

Analysis of Manufacturing Costs in Pharmaceutical Companies

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Published online: 4 March 2008

Abstract In the pharmaceutical industry, costs attributed to manufacturing are a major part of a company's total expenses. In this paper, trends in various expense and income categories of pharmaceutical companies have been analyzed with particular emphasis on manufacturing costs to gain an insight into their relationships and how they may differ among types of pharmaceutical companies such as brand name, generics, and biotechs. The study includes data published in the annual reports of leading pharmaceutical companies from 1994 to 2005. Twenty-two pharmaceutical companies were selected based on the annual revenues. The set was further divided into three groups: brand names, generics, and biotechs. The analysis shows that, between 1994 and 2005, manufacturing costs (as a percentage of total sales) are different for the three groups of companies listed above. Additionally, each group of companies differs in how savings are leveraged strategically. The data on brand-name pharmaceutical companies also indicate that there is a strong correlation between the reduction of the cost of goods sold (COGS) and the increase in R&D expenditure. This suggests the validity of Vernon's theory that for brand-name companies, a reduction in COGS will likely have a positive impact on investments in R&D, presumably resulting in much needed innovations and future health benefits for the society.

Journal of Pharmaceutical Innovation, Volume 3, Number 1/March 2008

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