1990

Corporate Strategy in Crisis Management: Johnson & Johnson and Tylenol

Marian C. Schultz
University of West Florida

James T. Schultz
Embry-Riddle Aeronautical University, schul9fd@erau.edu

Corporate Strategy in Crisis Management: Johnson & Johnson and Tylenol

Dr. Marian C. Schultz
University of West Florida
and
Lt. Col. (Dr.) James T. Schultz
Elgin Air Force Base, Florida

ABSTRACT

This paper focuses on the Tylenol poisonings and the actions J & J employed to recover from this existence-threatening situation. The paper reviews the 1982 case in which Johnson & Johnson literally rewrote the book on crisis management in handling unexpected, catastrophic consumer issues. It demonstrated a high degree of integrity and moral responsibility in its handling of the poisonings. CEO Burke demonstrated decisive leadership at a time when the company needed it the most.

"It's an act of terrorism," stated a somber James E. Burke, Chairman and Chief Executive Officer (CEO) of Johnson & Johnson (J & J), in one of the first of many press conferences dealing with the 1982 cyanide poisonings of Extra-Strength Tylenol capsules.[1] The worst nightmare any corporation can imagine had happened to the makers of Tylenol: their product was connected to the death of a consumer.

This paper focuses on the Tylenol poisonings and the actions J & J employed to recover from this threatening situation. Tylenol was the victim of two separate instances of poisoning, once in 1982 and again in 1986. Although this paper touches on the 1986 situation, it focuses on the 1982 case, since it was in this concept that J & J literally rewrote the book on crisis management in handling unexpected, catastrophic consumer issues.

BACKGROUND

Tylenol is the brand name for a non-prescription analgesic (pain reliever) and antipyretic (fever reducer) manufactured by McNeil Consumer Products Company, a subsidiary of Johnson & Johnson.[2] The active ingredient in Tylenol is acetaminophen, which is effective in the relief of pain and the reduction of fever without aspirin-related side effects such as stomach irritation and internal bleeding.

The first Tylenol product was introduced by McNeil in 1955 and was promoted only to health care professionals as a prescription medication. This continued until the mid-1970s when McNeil, with Food and Drug Administration (FDA) approval, began marketing Tylenol to the general public as an over-the-counter (OTC) pain reliever. Tylenol was an immediate success and began setting market share records. Between 1976 and 1981, a six year period, Tylenol's market share increased from 10% to 37%, more than the next three brands combined. The full magnitude of the popularity of the product was evident in 1979 when Tylenol became the largest selling health and beauty aid among drug, food, and mass merchandisers, breaking the 18-year dominance of Procter & Gamble's Crest toothpaste.[3]

McNeil was extremely pleased with the success of Tylenol, and senior management cited two main reasons why it became such a dominant product. First, the product's successful association with the medical community had a carryover effect. By the time Tylenol became an OTC product, millions of people had already used it, either on the recommendation of a physician, or because they were given it during a hospital stay. To say the very least, Tylenol had a well established reputation as being recommended by health care professionals for pain relief. Second, J & J, as it had been so successful with many other products, proved its marketing expertise in convincing the public to try the product. Combinations of media blitzes, television, advertising, sales promotions, and discount coupons quickly established a broad range of customers. A typical example was Tylenol's television advertisements which continuously employed the medical testimonial theme to foster brand loyalty: "I was first given Tylenol when I was in the hospital."

DISASTER STRIKES

In the early morning hours of September 30, 1982, twelve year old Mary Kellerman of Elk Grove Village, Ill, awoke with a sore throat and runny nose. Her parents gave her one Extra-Strength Tylenol capsule; within an hour they found her dying on the bathroom floor.[4] Within days, six more people in the Chicago area, including three members of one family, died from taking cyanide-laced Tylenol capsules. A nationwide panic set in. J & J was suddenly faced with a totally unexpected catastrophe that threatened its very existence.

In an interview several weeks after the tragedy unfolded, CEO Burke recalled that he remembered three distinct phases in dealing with the cyanide poisonings: 1) recovering from the shock and deciphering what had happened, 2) assessing and containing the damage, and 3) getting Tylenol capsules back on the shelf.[5] This process also serves as a clear and concise method to analyze what actions J & J management employed in the fight to save Tylenol.

