

Strategic Management LCMB7003

A strategic analysis of



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Introduction

Strategic Management (SM) could be defined by identifying the purpose of the company, and the plans and activities to accomplish that objective. It represents a set of managerial decisions and actions that determine the long-term strategic objectives and performance of a business. SM also involves formulating and implementing strategies that will help in aligning the organisation and its environment to achieve organisational goals and obtain competitive advantage (Appa Roa et al., 2011). Barney (1995) defines competitive advantage as superior performance reported to other competitors in the same sector or higher performance related to the industry average. Analysing business environment, formulating corporate strategy, implementing strategic plans, and translating objectives into actionable plans are essential in achieving sustainable development in today's business competitive environment and is often considered a key dimension in creating value. According to Johnson et al., (2008) “strategy is the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations”.

The global pharmaceutical market is a complex, multinational, and rapidly changing industry. It is dominated by multinationals such as GlaxoSmithKline plc (GSK) and Pfizer. It is critical for these players to strategically analyse both micro and macro business environment to ground their strategies, in reality, and achieve success. This report is a strategic analysis of GSK in order to examine how the company dealt with different operational issues. This report applies different theoretical models to analyse both the internal and external business environment. It shows how GSK has achieved a competitive advantage in the pharmaceutical industry through their choice of strategic management.

Company Background

In December 2000, Glaxo Wellcome merged with SmithKline Beecham forming GSK plc (The Economist, 2000). Nowadays, GSK is one of the biggest global multinational pharmaceutical corporations. This science-led global pharma company, headquartered in Brantford, London, is a part of the FTSE 100 Index and has a primary listing on the London Stock Exchange. GSK is between top tenth largest pharmaceutical companies in the world and #296 on the 2019 Fortune 500, ranked behind other well-known pharmaceutical companies such as Johnson & Johnson, Sinopharm, Pfizer, Bayer, Roche, Novartis, Merck, and Sanofi (Fortune 500, 2019).

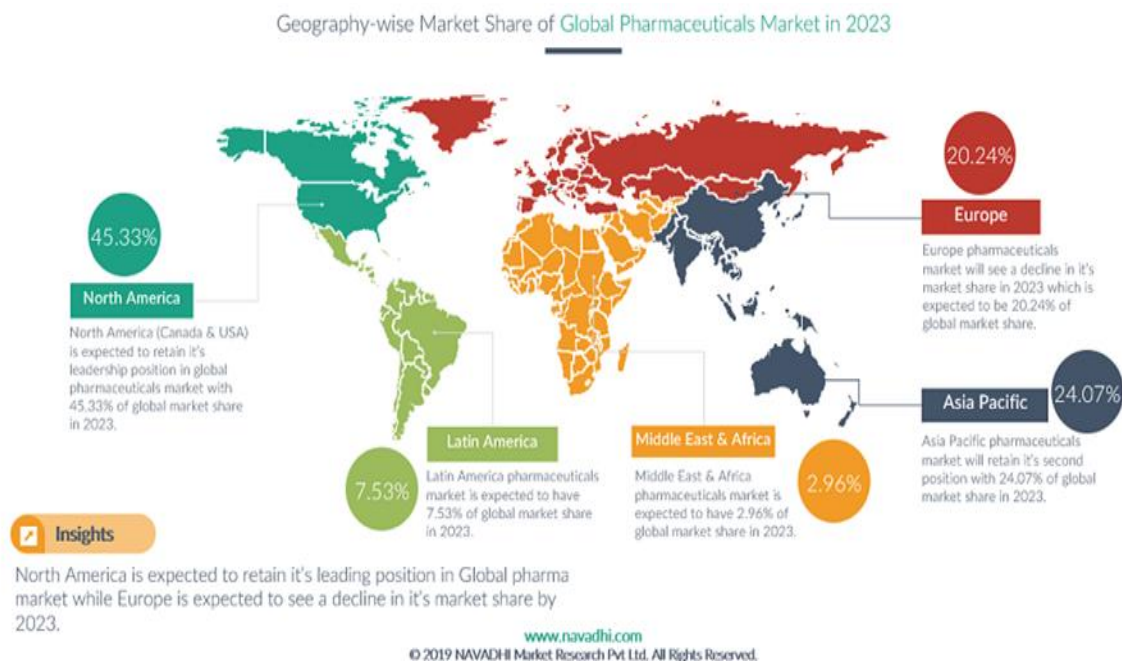
GSK is comprised of three global strategic business unities that discover, develop and produces innovative vaccines, medications, and consumer healthcare products, which help to improve the health and wellbeing of millions of people around the globe. Under all three segments company's products have their own brand name (GSK, 2019). These are immensely popular, especially healthcare products (see Appendix 1).

GSK has employed over 99,000 workers across 95 nations with outstanding scientific and technical skills and deep expertise in commercialisation, regulation, and intellectual property. GSK also works with world-leading experts and has different strategic partnerships with other companies to complement capabilities and improve organisational performance. The company has defined being one of the world's most best-performing, trusted, and innovative healthcare corporations as its main objective. As mentioned, GSK has three global business unites that their operations have been classified into three regions: the US, the UK and Rest of World. In FY2018, the US accounted for 38.9% of the firm's total revenue, followed by the UK (3%) and Rest of World (58.1%) (GSK, 2019).

Industry Analysis

Industry structure analysis is very critical for all organisations as they can get a beneficial starting point for their strategic analysis. The global healthcare market is intensely competitive, with firms increasingly pursuing growth strategies such as mergers and acquisitions (M&As) and partnerships to strengthen portfolios and pipelines. The global healthcare market is growing continuously. The total sales for 2018/2019 were £801 billion, representing a compound annual growth rate (CAGR) of 4.5% between 2014 and 2018 (Marketline, 2019). In comparison, the Asia-Pacific and US markets grew with CAGRs of 6.5% and 4.5% respectively, over the same period. North America and Europe are the largest pharmaceutical markets, with more than 60% share of global sales. China contains 8.5% of worldwide sales, which is the second largest individual country for medicinal sales and an important market for pharma firms. Several key factors are influencing pharmaceutical industry structure and competitiveness such as changing demographics, social expectations, regulatory environment, advances in science and technology, and pricing and access (GSK, 2019). According to Market research Report (2019), North America is expected to uphold its leading position in the world medicine industry with a market share of 45% in 2023. The Asia Pacific and Europe are expected to keep their positions with a total global market share of 45%. Figure 1 shows the future forecast relating to the global pharmaceutical industry.

