

## PANALBA DECISION

Assume that it is August, 1969, and the Upjohn Corporation has called a Special Board Meeting to discuss what should be done with the product known as "Panalba."

Panalba is a "fixed-ratio" antibiotic sold by prescription. That is, it contains a combination of drugs. It has been on the market for over 13 years and has been highly successful. It now accounts for about 18 million dollars per year, which is 12 percent of Upjohn Company's gross income in the U.S. (and a greater percentage of net profits). Profits from foreign markets, where Panalba is marketed under a different name, are roughly comparable to those in the U.S.

Over the past 20 years there have been numerous medical scientists (e.g., the AMA's Council on Drugs) objecting to the sale of most fixed-ratio drugs. The argument has been that (1) there is no evidence that these fixed-ratio drugs have improved benefits over single drugs; and (2) that the possibility of detrimental side effects, including death, is at least doubled. For example, these scientists have estimated that Panalba is causing about 14 to 22 unnecessary deaths per year – i.e., deaths which could be prevented if the patients had used a substitute made by a competitor of Upjohn. Despite these recommendations to remove fixed-ratio drugs from the market, doctors have continued to use them. They offer a shotgun approach for the doctor who is unsure of his diagnosis.

Recently a National Academy of Science – National Research Council panel, a group of impartial scientists, carried out extensive research studies and recommended unanimously that the Food and Drug Administration (FDA) ban the sale of Panalba. One of the members of the panel, Dr. Eichwald of the University of Texas, was quoted by the press as saying, "There are few instances in medicine when so many experts have agreed unanimously and without reservation" (about banning Panalba). This view was typical of comments made by other members of the panel. In fact, it was typical of comments which had been made about fixed-ratio drugs over the past 20 years. These impartial experts then believe that while all drugs have a possibility of side effects, the costs associated with Panalba far exceed the possible benefits.

The Special Board Meeting has arisen out of an emergency situation. The FDA has told Upjohn that it plans to ban Panalba in the U.S. and wants to give Upjohn time for a final appeal to them. Should the ban become effective, Upjohn would have to stop all sales of Panalba and attempt to remove inventories from the market. Upjohn has no close substitute for Panalba, so consumers will be switched to close substitutes which are easily available from other firms. Some of these substitutes offer benefits which are equivalent to those from Panalba, and yet they have no serious side effects. The selling price of the substitutes is approximately the same as the price for Panalba.

It is extremely unlikely that bad publicity from this case would have any significant effect upon the long-term profits of other products made by Upjohn.

The following possible solutions were considered by the Board:

- a. Recall Panalba immediately and destroy.
- b. Stop production of Panalba immediately but allow what's been made to be sold.
- c. Stop all advertising and promotion of Panalba but provide it for those doctors that request it.
- d. Continue efforts to most effectively market Panalba until sale is actually banned.
- e. Continue efforts to most effectively market Panalba and take legal, political and other necessary actions to prevent the authorities from banning Panalba.

A decision must be reached at today's board meeting. The Chairman of the Board, Ed Upjohn, has provided this background information to each of the Board members. He is especially concerned about selecting the most appropriate alternative for the U.S. market.

A similar decision must also be made for the foreign market under the assumption that the sale of Panalba was banned in the U.S. This decision will be used as a contingency plan.

# **PANALBA DECISION**

## **Chairman of the Board**

As Chairman of the Board, it is your job to have the Board reach a decision on the two issues within times allowed. Unfortunately, you have only 45 minutes to reach a decision since some of the Board members can stay no longer than that.

Your general philosophy about meetings is to try to allow for various sides of the issue to be discussed before a decision is reached.

Legally speaking, a majority vote is required in order to reach a decision. You prefer that a consensus be reached, but a formal ballot may be used at the end of the meeting if necessary.

## **Vice Chairman of the Board**

You were the President of Upjohn when Panalba was introduced into the market. Naturally, you feel that Panalba was, and still is, a good product both for Upjohn and for the people who have used it. If you didn't feel this way, you would have never put Panalba on the market in the first place.

## **President**

You've been President for about two years. Since you have taken over, the economy has been slacking off and, as a result, company profits have been off somewhat. The Panalba problem seems to have come at an especially bad time, then.

You have been checking out various ways of handling the Panalba problem. One suggestion has been sent to you by an Upjohn lawyer. He had seen the Panalba issue develop over the past few years. He thinks that it would be possible to delay any action by the FDA. He suggests that Judge Kent of Kalamazoo (a man whom you know personally) would be willing to serve an injunction of the FDA. The injunction would prohibit the FDA from banning Panalba until such time as a formal hearing can be held. The results of the hearing, if unfavourable, could then be appealed. In effect, the case could be tied up in the courts for years. And, if the court action was successful, it would help to prevent the FDA from moving against other drug products in the future.

Another suggestion was sent to you by the Upjohn lobbyist in Washington. He suggests that it might be possible to bring political pressure to bear and to attempt to have Robert Finch, head of HEW (and therefore having jurisdiction over the FDA), overrule the proposed action by the FDA.

## **Vice President and Director**

You have, of course, been aware of the bad publicity on Panalba. One idea has been suggested to you, however. This is that an appeal should be sent to all doctors to protest to the FDA on the grounds that the FDA would be violating the physician's right to prescribe if they removed Panalba. You feel that the fact that the doctors have been using Panalba for the past 13 years indicates that it must have some value.

You've been a member of the Board of Directors for 8 years and you own 20,000 shares of Upjohn stock.

## **Executive V.P. – Upjohn**

You have been on the Board of Directors since 1955 and you own about 25,000 shares of Upjohn.

## **President: William John Upjohn, Assoc., Inc. Marketing and advertising Consultants**

You are part of the Upjohn family and you own a considerable amount of stock. Your consulting firm does most of its work for the Upjohn Co.

## **Stockholder**

You are a practicing M.D. You've been prescribing Panalba for years and you have seen nothing wrong with it.

You've been a director since 1954 and you own 300,000 shares of Upjohn stock.

## PANALBA DECISION

**1) Which option will the Upjohn Board select?**

*(check one - ✓)*

- (A) Recall Panalba immediately and destroy. [ ]
- (B) Stop production of Panalba immediately but allow what's been made to be sold. [ ]
- (C) Stop all advertising and promotion of Panalba but provide it for those doctors that request it. [ ]
- (D) Continue efforts to most effectively market Panalba until sale is actually banned. [ ]
- (E) Continue efforts to most effectively market Panalba and take legal, political and other necessary actions to prevent the authorities from banning Panalba. [ ]

**2) Broadly, what approach did you use to derive your prediction?**

**3) Roughly, how long did you spend on the task of deriving a prediction for this situation?**

[\_\_\_\_] hours

**4) If you have not provided a prediction, please state your reasons:**

**5) Roughly, how many years have you spent as a game theory practitioner or researcher?**

[\_\_\_\_] years

*When you have completed this questionnaire, please return either  
this document as an email attachment to  
kestn.green@vuw.ac.nz  
or this page (with your initials printed below) by fax to  
(64 4) 499 2080.*

**Your initials: [\_\_\_\_\_]**