

**ADVANCED EXTENSION AWARD
BUSINESS
CASE STUDY
FRIDAY 29 JUNE 2007**

9914/CS

To be given to candidates at the start of the examination.



* OCR / T 3 1 7 2 5 *

INFORMATION FOR CANDIDATES

- Candidates are advised to read all extracts in this case study before starting the test. 60 minutes of the three hour test is allowed for reading and annotating the material.

Extract	Title	Source
A	About GlaxoSmithKline	Adapted from www.gsk.com
B	Highlights of the year	GSK Annual Review 2004
C	Britain's best pharma	Adapted from www.motleyfool.co.uk , July 2005
D	GSK Investor information	www.bbc.co.uk/business and company websites
E	Drugs firms 'creating ills for every pill'	www.theobserver.co.uk , April 3, 2005
F	GSK aims to stop Aids profiteers	www.bbc.co.uk/news , February 2005
G	Drug firms fined by US Justice Department	www.bbc.co.uk/news
H	What makes GSK a great place to work?	www.company.monster.co.uk
I	Trends in graduate numbers	The Higher Education Statistics Agency (HESA)
J	GlaxoSmithKline – Seeking a cure for public mistrust	Adapted from www.mallenbaker.net/csr . April 2003
K	GSK seeks licence for high-street diet pill	Adapted from The Times

This document consists of **15** printed pages and **1** blank page.

Extract A

About GlaxoSmithKline

GlaxoSmithKline (GSK) is a world leading research-based pharmaceutical company with a powerful combination of skills and resources that provides a platform for delivering strong growth in today's rapidly changing healthcare environment.

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

Headquartered in the UK and with operations based in the US, the company is one of the industry leaders, with an estimated seven per cent of the world's pharmaceutical market.

GSK also has leadership in four major therapeutic areas:

- anti-infectives;
- central nervous system (CNS);
- respiratory;
- gastro-intestinal/metabolic.

In addition, it is a leader in the important area of vaccines and has a growing portfolio of oncology products.

The company also has a Consumer Healthcare portfolio comprising over-the-counter (OTC) medicines, oral care products and nutritional healthcare drinks, all of which are among the market leaders.

Based on 2004 Annual Results, GSK had sales of £20.3bn and profit before tax of £6.1bn. Total pharmaceutical turnover was just over £17bn and consumer healthcare turnover was £3.2bn.