Figure 1: Global Pharmaceutical Market – Forecast 2023



GSK's Success Factors

According to Johnson et al., (2008), critical success factors (CSFs) of an organisation are those features of products that are specially recognised and valued by consumers and, therefore, where the company must do extremely well to outperform competition and gain competitive advantage. The typical key factors for success in the pharmaceuticals industry are financial resources, manufacturing and drug development skills, licensing and procurement abilities, R&D capability, sustainability, product range, strengthening the pipeline, and building trust. GSK is operating in an incredibly challenging and competitive global market. To achieve organisational objectives, GSK needs to meet different risk factors. According to GSK's annual report (2019), the pharmaceutical businesses should deal with various key operational risks such as business ethics, product quality, information security, commercial practices, health and safety, supply continuity, and sustainability to achieve success. These key factors can create competitive advantages for players in the market. For example, three key pillars (innovation, performance, and trust) have been defined as key success priorities in the GSK (See Appendix 2).

Mergers and acquisitions (M&As) are the primary means of expanding market share for multinational giants around the world. This became a critical success factor for pharma companies, demonstrating how intense global competition has become within the industry

(Market Line, 2019). One of the GSK latest success factors is its partnership with one of their main competitors Sanofi to work together on a potential Covid-19 vaccine. Both companies are also taking a risk by building a manufacturing facility, using their financial & R&D resources to scale up the production even before the approval (Sagonowski, 2020). If the project will succeed both companies will increase their competitive advantage, brand reputation and increase their market share. Also, another important key success factor for GSK is related to its R&D capabilities, where GSK has collaborations with other companies such as Lyell Immunopharma and Merck KGaA (GSK, 2019).

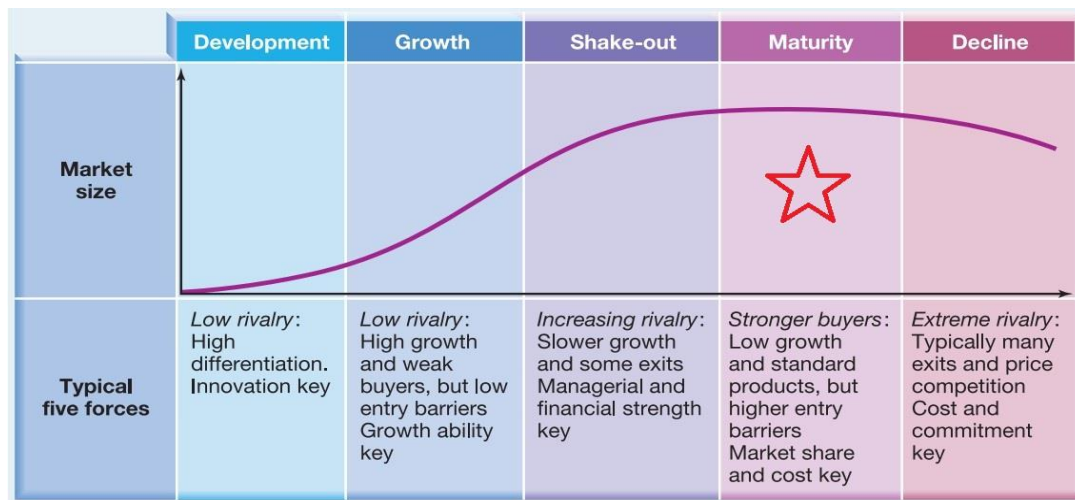
External Analysis

External analysis is a tool used in different industries in order that a company understands how key trends like industry growth, rapid changes, and competition environment affect its business and deals effectively with the opportunities and threats (Appa Rao *et al.*, 2011). Three frameworks, including the industry life cycle, Porter's five forces analysis, and PESTEL analysis, will be applied to have a better understanding of the GSK external business environment.

Industry Life Cycle

The concept of industry life-cycle is concerned with the development of industries over the years. Figure 2 shows different stages of development for industries. As it shows, industries begin small in their development stage, before starting a period of rapid growth. Over the years, the level of competition and barriers to entry tend to be increased, and services or products tend to standardise. When the volume of a service or product in a marketplace became maximised, there will be a saturation and growth decline in the market. Consumers may become more powerful. Providing leverage against consumers, increasing market share, and competitive advantage in terms of cost are key to survival for players in the maturity stage (Johnson *et al.*, 2008). By considering the characteristics of each stage and the pharmaceutical industry environment, it can be argued that the industry is in the maturity stage. Buyers have less switching costs as there are similar brands for many medicines and the industry associated with high entry and exit barriers.

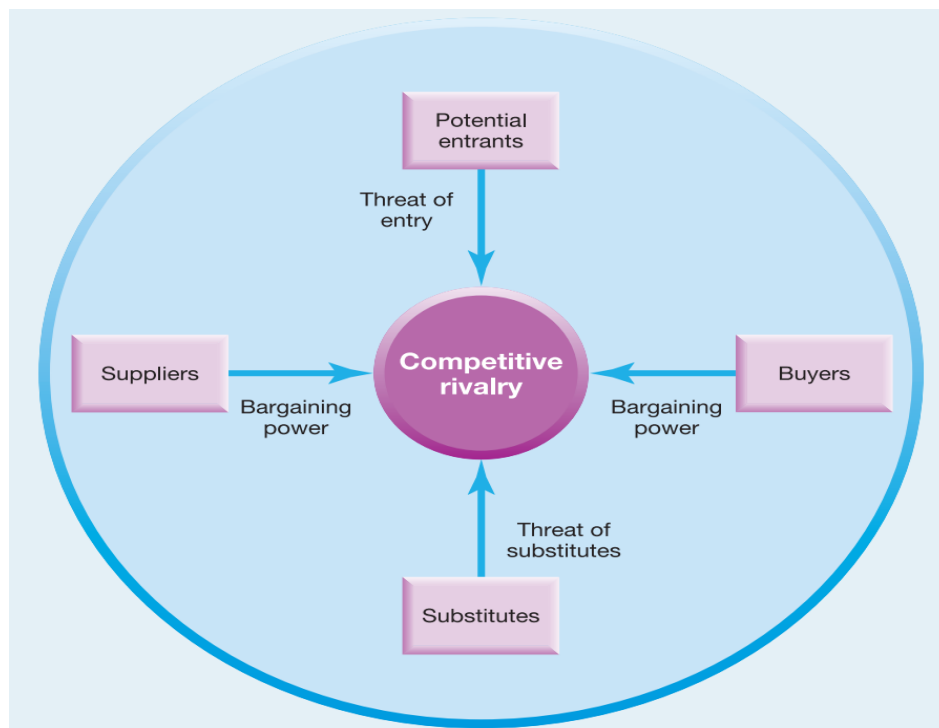
Figure 2: The Stage of Pharmaceutical Industry Life Cycle



