

Affect of outsourcing strategies on resources and capabilities business essay



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GlaxoSmithKline (GSK) is one of the world's leading research-based pharmaceutical corporations engaged in the development, manufacture and marketing of pharmaceutical and consumer health related products. Based in the UK and operations based in the US and other 120 countries occupies the 7% of the world's pharmaceutical market share. The company spends on R&D more than £300, 000 (US\$562, 000) hourly. The portfolio of the company presents medicines for the treatment of six main disease areas – asthma, mental health, diabetes and digestive conditions, infections, virus control-and leadership in vaccines and cancer treatments. The company also market other products those generate revenue for GSK. Like over-the-counter (OTC) medicines + Panadol, nutritional healthcare drinks such as Lucozade, Ribena and Horlicks, smoking control products such as Niquitin and dental products such as Aquafresh and Macleans

The GSK's Business Strategy

Form 2007 the company launched three innovative strategic preferences to boost growth, shrink risk and perfect GSK's long-standing financial performance. All three parts of strategies reflect the importance of outsourcing and partnership.

1. Grow a diversified global business
2. Deliver more products of value
3. Simplify GSK's operating model

Grow a diversified global business: GSK diversified its business in to consumer products and seize important global positions. In the UK, India and

Ireland GSK emerged as leader of Nutritional healthcare. the global business Consumer Healthcare has develop into increasingly challenging as the demands of consumers are improved quality, better value and superior performance and globalization strengthened the negotiation power of retailers have with the pressure of rapid innovation. The main competitors include the major international companies Colgate-Palmolive, Johnson & Johnson, Procter & Gamble, Unilever and Pfizer. In addition, there are many other smaller local companies to compete with GSK in their local markets. Outsourcing was taken as a strategic tool for diversification at GSK. Partnership with other companies to develop new products in all three areas of business remained successful and enabled the company to diversify in strategies and increased resources will facilitates to encounter future challenges. Emerging markets contribution is reflected in figures.

Deliver more products of value:

GSK's deliver strategy which is dominated with outsourcing launched new pharmaceutical products from the year 2007 added in sales £1. 3 billion. The company managed to confirm 12 product approvals and accomplished 11 new filings in 2009. Molecular entities and vaccines approvals by FDA dominated the period as better than ever before. The outsourcing geared up the company to Sustaining late-stage pipeline which is most important factor in company's growth and advantage in today's competitive conditions. GSK uphold roughly 30 assets in phase III of R&D and registration and five new programs succeeding to phase III in 2009. Improved R&D efficiency and enhanced outsourcing for drug discovery enabled the company to expect

future long-term sales occurrence is approximately 11%. GSK outsourced around 30% of discovery research with 47 external partners.

Simplify the operating model

GSK is an outsized and compound organization and the management is using outsourcing as a strategic tool to simplify the organization structure. They are transforming operational model to shrink complexities, develop efficiency and slash the costs. Annual cost savings of £1 billion have already been achieved. The program has been expanded again to deliver annual savings of £2.2 billion by 2012.

GSK's outsourcing

GSK is outsourcing Disciplines, subsystems, or systems in which outsiders have greater expertise or capabilities for innovation. GSK is Linking to outside knowledge sources that are able to assemble diverse expertise greatly affect the timing and amplitude of innovations. Sophisticated outsourcing supported by new electronic communications, modeling, and monitoring techniques enables GSK to reduce innovation cycle times and costs and decrease investments and risks. They eliminate inflexibilities, such as fixed overhead, bureaucracy, and physical plant, by tapping the resources of the downstream customer chain and the upstream technology and supply chain.

GlaxoSmithKline pic (GSK), have increasingly relocated some of its research and development (R&D) operations to China, including some of the core and integrated research functions. GSK is also outsourcing more R&D and manufacturing projects to China. Outsourcing to China is strengthening their

sales and marketing networks, expanding manufacturing facilities, and accelerating R&D relocations (CBR, March-April 2008, p. 42).

