



**GCE A level**

1083/01



S15-1083-01

**BUSINESS STUDIES – BS3**

A.M. WEDNESDAY, 10 June 2015

2 hours

1083  
010001

### **ADDITIONAL MATERIALS**

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book.

### **INSTRUCTIONS TO CANDIDATES**

Use black ink or black ball-point pen.

Answer **all** the questions.

Write your answers in the separate answer book provided.

### **INFORMATION FOR CANDIDATES**

The number of marks is given in brackets at the end of each question.

You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing in questions 4 and 5.

You are reminded that questions 4 and 5 are synoptic and so will test understanding of the connections between different elements of the subject.

Study the information provided about *GlaxoSmithKline plc* and answer the questions that follow.

## BACKGROUND

5 GlaxoSmithKline plc (GSK) is a science-led global healthcare company that researches and develops a broad range of innovative medicines and brands. It has three primary areas of business: pharmaceuticals, vaccines and consumer healthcare. Its consumer products include Ribena, Macleans toothpaste, Panadol headache pills, Lucozade and Horlicks.

The company can trace its history back to 1715 when Sylvanus Bevan established his pharmacy in Plough Court in London. In 1880, his descendants founded Burroughs Wellcome and Company which, eventually in 1995, merged with the Australian company Glaxo to form Glaxo Wellcome.

10 The American branch of the business can trace its history back to 1830 when John K Smith opened his first drugstore. He later joined forces with Mahlon Kline to form Smith Kline. In 1989 Smith Kline merged with the Beecham Group to form Smith Kline Beecham.

In 2000, Glaxo Wellcome and Smith Kline Beecham merged to form GlaxoSmithKline plc.

GlaxoSmithKline plc has its worldwide headquarters in London. The company has offices in 115 countries and production sites in 87 countries. It employs over 99 000 people worldwide.

15 The table below gives information about the size of the world pharmaceutical market and identifies the regions where most growth occurred.

<b>World pharmaceutical market by geographical region</b>	<b>Value £bn</b>	<b>% of total</b>	<b>% compound growth Sep 2007-Sep 2012</b>
North America	221	42.8	3.4
Europe	120	23.3	2.6
EMAP	112	21.7	14.7
Japan	63	12.2	3.8
Total	516	100.0	5.1

EMAP = Emerging markets + Asia Pacific region

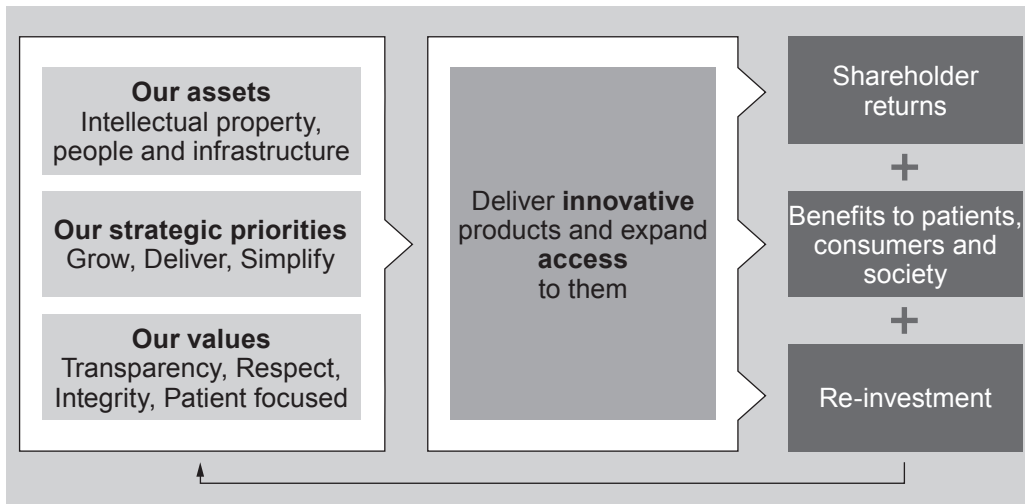
The following is an extract from GlaxoSmithKline plc's Annual Report 2012:

**GLAXOSMITHKLINE'S MISSION AND THE CREATION OF VALUE**

- 20 GSK's mission is: to improve the quality of human life by enabling people to do more, feel better and live longer.

By delivering innovation and expanding access to our products, we create value for society and our shareholders.

**How we create value**



- 25 We see both opportunities and challenges in our operating environment. Scientific research is continuously uncovering new understandings about disease processes and technologies. Meanwhile, the world's population continues to grow, as do pressures on healthcare costs.

**Innovation**

- 30 We create value by researching, manufacturing and making available products that improve people's health and well-being. A healthier society enables people to live life to its fullest, allowing them and their communities to prosper. A sustained flow of innovative products enables our business to grow profits and deliver improved returns to our shareholders. We aim to develop new products that offer significant improvements over existing treatment options and therefore provide value to patients and those who pay for them.