Porter's Five Forces Analysis

Porter's five forces model is a useful and strategic analysis tool that takes into account five industry forces to determine the attractiveness, intensity of competition, and profitability level within an industry (Jurevicius, 2013). Figure 3, shows the five forces framework, which is created by Micheal Porter in 1979. These competitive forces help managers to analyse industry structure and competitiveness.

Figure 3: The Five Forces Framework



(Source: Johnson *et al.*, 2008)

Threats of New Entrants

New entrants in the industry could bring innovation, new ways of doing things lower pricing strategy, reducing costs, and providing new value propositions to the customers put pressure on GSK. However, entry to the world markets varies significantly, but there is an overall trend of reducing opportunities as governments seek to lower drug prices, particularly on generic drugs. Barriers to entry for a generics company will depend on factors such as the expiry of patents and country laws. The barriers to market entry are high, and the threat of new entrants is MODERATE. GSK has to manage all these challenges and build effective barriers to safeguard its competitive edge by bringing new products and services on the market, lowering the fixed cost per unit, spending further on R&D.

Bargaining Power of Suppliers

According to Johnson *et al.*, (2008) concentrated suppliers, high switching cost and supplier competitions are three different threats for increasing power of suppliers. Almost all companies buy their raw material from several suppliers. Major suppliers can decrease the margins GSK can earn in the market by using their negotiating power to extract higher prices from the firms. However, there are numerous suppliers where GSK could buy their raw materials by using its bargaining power, so this risk is considered MODERATE. GSK can overcome this risk by using different materials so that if the prices go up of one raw material. The company can shift to another, by building an efficient supply chain with multiple suppliers and by developing dedicated suppliers which business could be dependant of them.

Bargaining Power of Buyers

According to Johnson *et al.*, (2008), the high buying power of large companies has become a significant source of pressure for the companies supplying them. Customers in the pharmaceutical industry are often demanding a lot, and as higher their bargaining power increase their ability to increase the possibility of obtaining more discounts and offers. However, there are different choices available for a medical condition that decrease switching cost for buyers, but buyer power has increased in recent years due to rising healthcare costs, government austerity policies, and the increasing availability of generics. Therefore this threat could be considered STRONG (Marketline, 2019). GSK can tackle this threat by introducing new products quickly and by building a large base of customers. This will reduce the bargaining

power of the buyers and will provide an opportunity for the firm to streamline its sales and manufacturing process.

Threats of Substitute Products or Services

Manufacturers of generics can offer the same drug at a much lower price, as they rely on the safety and efficacy data provided by the innovator product, and they, therefore, do not have to conduct costly clinical trials (Marketline, 2019). When a new product from a competitor meets similar customer needs, the threat of a substitute product or service is STRONG, if it offers a value proposition that is completely different from present offerings of the industry. GSK can overcome this threat by understanding customer needs, by increasing the switching cost for clients and by being also service-oriented, not product-oriented.

Industry Rivalry

“When competitors are roughly of equal size and one competitor decides to gain share over the others, then rivalry increases significantly, and profits fall” (Lynch, 2015, P.120) GlaxoSmithKline plc operates in a very competitive industry with competitors like AstraZeneca, Pfizer, Novartis etc. This competition does take a toll on the long run on the profitability of the organization. This threat is STRONG, where GSK could tackle this threat by building a sustainable differentiation in products and prices and by collaborating with competitors in order to increase the market size

PESTEL Analysis

The PESTEL analysis explores key external factors, which can positively or negatively influence the operation of an organisation in the future. It identifies key drivers of change based on six main types of environmental influences (Johnson *et al.*, 2008). Although the factors in a PESTEL analysis rely on past and present events, this analysis can be used as a forecast of the future. In following some key environmental influences related to the pharmaceutical industry will be discussed.

Political

Regulatory action on drug prices has recently become a greater risk for the pharmaceutical sector, where a change in Intellectual Property laws could arise. Governments intervention in the market has influenced the market in different ways. For example, the US government has proposed several medicine pricing initiatives in order to reduce healthcare costs for both

patients and the government. Also, the industry is highly regulated as governments continue to develop different regulatory approaches based on their macroeconomic objectives (GSK, 2019). The pressure on healthcare systems has led to governments, pharmaceutical companies and payers (health insurers) looking for ways to reduce the rise in spending but still looking for quality care for as many people as possible (Swotandpestle, 2020)

Economic

COVID-19 has a significant impact on medical supply chains. Due to restrictive travel and trade. It is difficult for medical device manufacturers to produce and distribute products, despite rising demand for medical equipment needed to fight the virus (Marketline, 2020). On the other hand, this pandemic may cause an economic recession, which influences countries' GDP and the expenditure of both people and governments on healthcare.

Sociocultural

Growing and ageing populations worldwide can be important for pharma companies. Global population will increase by more than 1 billion by 2030, predicted by the UN and people over 60 years of age are the fastest-growing segment. This will lead to an increase in chronic illnesses and in turn, increasing demand for healthcare worldwide. Also, there are different changes in people lifestyle due to current global pandemic, which can change the industry structure in the future. For example, the growing importance of online platforms and social media marketing. GSK can improve the business through richer customer experiences, better search engine rankings, decreased marketing costs, improved customer insights.

Technological

Major pharmaceutical firms globally have suffered integrity issues with their products due to deficiencies across their value chains. GSK is working on integrating blockchain technology to improve compliance and traceability in its supply chain. R&D in medical research is fast-growing, majorly driven by new therapeutic approaches and digitalization in healthcare is also gaining importance. COVID-19 pandemic forced firms to use more technologies for their businesses, and many firms decided to change the way they do operate based on the current situation.

