

Reasons For The Glaxosmithkline Merger

Introduction

Mergers are not new in pharmaceutical industry in the recent years and the same for both Glaxo Wellcome and SmithKline Beecham throughout each other's history. Considering the political, social and economic resistance, the general driving forces for these mergers in this industry are, more firms showed interest in using strategic partnerships and joint ventures to develop and market new products. Though pharmaceutical holds a global market, the US market decided the growth of the industry as it holds 45% of the global market. So not surprisingly the US political, social and economic resisted and delivered a strong impact on the growth of the whole pharmaceutical industry.

However Pfizer's merger pushed Glaxo SmithKline to 2nd rank in the industry, they were number one immediately after their merger. So the business changes of the organisation had a heavy impact on the whole pharmaceutical industry. So this paper had assessed the reason for the merger and extend the aims of the merger is achieved.

Background of SmithKline Beecham:

SmithKline Beecham resulted from the merger of SmithKline Beckman (SKB) and Beecham. Beecham was well known for its traditional research strength whereas SKB was known for its aggressive sales force in US. Though the process of merger was lengthy, the change from more laid British approach of Beecham to process oriented working was success. The new company tried to keep up with critical mass but they lacked in budgeting R&D, which was the real constrain for company's growth.

Background of Glaxo Wellcome:

Glaxo Wellcome's birth was from Glaxo's takeover of Wellcome in 1995. Glaxo was well known for its strong marketing approach, commercial success of its R&D efforts and blockbuster product Zantac whereas Wellcome is non-profit medical institution well known for its academic approach to pharmaceuticals. Though there were several clashes between Wellcome's laid back management style and Glaxo's hard-nosed, commercial and control driven culture, with the help of economic of scale in R&D activities, Glaxo reduced the conflicts and resistance. However the company's growths in producing blockbuster products were lacking.

1. Reasons for the Glaxo SmithKline Merger:

Merger of Glaxo Wellcome and SmithKline Beecham was a global one. The merger was a unique all over the world and various divisions of both the companies merged in around 170 countries in 2000, except Pakistan. The merger came through after UK

court order in January 2000; however it happened in Pakistan only on 23rd October 2002. So the merger of Glaxo Wellcome and SmithKline Beecham in Pakistan was the off shoot of the global merger of the companies.

There were six reasons which compelled both the legendary companies to go for the merge and to build a leading company in the entire pharmaceutical industry. The reasons for merging up together were:

To reduce the Research & Development pipeline.

To reduce the Research & Development cost.

Drug reimbursement issues.

Political pressures and growing concerns over drug prices.

Patent expirations / Generic competition.

Recent developments in biotechnology and the mapping of the human genome.

The right theme and idea backing the merger was, to improve quality of human life for enabling people to do more, feel better, live longer. As both the companies holds the strength in more similar kind of field that is, developing drugs for infectious respiratory neurological gastrointestinal and metabolic disease, they want to lead the way in providing treatment for the same. Apart from the above field, the join company appeared to be the world's leading producers of prescription medicine, vaccine and consumer health care products. So they planned for delivering innovative medicines and products that help billions of people round the world live longer, healthier and happier life.

The whole pharmaceutical industry was focusing and investing in R&D as it delivers modern ways to handle prolonging problems and helps in the long term growth of the industry. The hunger to deliver medicines for new diseases made the join group (GlaxoSmithKline) to pay more attention in R&D and wished to reduce the number of products in the pipeline of R&D. Though both companies produced similar kind of drugs and so integrating their products line was very obvious, the process demanded more time and efforts. This was mainly because; both had more number of products in the pipeline and hardly had blockbuster products in market. Still the management believed that the time for working on new diseases will be reduces by working together on lesser products. And in general all research and development evolves a risk of failure. Not that each compounds and all research towards developing new drugs for a targeted diseases comes out as success but in turn consumes high time, efforts and money. But the R&D is the only answer for the long term growth of both the joint company and the industry. So sticking to mission and vision of the new company, GSK has decided to

focus of R&D but in a different way of approach .i.e. cost saving, economics of scale and licensing from other firms.

Apart from these, a PEST analysis on the pharmaceutical industry will give a clear picture and highlight the hidden reason for the recent merger activities in industry and in particular GSK.