- 35 In 2012, we invested £3.5 billion in core research and development of new medicines, vaccines and consumer products, and we are currently evaluating around 50 investigational medicines for diseases such as cancer, diabetes, heart disease and respiratory illnesses. Over the next three years, we have the potential to bring around 15 new medicines to patients.

### Access

40 We manufacture and distribute more than 4 billion packs of products to over 150 countries  
 around the world. With this extensive global presence, we are striving to make our products  
 as widely accessible as possible. We have adopted more flexible pricing approaches to reflect  
 countries' wealth and ability to pay. This has resulted in significant increases in demand for our  
 products in emerging economies. We reinvest a fifth of the profits we make from sales in these  
 45 territories back into local healthcare infrastructure projects.

### Sustainable

Developing a new medicine takes many years and substantial investment. On average each  
 successful medicine will require significant investment over a 10-12 year period. Sustainability  
 in our business performance is critically important if we are to deliver continued innovation  
 50 and access to our products. We must produce profitable performance to ensure we remain  
 competitive and have the funds to invest in our people and assets.

### How we do it

We can only achieve our objectives by utilising our assets, executing our strategic priorities and  
 operating our business responsibly. In the past five years, we have made significant progress in  
 55 the delivery of our strategic priorities. At the same time, we have also simplified our business to  
 reduce costs and ensure we retain long-term competitiveness.

Our commitment to be a responsible, values-based business underlies everything we do. Our  
 values are applied across the Group and we are focused on integrating them into our culture,  
 decision-making and how we work. These values are to operate with transparency, demonstrate  
 60 respect for people, act with integrity and be patient-focused. We ask every one of our employees  
 to embody these values.

### Wider contributions

While our primary contribution is to develop new products that improve people's health, we  
 also create value as a global company by making direct and indirect economic and social  
 65 contributions in the countries in which we operate. We have a global and diverse employee  
 base and we contract goods and services on a significant scale. Last year, our manufacturing  
 supply chain spent around £9 billion with 6 000 suppliers across 73 countries.

The company also contributes to the countries in which we operate through the tax system. In  
 2012, the charge for taxation on our profits amounted to £1.95 billion. Direct contributions to  
 70 support the health and well-being of local communities relevant to GSK are also made via our  
 global community programmes which amount to over £200 million a year. Finally, we believe  
 we can create value by acting as a catalyst or partner for other organisations. We are open to  
 working with research charities, academia, companies and non-governmental organisations.

The following article appeared in The Sunday Times newspaper 26 July 2009:

### 75 THE ANDREW DAVIDSON INTERVIEW: ANDREW WITTY

EVERY cloud has a silver lining. For Andrew Witty, youthful boss of the drug giant GlaxoSmithKline,  
 the advent of swine flu means some serious return on the huge sums invested in vaccine  
 research.

80 “Yeah”, he nods, with a frown, “we do operate in an unusual space. Nobody in the world discovers drugs and vaccines except private companies – governments don’t, universities don’t – but there’s always going to be a discomfort over the financial return involved. What we’re trying to do is strike a balance”.

85 That balance was tested when Glaxo, the third-biggest pharmaceutical company in the world by revenue, announced good financial results but found itself fending off accusations of profiteering as it revealed its figures for advance sales of swine flu vaccine.

Mr Witty, who is determined to improve the reputation of big pharmaceutical companies, doesn’t flinch. “The price we have quoted governments is in the same ball park as that for seasonal flu vaccine, about £6. Some will buy it for less and a lot of places will buy it for more”.

90 Mr Witty seems determined to bring Glaxo down to earth, making it more relevant and better-liked among its array of stakeholders here. He advocates selling vital drugs to poorer countries for a quarter of the price charged elsewhere and promises to supply swine flu vaccine free to the World Health Organisation. He has moved senior executive offices from the top to the ground floor at group headquarters so bosses mix with other staff, and Glaxo, he says, will now conduct itself with greater transparency – or as much as is commercially viable. It’s a new approach.

95 But then the world is changing, too. Giants like Glaxo now find their best selling drugs under assault from cheaper, generic competitors, and research pipelines are failing to produce the blockbuster products of the past. Big buyers like the NHS are keener to haggle. The sector has responded by consolidating, but the mega-mergers of recent years seem to do little to increase creativity.

100 That makes Mr Witty’s strategy more pertinent. He wants to broaden his business beyond reliance on blockbuster drugs, ramp up investment in the less glamorous field of vaccines, and move more rapidly into the developing world.

Glaxo has invested in vaccines for longer than any drug giant, according to Mr Witty: “It’s only fair that its shareholders get some return”.

105 The following article appeared in The Times newspaper 28 December 2011:

### **GLAXO ADDS HEALTH BARS, NOODLES AND NINJAS TO INDIA’S UNQUENCHABLE THIRST FOR HORLICKS**

110 In two world wars it was seen almost as a life-saver, in seventies’ Britain as an essential aid to a good night’s sleep and in India as a vital milk substitute for malnourished children. Now, more than a century after it was first imported into the subcontinent, Horlicks, a hot drink made from wheat, malted barley and milk, is trendy again.