Environmental

Climate change is a major issue which is of concern across the globe and threatens our economic growth and health of the population. GSK has set ambitious targets to reduce carbon, water and waste across its value chain. Firms are making changes to their manufacturing processes, making them more environmentally friendly. There are more environmental regulations, which increase the cost of production for firms and firms are under increasing pressure to address environmental issues such as air pollution, plastics, energy consumption, and water management, both in direct operations and throughout their supply chains.

Legal

IPR (Intellectual Property Rights) in the pharmaceutical industry is being strengthened without any justification and is being abused just to fight against the competition, and consumer welfare is not being taken care of. Legal considerations and patent protection can affect the ease of market entry for new firms in several ways. These legal factors make barriers for new entrants. However, patents and trademarks can be sold relatively easily within the industry (Market Line, 2019).

Internal Analysis

Internal analysis, which is also known as “internal appraisal”, “organisational audit”, and “internal corporate assessment” is performed to recognise the strengths and weaknesses of an organisation’s resources and capabilities. The ultimate target of the internal analysis is to formulate an appropriate strategy and create and sustain competitive advantage in the marketplace (Appa Rao *et al.*, 2011). In the following, the internal business environment of GSK will be analysed in more depth.

SWOT Analysis

SWOT analysis is a useful framework to assess both organisational capability and business environment (Harrison, 2015). Table 1 shows a SWOT analysis of GSK. The company’s financial resources, R&D capabilities, and global operational networks can be considered as main strengths points. However, the company had a decline in the consumer healthcare segment last year. Most importantly, GSK has been involved in different legal issues, which increased financial costs and negatively influenced the brand image. For example, in 2012, GSK pleaded guilty to promotion of medicines for unapproved practices and failure to report bribes and safety data to physicians in the US, and they agreed to pay a settlement of £1.9bn.

That scandal was the most massive healthcare fraud case to date in the US and settlement by a pharmaceutical company (Neville, 2012). In February 2016, GSK was involved in another legal issue and fined over £37 million by the Competition and Markets Authority in the UK. The payments to the three firms were made to keep generic varieties of paroxetine out of the UK market (GOV UK, 2016).

Table 1: GSK's SWOT Analysis

Strengths	Weaknesses
Strong R&D capabilities Collaboration with various organizations and holds 150 external scientific partnerships worldwide Launching of products ahead of competition Delivers advanced products and services to its customers. Innovation based strategies	Consumer Healthcare segment decline in year 2018 in comparison with 2017 by 1.2% Increased competitive pressures in Europe Impact of the implementation of the GST (The Goods and Service Tax Act) in India
Opportunities	Threats
Periodic drug approvals. Invent and develop new formulas and solutions. Constant grow of global pharmaceutical market and its forecast to grow for the next few years.	GSK is a defendant in various product liability lawsuits in the past present so their continuous failure in conducting pre-clinical and clinical trials will pose a serious threat to their competitive advantage and their consumers. Intense generic competition for generic drugs provided by competition. Healthcare reforms and drug pricing controls. Extensive regulation by national, state and local agencies. Increased global competition.

(Sources: Market Line, 2019; GSK, 2019)

Financial Strategy and Business Highlights

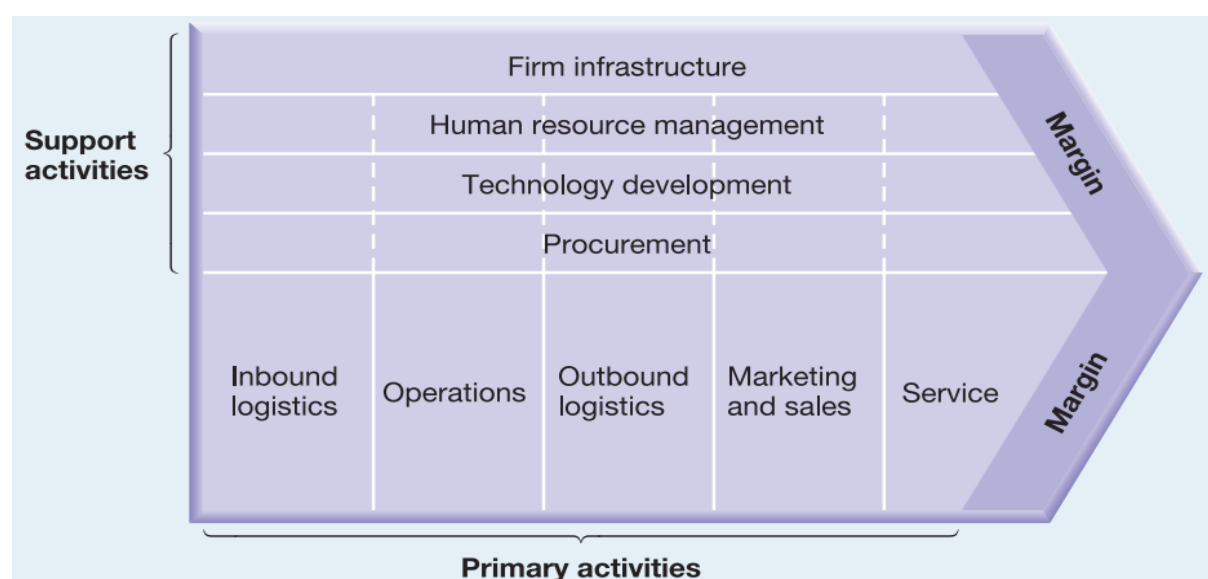
GSK uses several adjusted measures to assess and monitor the performance of its business and believes that adjusted results, can provide stakeholders such as investors and analysts with helpful complementary information for a better understanding of the financial performance. This helps them to show the position of the company better and makes easier the comparison with the majority of its peer corporations. In 2016, GSK as the fourth largest on the London Stock Exchange had a market capitalisation of £81 billion (see Appendix 3) and was also secondary listed on the New York Stock Exchange (Stockchallenge, 2020). GSK's financial strategy is implemented through the group's financial architecture and is constantly reviewed by the group's board. The company manage the capital structure of the group through an

appropriate mix of equity and debt. The company reported revenues of £30,821 million for the fiscal year ended December 2018 (FY2018), an increase of 2.1% over FY2017. In FY2018, the company's operating margin was 17.8%, compared to an operating margin of 13.9% in FY2017. In FY2018, the company recorded a net margin of 11.8%, compared to a net margin of 5.1% in FY2017. The company reported revenues of £7,809.0 million for the second quarter ended in June 2019, an increase of 1.9% over the previous quarter (Market Line, 2020).

