

# [Glaxosmithklines diversification strategy and market analysis](https://assignbuster.com/glaxosmithklines-diversification-strategy-and-market-analysis/)

This summary explains actual situation of GlaxoSmithKline’s (GSK’s) business in the drug market based on information given in the case study on the GlaxoSmithKline’s rush for branded generic markets.

## Study Objective

Main purposes of this summary are –

Brief history of GSK and Drug market

Discuss on GSK’s diversification strategy of shifting focus from patented drugs in the US and Europe to branded generic drugs.

GSK’s impact in generic drugs market as patented drugs in the emerging market.

## Background

GlaxoSmithKline is a research-based pharmaceutical and healthcare company engaged in the creation and discovery, development, manufacture and marketing of pharmaceutical products, vaccines, over-the-counter (OTC) medicines and health-related consumer products. GSK operates in two industry segments: Pharmaceuticals and Consumer Healthcare. Its Consumer Healthcare segment provides OTC medicines, Oral healthcare and Nutritional healthcare.

## Patent Protection, Generic Drug and Branded Drug:

A generic drug is a copy of a brand name drug whose patent has expired. The original manufacturer of a drug receives a patent on the drug and is the only manufacturer who can produce and sell the drug during this patent period. Once the patent expires, other manufacturers may produce and sell the drug. These manufacturers usually sell the drug under its common or generic name.

Patents are considered to be insurance for inventors, including research-based Pharma companies, since drug innovation risk, expense and time for its development. Any new drug that was developed came under patent protection.

## GlaxoSmithKline’s strategy and impact on the drug market

GlaxoSmithKline’s diversification strategy was to maintain its position in the emerging market and to get access to a broad range of low-cost branded but unpatented drugs. Although GSK took a breakthrough entry into the emerging market for branded generics but it face a lot of challenges Intellectual property (IP) exposure and drug pricing controls.

## GlaxoSmithKline

GlaxoSmithKline has had a long and established history particularly with its consumer healthcare products like Panadol, Ribena, Horlicks and Eno. GSK brands are common household names and can be found in every kitchen and medicine cabinet.

Although the corporate entity GlaxoSmithKline is only ten years old, it traces its roots back to the 1715 establishment of the Plough Court Pharmacy in London, England. During the next 284 years John K. Smith’s drugstore (established in 1830) and Joseph Nathan’s Glaxo dried milk company (established in 1906) would undergo many acquisitions, mergers, and name changes, including the integration of the original Plough Court Pharmacy. On December 6, 1999 Glaxo Wellcome and SmithKline Beecham merged to form the corporation that exists today. Click for more information on company HISTORY. One of the top five pharmaceutical firms in the world, GlaxoSmithKline products spans the globe with sales in over 150 countries. Although the majority of their sales are in the United States and Europe, the rest of the world accounts for 26 percent of 2008â€²s TOTAL SALES. Their products are separated into two categories: pharmaceuticals and consumer health care. Pharmaceuticals can then be broken down into eight focus areas: respiratory, central nervous system, metabolic, cardiovascular and urogenital, anti-viral, anti-bacterial, oncology and emesis, and vaccines. Common examples include Flonase, Paxil, and Valtrex, andvaccines for influenza, hepatitis B, and poliovirus. The consumer health care section also includes a broad range of products such as over the counter medication, dental health products, and nutritional drinks. Examples of these brands include Aquafresh, Abreva, Nicorette and Tums.

GlaxoSmithKline (GSK) is working on the production of the H1N1 influenza vaccine, global consumer base, and diversity of products. In addition, they have a clear business strategy and a commitment to aiding those in the lower demographic.

GSK’s predecessor arrived on our shores in the late Fifties and soon evolved into the large conglomerate it is today. Its wide product range covers every aspect of healthcare from vaccines and over-the counter (OTC) medication to nutritional beverages, oral care and pharmaceuticals.

GSK has set up a comprehensive distribution system and specialist dealership scheme involving wholesalers, ensuring that the general public has constant access to all products all the time. The brand has penetrated the local market and has guaranteed that its products are highly visible and contribute to people’s health.

GSK’s Global Manufacturing & Supply division is a pioneer of the Good Manufacturing Practices (GMP) system. GMP regulations are based on the World Health Organisation’s Code of Requirements, which the global Drug Control agency in turn bases its guidelines upon.

With its dynamic sales force and diligent management team, GSK is forging ahead with the GSK philosophy of making people do more, feel better and live longer ensuring GSK products are the preferred choice always.

## Drug market: Patented Vs Generic Drugs

Increasing competition in the generic sector has made generic companies start to think about expanding their business into new areas, warns Generic Pharmaceuticals, a new report from FT Pharmaceuticals & Healthcare Publishing. Whether these firms will come to have sufficient specialist expertise to produce and market drugs like erythropoietin remains to be seen. However, it says, with firms such as Apotex having a strong focus on biotechnology, anything is possible.

According to the FT report, the European Generics Association estimates that the current European Union market for generics is $6 billion, accounting for around 15% of the total pharmaceutical market by volume and 10% by value. The EGA forecasts that by the year 2000 generics could be worth just over $15. 5 billion in the EU, compared with some $16 billion in the USA (see table below).

There are two major drivers of growth in the generic market: the proportion of drugs off-patent and so subject to generic competition; and payer pressure due to rising health care costs.

