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STRATEGIC MANAGEMENT

Assessment

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Abstract

The purpose of this essay is to carry out and complete a strategic analysis of the main issues of the chosen case study company through the use of different theories and models taught in this module. The author shall, where necessary, use appropriate techniques and theoretical frameworks in this report. The study will contain no more than 6000 words and will be delivered in compliance with the requirements and guidelines of the university.

Introduction

To study and incorporate strategic management and strategic management processes using the real-life example, the author of this essay has chosen pharmaceutical company GlaxoSmithKline or GSK.

GSK is the UK pharmaceutical, biological and healthcare firm, the fourth-largest pharmaceutical company in the world in terms of sales. This is accompanied by Johnson & Johnson, Pfizer and Roche. Glaxo began as a baby food producer in 1904 and Beecham began manufacturing laxative pills in 1843 (Ecommerce Digest, 2016). GSK was established in 2001 by the merger of GlaxoWellcome plc with SmithKline Beecham plc and manufactures a wide range of pharmaceutical products, such as anti-infections, vaccines, respiratory, gastrointestinal and oncology drugs. GSK also manufactures health products, nutritious beverages and over-the-counter medications (Ecommerce Digest, 2016). Currently, the company employs more than 99,000 personnel across 95 countries with excellent scientific and technological expertise, extensive regulatory, intellectual property and marketing experience. In 2019 GSK sales went up to £33.8 billion with free cash flow £5.1 billion (GSK, 2020).

Definition of Strategic Management and Strategic Management Process

Lynch (2018, p. 9) identifies Strategic Management as “the identification of the purpose of the organisation and the plans and actions to achieve that purpose.” This description means that a strategy can be formulated ahead of time and only executed over time: much like a doctor who prescribes to cure a disease – hence the term prescriptive strategy (Lynch, 2018). There are two main elements of Strategic Management or SM for short reference in the future, according to Lynch (2018):

corporate – level strategy and business – level strategy. They are presented as a figure shown below.



Figure 1: Two strategies of SM, based on source: (Lynch, 2018)

1. **Corporate – level strategy:** This is the company's plan to see which organisations they communicate with over a provided time. For instance, a company may decide to partner with small businesses only if its purpose is to sell its product to business-to-business (B2B) customers. Also, this strategy can be used by a small business to maximise revenues over the next fiscal year, while a large organisation can oversee several business activities to accomplish more complex objectives, such as selling a company or entering a new market (Indeed, 2020).
2. **Business – level strategy:** It is an innovative way for an organisation to showcase its unique resources, improve its viable advantage and help the individual components of its business work as a single entity. This approach focuses on improving the way divisions communicate with each other and interpret their position within the organisation while setting guidelines for the achievement of the overarching objective (Indeed, 2020).

According to Barney and Hesterly (2018), the best way for any company to select the right strategy is to observe the Strategic Management Process carefully and systematically. Barney and Hesterly (2018, p. 27) identifying Strategic Management Process as “ a sequential set of analyses and choices that can increase the likelihood that a firm will choose a good strategy; that is, a strategy that generates competitive

advantages.” It usually commences with the description of the company's mission and includes some other steps as shown in the figure below.



Figure 2: The Strategic Management Process, based on source: (Barney & Hesterly, 2018)

1. **Company's mission:** The SM process starts when a firm specifies its *mission*. A firm's *mission* is its long-term goal. *Missions* describe both what a firm aspires to be in the long run and what it wants to avoid in the meantime. *Missions* are often written down in the form of mission statements (Barney & Hesterly, 2018). GSK's mission is to become one of the most creative, best-performing and trusted healthcare organisations in the world (GSK, 2020).
2. **Objectives:** Whereas the mission of a company is a general declaration of its intent and principles, its goals are concrete observable targets that can be used by a firm to determine the degree to which its mission is being carried out. *High-quality objectives* are closely related to the task elements of an organisation and are reasonably straightforward to evaluate and monitor over time. *Low-quality objectives* either do not occur or are not related to elements of a firm's mission are difficult to track over time (Barney & Hesterly, 2018).
3. **External and internal analysis:** The *internal analysis* focuses on the assessment of all dimensions of the company itself. While the *internal analysis* can often consider the behaviour of external organisations or market-wide changes, it is primarily related to the intrinsic characteristics of the organisation at hand. An internal review is important for a variety of purposes in the sense of SM (Bush, 2019). Your company may be investing too much in certain places because of internal inadequacies, or your organisation may be putting money on the table. The SWOT model is an outstanding method for *internal analysis* because it allows you to think about your organisation and only about your

organisation (Bush, 2019). **Figure 3** shown below presents typical structure of the SWOT Analysis.



Figure 3: SWOT Analysis structure, based on source: (Kyle, 2014)

External research is less about the business and more about the consumer environment (including its competitors), looking at external market research influences rather than internal factors. The number of new competitors joining the business, the cost of raw material or the regulatory frameworks laid down by governments—these are all examples of variables outside the control of the company and should be included in external research. The PESTEL Analysis is the favourite approach for analysing external factors (Bush, 2019). **Figure 4** is presenting typical PESTEL Analysis structure.