ANALYZING WHAT HAD HAPPENED

Within hours of the first death, McNeil was swamped with calls from newspapers, television stations, and radio personnel, some as far away as Hawaii and Ireland, asking for information and comments on the disater. Ironically, J & J executives first became aware ofthe deaths from media people who were calling for comments. The company soon found itself entering a closer relationship with the press than it was accustomed to. J & J literally threw its doors open to the press. For beginners, the company was getting some of its most accurate and up-to-date information, concerning what was occuring, from reporters who were calling to request statements. Additionally, J & J needed the media to get out as much information to the public as quickly as possible to prevent full scale hysteria. In these critical early hours, J & J established its corporate credibility by taking an active role in addressing the problem.

By the end of that first day, McNeil executives were convinced that the poisonings did not occur at its main plant in Fort Washington, PA, either accidentally or intentionally. Company officials were certain that if the contamination had occurred in the plant, the quality control and testing measures would have detected the poison. Additionally, capsules contaminated in the plant would have ended up all over the country, not just in Chicago. At this point in time, all the deaths were from contaminated capsules from the same lot.

Regardless of their assertions, the company could not take any chances and recalled the entire contaminated lot of 93,000 bottles from all across the country. At the same time, all Tylenol advertising was suspended. An important discovery was made on the second day. The company learned that the sixth victim had been poisoned with Tylenol capsules from a lot manufactured at McNeil's other plant in Round Rock, Texas. This proved that the tampering had to have occurred in Chicago, and not during the manufacturing process, because poisoning at both plants would have been virtually impossible. This discovery was of even greater importance because it signaled the end to the fact-gathering and enabled the company to turn its attention to assessing the impact on the product and what could be done to save it.

ASSESSING AND CONTAINING THE DAMAGE

Although J & J has long followed a strategy of decentralized management, allowing each subsidiary to fend for itself, CEO Burke quickly decided to elevate the management ofthe crisis to the corporate level, personally taking charge of the company's response. To put it simply, J & J had entirely too much "stock" in Tylenol. Interestingly, prior to the poisonings, less than 1% of the public knew Tylenol was a J & J product, compared to 47% after the poisonings.

J & J now turned its attention to establishing a good working relationship between itself, the police, and health officials investigating the situation. Meeting in Washington with FBI and FDA officials, Burke began to advovate a recall of all Extra-Strength Tylenol capsules. Surprisingly, both the FBI and FDA advised against the total recall. "The FBI didn't want us to do it," explained Burke, "because it would say to whomever did this, 'Hey, I'm winning, I can bring a major corporation to its knees."[6] Additionally, the FDA felt it would cause more public anxiety than it would relieve. However, following what appeared to be a copycat strychnine poisoning of Tylenol capsules in California, the FDA finally agreed with J & J and 31 million bottles of Extra-Strength Tylenol capsules were recalled. The recall and destruction of the capsules cost J & J $150 million.[7]

From the start of the disaster, Burke had squelched one obvious option: abandoning the Tylenol name and reintroducing the pain reliever under a new name. Burke's decision to retain the name was triggered in part by a recognition of the fundamental soundness of the Tylenol business, i.e., Tylenol was essentially a better product than its chief competitor, aspirin, and Tylenol continued to enjoy the support of the American medical community. Top company officials later stated that they were all behind Burke on this, even though sales had initially dropped by 80%. Most reasoned that even if Tylenol was only able to recover half its original market, it would still be the industry leader. Additionally, the employees at the Tylenol plants were also against a name change.

Reflecting on J & J's quick and decisive handling of the poisonings, Burke stated that the Johnson & Johnson credo was an important guide to decision-making throughout the troubled early days of October 1982.[8] The credo (Atch 1) is used as a guide in the daily operation of the company and specifics five responsibilities of the company: to the users of the products, to fellow workers, to management, to the community, and to stockholders.

By this time, 10 days since the first death, J & J was ready to press ahead to phase three: rebuilding the brand.

GETTING TYLENOL CAPSULES BACK ON THE SHELF

CEO Burke decided to form a seven member strategic group of key executive to oversee the McNeil task forces and Tylenol recovery effort.

