

GSK Pharma pins hopes on new products

GlaxoSmithKline **Pharmaceuticals Ltd**

(GSK Pharma) does not appear content with its 14% growth in the domestic pharma market, compared with 12% in 2009. It intends to add about 500-600 people to its field force, against 300 in 2010. An expanded field force will be its conduit to drive growth in the next few years.

The firm's December quarter results are disappointing at first glance, as pharma sales rose by just 11.4% over the year-ago period. Sales in the September quarter rose by about 15% in comparison. But the

previous quarter has traditionally been a strong one, and GSK also got hit by a high base effect. Sales in the December 2009 quarter had risen by nearly 21%.

New products have done well. During the quarter, vaccine sales rose 22% while that of patented products such as Tykerb and Arixtra rose 25%. In mass products and specialities, which contribute to a larger proportion of sales, growth was about 10%. GSK has been attempting to drive the contribution of its new products launched since 2009. These

contributed to about 10% of pharma sales in 2010, but take credit for one-fourth of its sales growth. They will form an important part of its strategy for growth, in a market where competition is becoming fierce. Hence, price hikes have been nominal. GSK's December quarter operating profit margin fell by about 50 basis points, over the previous correspond-

ing period.

Inflation in material costs (especially a sharp jump in purchased goods) was the key reason. GSK expects gross margin/sales to come down to about 63% from 64%

in 2010, due to rising material costs. Employee costs, too, will rise due to its hiring plan.

It is imperative that GSK grows sales at a faster rate, to cover its rising cost base. It will do this by focusing more on relatively new products, of which six-seven more will be launched in 2011. Their contribution will increase to the 15-20% range in about three years. New products and therapeutic categories will shoulder the responsibility of driving both sales growth and protecting margins, and will be the focus for its new sales force.

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