An organization's general environment refers to various factors that influence business operation and success in the marketplace (Aithal, 1). These are factors that the organization management cannot influence. The selected segments of the general environment are technological and legal factors.

**Technological Segment**

This segment is focused on improving products and services the firm offer (Aithal, 1). Technological advancements have disrupted the industries, including the healthcare industry where McKesson Corporation operates. In this case, the speed of technological disruption determines the company's ability to cope or adapt to the disruption. In this case, conducting a technological environment analysis can help McKesson understand the current or emerging technological trends that will help the firm increase its profitability, enhance efficiency and gain a competitive edge. The future of retail pharmacy is changing with the evolution of the retail landscape (Annual Report, 2). In this case, McKesson must carefully consider the ongoing technological innovations to stay ahead of the competition by creating Omnichannel experiences for its customers, increasing customer reach and engagement, and improving operational efficiency.

**Legal Segment**

This segment focuses on how laws and regulations influence business activity (Aithal, 1). This segment has been selected since most of the issues influencing McKesson's operations are regulatory issues. The healthcare industry is one of the most regulated industries. For instance, firms in this industry must comply with environmental laws, reimbursement policies, healthcare fraud laws, pharmaceutical distribution tracking laws, antitrust, privacy labor laws, and others. Considering that McKesson operates in different countries around the world, the company is exposed to risks associated with unexpected changes in laws and regulatory requirements in host countries (Annual Report, 2). These laws increase the firm's compliance cost and expose the company to litigations that negatively affect the company's profits. In this case, the company must analyze the legal environment to ensure compliance with different regulatory requirements.

**Five Forces of Competition**

This is a framework that firms use to analyze the competitive environment and determine industry attractiveness and profitability (Grant, 3). The selected forces of competition for this analysis include the threat of substitute products and competitive rivalry.

**The Threat of Substitute Products**

This evaluates the availability of alternative products that meet similar customer needs in the market (Hitt et al., 4). In this case, availability and ease of access to substitute products/services increase competition leading to reduced profitability. This force is high in the industry since numerous substitutes are available from different brands. McKesson has addressed this force by increasing its service portfolio to hedge the company against the risks of depending on similar products. Also, the company has conducted customer analysis over time to determine customer needs and preferences to help develop and offer products/services that meet customer needs. The company also focused on improving its marketing strategy to inform customers about its products and how they provide more value than available substitutes.

**Competitive Rivalry**

This refers to the level of competition among firms within an industry (Grant, 3). The force of competitive rivalry is strong in the healthcare industry. For instance, the industry is dominated by competitors of equal strength. The industry growth is also low, with low product differentiation and fixed product cost. McKesson faces competition from local and international distributors, manufacturers engaged in distribution, service merchandisers, third-party logistic companies, and other pharmaceutical service providers. The main competitors include Walgreens, Sanofi, Pfizer, and others. The high competition reduces overall profitability due to price wars (Hitt et al., 4). McKesson addressed this problem by increasing the switching cost by developing long-term customer relationships, investing in R&D to innovate new products/service offerings, and engaging in strategic partnerships and collaborations with competitors for mutual benefits.

**Future Improvements**

Considering that the two forces, the threat of substitute products and competitive rivalry, impact market share and profitability, McKesson could address these forces in the future through differentiation strategy. The reason for recommending this strategy is that differentiation would allow McKesson to develop products with unique features to attract customers and expand its customer base and market share. For instance, differentiation would allow the company to offer products and services that stand out from the competitor alternatives, which would help reduce the competitive pressure and retain customers limiting switching to substitute products (Hitt et al., 4). However, this would require McKesson to conduct detailed customer and market research to understand customer needs and ensure the company provides what the customers want. The other recommendation would involve improving the marketing strategy to create loyal customers. In this case, the company should increase its advertisement budget to emphasize advertising to build a huge customer base, gain market share, and improve its competitiveness.

**Greatest External Threat**

McKesson Corp's greatest external threat is the changing regulatory environment in the healthcare industry. This threat is significant since it impacts the company's bottom line through increased penalties, litigations, and compliance costs (Annual Report, 2). Litigation could also damage the company's reputation, which would affect profitability. The regulatory environment is constantly changing due to changes in laws, regimes in countries of operations. Such unpredictable events may affect the company's operations. McKesson could address the threat by establishing a systematic compliance program to manage regulatory risks associated with regulatory changes. The compliance program development involves identifying regulatory risks through risk assessment. This helps ensure the allocation of resources to manage the risks.

The other step would involve conducting a gap analysis to determine resource availability and whether the existing compliance measures and internal controls align with risks identified (Husisian & Singelmann, 5). The other step involves developing a written compliance policy statement and internal controls that sent standards and procedures for compliance. Training employees, agents, and other personnel are also crucial since this allows them to recognize red flags and respond appropriately. Finally, compliance audits should be conducted to monitor the progress of the compliance program. This strategy is helpful since it would ensure the company reduces problems associated with maintaining multinational compliance standards.