Value Chain Analysis

The value chain can be defined as a group of activities within and around an organisation, which together create a product or service. Michael Porter developed this concept in relation with the competitive strategy (Johnson *et al.*, 2008). Figure 4 shows a value chain model to analyse the strategic capabilities of organisations. Usually, the activities which form a company value chain are purchasing supplies, manufacturing, distribution and marketing of its own goods and services. The value chain activities could be classified into two types primary and secondary (supporting) activities (Johnson *et al.*, 2008; Lynch, 2015). In following the GSK's value chain will be analysed based on their primary and secondary activities. This analysis will help the management of a company, in this case, GSK to understand if there is a series of activities providing benefit to customers located within specific areas of the value chain and the continuous improvement of these activities will help the company to get a competitive advantage in the pharmaceutical industry.

Figure 4: The Value Chain Within an Organisation



(Source: Johnson *et al.*, 2008)

Primary Activities

‘Primary activities are directly concerned with the creation or delivery of a product or service’ (Johnson *et al.*, 2008, P.147). Inbound logistics are activities concerned with receiving, storing and distributing inputs to the product or service. Operations transform these inputs into the final product, and these are: manufacture, formulate, fill, pack, control release and deliver. In the case of GSK operational sustainability teams helps for this purpose. Outbound logistics collect, store and distribute the product to customers and these activities are distribution, storage, products handling etc. One of the key primary activities of GSK is related to research and development (R&D). The GSK’s R&D activities focus on the development of innovative and new medicines and further improvement of existing product lines such as drugs in the fields of infectious diseases and HIV. GSK also collaborates with various high worldwide and holds 150 external scientific partnerships including public-private partnerships, academic institutions, biotechnology and pharmaceutical companies. Over 16,000 people work in their R&D organisations related to vaccines, pharmaceutical, and consumer healthcare, in major research centres around the world. GSK has around 17 R&D centres located in North America, Europe and Asia (GSK, 2020). In FY2018, GSK spent GBP3,735 million on R&D, which accounted for 12.1% of the company’s revenue (Market Line, 2020). Another primary activity is related to GSK’s marketing and sales. Marketing and sales make the consumers aware of the product in order to purchase it. This includes sales administration, advertising and selling. In the case of GSK, commercial teams are the ones responsible for understanding the patients, customers and consumer needs. Services include those activities that enhance or maintain the value of a product or service in this case GSK consumer healthcare.

Secondary Activities

Secondary activities are always linked with primary activities. Infrastructure means the systems of planning, finance, quality control, information management, and all the structures and routines which are part of an organisation’s environment. The main infrastructure of GSK is the corporate office, manufacturing units and R&D department. The company has a well-established organisational structure and system, which has been developed over the years and support the organisation’s primary activities. For example, GSK has achieved synergies from a number of areas such as logistics and infrastructure, marketing, distribution, and sales over the last years (GSK, 2019). Another supporting activity of GSK value chain is related to human resource management. This activity can be very crucial as the success of a pharma company is

very depending on the quality and performance of pharmaceutical scientists. Human resource management is concerned with all activities involved in recruiting, managing, learning, developing, training and rewarding people within the entity (Johnson et al., 2008). Technology development is another key areas in the value creation process in GSK. The company has invested significantly in key technology infrastructure capability and the expertise necessary to operate as a standalone corporation. For example, GSK is creating a modern, competitive, agile supply chain, underpinned by new technology, which enables the company to launch speciality drugs at speed, while optimising delivery across its portfolio (GSK, 2019).

Resources and Capabilities Analysis for GSK

Resources and capabilities analysis is an important framework used in the internal analysis of a company and has two aims: to identify where value is added in the institution and to examine and improve its competitive advantages. “The resources of an organisation are those assets that deliver value-added in the organisation” (Lynch, 2015, P. 141). The resources could be classified into two categories: tangible and intangible. Tangible resources are the tangible properties of the enterprise that contribute to its adding value process. GSK plant and equipment can clearly be identified and valued. Intangible resources are other assets that do not have a physical appearance but provide significant value to the organisation like brand names and technology. One of the key resources related to GSK is the company’s financial resources. For example, the availability of financial resources allowed the company to invest £4.6 billion in R&D in 2019 (GSK, 2019).

The capabilities of an organisation are those management skills, routines and leadership that deploy, share and generate value from the resources of the organisation (Lynch, 2015). GSK marketing and sales show its capability to develop effective marketing campaigns for the new medicines to hospitals and other firms, through direct selling but also through well-organised promotional campaigns. The size and network contacts of the GSK staff is a competitive advantage. Through the skills and knowledge to motivate and keep its employees, especially those who are highly skilled in drug development and sales contacts in the pharmaceutical industry, human resources are another valuable resource which offers GSK competitive advantage. Distribution and logistics also provide GSK competitive advantage as shows its capability of co-ordinating, stocking and transporting drugs efficiently worldwide because drugs may be made in different regions of the world and sold somewhere else. Manufacturing skills are required to operate its giant and complex drug manufacturing facilities, where quality and safety are outstanding as they are monitored frequently by outside government bodies like

The Medicines and Healthcare products Regulatory Agency (MHRS) in UK and Food and Drug Administration (FDA) in the USA (Lynch, 2015).

The intangible branding is an important resource of leading companies like GSK. The company's patents are also intangible resources, which provide a competitive advantage over other companies while the patent lasts. Also, GSK has the organisational capability to promote their sales to potential customers where marketing and sales, distributions and logistics plays an important role. Through Jean-Paul Garnier, the company's chief executive, GSK showed in 2002 its organisational capability, where he provided an important resource named leadership, crucial to strategy development (Lynch, 2015).