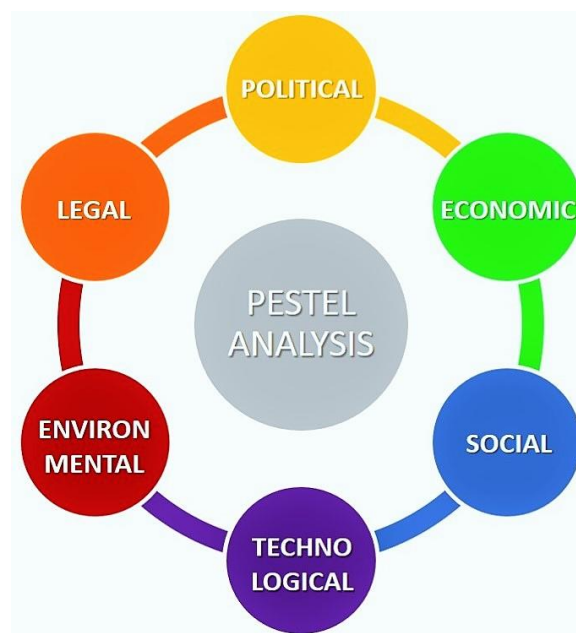


Figure 4: PESTEL Analysis model, based on source: (Business To You, 2016)

4. **Strategic choice:** Any organisation has a specific amount of capital at its disposal, including financial resources, human resources, efficient capacity and distribution channels. *Strategic* decisions are the concrete actions that the organisation plans to take to deploy these tools (Hill, 2020). Primarily *strategic* options could include what goods and services to sell, where to sell them, how to sell them, and what marketplaces to sell them. The purchase of a rival may be a *strategic* option if the goal is to gain market share. Another *strategic* option may be to concentrate on marketing at trade shows rather than using ads to attract potential buyers (Hill, 2020). GSK (2020) defines its strategy as “to bring differentiated, high-quality and needed healthcare products to as many people as possible, with our three global businesses, scientific and technical know-how and talented people.”
5. **Strategy implementation:** According to Morden (2007, p. 20) *strategy implementation* is “the process of putting the enterprise’s chosen strategies and plans into practice takes place within the internal context and constraints of the people, the leadership, the structure, the resources, the capability and the culture of the organisation.” The execution of the *strategy* often takes place within the framework and constraints of the external, political and competitive climate (Morden, 2007). Also, the execution of a *strategic* option would take place within the context of those individuals and organisations outside the company with whom it has some sort of organisational, collaboration, supply or trading relationship (Morden, 2007).
6. **Competitive advantage:** *Competitive advantage* refers to factors that cause a business to make products or services better or cheaper than its competitors. These aspects make it likely for a profitable entity to produce more revenue or higher margins relative to its industry rivals. There are two main types of *competitive advantage*: comparative and differential advantage (Twin & Anderson, 2020).
 - 6.1. **Comparative advantage:** The capability of a business to generate a product or service more efficiently than its competitors, which contributes to higher profit margins, provides a *comparative advantage*. Reasonable customers

would prefer the cheaper of the two ideal alternatives offered (Twin & Anderson, 2020).

6.2. *Differential advantage*: A *differential advantage* is that the goods or services of an organisation vary from those of its rivals and are recognized to be better. Advanced technologies, proprietary products or procedures, superior staff and good brand identity are all drivers of *differential advantages* (Twin & Anderson, 2020).

Pharmaceutical industry overview

Since the mid-1990s, pharmaceuticals have been gradually more costly to produce, normally costing well over \$500 million, spread over many years, for one big new drug. After production, these drugs must be licenced by the authorities and then put on the market (Lynch, 2015). According to (Pistilli, 2020) the US and Europe are at the forefront of the global pharmaceutical industry, overall prescription drug sales worldwide are expected to hit almost US\$1.4 trillion by 2026. The US is the world leader in research and development in the pharmaceutical sector (R&D) and since 1980, R&D efforts in the country have increased dramatically from US\$2 billion to US\$64.3 billion as of 2019. Europe is the second-largest pharmaceutical market in the world and was estimated at US\$219.9 billion in 2019 (Pistilli, 2020).

Internal and external analyses of GSK

In this part of an essay, the author will be performing internal and external analyses of GSK. The first one to be executed will be the SWOT Analysis.

SWOT Analysis

As it was mentioned by Bush (2019) before, the SWOT model is an outstanding method for inner analysis. The **Table 1** shown below presents the SWOT Analysis performed specifically for the case study of GSK with a more detailed explanation to follow.

