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CASE STUDY WITH COMMENTARIES

The Urge to Merge in the Pharmaceutical Industry

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This Case Study focuses on the giant Glaxo Wellcome and SmithKline Beecham merger to form Glaxo SmithKline. There is a general background of evidence to show that mergers frequently destroy shareholder values. The pharmaceutical sector is no exception, even though companies are in the early stages of healthy growth and not seeking consolidation because they are mature. The urge to merge is stimulated essentially by intense competitive pressures in pharmaceuticals. Chief Executive Jean-Pierre Garnier faced many challenges in early 2000, primarily how to deliver the promise of the merger. The case study analyses the growth of the pharmaceutical industry, its business system and value chain, and the steps to merge between Glaxo Wellcome and SmithKline Beecham. The case is followed by commentaries from experts in the field which help to form opinion on whether the merger will succeed. © 2001 Elsevier Science Ltd. All rights reserved.

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Introduction

In January 2000 Jean-Pierre Garnier became Chief Executive-elect of the new pharmaceutical giant Glaxo SmithKline. Born from the merger of Glaxo Wellcome and SmithKline Beecham, the new company had $25bn in sales, a market value of around $180bn and an industry-leading market share of 7.3 per cent.

Garnier faced one of the biggest challenges yet faced by a pharmaceutical Chief Executive: to create additional value for shareholders, to steer a path through the scientific, market and competitive turbulence of the new century and to confound the many critics of big mergers. Criticism of big mergers were many, and some uncomfortably close to home. For example, Glaxo's acquisition of Wellcome in 1995 produced only short-term savings but no long-term growth (*Economist*, 2000a). Glaxo Wellcome and SmithKline Beecham had attempted a merger in 1998 with their shareholders' agreement, but the deal collapsed in a squabble over which Chief Executive should run the merged company. Warnings about the difficulty of post-merger integration had a special meaning for Garnier.

Various research studies provided evidence that most mergers did not create shareholder value and that many destroyed it. Some observers saw big mergers as the product of an Anglo-Saxon preference for deals as vehicles of change, or as exercises in self-aggrandisement by senior executives at shareholders' expense. Robert Baldock in, *The Last Days of the Giants*, saw the big merger as the death spasm of doomed dinosaur-like companies of the twentieth century in the face of new competitive dynamics and the organisational forms of the 'new economy'. From his point of view, Glaxo SmithKline might have unique competencies in R&D and manufacturing but its other activities would be better performed by specialists in a network of alliances, held together by e-commerce technologies and connected to final customers through new agents such as drugstore.com.

Nonetheless, Garnier was undaunted: 'Before, drug companies were forced together because they were