UNIVERSITY OF KWAZULU-NATAL

THE GROWTH STRATEGIES OF A GLOBAL PHARMACEUTICAL COMPANY: A CASE STUDY OF ASPEN PHARMACARE HOLDINGS LIMITED

By

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DECLARATION

I, Victoria Margaret Hodgon, declare that:

(i) The research reported in this dissertation, except where otherwise indicated, is my original research.

(ii) This dissertation has not been submitted for any degree or examination at any other university.

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  a) their words have been re-written but the general information attributed to them has been referenced:

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ABSTRACT

The evolution of Aspen Pharmacare Holdings Limited from its origins less than 20 years ago is a success story worthy of analysis. Aspen began trading in 1997 as a small pharmaceutical business managed out of a suburban house in Durban, South Africa and by 2004 had achieved revenues of R2,2 billion. Aspen has now grown to become a global company with offices in approximately 50 locations across the world and revenues of R29,5 billion in 2014. Given the rapid and sustained growth achieved by Aspen over the past 11 years (2004 – 2014), the main aim of this study was to identify and analyse the growth strategies adopted by Aspen over this time period. The research method used was a descriptive study through a single case study of Aspen by analysing secondary data in the form of publicly available company reports and presentations, as well as financial results, issued by Aspen between 2004 and 2014. Qualitative data was extracted and analysed to determine the growth strategies used by Aspen, whilst certain quantitative data was used for illustrative purposes. The study found that, guided by strategic and visionary leadership, Aspen adopted a number of growth strategies including (i) organic growth, as a key factor in creating incremental value for Aspen and its stakeholders, (ii) inorganic growth, in the form of carefully planned and well executed acquisitions aligned to the Group strategy, (iii) extending territorial coverage through global expansion, particularly into emerging pharmaceutical markets, and (iv) ongoing investment in production capabilities as a means of creating a strategic advantage. Despite the challenges of intense competition, restrictive legislation, pressure on medicine prices, currency volatility and market specific risks, Aspen has delivered double-digit earnings growth to its shareholders for 16 consecutive years. The study culminates in the development and proposal of a sustainable growth model which is intended to be a unique contribution to the academic writings on business growth. It may be used by companies (particularly South African pharmaceutical companies) as part of their strategic planning process for growth.

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List of Abbreviations

API/s	Active Pharmaceutical Ingredient
ARV	Antiretroviral
Aspen	Aspen Pharmacare Holdings Limited
Aspen Global	Aspen Global Incorporated
Aspen Australia	Aspen Australia comprises Aspen Asia Pacific Pty Limited and its subsidiaries, including Aspen Pharmacare Australia Pty Limited, Aspen Pharma Pty Limited, Orphan Holdings Pty Limited, Orphan Australia Pty Limited, Aspen Lennon Pty Limited and Arrow Pharmaceuticals Pty Limited
CEO	Chief Executive Officer
CIS	Commonwealth of Independent States, comprising Russia and the former Soviet Republics
EMENAC	European, Middle Eastern, North African and Canadian region
FCC	Fine Chemicals Corporation (Pty) Limited
FMCG	Fast Moving Consumer Goods
GSK	GlaxoSmithKline plc
JSE	Johannesburg Stock Exchange
M&A/s	Mergers and acquisitions
MENA	Middle East and North Africa
MSD	Merck Sharpe & Dohme
OTC	Over-the-counter
Shelys	Shelys comprises Shelys Africa Limited, Shelys Pharmaceuticals Limited, Shelys Pharmaceuticals International Limited, Beta Healthcare Kenya Limited and Beta Healthcare (Uganda) Limited
SSA	Sub-Saharan Africa
US FDA	United States Food and Drug dministration

CHAPTER ONE
Introduction and Overview

"Aspen's success can be attributed to a number of factors, most notably innovation and leadership that practices a fine balance between passion and logic. … We had a vision and we have pursued it with both perseverance and passion. I hope that our story inspires future generations of entrepreneurs."

