Glaxosmithkline business strategy

However, further in this study we will get to know the core elements of GSK, its key drivers of change, factors for it success, main business strategies and the extent at which it has been able to align these with its resources and capabilities.

2. KEY DRIVERS FOR CHANGE AND CRITICAL SUCCESS FACTORS

2. 1 core elements

Over the years the pharmaceutical industry has played an important role alongside other economy sectors[1]in contributing to the UK economy. As the economy gets older the more grounded the industry becomes, by acquiring strategies of merging and acquisition to expand and form the main companies/competitors of the industry like Pfizer, GSK, Sanofi-Aventis, Novartis, Roche etc. The pharmaceutical industry is the leading sector in the UK, investing about £10 million daily on R & D[2](Euromonitor 2004), employing around 73, 000 people and by being consistent in the top three(leading in 2007) ranking of trade surplus(ABPI 2007). Furthermore, laying more emphasis on one of the main companies in the sector (GSK) who own 9. 0% of the sector’s market share after the largest share holder of the sector (Pfizer 9. 3%)(ABPI 2007). In getting to know its level and intensity of market competition, the Porter’s five forces will be used in for the analysis. This frame work was designed by Prof. Michael E. Porter of Harvard business school to determine the degree of competition within an industry (D. Campbell 2005). These five forces are bargaining power of suppliers, bargaining power of buyers, threat of new entrance, threat of substitute products and competitive rivalry. For the purpose of this report we will be looking solely at competitive rivalry but considering the fact that the other four forces determine its strength. This is where industries in the sector seek to maintain and gain more market share either by differentiation, innovation etc.(D. Campbell 2005). GSK acquired Stiefel for £2. 5 billion few months ago, Merck took over Schering – Plough for a total of £29. 8 billion and, Pfizer ' s merger with Wyeth (guardian 2009), these activities shows that the giants of the sector are striving to maintain and if possible acquire more market share by acquiring smaller companies .

2. 2 key drivers of change

These are some external factors that affect GSK either positively or negatively and to an extent helped to her current position. This will be analysed with the used of PEST analysis frame work which are analysed below:

Political – concerning the regulation of medicines licensing, the government has had a good agreement with the industry (PICTF 2001) which will improve competitiveness within the European Union (EU). According to (PPRS 2009) the NHS must have access to medicines of reasonable price, quality brands in order to promote competition in the sector. The tax regulation has been a problem for the industry as it affects her UK based companies due to the proposal of increase in tax rate and taxing foreign profits (Buchanan, Barbara 2008) which has caused migration of companies like Shire pharmaceutical.

Economic – the hit of recession on the UK economy has resulted to increase in inflation rate which affected the pharmaceutical sector but not as much as other sectors (BBC 2009). With the fact that there is a shake in inflation rate, increase tax rate, wage drops. The average family’s disposable income drop by more than £150 a year (times online 2009) which has affected the spending power of the population.

Socio -cultural- over the years there has been a change in people’s lifestyle whereby they go for fitness and health clubs at the expense of taking fitness and health medication. There has been an increase of 23% in membership between 2004 and 2008 and recently there has been 10% increase in the number of adult members despite the slowdown in the economic (Mintel 2009). However it has been discussed that there has been an increase in OTC drugs due to the fact that peoples now practice self medication because of minor illness (Bainbridge, Jane 2008) which has made the sector rise by 23% since 2003. The ageing population might be an opportunity for the sector since they are tends to have diseases like rheumatism and insomnia.

Technological- over the years the use of technology has yielded nothing but positive effect on industry. The UK government supports GSK, Welcome Trust, and EEDA to develop a biotechnology science park in the UK in order to strengthen the industry’s bioscience to compete against those in other countries (PBR 2009). Technology has helped to generate blockbuster drugs in the past and the membrane technology used in biopharmaceutical discovery, development and commercial production worth of $740 million in 2004 has increased to $1. 23 billion in 2009 (BBC research 2004) which is as a result of its increase in research and technology.

However haven't analysed the external factors affecting the pharmaceutical sector, it is obvious that although some factors have affected the company negatively but she still maintained her market share and position in the economy because people keep spending on medication no matter the difficulties because wellbeing is essential.