Strengths	Weaknesses
1. Well-built marketing infrastructure and global revenues. 2. One of the leaders of over-the-counter medicines and oral health goods. 3. 100% customer-focused. 4. Huge investment in science-based innovation. 5. Works with World Health Organisation (WHO).	1. Brand's reputation has been seriously damaged by US health care settlements and bribery allegations. 2. Expiration of the patents.
Opportunities	Threats
1. Possibility of developing new vaccines and medicines to treat new diseases, such as COVID-19. 2. Good prospects in emerging markets in BRICS countries. 3. Development prospects in the business of oncology and HIV disease. 4. Ageing UK population.	1. Controls of drug pricing. 2. Intense competition from Generic medications. 3. Challenges from close competitors.

Table 1: The SWOT Analysis for GSK, based on source: (SWOT & PESTLE.com, 2020) & (UK Essays, 2018)

1. Strengths:

- 1.1. *Well-built marketing infrastructure and global revenues:* GSK is currently one of the world's leading prescription pharmaceutical firms. They are present in more than 150 markets. The global presence has a dual advantage: firstly, it helps the business with its strategic growth in emergent markets and, secondly, it allows GSK to explore development

and other partnerships with other stakeholders in the industry (SWOT & PESTLE.com, 2020).

- 1.2. *One of the leaders of over-the-counter medicines and oral health goods:* GSK is a market leader in main over-the-counter (OTC) and healthcare categories and segments. Leading OTC drugs consist of Voltaren (No.1 in the global pain relief market), Theraflu (No.1 in the global respiratory market) and Eno (No.1 in the global digestive health market). The oral health segment of the business provides popular products such as Sensodyne (No.1 in global sensitivity), Pardontax (No.1 in gum health) and Polygrip, which is No.1 in the global denture sector (SWOT & PESTLE.com, 2020).
- 1.3. *Customer-focused and innovative:* GSK has built a competitive edge through consumer-centric, science-based innovation. This has been achieved through R & D capabilities, which have guided product growth and are one of the company's key strengths. GSK is dedicated to technological excellence by holding the consumer in the spotlight (SWOT & PESTLE.com, 2020).

2. **Weaknesses:**

- 2.1. *Brand's reputation:* GSK brand value is tainted by healthcare settlements in the US and bribery accusations against them. GSK has been involved in a variety of legal problems in the recent past: the business has been identified on several grounds relating to safety records, misleading price reporting practises, unlawful antidepressant promotion. In 2012, the firm entered into a deal with the US government, supposedly the biggest settlement in the pharmaceutical world, where GSK ended up paying a fine of \$3 billion in penalties and liabilities (SWOT & PESTLE.com, 2020).
- 2.2. *Patents expiration:* One of the main drawbacks is that most patents run out and will expire sooner or later, which means that other firms would be capable to take patients and sell medications cheaper, which will lead to another vulnerability – a large loss of sales. And the loss of income would harm R&D activities (UK Essays, 2018).

3. **Opportunities:**

- 3.1. *Possibility of developing new vaccines and medicines and development prospects in the business of oncology and HIV disease:* There are many prospects for GSK that could boost its earnings. In this changing and ever-increasing world of diseases, there is still a possibility to find new medicines that have not yet been found by other pharmaceutical firms (UK Essays, 2018). Introducing new products is another great opportunity for GSK to expand as a business. GSK is implementing this opportunity by straightening out its commodity pipeline. GSK is introducing advanced assets in the cardiovascular, HIV and oncology fields. The current COVID-19 pandemic is another great opportunity for GSK to put their strong R&D capabilities to work (SWOT & PESTLE.com, 2020).
- 3.2. *Good prospects in emerging markets in BRICS countries:* Another promising opportunity is to extend to the BRICS countries (UK Essays, 2018). BRICS is a coalition of five major evolving countries-Brazil, Russia, India, China and South Africa-which together account for 42 per cent of the population, 23 per cent of GDP, 30 per cent of the territory and 18 per cent of global trade (BRICS Brazil, 2019). Given that these countries are the most prosperous in the world economy, BRIC countries will benefit greatly from high demand, cheap labour and special local diseases. But there is a negative side due to high corruption and political problems in these countries, and in such large countries, there is often a large and powerful monopoly industry in every sphere (UK Essays, 2018).

4. Threats:

- 4.1. *Controls of drug pricing:* A rise in the number of drugs subject to price regulation would impact the annual sales of GlaxoSmithKline Pharmaceuticals by about 5%. Approximately 30 per cent of the company's goods are now price-controlled by value, compared to 24 per cent earlier (The Hindu Business Line, 2018). As a result, the company have developed innovative pricing models as part of their access strategies to expand product scope. GSK also does not register patents for its medicinal goods in the least developed countries (LDCs) and low-income countries (GSK, 2020).

- 4.2. *Intense competition from Generic medications:* Another serious danger is the growing demand for generic drugs, particularly in recent times due to the difficult economic situation in the world, regarding cheaper prices. But it all depends on the consumer – whether they want to get higher quality or lower rates from their medications (UK Essays, 2018). Generic drugs have become a challenge to pharmaceutical companies as their demand, sales and supply increase (SWOT & PESTLE.com, 2020).
- 4.3. *Challenges from close competitors:* One of the largest hazards to GSK is massive contest from other pharmaceutical firms such as Pfizer, AstraZeneca, Novartis, AstraZeneca, Bristol-Myers Squibb. Since the validity of the patent will not last forever, competition is thus much more daunting (UK Essays, 2018).