Major US Players in Generics In 1993, five of the top 10 pharmaceuticals suppliers in the USA in terms of prescriptions were generic manufacturers. In 1995, the top 10 generic companies there accounted for 11% of the retail prescription market.

The generics industry is facing a period of unprecedented growth, with $82 billion worth of global blockbusters set to face US patent expiry by 2007. The changing dynamics of the generics market are driving strategic evolution of leading players, with portfolio management, geographic expansion and alliance networks determining success and failure. With cost-containment a focus for all healthcare players, the growth of the generics market is outpacing the branded sector by a considerable margin. However, the operating environment for generics is becoming increasingly competitive pushing existing players further up the pharmaceutical value chain. Brand and generics companies alike must be prepared for this new competition. With 79. 7% of 2003 blockbuster sales potentially exposed to generic competition by 2010, equating to $103. 7 billion worth of products at 2003 sales value, the growth opportunities in the generics sector are significant. However, understanding how different country dynamics shape the competitive landscape is critical to evaluating risk and return.

The top 500 drug entries of 2004 represent total sales of $292. 55 billion. The top-selling prescription drug of 2004 was Pfizer Inc.’s Lipitor. Launched in first-quarter 1997, the HMG-CoA reductase inhibitor generated 2004 sales of $10. 86 billion, an increase of 17. 7% compared with 2003 sales. Another cholesterol drug was the No. 2 seller of 2004. Merck & Co.’s Zocor, which was introduced to the market in 1992, recorded sales of $5. 2 billion, representing growth of 3. 7% compared with sales in 2003. The third-best-selling prescription drug of 2004 was Advair/Seretide. Marketed by GlaxoSmithKline since 1999, the asthma medicine had sales growth of 24%, coming in at $4. 5 billion. Another Pfizer product was the No. 4 best seller in 2004, the antihypertensive medicine Norvasc. Available since 1992, Norvasc sales increased 2. 9% for 2004 to $4. 46 billion. At No. 5 is Eli Lilly and Co.’s Zyprexa for schizophrenia. Launched in 1996, Zyprexa sales were $4. 42 billion last year, a 3. 3% increase compared with 2003 sales.

The US, UK and Germany are mature generics markets experiencing substantial price competition. This is reflected by the fact that, while generics make up 55% of all global prescriptions, generic market sales equate to only 17% of total sales. However, less mature markets also exist, including France, Spain, Italy and Portugal. These markets offer better growth opportunities as generics’ current market share is comparatively small.

Merck already has a presence in the US market, deriving 31% of total generics sales from this sector. This predominantly stems from DuoNeb and EpiPen, supergeneric respiratory therapies marketed by Dey. Merck derives its sales from its chemicals and pharmaceuticals businesses. In 2004, 51. 5% of its pharmaceutical sales came from generic products, which made $1, 986 million. Pharmaceutical sales were $3, 857 million, a 26. 7% increase on 2003 figures, which is primarily attributable to the company’s generics division.

The integration of Dey into Merck’s generics business in 2004 now makes this unit the company’s largest pharmaceutical division in terms of sales. In the recent past, a trend of consolidation has swept across the generics market, with Teva’s acquisition of Ivax being a recent example – one itself prompted by Novartis’ purchase of Hexal and Eon Labs. These moves strengthened Teva and Novartis’ leading positions in the global generics market and enabled the two companies to diversify geographically.

The following figure gives the world generics market growth.

In 2003 the U. S Pharmaceutical formulations market for Off patent molecules was valued at around $ 66 Billion and the Generics account for $15. 7 Billion up 8. 1 percent over the previous year. This component is likely to grow at a compound annual growth rate (CAGR) of 11. 8 percent to reach $34. 5 billion in 2010. Total savings from generic prescriptions in the United States is estimated at $39. 30 billion; this is expected to grow by 6. 7 percent per year, on an average, to reach $61. 97 billion in 2010.

The following figure gives the forecast for the US Generics Market from 2000-2010

The following figure gives the market breakup of the major generic companies in US.

US is the world’s largest market for generics, and with some of the blockbuster drugs likely to go off-patent in the near future and increasing preference for generics by managed care organizations, the US generics market and, therefore, the global generic pharmaceuticals market is expected to grow at a rate higher than the global pharmaceuticals industry. The generics market offers immense opportunities to the developing countries like India, where the cost of production is low and quality manpower is readily available. Many Indian companies continue to aggressively file Abbreviated New Drug Applications (ANDAs) in the US and have good track record of receiving approval for the same.

## GSK’s diversification strategy and market impact

Earnings per share, excluding restructuring charges, were up 3pc at 26. 3p but down 28pc at constant exchange rates. On the same basis, turnover fell 5pc at £6. 77bn. Allowing for favourable fluctuations in currencies, group sales were ahead 19pc.

Pre-tax profits fell from £1. 87bn to £1. 67bn, struck after £265m of restructuring costs. Various GSK drugs are coming off patent in America, allowing cheaper generic rivals to steal market share. Sales in the US – the world’s biggest drugs market – fell 22pc to £2. 3bn in the first quarter, and Andrew Witty, chief executive, said generic competition had reduce sales of drugs in its central nervous system portfolio by nearly £450m.

Other markets were stronger, however, including Asia and Europe. The consumer division also reported solid growth, with turnover at constant exchange rates up 4pc at £1. 15bn. Treatments include Alli, the over-the-counter weight loss drug that launched in Europe last week.