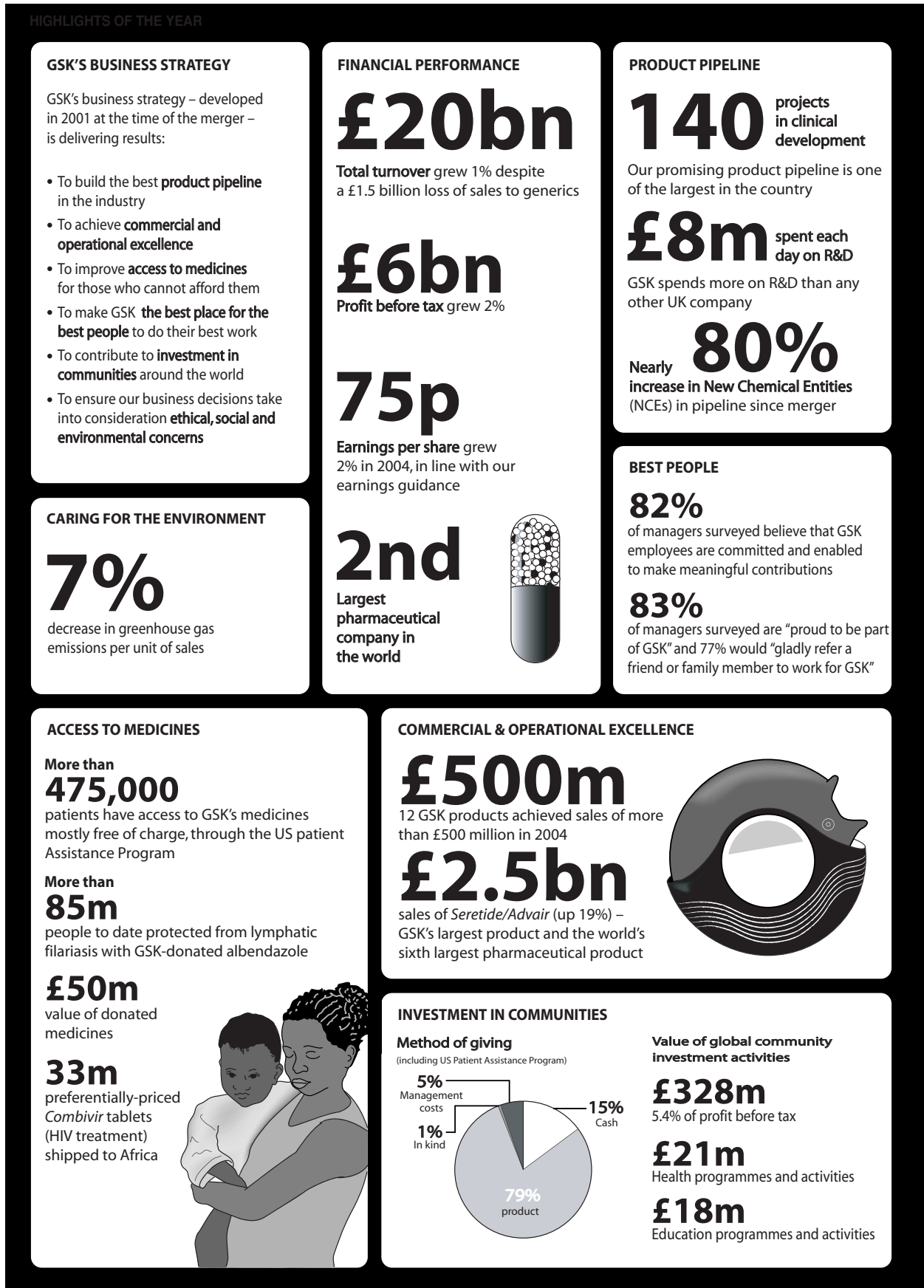
GSK has over 100,000 employees worldwide. Of these, over 40,000 are in sales and marketing, the largest sales force in the industry. Around 35,000 employees work at 80 manufacturing sites in 37 countries and over 15,000 are in Research and Development, R&D.

GSK R&D is based at 24 sites in 11 countries. The company has a leading position in genomics/genetics and new drug discovery technologies. The GSK R&D budget is about £2.8bn pa.

Source: Adapted from www.gsk.com

Extract B

Highlights of the year

Source: www.gsk.com

Extract C

Britain's best pharma

Investing in drug companies used to be quite easy. All you had to do was to pick a drug maker, any drug maker, and wait for the shares to rise. But today, it's a lot tougher for investors to profit from the drugs.

Amongst the many concerns for investors are copycat medicines by generic drug makers, product liability lawsuits, drug recalls, a tightening up on new drug approvals and governments clamping down on health budgets. It's enough to make anyone take some *Prozac* and lie down in a darkened room.

With future profits less certain, investors are consequently less willing to pay as much for each pound of earnings that drug companies make. At one time, investors would happily pay as much as thirty times earnings, but not any more.

However, what is not in question is that global drug sales are still expanding at around 8% a year. Hence, there is growth a plenty for the right company. So ahead of their second-quarter results this week, let's take a look at how Britain's three biggest pharmas, GlaxoSmithKline, AstraZeneca and Shire Pharmaceuticals fare against three key measures.

1. Therapeutic Areas

Being in the right place with the right medicine is vital if a drug company expects to profit from rising demand. The top therapeutic areas over the last twelve months were cholesterol treatment, anti-ulcerants and anti-depressants.