PESTEL Analysis

As it was previously noted by Bush (2019) the PESTEL Analysis is the favourite approach for analysing external factors. The PESTEL Analysis addresses other outer influencers such as political, economic, social, technological, environmental and legal factors and their effect on the healthcare industry and GSK exclusively. It is a valuable technique to research the effects of influencers on GSK's business model and business case study (SWOT & PESTLE.com, 2020). The **Table 2** shown below presents the PESTEL Analysis performed specifically for the case study of GSK with a more detailed explanation to follow.

Political	Economical
1. Contingency plans to secure supply chains for the post-Brexit period. 2. Charges of bribery from the Chinese authorities. 3. Effects of Trump's administration policies.	1. Uncertainty about the consequences of the Brexit. 2. Increase in the exchange rate. 3. Promising investment plans in India.
Social	Technological
1. Increasing and ageing population worldwide.	1. 'Track and trace' technology in the fight against counterfeit medicines.

2. More reliable healthcare in low-income countries. 3. Act with the WHO to fight the Ebola virus.	2. Investing in increasing medical research and development activities. 3. Investing in a supercomputer. 4. Investing in automation systems R & D.
Environmental	Legal
1. Reducing the impact on the environment.	1. Following wide range of laws and regulations.

Table 2: PESTEL Analysis of GSK, based on sources: (Business Teacher.org, 2020), (SWOT & PESTLE.com, 2020) and (GSK, 2020)

1. Political:

- 1.1. *Contingency plans to secure supply chains for the post-Brexit period:* GlaxoSmithKline is in the process of sketching up contingency plans to protect its supply chains for the post-Brexit period, triggered by worries about disruption as a result of any trade deal between the UK and the EU (Vina, 2016).
- 1.2. *Charges of bribery from the Chinese authorities:* In 2014, the Chinese Ministry of Public Security performed a criminal investigation of GSK executives alleging them of directing subordinates to commit bribery in order to raise revenue. The corporation was forced to pay the highest corporate fine at the time: \$489 million (Zang, 2017).
- 1.3. *Effects of Trump's administration policies:* In the United States, increased government involvement over medical costs has forced pharmaceutical firms to give substantial discounts on their top-selling drugs. Under Trump's administration, more cuts are planned from the Medicare service, which would push GSK to be even more competitive with drug pricing (Hirshler, 2017).

2. Economical:

- 2.1. *Uncertainty about the consequences of the Brexit:* Although the uncertainties around Brexit are causing political problems for GSK, in the UK market, the weakening pound has contributed to a 23 per cent rise in group sales in 2017. As a result, GSK reinvested revenues in eleven

new goods, which are expected to bring revenue of £6 billion a year by 2018 (Vina, 2016).

- 2.2. *Increase in the exchange rate:* The ruling on the Brexit has contributed to a rise in exchange rates. To meet these new factors, GSK is changing the way they work within the United Kingdom. The initial expansion plans for the 350-million-dollar plant in Cumbria have now been cancelled, with a possible loss of 320 jobs. Also, GSK is selling the 'Horlicks' brand and closing down the Slough manufacturing plant to save costs (Business Teacher.org, 2020).
- 2.3. *Promising investment plans in India:* While many European markets are economically volatile, revenues in the Indian market continue to rise and account for 30% of GSK's profits. The low exchange rate between India and the United Kingdom has led GSK to pursue investment in India with a planned plant in 2018 (The Economic Times, 2017).

3. Social:

- 3.1. *Increasing and ageing population worldwide:* With an ageing global population, GSK announced a shift towards a new form of HIV care in 2017. Traditional pill treatment can prove difficult as people get older. GSK recognizes the social need for alternative models of care and invests heavily to meet new market demand (GSK, 2020). As the "baby boom" generation approaches retirement, new attempts have been made to create medications for the care of the elderly (such as solutions for Alzheimer's disease) (Holland, 2014).
- 3.2. *More reliable healthcare in low-income countries:* Starting in 2016, GSK has revealed that the company will no longer file drug patents in the lowest-income regions of the world. What this means is that quality healthcare would be easier for all to access. Also, GSK invests 20% of all income made by GSK in the least developed countries in the training of health workers and the development of medical structure (Mukherjee, 2016).
- 3.3. *Act with the WHO to fight the Ebola virus:* Since 2015, GSK has been working to help tackle the global Ebola virus outbreak. Acting in cooperation with the World Health Organization, GSK is financing programmes to develop current Ebola vaccines. Good advertising has

resulted in GSK retaining a positive picture of consumer social responsibility (Business Teacher.org, 2020).