It seemed certain the company, and probably the entire industry, would have to develop a tamper-resistant package. However, it also became clear that the real issue would be the consumers--what affect the poisonings would have on their future purchases. In an effort to answer these key questions, J & J contracted Young & Rubicam, a long trusted advertising agency, to poll consumer attitudes.

One of the more astonishing findings from the Young & Rubicam surveys was that an overwhelming number of people (94% of the consumers surveyed) were aware that Tylenol had been involved in the poisonings.[9] This represented both good and bad news for J & J. The good news was that 87% of the Tylenol users surveyed said they realized the maker of Tylenol was not responsible for the deaths. The bad news was that although a high percentage did not blame Tylenol, 61% said they were not likely to use Extra-Strength capsules in the future. Worse yet, 50% felt the same way about Tylenol tablets. Basically, this meant that most consumers did not hold the company responsible but were afraid to purchase the product again.

The most heartening information uncovered in the surveys, on which the company based its comeback strategy, was that the frequent Tylenol user seemed more inclined to go back to the product than the infrequent user. Surveys indicated that as much as 77% of all regular Tylenol consumers would either definitely, or probably, purchase Tylenol in tamper-resistant packaging.[10] Translated to marketing strategy, this meant that the company should concentrate on bringing back the loyal customers of the past and forego any ideas of the expansion or attracting new customers for at least the next two years.

In the fight to regain public confidence, J & J, spearheaded by the seven member strategy group, launched a massive, comprehensive communications and marketing program. Tylenol's recovery was due to a combination of numerous actions taken by the company:[11]

- On October 12, less than two weeks after the first death, a full page advertisement was placed in major newspapers across the country offering consumers the opportunity to exchange capsules for tablets.
- McNeil communicated by letter, on two separate occasions, with its domestic employees and retirees, keeping them appraised of the latest information. In part, the letters urged employees and friends of J & J to request that Tylenol tablets be return to those drug stores and retail outlets where they had been removed.
- A 60-second television advertisement was broadcast in October and November featuring Dr. Thomas Gates, medical director for McNeil, alerting consumers to the impending return of Tylenol capsules in tamper-resistant packages. An estimated 85% of all TV households in the U.S. saw the commercial an average of 2.5 times during the first week of airing.

- Members of the Corporate Relations Department of J & J visited more than 160 Congressional offices to push for, among other things, legislation for tamper-resistant packaging throughout the OTC market.
- J & J executives appeared on or gave interviews to *Fortune, Newsweek, The Wall Street Journal, 60 Minutes,* The Donahue Show, and ABC Nightline, strengthening the company's commitment to openness in dealing with the Tylenol problem.
- On November 11, CEO Burke appeared in a teleconference broadcasted to 30 media locations across the country, portions of which were broadcast by local TV and radio news shows. The teleconference, which recounted the steps J & J had taken and helped introduce the tamper-resistant package, was considered a huge success and a definite step on the road to recovery.
- A four minute videotape was prepared for use by television programs covering the tamper-resistant package, as well as the actual production of Tylenol.
- Finally, to coincide with the reintroduction of capsules, of J & J distributed over 80 million coupons good for a $2.50 discount (the price for a 100 capsule bottle) on the purchase of Tylenol.

Extra-Strength Tylenol capsules in the triple seal tamper-resistant package was introduced in mid November, approximately six weeks after the Chicago deaths. Prior to the poisonings, Tylenol had a 35% market share which fell to 7% during October. Despite the fact that all its competitors had drastically increased their marketing and advertising efforts, by the week of November 28, Tylenol's market share had grown to 29.9%, approximately 80% of its original market share.[12] J & J had pulled off what many experts thought was impossible--they saved Tylenol.