In this regard, GlaxoSmithKline and AstraZeneca figure highly. AstraZeneca's controversial cholesterol-lower Crestor has been approved in the US, and its Nexium ulcer treatment continues to enjoy healthy sales growth. Meanwhile, GlaxoSmithKline has recently resumed distribution of its anti-depressant Paxil after a brief interruption.

2. Research & Development

Perhaps the most important area to focus on, though, is R&D. It is the lifeblood of the drug industry because it is through R&D that new medicines are developed. So, are Britain's top drug developers putting enough money into R&D?

Company	R&D Spend
GlaxoSmithKline	£2,800m
AstraZeneca	£3,800m
Shire	£108m

With the exception of Shire, which perhaps could do better, GlaxoSmithKline and AstraZeneca, I feel, are doing enough. The payoff for R&D can take years, which is why investors should try to keep a close eye on a company's drug pipeline. These are the drugs in development that could one day become key revenue generators. On this score, GSK is second to none with over 45 drugs in Phase II trials. Of course, there are no guarantees that any of these will make it to market or even progress to later stage trials.

3. Valuation

In terms of valuation, all three drug makers are similarly valued at around 16 times earnings, which feels about right for companies growing at this sort of rate. However, shares in GSK, are the highest yielding at 3.3%.

So, in terms of being in the right therapeutic area, a strong R&D budget and a better yield, GSK gets my vote as Britain's best pharma.

By David Kuo (*David owns shares in GlaxoSmithKline*).