4. Technological:

- 4.1. *'Track and trace' technology in the fight against counterfeit medicines:* Preventing counterfeiting and theft is a crucial problem for all pharmaceutical companies. GSK is working on the application of blockchain technology to improve compliance and traceability in its supply chain (SWOT & PESTLE.com, 2020).
- 4.2. *Investing in different R & D activities:* In order to meet the needs of investors, GSK has invested in restructuring its R&D segment in 2017. In July, GSK announced its new investment in the area of artificial intelligence (Hirshler, 2017). As part of a \$43m contract, GSK uses AI to predict how drugs would work to save time and money on costly conventional tests (Hirshler, 2017). Since 2016, GSK has invested extensively in automation technologies to raise production levels. Thanks to tech investments, GSK has now reduced development request times from three weeks to four days. This has made it possible for GSK to re-supply companies faster and have financial savings in manufacturing times and minimise expensive downtime (Business Teacher.org, 2020). GSK is also working with data handling firms to invest in supercomputers, which GSK hopes will reduce the time it takes to detect a disease (Hirshler, 2017).

5. Environmental:

- 5.1. *Reducing the impact on the environment:* GSK seeks to slash its environmental impact by one quarter by 2030, reduce greenhouse gas emissions, reduce water impacts and redirect waste for beneficial use (GSK, 2020). This is supported by five new environmental commitments (compared to the baseline for 2016), displayed in the **Figure 5** shown below.

	By 2025	By 2030
Reduce our operational carbon emissions (Scope 1 and 2)	15%	20%
Reduce our value chain carbon emissions (Scope 3) per £ billion revenue	-	25%
Source electricity from renewable sources	45%	60%
Reduce our total water use at each high-risk site	20%	30%
Waste repurposed for beneficial use	80%	100%

Figure 5: GSK's five environmental commitments, based on source:
(GSK, 2020)

6. Legal:

- 6.1. *Following wide range of laws and regulations:* GSK works within a highly regulated and enforced environment. In the countries where GSK operates, they must comply with a wide variety of rules, legislation and regulations before selling their goods. To meet these requirements, GSK pays upwards of £100m in legal costs to ensure that the organisation works under the perimeter guidelines (Business Teacher.org, 2020).

Porter's Five Forces Analysis

According to Johnson (2019) Porter's Five Forces Framework helps to evaluate and define the attractiveness of the industry or enterprise in terms of five competitive forces:

1. The extent of rivalry between contenders.
2. The threat of entry.
3. The threat of substitutes.
4. Power of buyers.
5. Power of suppliers.

Porter's message is that where five forces are strong, the industry or the business is not attractive. Excessive competition, powerful buyers and suppliers, the threat of

alternatives would reduce profitability (Johnson, 2019). Presented below is the Porter's Five Forces Model prepared for the case study of GSK business environment.

Porter's Five Forces	
<i>Competitive rivalry</i>	<i>High</i>
	The number of multinational companies depending on their R&D departments is currently competing in the pharmaceutical industry. The major rivals of GSK are Roche, Johnson & Johnson, Sanofi, Merck, Novartis and Amgen. Emerging Chinese pharmaceutical firms are also posing a significant danger. The selection of local manufacturers is also rising competition, which is why this force is high (Porter Analysis, 2020).
<i>Power of buyers</i>	<i>High</i>
	Buyers have a wide variety of drugs to choose from, but patients are relying on a doctor's prescription (Porter Analysis, 2020). The decision to purchase is made by doctors, without any consideration for the costs of the medicine involved (Holland, 2014). That is why this force is high.
<i>Power of suppliers</i>	<i>Moderate</i>
	While several ingredients are readily available from a variety of manufacturers, some of the raw materials used for vaccination have limited supply (Porter Analysis, 2020).

	International sourcing by leading pharmaceutical firms broadens this supply (Holland, 2014). That is why this force is moderate.
<i>The threat of new entrants</i>	Low
	The establishment of the manufacturing and supply chain of pharmaceutical products is a very costly process. The property, the factory, the machinery and the R&D activities would require a lot of money. This is the first challenge to new entrants. The second challenge is compliance with the legal standards and regulatory laws of the pharmaceutical industry (Porter Analysis, 2020).
<i>The threat of substitutes</i>	Moderate
	The danger of alternatives in the pharmaceutical industry is low due to the heavy reliance on pharmaceutical products by healthcare systems worldwide (Porter Analysis, 2020). However, the increase in the use of cheap generic drugs from not very reputable producers according to Holland (2014) is making this force moderate.

Table 3: Porter's Five Forces Model for GSK case study, based on sources:
(Holland, 2014) & (Porter Analysis, 2020)

Company's financial overview

The figures presented below showing the financial performance of GSK in 2019.

2019	£m	Growth £%	Growth CER%
Turnover	33,754	10	8
Total operating profit	6,961	27	23
Adjusted operating profit	8,972	3	-
Total margin	20.60%		
Adjusted margin	26.60%		
Total earnings per share	93.9p	27	23
Adjusted earnings per share	123.9p	4	1
Free cash flow	5,073	(11)	

£% represents growth at actual exchange rates. CER% represents growth at constant exchange rates.