PEST Analysis on Pharmaceutical Industry:

Political:

Considering the Medicare in USA and UK's National Health Service, the level of political interest developed in this industry can be determined. In addition USA and European market hold the first and second place of industry's global market respectively. So it's very clear that the industry has gained a massive political attention because of the increasing social and financial burden of healthcare and safety.

In the increased political attention on the industry, has kept the industry low to live up the expectation and their interference on most moves of the industry was a really worrying the giants of the industry. Also the pressure of civil in rapid delivery of products has kept their quality and the industry finds hard in delivering effective products.

Economic:

The economic growth of the industry was rapid in recent years and next to IT industry with nine geographic markets account for over 80% of global pharmaceutical sales these are US, Japan, France, Germany, UK, Italy, Canada, Brazil and Spain. Of the above listed markets, US market holds a major one and fastest too however there is down fall in 2009.

"The US Pharmaceutical Industry is one of the mainstays of the Economy of America. It has been observed that the US Pharmaceutical Industry is growing at a rapid pace and is showing no signs of slowing down. The US Pharmaceutical Industry Growth is also considered as a very significant part in the world pharmaceutical industry as well".

Source: <http://www.economywatch.com/world-industries/pharmaceutical/us.html>

"According to analysis, in 2009, global pharmaceutical sales increased by only 2.5% ~ 3.5%, reaching a total of about 750 billion-760 billion U.S. dollars, which is lower than in October last year the growth rate of 4.5% to 5.5%, a total of 8200 the forecast 100 million U.S. dollars. This growth rate is the lowest in the past 25 years."

Source:

<http://www.sourcejuice.com/1169843/2009/05/08/Growth-rate-global-pharmaceutical-industry-lower/>

Social:

Every industry tries to have a good social relation. But this industry is many steps forward than the other industries because; good health is an important personal and social requirement. All the companies of this industry hold and play a vital and unique role fulfilling society's need for good health. And threat of some killing diseases like, AIDS, SWINE FLU, SARS etc. had not only attracted the attention of public and media but developed a more depending and demanding situation on the industry.

This immense situation has made the industry to maintain direct relation with the society (consumers) with the help of media and government care.

Technological:

The advance scientific technologies have increased the need for high spending in research and development in regards to encourage the innovation. The growth of technology drives the industry to responds faster to the expectation of the environment. This technology advancement evolves both risks and rewards.

Legal Environment:

However in current situation, government involves the industry in the proposal for regulatory outflows to encourage the innovation, these legal and regulatory affairs of US in special was a speed beaker for the development of the industry. European pharmaceutical giants really struggled in this situation.

“Sykes’s statement summarized how Europe’s pharmaceutical companies have been locked in a high stakes multibillion dollar struggle with their US rivals to stay in business in the 21st century. This struggle is associated with increased takeover activity and pharmaceutical companies seeking economies of scale to finance escalating research and development budgets.”

Source: Case study – “GSK – a merger too far?” Exploring Corporate Strategy by Johnson, Scholes & Whittington.

2. To what extent have the aims of Glaxo SmithKline merger been achieved?

Some of the aims of the newly formed Glaxo SmithKline were,

Not to protect future earnings growth but actually to increase critical mass to really outperform the industry.

To become the indisputable leader in the industry in terms of conquering the challenges that the industry faces.

To deliver innovative products that helps millions of people in the world to live longer, healthier and happier.

To achieve the aims, the management formed a new structure for R&D, highlighting the cost reductions and breaking of pipeline. However, the lack of focus on general organisational structure and internal management structure resulted in low returns compared to the estimate one. To handle the situation, the all the long terms aims has left unfocused and the management tried to recover the company from the 'sudden-death syndrome'.

This clearly gives an evidence for Glaxo SmithKline's downfall form the anticipated growth. The inability of GSK in producing blockbuster products, joint hand with the above described situation made things worse.

Focusing on employees and other internal management issues in the later part helped the company to handle the global resisting issues and focus on their long term goals.

Analysing GSK's stock market performance (1998 – 2003), tells that GSK failed to touch the anticipated heights and were only able to sail along with the industry growth. Based on the Lewin's force field model, the driving forces of GSK were not too enough to overcome the resistance for change and thus failed to achieve the fixed target.