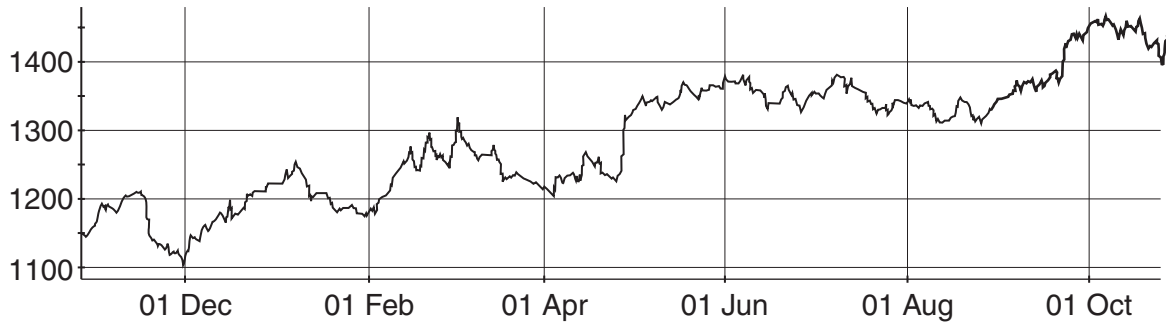
Source: www.fool.co.uk, 26 July 2005

Extract D

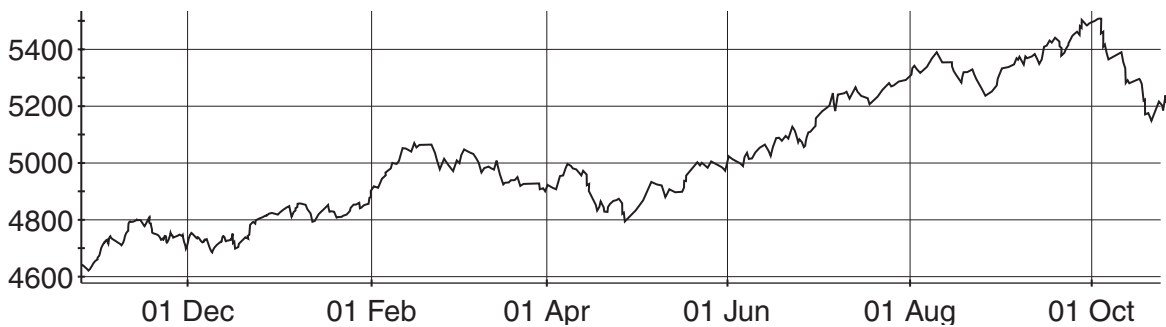
GSK Investor information

GSK Share Price, pence, 2005

GlaxoSmithKline



FTSE 100 share index



Comparative FTSE company data

	Market Capitalisation, £m (as at 28/10/05) and rank	Profit after taxation	Equity
British Petroleum	128,175.9 (1st)	\$15,961m	\$76,656m
HSBC	98,496.2 (2nd)	\$7,982m	\$86,713m
Vodafone	88,396.3 (3rd)	(£13,782m)	£99,317m
GSK	88,757.5 (4th)	£4,418m	£62,022m
Tesco	23,153.1 (15th)	£643m	£8,782m

£:\$ exchange rate (as at 28/10/05) 1:1.75

Source: www.bbc.co.uk, business and company websites.

Extract E

Drugs firms ‘creating ills for every pill’

The power of Britain’s multi-billion-pound drugs industry has turned this country into an over-medicalised society that believes in a pill for every ill, a House of Commons select committee report will claim this week. The health minister responsible for medicines, admitted to the inquiry: ‘I have some concerns that sometimes we do, as a society, wish to put labels on things which are just part and parcel of the human condition.’

The report will say that the billions of pounds poured into R&D and promoting new drugs have fuelled an over-emphasis on medicinal cures at the expense of cheaper and better therapies, or simple prevention. The seven-month inquiry follows complaints from patients’ groups and senior doctors that the interests of the industry are distorting health care priorities.

The MPs heard evidence of ‘disease-mongering’ drugs firms effectively inventing diseases for which they could then sell treatments, with relatively normal behaviour – from mild depression to low female sex drive – re-labelled as conditions for which drugs were supposedly necessary.

The report is also expected to criticise the secretive process of licensing medicines in Britain, following several safety scares in which so-called ‘wonder drugs’ have turned out to have had serious side effects. An example is provided by the anti-depressant Seroxat. In November, *The Observer* revealed that Seroxat’s manufacturer GSK was trying to market it as a cure for relatively mild forms of depression, despite the fact that the drug has been linked to an increased risk of suicide. ‘The thrust was to move sales beyond the \$1bn to the \$2bn mark by pushing it to people who were not clinically depressed,’ Professor David Healy told the House of Commons Select Committee. Richard Brook, Chief Executive of Mind, the mental health charity, told the MPs that the plan was ‘all about developing new conditions for that drug’.

Prescriptions for Seroxat tripled after it was licensed for mild depression, while *The Observer* revealed earlier this year that it was being marketed to doctors as a treatment for ill-defined ‘social anxiety disorders’.

Marketing drugs

Drug firms are banned from advertising directly to patients in Britain, or offering bribes to doctors to prescribe a certain brand. However campaigners say the industry has discovered ways of ‘guerrilla’ promotion, including generously funding medical charities – which, the inquiry heard, raises the risk of them becoming its ‘unwitting foot soldiers’. One mental health charity, Depression Alliance, receives almost 80 per cent of its funding from drugs companies.

Paul Flynn, the Labour MP who has campaigned to expose the influence of the industry and gave evidence to the committee, said it deserved an ‘absolute hammering’ for its practices. ‘The whole of society has been conditioned to believe that we are dependent on medicines’. The advice of the Chief Medical Officer is that many depressed patients should be prescribed exercise programmes rather than pills.

The Select Committee heard of drugs marketed to doctors in academic papers written for medical journals. These are ostensibly written by independent experts but are, in fact, ghost-written by the drug firms, which then pay academics to lend their names to the papers.

Dr Richard Horton, editor of leading medical journal, the *Lancet*, disclosed he had been effectively offered bribes to publish papers showing drugs in a favourable light. He said firms offered to buy ‘hundreds of thousands of reprints’ – which could be worth up to half a million pounds to his magazine – if their paper went in.