VRIO Framework for GSK

In order to assess further GSK key strategic resources and capabilities, the VRIO framework will be applied. "VRIO framework is the tool used to analyse the firm's internal resources and capabilities to find out if they can be a source of sustained competitive advantage." This tool is used to analyse the firm's internal resources and was originally developed by Barney, J. B. in 1991 (Jurevicius, 2013). The VRIO framework can be used to test GSK's resources and capabilities for creating competitive advantage. Figure 5 shows how companies' competitive advantages are linked to their resources and capabilities.

Figure 5: Creation of Competitive Advantage



(Source: Appa Roa et al., 2011)

Valuable

GSK's financial resources are highly critical and valuable, helping GSK in investing in R&D opportunities that arise. R&D capability at GSK is valuable as they help in gaining a competitive advantage over rivals. These also help GSK in combating external threats. According to GSK (2019), its products are a valuable resource as they yearly launch new drugs on the market. This makes the perceived value for these by customers high. The human capital (mainly is another valuable resource for GSK. A large portion of the workforce is highly trained, especially in drug developments and sales, and this leads to more productive output for the organisation. The employees are also loyal, and retention levels for the organisation are high. Also, GSK's distribution network is a valuable capability. The distribution network helps in reaching more customers out and also helps with the promotion activities becoming sales as the products are made available easily.

Rare

GSK's well-developed R&D organisations are rare as only a few pharmaceutical firms possess R&D capabilities in this scale in the industry. Patents are the most valuable and rare resources but will decline in value as they will expire. Patents of GSK are increasingly important as the company was the first to manufacture some particular drugs. Patents, licences, know-how and marketing rights are valuable and rare resources for generating a competitive advantage and economic performance in GSK. Their products through their brands' name are also rare. But competitors can provide cheaper and similar products; therefore, their products result in competitive parity. The human capital of GSK is a unique resource as they are highly trained and skilled. The better salary, compensation, and work environment ensure that these valuable resources do not leave for other organisations. The distribution network of GSK is a rare resource as they operate globally. This is because some competitors would require a lot of investment and time to come up with a better distribution network. All firms in the industry do not possess these.

Imitable

The human resource capabilities, advanced technologies, and R&D capabilities of GSK are not imitable (or very hard to imitate) as the company has acquired them through prolonged profits over the years. New entrants and some competitors would require similar profits for a long period of time to accumulate these amounts of financial resources. The distribution network of

GSK is also very costly to imitate by competition as identified by the VRIO Analysis. This has been developed over the years gradually by GSK. Competitors will have to invest a significant amount if they are to imitate a similar distribution system. Some of their products, such as healthcare products are not that costly to imitate as competitors can produce similar products in the market. These also do not require years-long experience. Therefore, their products provide it with a temporary competitive advantage that competitors can acquire in the long run. Patents can be sometimes imitable a very costly as other competitors may obtain patents for a similar product with a different name. The employees of GSK are a valuable source of competitive advantage. It can be imitable because other big firms can also train their employees to improve their skills or could hire employees from GSK by offering better compensation packages, work environment, benefits, and growth opportunities.

Organising Capability

The success of GSK has been very depending on exploiting its valuable, rare and inimitable resource. The group's financial resources are strategically organised and managed to capture value. They are strategically invested in the right places and products, making use of potential opportunities and combatting threats. Hence, financial resources prove to be a strategic source of sustained competitive advantage for GSK. The company's distribution network is well organised, and GSK uses this network to reach out to its customers by ensuring that products are available worldwide regardless where are produced, therefore prove to be a source of sustained competitive advantage. GSK uses an effective capital allocation framework (see appendix 2) to use existing resources and capabilities to create value and generate a competitive advantage. For example, innovation is at the heart of the organisation as GSK invests in technical and scientific excellence to develop and launch new products pipelines that meet the needs of customers globally (GSK, 2019).

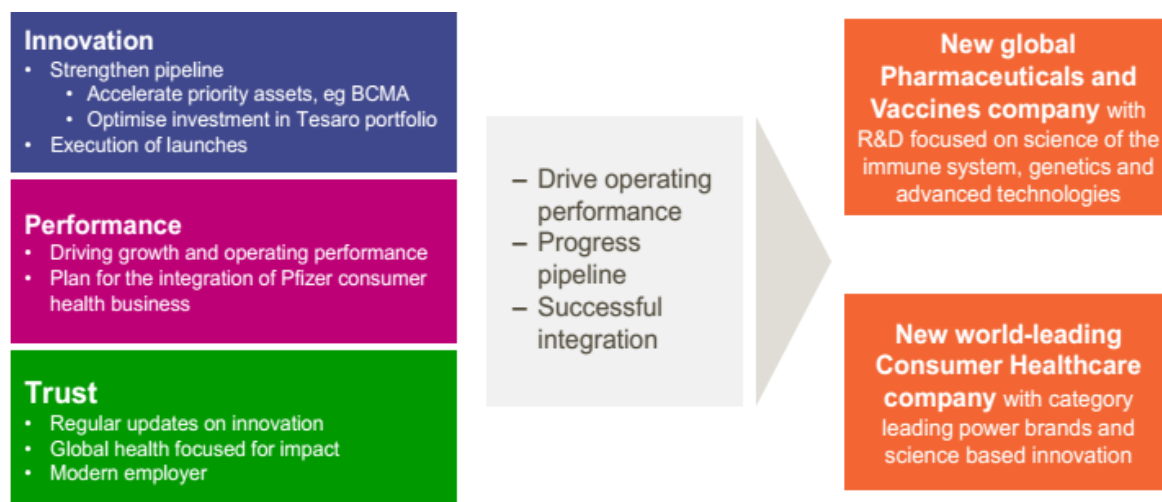
Strategies to Sustain Competitive Advantage

GSK' Strategic Priorities

As we can see from figure 6, GSK is focused on three main strategic priorities – performance, innovation, and trust. These priorities are linked to the company's sustainable development and competitive advantages. For example, by building trust, the company shows that it is responsible and committed to using its science and technology to social healthcare needs, to providing affordable products that available for all people. This trust is also related to internal

stakeholders, such as employees. As a modern employer, GSK had 78% employee engagement score in 2019, donated £263m to health programmes and was first in access to Medicine Index since 2008 (see appendix 4). GSK's R&D investment was £4.3 bn in 2019, and they are in the process of developing 15 new vaccines and 37 new drugs (GSK, 2020). By their performance strategy, they tend to reach industry-leading growth by strategically investing in their three business units, developing the human capital, and delivering precisely. GSK had an adjusted profit of £9bn and free cash flow of £5.1bn.