Figure 6: GSK's financial performance in 2019 at a glance, based on source: (GSK, 2020)

Adjusting items	Total results £m	Intangible asset amortisation £m	Intangible asset impairment £m	Major restructuring £m	Transaction- related £m	Divestments, significant legal and other items £m	Adjusted results £m
Turnover	33,754						33,754
Cost of sales	(11,863)	713	30	658	383	-	(10,079)
Gross profit	21,891	713	30	658	383	-	23,675
Selling, general and administration	(11,402)		4	332	104	247	(10,715)
Research and development	(4,568)	64	49	114		2	(4,339)
Royalty income	351						351
Other operating income/(expense)	689			1	(142)	(548)	-
Operating profit	6,961	777	83	1,105	345	(299)	8,972
Net finance costs	(814)			5		(1)	(810)
Share of after-tax profits of associates and joint ventures	74						74
Profit before taxation	6,221	777	83	1,110	345	(300)	8,236
Taxation	(953)	(156)	(17)	(208)	(124)	140	(1,318)
Tax rate	15.3%						16.0%
Profit after taxation	5,268	621	66	902	221	(160)	6,918
Profit attributable to non-controlling interests	623				164		787
Profit attributable to shareholders	4,645	621	66	902	57	(160)	6,131
Earnings per share	93.9p	12.6p	1.3p	18.2p	1.2p	(3.3)p	123.9p

Figure 7: GSK's financial performance in details, based on source: (GSK, 2020)

	2019		2018		Growth	
	£m	% of turnover	£m	% of turnover	£%	CER%
Turnover	33,754	100	30,821	100	10	8
Cost of sales	(10,079)	(29.9)	(9,178)	(29.8)	10	10
Gross profit	23,675	70.1	21,643	70.2	9	7
Selling, general and administration	(10,715)	(31.7)	(9,462)	(30.7)	13	12
Research and development	(4,339)	(12.9)	(3,735)	(12.1)	16	14
Royalty income	351	1.1	299	1.0	17	17
Operating profit	8,972	26.6	8,745	28.4	3	–
Net finance costs	(810)		(698)			
Share of after-tax profits of associates and joint ventures	74		31			
Profit before taxation	8,236		8,078		2	(1)
Taxation	(1,318)		(1,535)			
Tax rate	16.0%		19.0%			
Profit after taxation	6,918		6,543		6	3
Profit attributable to non-controlling interests	787		674			
Profit attributable to shareholders	6,131		5,869			
Earnings per share	123.9p		119.4p		4	1

Figure 8: GSK's financial performance in details, continued, based on source: (GSK, 2020)

Main points of performance:

1. **Cost of sales:** Adjusted sales costs as a percentage of turnover were 29.9 per cent, 0.1 percentage points higher at AER and 0.5 percentage points higher at CER (Coupon Equivalent Rate). Adjusted cost of revenue on a proforma basis as a percentage of turnover, the figure was 29.9%, 0.3 percentage points higher at CER (GSK, 2020).
2. **Selling, general and administration (SG&A):** On a proforma basis, the adjusted cost of SG&A as a percentage of turnover was 31.7%, 0.8 percentage points higher for CER than in 2018. This mainly reflected the increased investment following by the purchase of Tesaro and the promotion of product support, in particular for new launches in Vaccines, Respiratory and HIV, partly offset by the continued gain of consolidation in Pharmaceuticals and the tight control of ongoing costs (GSK, 2020).
3. **Research and development (R&D):** Altered R&D spending was £4,339 million (12.9 per cent). The turnover was 16 per cent higher at AER, 14 per cent higher at CER than in 2018. Adjusted R&D spending rose by 13 per cent on a proforma basis (GSK, 2020).
4. **Operating profit:** Adjusted operating profit contributed to £8,972 million, 3% higher at AER but flat at CER with a turnover growth of 8 per cent CER. The adjusted operating margin of 26.6 percent was 1.8 percentage points lower for AER and 2.1 percentage points lower for CER than for 2018 (GSK, 2020).

5. **Tax:** Adjusted profit tax rose to £1,318 million and represented an effective Adjusted Tax Rate of 16.0% (2018 – 19.0%), representing the effect of settlement of some open problems with the tax authorities (GSK, 2020).
6. **Earnings per share (EPS):** Adjusted EPS of 123.9p compared to 119.4p in 2018, up 4 per cent of AER, 1 per cent of CER, with modified operating profit flat at CER (GSK, 2020).

Value Chain Analysis

Johnson (2019, p. 105) describes value chain as “the categories of activities within an organisation which, together, create a product or service.” To achieve a competitive advantage by offering value to consumers, managers need to consider which activities their company undertakes which are of particular significance to the production of that value and which are not. This can then be used to model an organization's value creation (Johnson, 2019). Presented below is the Value Chain Analysis prepared for the case study of GSK. It was divided to two diagrams, showing primary and support activities within the company (Johnson, 2019).