However, a spokesman for the Association of the British Pharmaceutical Industry denied fuelling dependence on drugs: ‘I don’t think we have ever suggested that medicines are the only answer to health problems. It is always down to the doctor to determine whether there is a real medical condition. It is right we should be informing prescribers of what medicines can be relevant.’

From: Gaby Hinsliff, 3 April 2005 © Observer Guardian Newspapers Limited 2005

Extract F**GSK aims to stop Aids profiteers**

One of the world's largest manufacturers of HIV/Aids drugs has launched an initiative to combat the smuggling of cheaper pills – supplied to poorer African countries – back into Europe for resale at far higher prices.

The company, GSK, is to alter the packaging and change the colour of the pills, currently provided to developing nations under a humanitarian agreement.

It is estimated that drugs companies are losing hundreds of millions of dollars each year as a result of the diversion of their products in this way. This is a very sensitive area for the big drugs companies. They want to maintain their profits, but have been put under tremendous pressure to provide cheap anti-Aids drugs to the world's poorest nations.

From: BBC News, <http://news.bbc.co.uk>, 21 Feb 2005

Extract G**Drug firms fined by US Justice Department**

Swiss drugs maker Serono has admitted it was guilty of illegally promoting its Aids drug, Serostim, and has agreed to pay a \$704m (£398m) settlement with the US Justice Department.

The payout relates to allegations that it offered kickbacks to doctors to write prescriptions for the drug to boost sagging sales. Four former Serono executives were indicted in April on charges of offering illegal payments to doctors for prescribing the drug. The company made more than \$90m profit during the period of illegal promotion, the Justice Department said.

“Serono abused the system of testing and approval, and put its desire to sell more drugs above the interest of patients,” said US Attorney General Alberto Gonzales. It will be excluded from all US federal health care programmes for at least five years.

The Serono settlement is the latest in a series of ‘whistleblower’ claims that have cost major drug firms more than \$3bn in recent years. Last month, UK giant GSK announced it would payout \$150m to settle allegations that it overcharged the US government for two anti-nausea drugs.

From BBC News, <http://news.bbc.co.uk>, 17 October 2005

Extract H

What makes GSK a great place to work?

At GSK, we conduct our business with integrity and honesty, and aspire to excellence in all we do. We know our people are vital to the success of the business, and encourage everyone to achieve their maximum potential. We offer a competitive benefits package and recognise the need for a healthy balance between work and family life.

GSK welcomes the talent of people from diverse backgrounds to provide the expertise, dedication and imagination to propel us towards a prosperous future. We look for individuals with daring spirits and inquisitive minds who seek a broad range of opportunities for growth, and whose efforts are realised in the improved health of people worldwide.

GSK is an exciting organisation, which offers a variety of career opportunities. Our recruitment process aims to achieve the highest level of candidate care by listening to your interests, and treating you like a valued customer.

Global Manufacturing and Supply

GSK has 107 manufacturing sites in 40 countries with over 42,000 employees, which:

- supply products to 191 global markets for GSK;
- produce over 1,200 different brands;
- manufacture almost 4 billion packs per year;
- manage about 2,000 new product launches globally each year.

Production of nutritional products is in excess of 300 million Lucozade/Ribena bottles, 350 million Ribena tetra packs and 20 million Lucozade carbonated cans per year. The annual output of Horlicks is 50 million kilogrammes, equivalent to about 1,000 million servings. In oral care, the volume of toothpaste manufactured annually exceeds 600 million tubes.

GSK Pharmaceuticals

You would be forgiven for thinking that a company the size of GSK is only ever concerned with the bottom line. But the truth is that our organisation is equally dedicated to helping people around the world live longer, feel better and do more.

We have a diverse portfolio of brands, as well as a health pipeline of new exciting compounds. Every year GSK invests heavily into R&D, with over 40% of this in the UK. We are one of the highest investors in science. We are a leader in four major therapeutic areas and have an approx. 13% share of the UK pharmaceuticals market.

The UK Pharmaceutical division employs over 2,000 people to promote GSK medicines and a range of value added services to customers across the UK.