In addition to business expansion, three other trends seem to have developed in 2007. First, because of the more favorable regulatory climate and pro-R&D policies GSKs bold move to relocate its entire neurodegenerative diseases research component to China. A second trend appears to be that MNCs have taken an interest in exploring traditional Chinese medicines (TCMs) to find new drug leads GSK also announced its interest in finding leads from TCMs. The third trend was to intensify in the coming years-is on the outsourcing front. MNC R&D outsourcing to China has risen sharply in recent years, with major CROs, such as Wuxi PharmaTech, recording triple-digit revenue growth. In addition GSK announced major reorganization initiatives that led them to outsource more manufacturing to China.

Britain's GlaxoSmithKline recently announced it would work with Ranbaxy Laboratories, India's largest drug-making firm, on drug-discovery collaborations, even though GSK had sued Ranbaxy over allegedly stolen bacteria used in the production of GSK's popular antibiotic, Augmentin.

This increase in outsourcing is particularly interesting, considering that the large pharmaceutical companies view management of large clinical trials as a core competence. As GlaxoSmithKline claims. GSK, a few years ago, restructured its business and R&D units, launching a hub-and-spoke model, where the R&D units were independently organized around the core hub that contained clinical Phase III management capabilities, marketing,

manufacturing, and corporate functions. In the middle stages of R&D . . . GSK has created six Centres of Excellence for Drug Discovery, or CEDDs. Each CEDD is dedicated to specific therapeutic categories; each is responsible for taking lead compounds forward to the point where the therapeutic rationale for those compounds is demonstrated sufficiently to justify the start of large-scale clinical trials. (from www.gsk.com).

Affiliated Computer Services, Inc. , a premier provider of business process and information technology outsourcing solutions, announced today that it has been awarded an additional information technology (IT) outsourcing contract with GlaxoSmithKline (GSK), the second-largest pharmaceutical company in the world. The contract is valued at \$100.5 million over five years.

Under terms of the agreement, ACS will provide remote server management and monitoring services for more than 5,000 UNIX, Wintel, OS390 Mainframe, and Open VMS servers located at GSK data centers in the U. S. and United Kingdom (UK). ACS will also assume responsibility for facility management and data center operations at four key GSK sites: King of Prussia, Pennsylvania; Research Triangle Park, North Carolina; Stevenage, UK; and Brentford, UK. Additionally, ACS will implement 24x7 coverage and establish a new governance model spanning end-to-end transaction management inclusive of capacity planning and quality management system (QMS) support.

Global manufacturing and supply (GMS)

More than 29,000 people work in GMS across our network of

78 sites in 33 countries. GMS supports the commercial ambition of GSK by delivering quality medicines and consumer products to patients and customers around the world.

We spend over £2 billion annually with external suppliers, purchasing active ingredients, chemical intermediates, packaging components and part-finished and finished products.

During 2009, as our internal customers sought every opportunity to grow their businesses, we focused on the cost-competitive supply of quality product to meet their ambitions. We worked diligently to leverage our network of sites and contractors to give us built-in flexibility to sustain future growth and adapt to emerging commercial business models. In an increasingly rigorous external regulatory environment, we have continued to leverage technology

in support of process understanding, control, and capability.

New technologies have become a fundamental platform for driving innovation, lowering costs, and providing flexibility in operations.

We are embedding new ways of working that are simplifying

the business and achieving greater efficiencies.

We continue to identify compounds from other companies

that would enhance the portfolio and to create innovative

collaborations to ensure that we are seen as a partner of

choice for large and small companies.

Progression into late-stage development consists of optimising

both the physical product properties of the medicine, i. e. the

chemical steps and formulation required to manufacture and

deliver it as well as the much larger scale studies in humans

confirming efficacy and safety.

GSK has returned to salesgrowth in 2

GSK has returned to salesgrowth in 2009

Effective cost control in place to stabilise operating margin

R&D model is working and new product flow is improving

Actions ongoing to improve returnsin R&D

Continued focus on cashflow& shareholder returns

2009 sales growth of 3% (CER)

-Significant pandemic related sales expected in 1H10

-Additional restructuring will deliver significant savings (£500m by 2012;
~30% to be reinvested)

-Strong cash generation continued in '09 with free cash flow of £5.3bn
(+12%)

-Dividend growth continues (+7% to 61 pence)

-Disclosure of operating profit components within each segment begins 1Q10