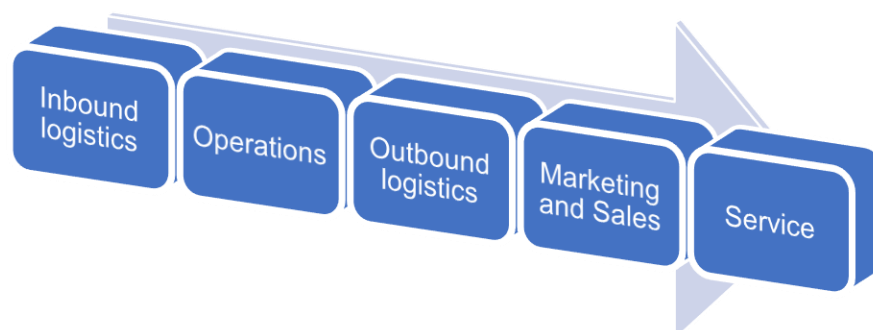


Diagram 1: Primary activities value chain within the company of GSK, based on sources: (GSK, 2020) & (Johnson, 2019)

1. **Inbound logistics:** Receipt, storage and delivery of product parts, including raw materials.
2. **Operations:** Manufacture, packaging and testing.
3. **Outbound logistics:** Acquiring, storing and delivering medicines to users.
4. **Marketing and Sales:** Customer service managers, sales and advertisement departments.

5. *Service*: Maintaining the value of the product through after-sales sales training and raising consumer awareness.



Diagram 2: Support activities value chain within the company of GSK, based on sources: (GSK, 2020) & (Johnson, 2019)

1. *Procurement*: Purchasing different inputs of materials for primary activities.
2. *Technology development*: R&D operations, product design, improvement of raw resources.
3. *Human resource management*: Recruitment, management, development and training, rewarding.
4. *Infrastructure*: organisational structure, planning, finance and quality control.

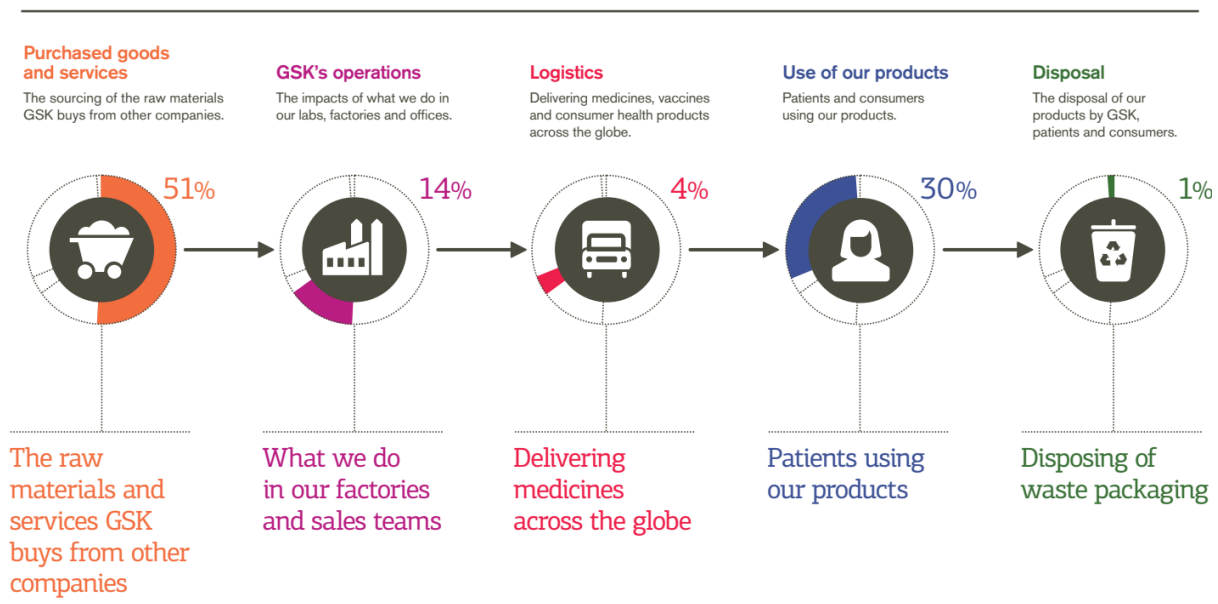


Diagram 3: Combined value chain for GSK case study, based on source: (GSK, 2020)

Resource-based view of GSK

“At present, the resource-based view of the firm is perhaps the most influential framework for understanding strategic management.” (Barney, et al., 2001, p. 625). In the case of GSK there are three types of resources are available to be analysed: tangible, intangible and human resources (Pacific Crest Group, 2020). Table presented below gives a brief description of company’s resources.