Figure 6: GSK's Strategic Priorities



(Source: GSK, 2019)

Growth Strategies

According to Lynch (2015), the growth strategy is a tactic designed for winning a larger share of the market, even at the cost of short-term earnings. Generally, the growth strategies can be categorised in four broad growth strategies, including diversification, market penetration, product and market development (Johnson et al., 2008; Lynch, 2015). In giant companies like GSK, M&A, joint ventures, and other strategic partnerships are a popular growth strategy leading to geographical expansion. Some of these growth strategies will be discussed in the following.

GSK and Pfizer joint venture (2009)

This joint venture brings together two highly complementary product portfolios of well-known, trusted consumer healthcare brands, including Pfizer's Caltrate, Centrum, and Advil and GSK's Panadol, Voltaren and Sensodyne. This joint venture has provided a unique opportunity

to accelerate its operational priorities and support capital investment and planning in the pipeline (GSK, 2019). Figure 7 shows the new portfolio emerged in terms of this joint venture.

Figure 7: GSK and Pfizer Joint Venture



(Source: GSK, 2019)

GSK and Novartis consumer healthcare buy-out

In March 2018, these companies announced their consumer healthcare joint venture by acquiring 36.5% of Novartis's stake for £9.2 billion by GSK. The company took over the manufacturing of worldwide known products: Nicotinell patches, muscle gel Voltaren Sensodyne toothpaste, and Panadol headache tablets. This transaction addresses one of the key capital allocation priorities of GSK (see appendix two). It allows their shareholders "to capture the full value of one of the world's leading consumer healthcare businesses" (Burger et al., 2018).

More recently, in January 2019, GSK acquired an American biopharmaceutical company. Tesaro, valued for US\$5.1 billion (Marketline2019). GSK partnered with Inoviva (USA) in the discovery and development of the drug vilanterol. The company currently receives royalty income based on this partnership from the sales of medicines that contain this component. This successful investment/partnership in Inoviva had £343 million market value at 31 December

2019 (Innoviva, 2020). In addition, GSK announced his intention to expand the manufacturing facility in the US with an investment of \$120 million in 2019 (GSK, 2020).

Green Strategy (Green Chemistry)

Since 2012, GSK has a new strategy by reducing the environmental impact of its global operations. Their goal is to achieve environmental sustainability across their businesses in order to bring in greener operational practices, reduce wastes, and decrease carbon impact. This strategy is implemented by using greener methods of chemistry, processes that need less material/less waste, using fewer products and packaging and finding new ways to recycle the solvents they use (GSK,2020). This strategy will be critical as the company should meet different environmental regulations and standards defined by local governments around the world. At the same time, this strategy as a part of CSR practices can improve the brand image and increase sales, especially in healthcare products.

Cost Saving Strategy

As GSK revealed in 2018, this will be achieved by 2021 through a 'major restructuring programme'. The company will be reviewing its cutting back on admin costs and supply chain as it seeks to get an £800 million hit, which will be redirected into R&D for developing new pipelines (Sebastian, 2018). Therefore, GSK started some restructuring programs such as at its Belgian vaccine group to reduce costs. For example in this centre will be a staff reduction by up to 720 positions. This restructuring will improve their profits but would affect R&D, human resources and global support functions (Sagonowsky, 2020).

Renewed Pipeline of Pharmaceutical Products

This strategy which proved difficult to implement and took almost eight years to execute in a satisfactory manner from 2000 to 2008, GSK continuously invest in innovation as well as scientific and technical excellence to launch and develop new products pipelines that meet the needs of customers and these pipelines will change over time as new projects progress are continuously developed (Lynch, 2015; GSK, 2020).

Recommendation

Based on the strategic analysis of GSK's both internal and external business environment, the following recommendations are proposed:

- GSK could enhance its global business operations through further corporate M&A strategy and collaborative partnerships with other pharma companies around the world.
- Further implementation of the Green strategy can be considered as a key success factor based on sociocultural and environmental considerations and trends.
- Risk management team to be improved in order to avoid lawsuits.
- More investment on R&D based on the group annual revenue could help the company to achieve a sustainable competitive advantage as GSK's expenditure on R&D in terms of its revenue is less than other companies in the market (see appendix 5).

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Appendices

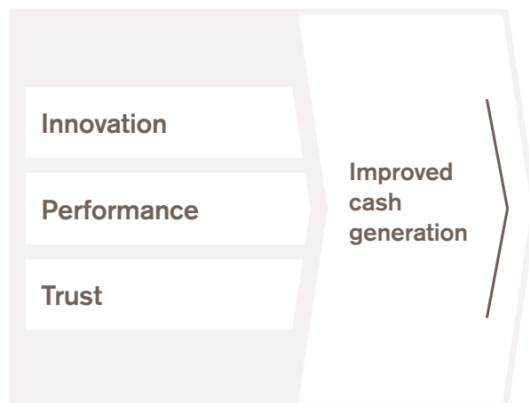
Appendix 1: GSK Healthcare Sample of Brands



(Source: Marketingweek, 2020)

Appendix 2: GSK's Capital Allocation Priorities – Key Success Factors

Capital allocation framework



Key priorities for capital

Invest in the business	– R&D pipeline (including business development) – Vaccines capacity – New products
Shareholder returns	– Dividends – Target 1.25x to 1.5x cover before returning dividend to growth
Other M&A	– Strict discipline on returns

