

Healthy rise in gsk profits commerce essay



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This report outlines the analysis made at micro and macro level on UK based pharmaceutical company, Glaxo SmithKline Plc. In this context the scope of the industry is analyzed and based on the threats that the industry can face a critical study is carried out to predict the future market position of GSK among its competitors.

This analysis made is based on various models and frameworks like Porter's five forces, Porter's generic strategies and PESTEL analysis. These models help in clearly defining the strategic position, strategic fit and the competitive advantage of the company with respect to sustainability over the future market scenario of the pharmaceutical industry.

GSK is one of the market leaders in pharmaceutical industry that comprises of 7% of the world's pharmaceutical market. It is head quartered at UK and with operation based in US has a long history from 18th century. GSK was a result of two major market holders; Glaxo Wellcome (Burroughs Wellcome & Company and Glaxo Laboratories) merged with SmithKline Beecham (SmithKline Beckman and Beecham group plc) to form GlaxoSmithKline Beecham during the early 2000 (Glaxo SmithKline, 2009a, 2009a; Glaxo SmithKline, 2009b).

Pharmaceutical Industry

A pharmaceutical industry in general can be defined as a private organization where discovery, development, manufacture and sales of drugs and vaccination into the market takes place (Britannica, 2009). With respect to the case study company, GSK proves to be a market leader as a research based pharmaceutical industry providing diversified health care products to

influence human's life towards betterment (Glaxo SmithKline Plc, 2009a; FAME, 2009a).

Market share:

The recent statistics (Euromonitor, 2009a; Euromonitor, 2009b) shows that GSK by holding 7% world's pharmaceutical market share remains to be the second major pharmaceutical company in the world and it is the third largest leading OTC health care company with a market share of 3.4% following Johnson & Johnson Inc and Bayer AG. Recent report shows that GSK has shown increase in their turn over market share in vaccine sales and diversified products in US irrespective of the recession during 2008 (Brian & Kevin, 2009). There has been a 10% increase in profit and sales during the third quarter of 2009. This was due to the sales and urgent orders made by various governments around the world for the treating pandemic influenza virus (Milligan, 2009).

GSK gives a tuff competition to its major market share holders and generic. The pharmaceutical industry can be classified as an oligopoly market, because two major firms GSK and Pfizer will be working together to obtain solution for HIV/AIDS. Thus this will lead in building barriers for the other minor market competitors to reach the top 5. But still the generic industries in the market remain to be a major force of competition for GSK when its product's patent expires (Jack, 2009).

External Analysis on GSK

The external analysis on GSK is done using PESTEL and Porter's five force models.

Macro environment

The PESTEL analysis is generally used at the macro environment of an industry to understand the key drivers for change. This frame work tells the managers to make efficient strategy based on the PESTEL analysis report.

Thus a few core factors of change are discussed below,

POLITICAL: The US Govt by approving the license application for the pandemic vaccine allows GSK to manufacture and supply its unadjuvanted vaccine for the use of US people. Similarly many other European and Asian nations have also ordered for this vaccine which in turn will reflect a hike in GSK's revenue (Milligan, 2009)

TECHNOLOGY: GSK adopted sourcing technologies from Emptoris solutions to obtain spend analysis, supply and contract management software solutions that empowered the company to add up another billion to the profit (Emptoris, 2009). The result of this was proved with the awards that it received at " 2005 Baseline ROI leadership Awards" for Supplier coordination and Performance management (Ziff Davis media, 2009)

SOCIAL: The demographic changes are similar in Africa (Cutler J. Cleveland, 2009) India and China. The changes taking place raises a demand for increase in the standardization of the people and influencing longer life to them for a fraction of a price charged at UK. Thus GSK finds the emerging

markets like these countries and establishes its brand and products to gain advantage of the changing demographic factors (Financial Times, 2009a).

ENVIRONMENTAL: The threatening animal rights campaign caused the smaller firms to shift their company headquarter from UK . But GSK with the support of UK govt dissolved the case (BBC news, 2009a).

LEGAL: The patent protection has been a major issue while making a sales competition with the generic manufacturers (Jack, 2009a).

ECONOMIC: The recent economic recession that hit the US and UK market made GSK to cut jobs in selected plants (Decision news media, 2009).

The analysis has helped in defining the extent of macro environment that supports GSK through its progress by providing few facts that remains to be driving factors to bring change for the company's revenue and brand image. However, certain environmental issues and legal factors can make the investors to rethink. Finally UK govt's dependency on GSK's share towards economy is an added advantage that will remain ideal.

Industry and sector:

The Porter's five force framework explains the influence of competitive forces surrounding an organisation. The key factors like exit barrier for existing company and entry barrier for new entrant (Gassmann et al, 2004 p21) to emerge as a rival to GSK are discussed below.