Evidence for GSK loses record:

In the first year of post-merger, GSK claimed 12% increase in pharama industry, with the help of cost savings and disposal of assets. The firm anticipated double the level of saving in the next year. The health care grew only 3%.

They fail to record returns in R&D in spite of combined R&D budget and investment. It also failed to deliver blockbuster product to enhance the revenue. Instead to maintain the tempo, the management kept buying 40 licenses from other companies.

GSK has shed more than 15,000 jobs; Managers were unable to retain the talent that resides on the firms. Instead of creating a "powerhouse", research was split into smaller, autonomous units. (Abrahams, 1992 p.22)

GSK's new radical structure was a response to a series of failures in research at the two merger partners. (Dyer, G., 2002 p.3). The new radical structure resulted James Palmer (Head – Development) resignation in October 2002.

At the AGM on 19 May 2003, GSK shareholders rejected a motion regarding a £22 million pay and benefits package for CEO, JP Garnier. This was the first time such a

rebellion by shareholders against a major British company has occurred, but was regarded as a possible turning point against other so-called "fat cat" deals within executive pay structure.

Source: <http://en.wikipedia.org/wiki/GlaxoSmithKline>

In November 2005, AIDS Healthcare Foundation accused the company of boosting its short-term monopoly profit by not increasing production of the anti-AIDS drug AZT despite a surge in demand, hence creating a shortage that affected many AIDS patients in Africa. GSK announced that it had halted clinical trials of the CCR5 entry inhibitor, aplaviroc (GW873140), in HIV-infected, treatment-naive patients because of concerns about severe hepatotoxicity.[27] In June 2006 GSK said it was further cutting, by about 30%, the not-for-profit prices it charges for some of these medicines in the world's poorest countries.

Source: <http://en.wikipedia.org/wiki/GlaxoSmithKline>

To analyse, extend the aims of the merger have been achieved; SWOT analysis is done on the joint company, Glaxo SmithKline. Remuneration lenient explicitly

SWOT Analysis – Glaxo SmithKline:

Strengths

High potential staffs and experienced managers.

Wide-ranging set of documents in health sector.

Strong platform in health care division.

Strong market position

Focus to concentrate and develop leadership in Public relations i.e. to strengthen the social context of the environment.

Modern hospital system, Clear public health and health care service purchasing

Balanced finance in the health sector

Strong IT development

Product development track record.

Weaknesses

Lack of clear and wide perspective .goals to achieve the aims

Weak bond among health care, public health and social care.

Inability to cope with the cost increases.

Low brand value for its products.

Inefficiency in motivating the experienced leader and thus failing to make maximum use of the potential staffs.

Lack of viable training and management skills.

Not an efficient HR strategy in retaining key professionals.

Lack of right proposition of various competences.

Co-marketing agreements can limit GSK's global presence.

With mass R&D, inability to produce blockbuster products.

Opportunities

Technological development

Social changes and challenges.

Economic growth of the industry (immediately next to IT industry).

Free movement of goods, services, labour.

Developing vaccines for persistent diseases chance to have craic.

Empowerment of citizens and their greater engagement

Threats

Patent expiry on drugs that generate strong income

Ageing and demographic change.

Safety issues surrounding the products.

Ecological and public health threats.

Expectations of the raising population

As the R&D of global rivals work on similar products in most of the cases, the competition is high and much demanding.

Emerging of potential regional market like China and India.

Political pressure in fixing the price for new drugs, which fails to fulfil even the research cost.

Ever increasing cost of drug trials and ever higher standards imposed by national drug approvals bodies (Aspirin would not get approval if invented today!)

Conclusion:

Thought there are several giants in the industry, similar to the current situation, there was an uncertain situation during the period of early 90s. And to overcome that uncertain situation, most of the firms in the industry move themselves towards the strategy "Mergers and acquisition". But, as there is always a saying that not all mergers works, most of the mergers in the industry fail to achieve the anticipated growth and I feel Glaxo SmithKline is the right example for the scenario. GSK believed that bigger the size, bigger the growth and bigger earning. But it failed to realise bigger the size, bigger the expectation, bigger pressure and failing to handle the pressure and keep the expectation will reflect badly.

Various merger analyse debated, though GSK claim some success through cost saving and pipeline synergies, the aimed and announced growth was not received in terms of market.

So I conclude that, the merger served the company only in short term success and failed to achieve the aims of the merger.

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