**Greatest Opportunity**

The most significant opportunity for McKesson is the investment in technology to meet customer needs and demands. Technology has revolutionized the healthcare industry making technology an indispensable opportunity. For instance, the company continues to expand its operations, meaning it must invest more in technology to integrate processes across its operational areas. McKesson is a beneficiary of technological innovations since it has utilized technological innovations in the past to improve population health and company capabilities (Annual Report, 2). In this case, the company must continue to adopt emerging trends in technologies to drive efficiency and gain a competitive edge in the market. For instance, focusing on data analytics and AI could allow the firm to leverage data to improve its predictive capabilities and hence improve patient outcomes and customer engagement.

The strategy that McKesson could use involves engaging in strategic relationships with organizations or individuals with the right skills and expertise in various technology fields such as artificial intelligence, data science, and others to help improve customer experience and sales growth. This can only be realized if McKesson focuses on improving the firm's skill set to ensure the new technology takes the business forward.

**Strengths and Weaknesses**

McKesson Corporation is a top player in the healthcare industry and has much strength. For instance, the company has a strong financial position, as shown by its revenue growth and profitability over the years. For instance, the company was ranked 7th on Fortune 500 with revenues of $238 billion as of March 2021 (Fortune 500, 6). The company also has market entry strength which has allowed the company to build new revenue streams globally. For instance, the company operates in the U.S, Canada, Australia, and Europe (McKesson Corporation, 7). The company has acquisition and merger strength which has enhanced its distribution network and operations, leading to increased market share.

On the other hand, McKesson's weaknesses include the inability to address the new entrant-associated challenges leading to the loss of market share in various segments. The company also spends less on R&D compared to some of its rival companies, which threatens its competitiveness. McKesson products are also overly expensive than the perceived value of products.

**Strategy/Tactic**

Considering McKesson's financial, market penetration, and strategic partnership strengths, the company can leverage these strengths to adopt a market development strategy. This strategy involves introducing the company products/services to audience not currently served in existing markets or through entering new markets (Meissner & Wulf, 8). This strategy is crucial since it supports market development and product development. This strategy is crucial since it would increase global presence, strengthen the brand name, and expand the distribution network by ensuring the company reaches locations it has a weak presence, such as in emerging and developing economies. This strategy will create new market segments and revenue streams for the company.

On the other hand, McKesson can address its weaknesses by adopting a cost leadership strategy. This strategy is appropriate since it would help the company establish a competitive advantage by lowering operational costs through improved efficiency, scale, and scope. This would also increase the company's profitability and by creating loyal customers. However, this would require the company to increase its R&D budget to ensure production efficiency and achieve economies of scale, which is needed to lower product prices. The company could also engage in related diversification strategy by acquiring profitable and innovative businesses to expand its capabilities (Meissner & Wulf, 8). This would enhance business sustainability and competitiveness in the industry. Such acquisitions could also help improve its R&D in various business segments to help the company introduce innovative products/services that meet customer needs.

**Resources, Capabilities, and Core competencies**

McKesson Corporation possesses various resources, including tangible resources such as the company's physical assets such as plant & equipment, buildings, property, and financial resources. These resources have allowed the company to produce more goods and services. McKesson has generated strong growth in free cash flow (above-average earnings) that allows the company to reinvest for growth (Pysh, 9). On the other hand, the company has intangible resources such as a strong brand name, reputation, and marketing experience, which have been utilized to help the company successfully enter new markets and introduce new products in the market. The company also has a human resource with skilled employees who are unified by the firm's global values of upholding the company reputation by being trusted partners, excising integrity, respect, accountability, and excellence (McKesson, 10).

In terms of capabilities, customer focus is a crucial company capability that indicates McKesson's commitment to its customers. For instance, the company provides customer-focused services. The company also boasts its innovation capability since the company's R&D department is engaged in continuous innovation to improve products, services, and processes, giving the firm a competitive edge in the market. The company has also achieved economies of scale as one of the largest pharmaceutical distribution company. This has allowed the firm to generate above-average returns.

In terms of core competencies, McKesson Corporation has built a loyal customer base that ensures they keep buying the company products. Also, the company offers unique and quality products and services that give the company a value pricing advantage. The company has also has also engaged in successful horizontal integrations through acquisitions allowing the company to expand its network and presence globally. The company also maintains a strong dealer community by building a strong culture among dealers distributors. Finally, the company's innovativeness is a major competency that has helped improve decision-making accuracy and improved utilization of data through data analytics to support population health.

**List of Sources**

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