115 Sales in India are booming. GlaxoSmithKline, its manufacturer, says that they have doubled over the past four years and are on track to exceed £300 million next year – representing three quarters of worldwide consumption. The Indian recipe for Horlicks is slightly different than in most other countries as it is made from buffalo milk rather than cows’ milk because of cultural concerns.

However, Horlicks is no longer merely a drink. Glaxo has now developed new products: Horlicks “Foodles” (or flour noodles), biscuits and porridge oats. There are products for women and mothers and, for the younger market, Horlicks Ninja, a health food drink marketed as “the great family nourisher”, and Chill Dood, an instant milkshake.

The family is a key part of Horlicks’ success in the country. According to Zubair Ahmed, managing director of GSK Consumer Healthcare in India, ever since the brand was introduced to the country it has developed its strongest following in its poorer states, where there has been a shortage of milk and mothers have sought an alternative.

“That is where the bulk of our volume comes from”, he said. “There are large nutritional gaps and obviously these powders have a role to play ... Horlicks plays an extreme role”.

Horlicks and a related GSK brand, Boost, generated sales of £254 million in India last year – two thirds of India’s nutritional drinks market. Horlicks’ sales are growing by about 20 per cent a year in India and represent nearly 70 per cent of GSK’s consumer goods business in the country, which also includes Lucozade and Sensodyne toothpaste. Global Horlicks’ turnover is about £350 million, of which the second placed Britain contributes sales of about £30 million. The drink is also marketed in Jamaica, Nigeria, Bangladesh and Sri Lanka.

With a rapidly expanding population of 1.2 billion people, foreign companies are eyeing India’s booming consumer goods market as an engine of future growth. Across the board, the market for fast-moving consumer goods, everything from shaving foam to breakfast cereal, is growing at up to 20 per cent per year. Some categories, such as crisps, salty snacks and chocolate bars, are growing at rates of up to 65 per cent per year.

The following article appeared in The Sunday Times newspaper 21 July 2013:

#### **GLAXO IN PEACE OFFERING TO CHINA OVER BRIBES ROW**

GLAXOSMITHKLINE is to offer an olive branch to the Chinese government this week, as it attempts to resolve the corruption scandal engulfing it. Sir Andrew Witty, chief executive, is expected to say that the company will offer to help Beijing with reforms of its healthcare market, including attempts to crack down on corruption and to cut drug prices.

Glaxo is accused of being involved in a £300m scheme to bribe doctors and public officials. The police have detained four of the company’s Chinese executives. Glaxo’s finance director for China, who is British, has been prevented from leaving the country. The company has described the allegations as “shameful” and said it has “zero tolerance” for such behaviour. It has sent executives to China to assist inquiries.

Glaxo is likely to try to improve relations in the longer term by offering help to reform the country’s healthcare system. This could see it make drugs more widely available and for less money. China is keen to improve its health service. Doctors are poorly paid and it is common for them to accept bribes to prescribe particular drugs.

## GlaxoSmithKline plc's Finances 2011 and 2012

### GlaxoSmithKline plc's Profit and Loss Account (Income Statement) for year ending 31 December

	2012 £m	2011 £m
<b>Sales Revenue (turnover)</b>	26 431	27 387
<b>Less</b> Cost of Sales	7 894	7 648
<b>Gross Profit</b>	18 537	19 739
<b>Less</b> Expenses	11 145	11 932
<b>Net Profit</b>	7 392	7 807

### GlaxoSmithKline plc's Balance Sheet on 31 December

	2012 £m	2011 £m
<b>Fixed (non-current) Assets</b>	27 783	24 913
<b>Current Assets</b>		
Stock	3 969	3 873
Debtors	5 242	5 576
Cash	4 184	5 714
Other	297	1 004
<b>Total Current Assets</b>	13 692	16 167
<b>Total Assets</b>	41 475	41 080
<b>Current Liabilities</b>		
Trade Creditors	8 054	7 359
Other	5 761	8 808
<b>Total Current Liabilities</b>	13 815	16 167
<b>Long-term (non-current) Liabilities</b>	20 913	17 243
<b>Total Liabilities</b>	34 728	33 410
<b>Net Assets</b>	6 747	7 670
<b>Total Shareholders' Funds</b>	6 747	7 670

1. Explain how GlaxoSmithKline plc attempts to benefit all of its stakeholders. [12]
  
2. Explain the advantages and disadvantages of research and development to GlaxoSmithKline plc. [10]
  
3. Analyse and evaluate the financial performance of GlaxoSmithKline plc. [14]
  
4. Assess the importance to GlaxoSmithKline plc of being seen as an ethical business. [10]
  
5. Discuss the difficulties and benefits, for a business such as GlaxoSmithKline plc, of operating in a global marketplace. [14]

**END OF PAPER**