Tangible assets	Intangible assets	Human resources
1. Financial resources: currency, securities, borrowing power. GSK's tangible assets were estimated at £11,314 million in 2019 (Morningstar, 2020). 2. Physical assets include land occupied by offices, laboratories, medical and non-medical supplies and manufacturing facilities.	GSK's intangible assets are public relations, company's goodwill, intellectual property (patents, copyrights and trademarks). These assets may appreciate in value. (Pacific Crest Group, 2020). GSK's intangible assets were reported to be £41, 517m in 2019 (Morningstar, 2020).	“We have over 99,000 employees across 95 countries with outstanding scientific and technical know-how and deep expertise in regulation, intellectual property and commercialisation.” (GSK, 2020).

Table 4: Resource-based view of GSK, based on sources: (GSK, 2020), (Morningstar, 2020) & (Pacific Crest Group, 2020)

Green Strategy and Sustainability of GSK

“Our scientists are on a mission: to discover new medicines while reducing the environmental impact of their manufacture, supply and use.” (GSK, 2020). This is part of GSK's overarching objective of environmental sustainability to the entire sector, to introduce greener practises and reduce the carbon effect. The long-term objective of the company is to ensure that the whole 'value chain' – including supply, delivery of the product to the consumer, use of the product and then end of life of the product – is carbon neutral by 2050 (GSK, 2020).

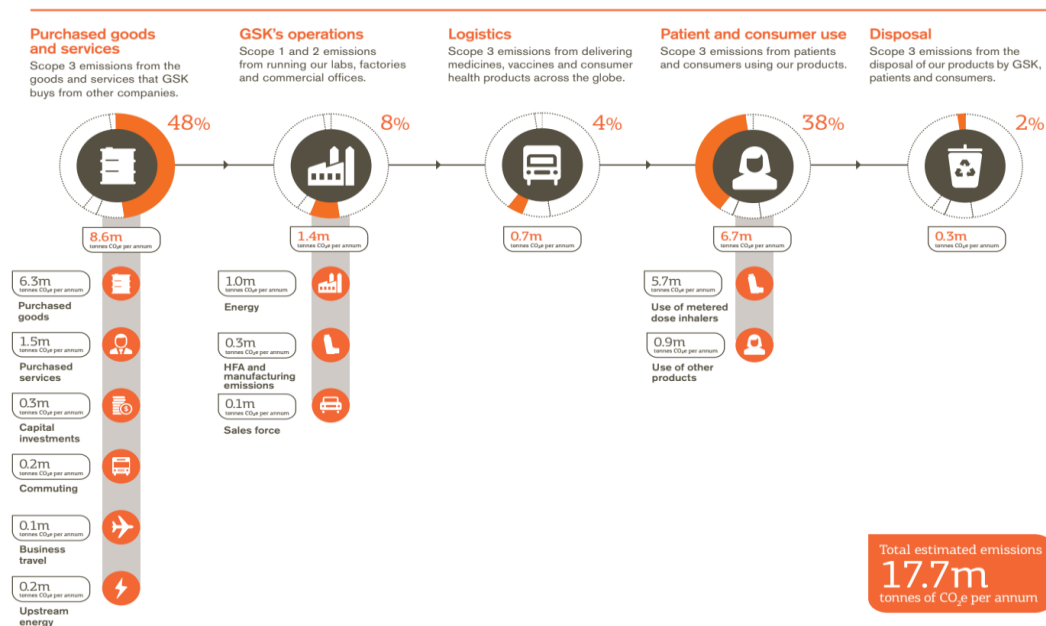


Diagram 4: GSK's value chain carbon footprint plan, based on source: (GSK, 2020)

A specialised chemistry unit, founded in 2012, is on call to help company's R&D research scientists find ways to produce the medicines using greener processes (GSK, 2020). Additional team, looking at the chemical synthesis and production of one of their experimental drugs, has recently seen achievements such as:

1. Applying greener chemistry methods: products that are less toxic, easier to dispose of or recyclable.
2. In work with processes that require less material and produce less waste.
3. Develop ways to reuse solvents used in chemical procedures.
4. Completion of a new wastewater treatment facility.
5. Using less products and packing.

As a result, the company was able to reduce the amount of water and zinc they were sending to waste by 80 per cent, and 21.5 million fewer tablets and 850,000 fewer plastic bottles were developed for use in clinical trials. The specialised chemistry unit would have saved an approximate 600,000 tonnes of CO₂ emissions over the product lifecycle (GSK, 2020).

Conclusion

During this essay, the author identified strategic management, strategic management process and applied relevant analyses, including SWOT, PESTEL and Porter's Five Forces Model to the case study of GSK to determine the company's strategy and explore its external and internal environment. A wide range of literature and internet resources was used during completing work on the essay, including books recommended by the course tutor, Dr Gladius Kulothungan. The knowledge gained through online lectures and working with other students was also very useful and valuable. At the end of this assignment, the author wishes to say thanks to the course tutor Dr Gladius Kulothungan and also Dr Hossein Shokri for all their help and support during the study period.

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