1986 FOOTNOTE

On February 8, 1986, Diane Elsroth, 23, of Peekskill, NY died within hours of taking two Extra-Strength Tylenol capsules laced with potassium cyanide. CEO Burke repeated his words of 1982: "This is an act of terrorism, pure and simple."[13] If a company can ever be prepared for a disaster of this type, J & J was, obviously due to its experience gained during the 1982 poisonings. The company quickly recalled the contaminated lot. It seemed like the crisis would pass quickly as J & J executives, and apparently the public, were treating this poisoning as an isolated incident. Five days later however, the FDA's random testing discovered a second bottle from a different lot at a retail store two blocks from where the Tylenol that killed Elsroth was purchased. CEO Burke repeated his actions of 1982 and immediately pulled together an executive team to address the damage. Burke was convinced the best action was a drastic one--discontinue the production and sale of Tylenol capsules. McNeil executives were strongly opposed to this, sighting technological advances in methods to seal plastic capsules, and the fact that the capsules

accounted for 30% of Tylenol's business. Burke was adamant, knowing that there was no such thing as a tamper-proof package and "Not only do we risk Tylenol," he said, "we risk Johnson & Johnson."[14]

On February 16, at a cost of $150 million, the decision was made to abandon the capsule. The alternative in its place would be round tablets or elongated caplets, the later having been on the market since 1983 and developed in response to the 1982 poisonings. Within five months of Diane Elsroth's death, the brand had recovered 90% of its previous market share, a faster recovery than the company realized in 1982.[15] Most experts agree the contributing reasons for the quick recovery were: the triple sealed, tamper-resistant package already existed; the caplets had been on the market for a few years and had established a loyal market share; and the experience gained during the 1982 case.

CONCLUDING THOUGHTS

It is safe to say that the Tylenol poisonings and subsequent management actions will be a subject of study for a long period to come. The company not only rebounded but continued to prosper after the worst disaster that can face a marketer--having their product used as an instrument of death.

The Tylenol case presents numerous examples of lessons learned, from the handling of the media to corporate decision making. However, three critical points combined to play a large part in J & J's success in recovering from the Tylenol poisonings:

1. Johnson & Johnson, as a company, demonstrated a high degree of integrity and moral responsibility in its hadling of the poisonings. From the very beginning, J & J literally opened its doors to the public and worked closely with the media to get the word out to consumers as quickly as possible. Surveys taken after the incident showed that many consumers believed that J & J had acted honestly and openly in dealing with the problem, a fact that further strengthened many people's trust in the company. This attitude is particularly refreshing in today's competitive business climate where profit seems to be the only concern and corporate improprieties are reported almost daily.

2. Throughout the entire ordeal, J & J spared no expense at insuring the correct steps were taken. J & J estimated that the 1982 poisonings cost the company over $500 million, and it was Burke who pushed for the expensive recall of all Tylenol capsules. Fortunately, it was J & J's diversification and size that allowed the company to be able to absorb this loss. Revenues from the other 150 subsidiaries of J & J were redirected to McNeil to help solve the problem. The point is that, not only was J & J willing to invest the money to fix the problem, but they were financially able to do so. As successful as it was as a subsidiary, McNeil simply would not have had the capital necessary to rebound if it had been a separate company.

3. Finally, and most critical to its success, CEO Burke demonstrated decisive leadership at a time when the company needed it the most. During the poisoning controversy, Burke typified Mintzber's entrepreneurial strategic planning mode: strategy making is dominated by the active search for new opportunities, the company undertakes dramatic leaps forward in the face of uncertainty, and power is centralized in the hands of the chief executive.[16] James Burke had a talented team of key executives who he depended upon extensively, but the final decision was always his own. His conviction and decisiveness in handling the poisonings was the single most important factor in Tylenol's recovery. Indicative of the type of respect the nation held for James Burke were President Ronald Reagan's comments during an address to business executives at the White House: "Jim Burke of Johnson & Johnson, you have our deepest admiration. In recent days [you] have lived up to the very highest ideals of corporate responsibility and grace under pressure."[17]