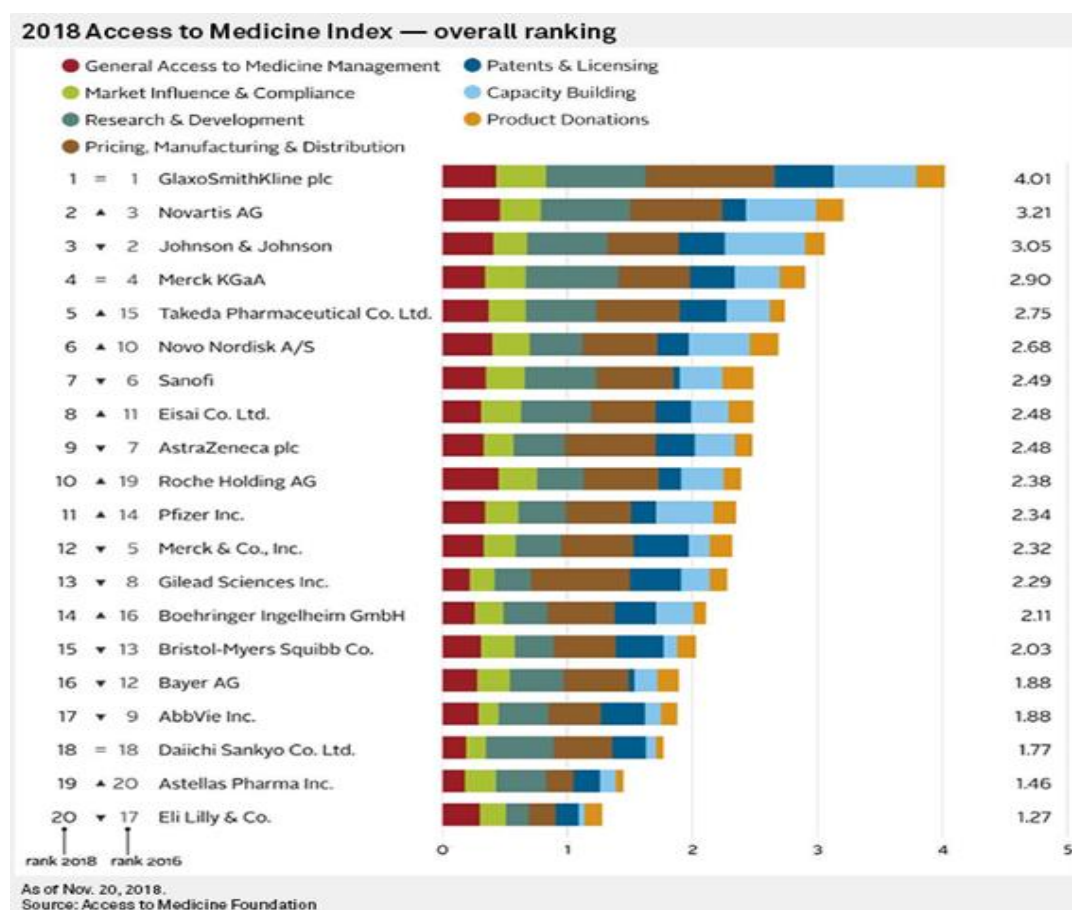
Source: GSK (2019)

Appendix 3: GSK's FTSE 100 Rank

Rank	EPIC	Name	Index	Price	Mkt cap (m)*
1	AZN	AstraZeneca	FTSE 100	8,202.00	107,627.1
2	RDSA+RDSB	Royal Dutch Shell	FTSE 100	1,231.60 / 1,200.00	95,132.9
3	HSBA	HSBC Holdings	FTSE 100	402.45	81,826.0
4	GSK	GlaxoSmithKline	FTSE 100	1,611.20	80,834.2
5	BATS	British American Tobacco	FTSE 100	2,945.50	67,566.7
6	DGE	Diageo	FTSE 100	2,765.50	64,630.6
7	BP.	BP	FTSE 100	298.85	60,550.5
8	ULVR	Unilever	FTSE 100		

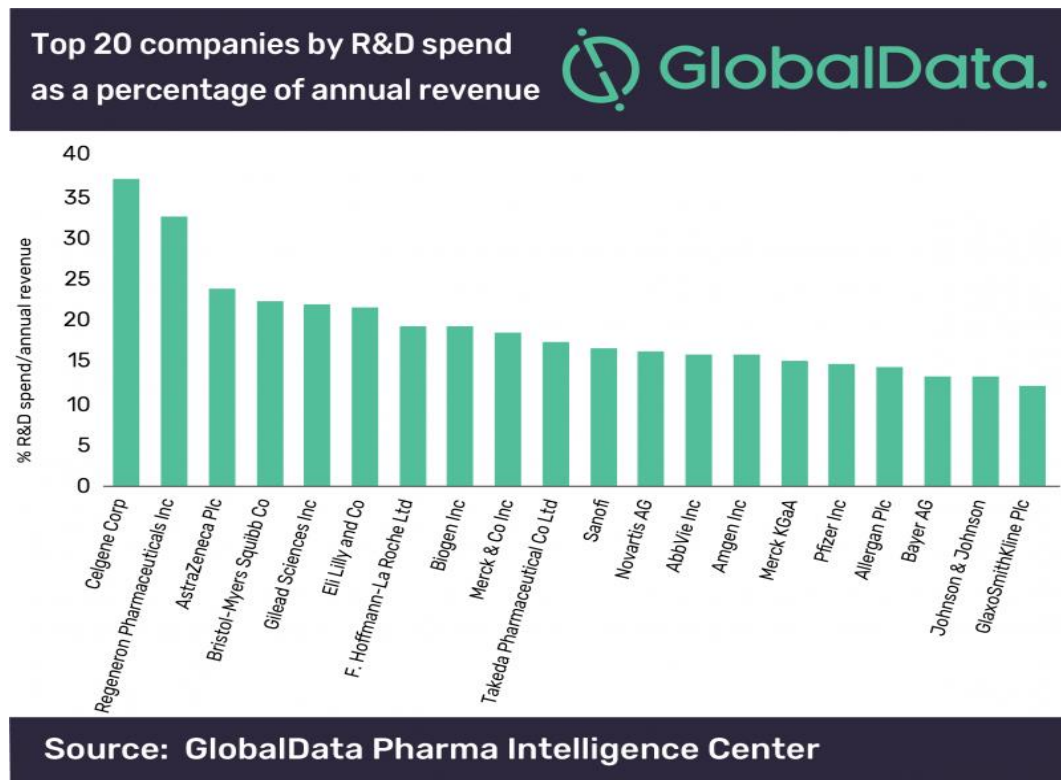
(Source: Stockchallenge, 2020)

Appendix 4: GlobalData Issues Report Into 2018 R&D Spending



Source: Wey (2018)

Appendix 5: Top 20 Global Pharma Companies By R&D Spenditure



Source: The Pharma Letter (2018)