2. 3 Critical success factors

This simply point at " the products features that are valued by a group of customers and therefore, where the organisation must excel to outputerform competition" (Johnson 2005) which can be said to identification of customers needs and things exceptionally done for this purpose which gives them competitive advantage. For a clearer knowledge, strategic groups in UK pharmaceutical will be briefly analysed.

Strategic group- companies vary in different ways which make some operate similarly that differentiate some from others. In the UK pharmaceutical industry there are two main groups – Generic and Proprietary group. The proprietary group adopts strategy of high price charges, patent drugs because of high R&D spending and stress which makes the prone to high risk (high failure rate in drug development) and returns. The generic group focus on low price, low R&D spending and imitate drugs made by companies in proprietary after expiry of patent. (Hill & Jones 2007) . GSK spend £300. 000 on R&D every hour and spends over $500million to develop a new drug that takes up to 12 years (Mintel, 2007), which obviously tells its membership of proprietary group.

However haven't identified GSK's strategic group in UK, its main rivals are the companies that belong to the same group and perform similar activities like Pfizer, Merck….. who stand as threats to its profit because consumers see them as substitute for each other whereas patent can cause low substitute. Due to this it is hard for companies in generic group to break into this group because of high R&D spending and skills. Gaining the idea of GSK'S business model, the critical things it does for it survival and to meet the needs of its customers and attract more will be mentioned bellow.

Advertisement and Marketing – in 2001 GSK handed a £53 million account to Mediacom to buy activities for its British customers (Marketing 2001) and support its media plan and also spent £1million to support its sensodyne brand Television campaign(Chemist and Drug 2002). It also market 30 vaccines all over the world (Datamonitor 2009)

Merger and Acquisition – the formation of GSK in 1998 resulted to increase in sales the following year, huge number of staffs, increase R&D capacity and have more products to meet customers' needs (Smithkline's four promising drugs in final stage of production and Glaxo Wellcome's blockbuster drug " Zantac") (Lazo 2001)

R&D and Innovation – it is important for pharmaceutical company to come up with faster ways of cure for diseases and always find a solution to new diseases. Due to this fact and business model GSK spend £300, 000 on R&D every hour (cio100 2009) in order to keep up with the trend of continues discovery which leads to several innovations. According to (Datamonitor

2009) GSK has 40 major products and as R&D continues, more innovations are to come.

3. KEY BUSINESS STRATEGY

3. 1 mini introductions (past 5 years)

Over the past five years GSK has engaged in adopting different strategies for the success of its business and meet customer needs (Emerald 2009) and the Porter's generic strategy will be used to identify these strategies.

3. 2 porter's generic strategy

Michael Porter's gave his view of business strategy as the different ways that companies take to achieve competitive advantage in the industry (Drypen 2009) which he classified as Cost leadership, Differentiation and Focus. He explained cost leadership as a strategy of low cost business operation to have an edge over rivals in the industry and differentiation as a strategy of producing unique products valued by customers and might attract high price charges. He lastly describe focus as a strategy that targets a particular group or class of people whereby focusing for either reason of cost (cost focus) or differentiation (differentiation focus) which is usually low in volume.

Taking note of the proprietary group and its characteristics, it is argued that GSK operate using the differentiation strategy which is be highlighted below.

Non- stop R&D strategy- GSK has always engaged in huge spending on R&D as to develop its own drug and patent it as a member of proprietary and recently has led immediate rival Pfizer on a hidden R&D partnership journey (Invivo 2009). Although their partnership was known to the public for sales of HIV drugs but here lies the secrete behind it.

Sales & marketing strategy- with the help of Vodaphone , GSK was able to market its Flixonase spray to cure hay fever to its customers through mobile text messages and its sales team (mobile marketing 2006) which makes it marketing standout from others.

Outsourcing strategy- GSK and Galapagos Biotech formed an innovation alliance for the purpose of novel medicine osteoarthritis (A. Hoekema 2007) which GSK did with main intent of outsourcing for innovation because of expiry of patent.

Expansion strategy- GSK formed a partnership with Dr. Reddy's a generic drug maker in India and also bought 16% of Aspen's stake, a generic drug maker in South Africa (mintel 2009). Its main objective was to have access to emerging market and generic drugs, sell many of it drugs (reduced rate) in Africa, Asia and Latin America.