NOTES

1. "Johnson & Johnson Assesses The Tylenol Damage," *Fortune* 1 No 1982: 7.
2. "History of Tylenol," *Johnson & Johnson Paper* (undated): 1.
3. Giges, Nancy, "J & J Begins Its Drive to Keep Tylenol Alive," *Advertising Age* 11 Oct. 1982: 78.
4. Beck, Melinda, "The Tylenol Scare," *Newsweek* 11 Oct. 1982: 32.
5. Moore, Thomas, "The Fight to Save Tylenol," *Fortune* 29 Nov. 1982: 45.
6. Moore, 46.
7. Moore, 48.
8. "The Tylenol Comeback," *Johnson & Johnson Worldwide* 1983: 2.
9. Moore, 49.
10. Clare, David R. "The Tylenol Story: From Crisis to Comeback," *Cross Currents* 1983: 3.
11. "The Tylenol Comeback," *Johnson & Johnson Worldwide* 1983: 4-6.
12. Giges, Nancy, "Tylenol Tablets Lead Rebound," *Advertising Age* 13 Dec. 1982: 1.
13. Davidson, Spencer, "A Replay of the Tylenol Scare," *Time* 24 Feb. 1986: 22.
14. Powell, Bill with Kasindorf, Martin. "The Tylenol Rescue," *Newsweek* 3 March 1986: 53.
15. "Tylenol Begins Making a Solid Recovery," *Johnson & Johnson Worldwide* 1986: 1.
16. Higgins, James M. and Vincze, Julian W. *Strategic Management and Organizational Policy, Text, and Cases.* Third Edition 1986: 171-172.
17. Powell with Kasindorf, 52.

BIBLIOGRAPHY

"A Death Blow for Tylenol?" *Business Week* 18 Oct. 1982: 151.
Beck, Melinda. "The Tylenol Scare," *Newsweek* 11 Oct. 1982: 32-36.
Beck, Melinda with Agrest, Susan. "Again, Tylenol a Killer," *Newsweek* 24 Feb. 1986: 25.
"Chaos By the Capsule," *The New Republic* Nov. 1982: 10.
Clare, David R. "The Tylenol Story: From Crisis to Comeback," *Cross Currents* 1983.
Davidson, Spencer. "A Replay of the Tylenol Scare," *Time* 24 Feb. 1986: 22.
"Drugs, Not Yet Tamperproof," *U.S. News & World Report* 24 Feb. 1986: 6.
Gardner, Judith B. "When A Brand Name Gets Hit By Bad News," *U.S. News & World Report* 8 Nov. 1982: 71.
Giges, Nancy. "J & J Begins Its Drive to Keep Tylenol Alive," *Advertising Age* 11 Oct. 1982: 1, 78.
Giges, Nancy. "Tylenol Competitors Boom," *Advertising Age* 18 Oct. 1982: 1, 82.
Giges, Nancy. "Tylenol Tablets Lead Rebound," *Advertising Age* 13 Dec. 1982: 1, 55.
Higgins, James M. and Vincze, Julian W. *Strategic Management and Organizational Policy, Text and Cases*, Third Edition, 1986.
"History of Tylenol," *Johnson & Johnson Paper* (undated).
"J & J Will Pay Dearly to Cure Tylenol," *Business Week* 29 Nov. 1982: 7.
"Johnson & Johnson Assesses the Tylenol Damage," *Fortune* 1 Nov. 1982: 7.
Koepp, Stephen. "A Hard Decision to Swallow," *Time* 3 March 1986: 59.
Marcial, Gene G. "J & J After Tylenol," *Business Week* 1 Nov. 1982: 93.
Moore, Thomas. "The Fight to Save Tylenol," *Fortune* 29 Nov. 1982: 44-49.
"More Headaches," *Time* 25 Oct. 1982: 38.
Powell, Bill with Kasindorf, Martin. "The Tylenol Rescue," *Newsweek* 3 March 1986: 52-53.
Rubenstein, Carin. "The Tylenol Tradition," *Psychology Today* April 1983: 16.
Skrzycki, Cindy with Collins, Dan And Schiffres, Manuel. "Tampering with Buyers Confidence," *U.S. News & World Report* 3 March 1986: 46-47.
"The Tylenol Comeback," *Johnson & Johnson Worldwide* 1983.
Trafford, Abigail with Mann, James and Kucherov, Alex. "Lessons That Emerge From Tylenol Disaster," *U.S. News & World Report* 18 Oct. 1982: 67-68.
"Tylenol Begins Making a Solid Recovery," *Johnson & Johnson Worldwide* 1986.
"Tylenol Comes Back As Case Grows Cold," *Newsweek* 25 April 1983: 16.
"Tylenol Legacy," *Time* 1 Nov. 1982: 64.
"Tylenol's Boost to Safer Packaging," *Business Week* 25 Oct. 1982: 37.
"Tylenol's 'Miracle' Comeback," *Time* 17 Oct. 1983: 67.