Power of buyer: Power of buyer may not be a major issue for a new potential entrant to consider, but he can't stick to a single supplier. Considering GSK,

it maximizes the number of chemical supplier to avoid supply disruption which results in loss in market share. On the other hand it minimizes the number of machinery and equipment to single supplier for processing products to maintain identical standard (Pierce & Lisa McTigue, 2004).

Power of supplier: The power of supplier is very low in the current pharmaceutical market because procurement through reverse e-auction (Science Direct, 2009) results in low switching cost (Gassmann et al, 2004 p23) and it is being followed effectively by GSK. The high supplier concentration ratio in pharmaceutical industry makes the suppliers to liberate their powers over the buyers.

Threat of substitute: Threats from generic manufactures (Jack, 2009a) of drugs, have been a major threat to GSK because price competitiveness is always a major attraction to insurance company, International bodies like NICE to approve and for the end customers.

Threat of entry by a potential entrant is medium. A new entrant can be former chemical manufacturer or supplier then the complexity for the company to emerge into a pharmaceutical company is quite easy.

Regulative forces: The major issue in a pharmaceutical industry can be the patent protection, changing trade law and taxation, tort law (Glaxo SmithKline, 2001), approval from FDA (Russell, 2008), European and other regulatory authorities.

Rivalry: Globalized leaders such as Merck, GSK, and Pfizer have remained as strong rivals in launching new or updated products (Griffiths, 2006).

Competitors:

The critical success factors are influencing aspects of a product that are valued by the customer/consumers. Thus the organisation has to consider these factors for taking advantage among their competitors (Johnson et al, 2008). As discussed before GSK deals with prescribed drugs and non-prescribed drugs (OTC). Thus these diversified products that it manufactures have various customer and consumers.

There are four critical success factors identified in GSK as per customer's valuation. They are Value, Variety, Share return, Skilled clinical testing,

Value: OTC products can expect a lot of price sensitive customers buying those in the shops. However, the prescribed drugs which have less price conscious patients and more public and private hospitals. Drugs purchased by the hospital board are checked for its cost effectiveness by national organisation like NICE. GSK with high brand images loses the market due to low cost generic products after the expiry drug's patent. So GSK has to consider about the cost factor to overcome the price war.

Effectiveness: Generally the drugs with more effectiveness towards the medical problem are preferred by the end customer. GSK's LEVITRA® (Glaxo SmithKline, 2009e) which had 25% higher efficiency than its competitor's drug Viagra gained an edge.

Skilled Clinical testing: It is a major concern for NICE and NHS in UK. They are more concerned about the side effects that a drug can cause if it is not properly tested. (Glaxo SmithKline, 2001).

Variety: diversified products with high variation are always expected by the consumers globally. GSK develops OTC products, prescribed drugs and orphan drugs (FAME, 2009). So this factor is not an issue for GSK since it has a high to make further improvements.

Internal Analysis on GSK

The internal analysis on GSK has been basically carried out by analysing the strategies of the company.

Strategies of GSK

To make a general analysis of competitive advantage the company is facing through its strategies, Porter's generic strategy tool is been used (Porter, 1998a; Porter, 1998b). Porter's generic strategies consist of 3 basic subdivisions such as Cost leadership, Differentiation and Focus strategy. GSK use certain strategies to create an unassailable position or outpace the competitors in the pharmaceutical industry. Considering the past 5 years GSK has effectively chosen and implemented several strategies to meet its goals. But not all those strategies have produced expected results.

Cost leadership:

According to porter risk outcome from having cost leadership distracts a company from possessing diversified products (Porter, 1998a). GSK's strategies have never aimed for having a cost leadership. Their major concern was to produce cost effective drugs by sourcing globally through reverse auctioning and not producing low cost drugs like the generic manufacturers who wish to position themselves in low-cost position in the <https://assignbuster.com/healthy-rise-in-gsk-profits-commerce-essay/>

industry. So GSK cut and save expenses in production and procurement to avoid the risks in differentiation as mentioned by porter

Differentiation:

GSK follows the strategy of M&A on various biotech firms around the globe to make a use the latest technology for its drug discovery and development. This adds value to the product and the people pay the premium price fixed by the company. GSK invests more on Research & Development for adding more value to the product. Recent alliances with Harvard Stem Cell Institute (Glaxo SmithKline, 2008a) and acquisitions such as that of Stiefel Laboratories and Genelabs (Glaxo SmithKline, 2008b) provide added advantage to the research and development of drugs.

Competitive Advantage

Resources

The resources can be classified into tangible, intangible and human resources.

Tangible: This can be diversified into financial and physical tangible resources. The financial resources are cash, securities and borrowing capacity (Hitt et al, 2009). Financial resources and physical assets are identified and valued in the firm's financial statements. Database (ORBIS, 2009) reports GSK's balance sheet tangible asset value to be \$14, 108, 592. The physical assets include labs owned and leased, land space for offices, manufacturing plant, medical equipment, non-medical equipment. However, the primary objective of resource analysis is not to value a company's

assets, but to understand their potential for creating competitive advantage. Hence therefore GSK's tangible resources are threshold resources.