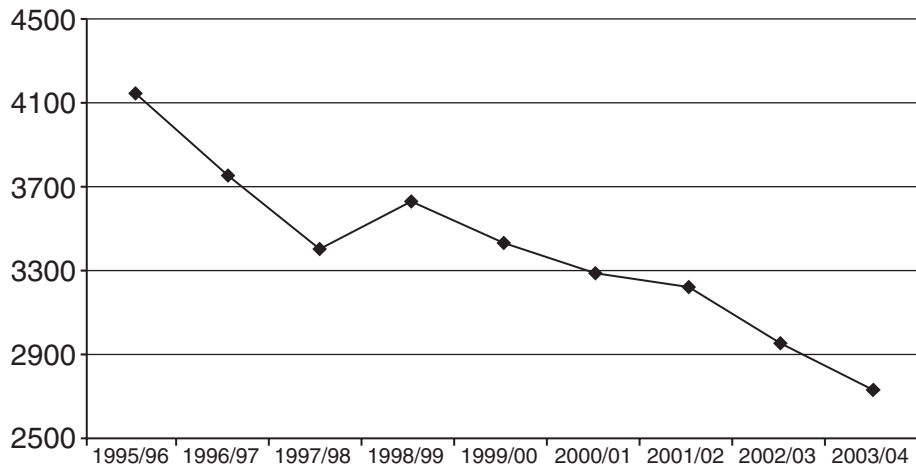
This continued success is achieved by being a responsible leader, committed to working with healthcare professionals, listening to patients and responding to a changing environment.

Source: www.jobsite.co.uk

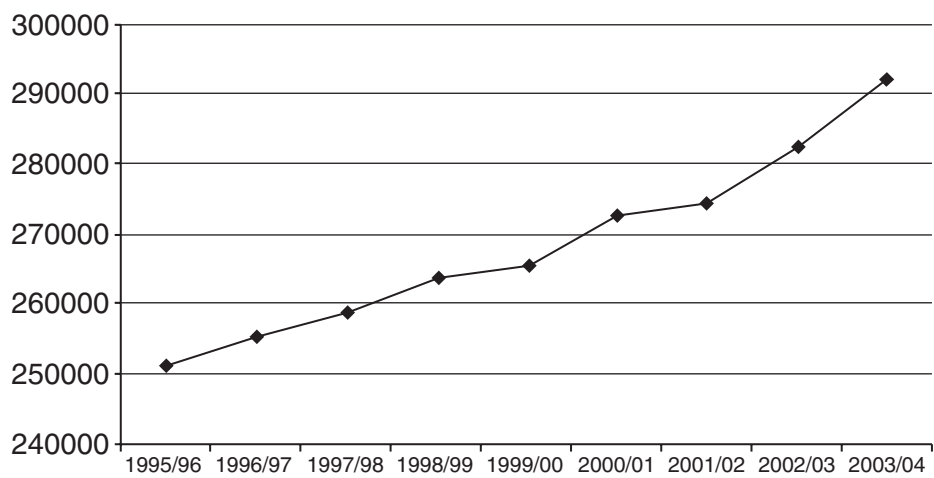
Extract I

Trends in graduate numbers

Number of first degree chemistry graduates (1995/96–2003/04)



Number of first degree graduates (1995/96–2003/04)



Source: The Higher Education Statistics Agency (HESA).

Extract J**GlaxoSmithKline – Seeking a cure for public mistrust**

There is a real dilemma facing a company like GlaxoSmithKline. On the one hand, the company makes demonstrably socially desirable goods – medicines. The company's products save and enhance lives. How absurdly easy, then, for the company to unite around a mission to improve the quality of life, and to fire up some of the best talent in the world to make a profit in this cause.

But therein lies the problem. Significant numbers of commentators, NGOs and the general public have come to believe that there is something inherently disturbing about a company that saves lives making a profit at all. When there are so many people dying in the darkest poverty in the world, how can any company with a heart aim to make a profit at their expense?

