Strategic and swot analysis of glaxosmithkline (gsk) plc.

Finance, Financial Analysis

Introduction:

GlaxoSmithKline plc (GSK) is a British multinational consumer healthcare, vaccines, biologics and pharmaceutical company. It is a 5th ranking FTSE 100 Company based on market capitalization as at closed on 27th July 2012 (Morning Star, 2012). It was established in the year 2000 by the merger of Glaxo Wellcom plc and SmithKline Beecham plc and has its headquarters in London, United Kingdom (GlaxoSmithKline Plc., 2012a).

Strategic Management Process- Macro-environmental scanning, strategy formulation and implementation:

According to Sir Andrew Witty, Chief Executive officer of GSK, Pharmaceutical industry is very complex and dynamic in nature. Various sorts of unprecedented challenges are faced by the industry. There is a constant increase of pressure from healthcare providers, regulatory issues and patent expiries. These have contributed to anenvironmentthat has subjected to lower growth and high risk factors (Annual Report: GlaxoSmithKline Plc. 2011). GlaxoSmithKline has concentrated their business on three primary priorities i. e., growing diversified global business, delivering more products of value and simplifying the operating model. Through these priorities they aim to deliver sustainable growth, improve long-term financial performance and reduce risks and thus adhere to their mission of improving quality of human life that enables people to do more, feel better and live longer (GlaxoSmithKline Plc., 2012b).

SWOT Analysis:

Location of Factors

StrengthsWeakness

InternalStrong Sales.

Good marketing infrastructure.

Industry leading R&D team.

Ability to cut down on costs.

Good balance sheet and financial statements.

Effective implementation and execution of strategic priorities, life cycle management strategies and business fundamentals.

Initial commercial expectation could not be delivered by R&D team.

Highly dependent on competitive and dynamic Central nervous system and respiratory markets.

OpportunitiesThreats

ExternalEntry into antibodies and biologics segment of market.

Potential to deliver strong growth by R&D team.

Potential to expand business in emerging markets.

Strong cash and assets position.

Effect of generic products sales on sales of the company.

Change in governmental and federal laws as it concerns with the healthcare.

(Adapted from Annual Report: GlaxoSmithKline Plc. 2011)

GSK has capitalised on its strengths and available opportunities over the years and has successfully minimized weaknesses and eliminated threats.

BCG Matrix:

Relative Market Share.

High

Low

Market Growth Rate.

High

Stars.

Question Marks.

Low

Cash Cows.

Dogs.

(Adapted from- Annual Report: GlaxoSmithKline Plc. 2011)

GSK has high relative market share and high market growth rate along with good cash flow. This puts GSK under “ star” category in BCG matrix.

Porter’s Five Forces:

Threat of new entrants: Due to the high costs required to enter the pharmaceutical and healthcare industry, the threat of new entrants is quite low. The economies of scale for production may not be very significant but there are other barriers to entry. It is very timely and costly process to develop new products that requires extensive research and development (Kasapi, 2011; Gottinger et al., 2010). The government and federal laws andFoodand Drug Administration impose strict rules and standards on the companies that can act as a barrier to entry. Patent expiries is a huge barrier for the new entrants in this industry, as the patents last about 20 years and thus the products are protected by their respective companies. The new firms trying to enter the market could find this very discouraging. The already established firms like GSK have constructed strong brand names andloyaltywith its customers thus making it difficult for new firms to build up a competitive brand name (Kasapi, 2011).

Threat of substitutes: GSK faces a huge threat from generic brand medication- often seen as the main substitute of the products produced by pharmaceutical companies. Complementary Alternative Medicines (CAM) is another substitute of GSK products. The generics, CAM and brand names are the same product delivered to the customers, the only difference being name and price (Kasapi, 2011).

Bargaining power of buyers: Buyers do not pose significant threat on GSK, as the company spends most of its R&D to develop new patent products. The major consumers of products are doctors, pharmacists, patients, hospitals and other healthcare facilities. Considering the number of buyers in the market, the power of buyers is relatively small (Otieno, 2006).

Bargaining power of suppliers: The main suppliers for GSK are labor, raw material providers, patient’s in clinical trials, study staff, investigators and other ranging from production, marketing to distribution (Otieno, 2006). The suppliers hold immense power and can impose a considerable threat to the company by withholding supplies or reducing the quality of supplies and thus can have a major effect on GSK.

Rivalry among competitors: Pharmaceutical industry is very aggressive and dynamic . There is the constant struggle for market share within the dynamics of the industry based on innovation and new patent products. The rivalry is such in this environment where only the strongest would survive (Kasapi, 2011). GSK has used foresight and planning to position them for success in the long term.

Recommendations:

GSK should reduce risks and threats by broadening its range, expanding in to new product areas with potential and seizing opportunities across other geographic boundaries. It should explore the segment of vaccines, biopharmaceuticals and consumer healthcare that has definite potential and thus increase its sales growth. It should focus on the geographical potential of its business in emerging markets and economies. GSK should also focus on its R&D team- its training and development and new scientific discoveries to ensure constant delivery of current products and new products in future. The global restructuring programme and the slight change in business model that can open channels of diversification and business growth could be expected to be more profitable in the long-term. It should concentrate on Return on Investment and reducing its working capital to sustain its current position and emerge as a market leader in future.

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