Intangible: The intangible resources are the most important rather than tangible resources (Hitt et al, 2009). This is because the company introduces its premium price with the confidence to the brand image it has. And the people who have no idea about the same product from an unknown company prefer the branded product at the premium price. The intangible resources of GSK are generally the brand image, Government support to protect the patent, good will of the company, public relation.

The global public policy in Glaxo SmithKline (2007) states that,

' Patent protection stimulates and fundamentally underpins the continued research and development for new and better medicines for diseases including those which occur in the developing world. Without adequate intellectual property protection, the medicines that are needed in the developing world are far less likely to be developed'. (2007: p. 2)

And a cover story from Business week (2007), states that,

' GlaxoSmithKline discovered that, by investing to develop drugs for poor nations, it can work more effectively with those governments to make sure its patents are protected'.

Thus it's clear from the above statement that GSK which finds the emerging countries like India, China and under developed markets for its drugs. The company uses the strategy of preferential pricing system to obtain goodwill, patent protection from the government and to boost itself as a monopoly in

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the market. Thus brand image and UK Government support are the unique resources of the company.

Human Resources: The human capital of GSK measures to be the highest among all other competitors like Pfizer, Roche and Johnson and Johnson. There are 101, 133 employees working as a part of GSK worldwide in various departments of research, development, and production. GSK alliance with state owned university carries out its research with the scientists and students there at the labs (ORBIS, 2009).

Capability

Prahalad and Hamel state that the term organizational capability can be coined as ' firm's capacity to deploy resources for a desired end result '. (1990: p 79-91). According to (Prahalad & Hamel, 1990) Core competences are those that contribute to customer value, and to enter new market. The key capability factors are,

Ability to merge and acquire: GSK has the capability to merge and acquire firms of same or different industry for lateral and vertical integration. The company has the ability to work along with rival market holder Pfizer(Pharmaceutical marketing, 2009) and it has merged with dermatology specialist Steifel.

MIS: managing information system is one of the functional capabilities obtained through vertical integration with software solutions organisation like ORBIS. GSK choose to use a Lean Sigma approach to analyze the issues

and develop a long term solution that supports the needs of a global company of their size (Orbis, 2008).

Vertical Integration: GSK advisor uses the services of

PricewaterhouseCoopers (Pricewaterhousecoopers, (2009), which provides Human Resource Services to manage compensation, pensions, share schemes and wider reward, technology, training and tax.

Research and development: as a part of organisational capability GSK possess the ability to make research various drugs according to changing market demand (Glaxo SmithKline, 2009f). GSK has the ability to integrate the functional capabilities to form the value chain.

Aligning Resources and Capabilities

The capability and resource together form the key competitive advantage when exploited together to execute the strategy (Prahalad & Hamel, 1990). In the process of aligning the resources and capabilities it is necessary to understand the company's superfluous strength that is the R&D and effective vertical integrating capability.

GSK finds emerging market like China and India and under developed countries of Africa. Then the management members along with the team that analyzed the market (cross functional capability i. e, developing new product) discusses about the demand of the country and decides on a perfect product to market in that country. GSK gained popularity of horlicks in India by late 1930 itself. Horlicks was launched a sleeping aid in Britain (Telegraph, 2005) and as a supplementary malt drink in India, where it holds

a market share of 75% in health drink sector (Somvanshi, 2009). It also supplies drugs of great demand like H1N1 vaccine as per order made. GSK makes an agreement with the government for protecting its patent to provide the drugs at a lower cost. As these are emerging countries that are ready to allow large foreign investment accepts the deal for patent protection. Thus GSK with its financial resource targets enters the developing market with the objective establishing its brand as well as avoids the threat of generic industries.

By acquiring, merging or by creating alliances with other existing firms who are specialized in other fields, the knowledge and skills of the employee are used to develop newer products under its ownership of GSK (Ruddick, 2009). Generally the pressure to merge with other firms builds up, when a company's block buster drug is about to expire. By this practice GSK builds up its strength to compete the challenge with newer and innovative products.

However GSK has failed to exploit the resources and capabilities to its strategies at its maximum extent to attain regulatory approval from U. S. Food and Drug Administration (Russell, 2008).

Conclusion

It can be argued that the GSK is perfectly in the growth stage. However company has to concentrate on innovation, developing block buster drugs, and efficiently restructuring the pipeline, rather than concerning about the off-patent. The key issues that the GSK face now is, the low returns provided to the investors and share holders. The increasing cost of the production and

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development of drugs increases the possibility of higher sunk costs. The outlook of pharmaceutical industry as a whole suggests that the industry may run out of highly skilled scientists in the future but still remains to be the most attractive industry with high barrier to entry. Thus GSK considering the future issues and changing factors in mind has to progress through this economic downtime to prove its capability.

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