The dilemma has had the entire pharmaceutical industry caught in a vice-like grip over the last couple of years – how does a socially responsible company respond to such an enhanced set of societal expectations?

For an answer to this, perhaps one might start by looking to GlaxoSmithKline's recent social and environmental report – its second. After all, if such reports are to provide real value, they should be able to engage such a crisis of expectations.

Needless to say, the company confirms the basis for the expectations from the opening chief executive's statement. "Corporate responsibility is an integral part of our business – it is inherent in the mission of the company. GSK makes a significant positive contribution to society around the world, through the medicines, vaccines and healthcare products that we research, develop, manufacture and sell."

Its report leads off with the beneficial impact made by its core products. Society's expectations have changed. Diseases that once had a devastating impact are now controlled, which has led many within the developed world to take good health for granted. This is a fair point rather often missed by the sector's critics.

The company recognises that those changing expectations have now led to questions being asked about access to its medicines. Such concerns led it to introduce the orange card scheme in the United States to provide discounts for low-income people. It has led to an active programme of price reduction for essential drugs in developing countries – to a deafening chorus of both praise and bitter criticism.

"GSK is committed to contributing to health improvements in a sustainable manner, so we set our preferential prices at levels that cover direct costs but on which we do not make a profit. In this way we can offer these prices for as long as patients need treatment."

The company's community investment and charitable contributions in 2002 totalled £239 million, of which £112 million was related to the company's Patient Assistance Program for financially disadvantaged patients in the US.

On research and development, the company addresses the issues around animal research, arguing that its approach is to reduce the use of animals in research wherever possible, to refine this use to ensure relevance and to replace animal experiments with other kinds where permissible (the company is legally required to test medicines on animals before those medicines are released). Figures are provided that show a broadly static use of animals in tests against an ever-rising profile for the quantity of research and development carried out.

Figures show that 19% of the 24,000 strong US workforce is made up of 'people of colour'. Within global senior management, 81 percent are men, 19 percent women.

On human rights, the company has carried out an internal review and declared itself to be in compliance, wherever it operates, as an employer with the Universal Declaration and the core conventions of the International Labour Organisation. The company has put in place 'binding requirements' to ensure that major contractors and suppliers adopt the same standards.

On environmental performance, the company has targeted a number of emissions for reductions, such as volatile organic carbons and CFCs. There is no mention of greenhouse gases or climate change.

Source: www.mallenbaker.net, April 2003

Extract K**GSK seeks licence for high-street diet pill**

Britain's biggest drug company has asked the US Food and Drug Administration to license a low-dose version of Xenical. If the application is successful, GSK will become the first drug company to market an FDA-approved over-the-counter pill for weight loss. But first regulators are likely to consult outside experts before deciding whether or not to approve Xenical for over-the-counter use.

A spokesman for GSK said yesterday that it hoped to launch the drug provided it encountered no last-minute glitches with regulators. The move comes after the pharmaceuticals giant tested a 60-milligram version of Xenical, which stops the gut from absorbing fat, on patients in a specially designed trial.

In the trial, one in three dieters taking the pill over a four-month period lost more than 5 per cent, while more than half lost over 3 per cent of their initial weight. Volunteers also recorded lower cholesterol levels and fewer problems with blood pressure, GSK said. It believes that many Americans who might be reluctant to go to their doctor for a prescription drug are likely to try an over-the-counter version. The company said that the pill would be packaged as part of a programme which would also contain dietary advice and an exercise regime.

James Anderson, Professor of Medicine and Clinical Nutrition at the University of Kentucky, said that he was delighted with the results: "The number of overweight individuals in America continues to increase each year and the risk of these folks progressing to obesity is significant." The US Department of Health and Human Services estimates that more than 130 million Americans are overweight or obese. Weight problems can lead to heart disease, diabetes and high blood pressure.

From Richard Irving © The Times, London, 18 October 2005

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