However it has been argued that GSK operates under differentiation strategy but we can see that as a result of patent expiry which led to direct completion with generic drugs, it changed strategies to do business with generic drug makers and use these avenue to penetrate emerging markets too boost it sales.

4. RESOURCES AND CAPABILITIES

4. 1 introductions (past ten years)

Over the past ten years GSK had developed some strategies as shown earlier in the report, we will be looking at its resources, capability and how it has been able to make these work together to actualise the strategies above to gain competitive advantage. These resources and capabilities can be threshold which is the necessary ones needed for it to function and compete in market while unique resources and core capabilities are those different, distinctive, to imitate ones that make companies gain competitive advantage over others in the industry (G. Johnson et. al 2005)

4. 2 Company’s resources and capabilities

GSK’s threshold, unique and core resources and capabilities will be reviewed below.

Threshold resources

Strong R&D of new medicines- over half of GSk’s total sales come from blockbuster drugs which has made them rely on nine out of the drugs over the year (A. Townsend 2004). This has made them to make effort of developing more drugs as patent of the former expires.

Skilled and talented staffs- as at 2008, GSK UK employed 99, 003 staffs which includes scientists, pharmacist, IT[3], sales (Datamonitor 2009)

Large number of employee – Gsk employs 99, 003 people in 2008 (Datamonitor 2009)

Employee motivation- GSK motivates their staffs with making salaries and bonuses competitive and reward for their performance.

Supplier, buyers and stakeholders- GSK is a leading supplier of drugs and vaccine to NHS, fund academic research.

Merging to gain more brand awareness- GSK is currently partnering with Pfizer to make a mega sell of HIV drugs.

Capital for R&D- it has been known that GSK spend over $500 million to develop a new medicine and takes 12 years or more (Mintel 2007)

Unique resources

Good reputation- GSK happens to fall amongst the first five of the world’s most admired pharmaceutical companies. (Mintel 2009)

Threshold capabilities

Ability to reduce cost- GSK has been slashing prices since 2001 after the merger and moving of some of his financial jobs to low cost countries like China and Poland. They have been able to cut cost by increasing money paid on its high selling drugs in order to reduce cost on it drugs faced with generic competition (Guardian 2005)

Partnering – Partnership with other biopharmaceutical companies to develop drugs to fight ailments e. g it partnership with Nabi for monoclonal antibodies to stop smoking (Silico research 2009)

Core capabilities

The great merger- the merger between Glaxo Wellcome and Smithkline Beecham which made it acquire block drugs, second largest consumer goods manufacturer in tooth paste and energy drinks (Lazo 2001)

Dynamic capabilities

The earlier stage of mergers where companies of the same view came together , which was known as the great merger that led to consolidation in pharmaceutical industry and formation of gsk.

Later there was acquisition of smaller firms like the biopharma, science and biotechnology firms. Gsk acquired lot of these companies around this time.

The last stage can be described with what is happening now in the industry where companies outsource, restructure and expand. Gsk has engaged in series of outsourcing and expanding activities. Like merging with Galapakos biopharmaceutical in order to outsource and avenue to enter emerging market (A. Hoekema 2007)

4. 3 extent of alignment into business strategy

SWOT ANALYSIS – According to (G. Johnson et. al. 2005) swot help to give a forecast on how the key environmental issues and capabilities of a company will affect its strategic development. And (R. Lynch 2009 p: 302) sees it as " analysis of strengths and weaknesses present internally and opportunities and threats facing organization externally".

STRENGHTS:

Strong sales and marketing

Robust sales forecast to lunch portfolio

Strong brand name

Demonstrated ability to control cost

Highly innovative R&D

Advanced technology

Profitability

Expansion

Strong rebranding image

Financial ability

WEAKNESSES:

Restructuring required

Failure of pipeline to deliver initial commercial expectation

Over dependent on leading products

Lack of block buster drug launches after the great merger

OPPORTUNITY:

Emerging new markets for pharmaceutical companies in developing countries

Pipelines to deliver strong growth for next few years

High growth oncology market

Continued cost reduction

Smaller biotech and biopharms

THREAT:

Increasing cost of R&D

Generic competition with high selling products

Policy/regulation

5. CONCLUSION