Stephen Saad, Aspen Group Chief Executive,
accepting his award for
Sunday Times Business Leader of the Year in 2012

1.1 Research Title and Introduction

The growth strategies of a global pharmaceutical company:
a case study of Aspen Pharmacare Holdings Limited.

This dissertation is a case study analysis of Aspen Pharmacare Holdings Limited ("Aspen") with a focus on the growth strategies adopted by the company.

This introductory chapter presents the framework upon which the research and preparation of this dissertation was based. The chapter commences with an introduction to Aspen. This is followed by the problem statement and research questions. Thereafter the aim of the study, the motivation for the study, as well as the significance of the research, is explained. The research methodology employed is described and a chapter overview is provided.

1.2 Introduction to Aspen

Aspen is a supplier of branded and generic pharmaceutical products globally as well as infant nutritional and consumer healthcare products in selected territories (Aspen, 2014). The company was established in a suburban home in Durban, South Africa in 1997. A year later it listed on the Johannesburg Stock Exchange

(“JSE”) (the South African stock exchange) through a reverse listing into Medhold Limited (Aspen, 2014). The following year Aspen acquired South African Druggists, the largest South African-owned pharmaceutical company at the time (Cairns, 2011), for R2,4 billion in a highly leveraged hostile takeover described as a mouse eating an elephant (Tshabalala, 2014).

Fast forward to 2014 when Aspen was the largest pharmaceutical company listed on the JSE and one of the top 20 companies listed on this stock exchange, with a market capitalisation R136 billion. As the largest pharmaceutical company in Africa and ranked among the top five generic pharmaceutical producers globally (as assessed by EvaluatePharma®), the Aspen Group had 26 manufacturing facilities at 18 sites on six continents and approximately 10 000 employees, with its products reaching more than 150 countries around the world (Aspen, 2014).

In its 2014 Integrated Report, the Aspen Group reported that for 16 consecutive years it had delivered sustained double-digit earnings growth to its shareholders, with a compound annual growth rate in revenue, operating profit and normalised headline earnings per share exceeding 40% for this period (Aspen, 2014).

1.3 Problem Statement

The main purpose of this study was to identify and analyse the growth strategies adopted by Aspen during the period from 2004 to 2014.

Businesses and their leaders are faced with a paradoxical challenge. On the one hand creating value, realising profits and achieving growth are all important elements in ensuring the survival and success of a business. On the other hand these endeavours also pose some of the greatest challenges to chief executives and their management team.

The modern business environment is described as unstable and unpredictable (Grant, 2013) and companies find themselves operating in a global environment characterised by rapid change, competitive pressures, geopolitical risks, disruptive technologies and changing consumer demands (KPMG, 2015). Business survival is dependent on the ability to respond to this challenging social, political and natural environment (Grant, 2013).

Business growth is said to be the key to the long term success of a company as it is a prerequisite for increasing revenue, profits and shareholder value (Strategic Direction, 2006; Bürkner, King and Razali, 2013). It could thus be argued that growth is a business imperative.

There are a number of diverse approaches to growing a company. Managers are thus faced with a number of options to choose from and decisions to make in order to achieve sustainable growth (Kuntz, 2014). A carefully formulated growth strategy, appropriate to the company and which takes into account the importance of execution and integration, is thus an essential element of business management.

The crafting of a strategy is management's plan on how the business will be run and is a commitment to pursue a particular set of actions in order to grow the business (Hough *et al*., 2011). This involves choosing which activities the business will perform, as well as those which it will not perform, deciding whether it will compete on price or efficiency, or deciding whether it intends to create a position based on a unique advantage (Porter, 1996; Tanwar, 2013).

The formulation and implementation of strategies for achieving and sustaining growth is the business management issue which gave rise to the research questions addressed in this study.

Given the rapid and sustained growth of Aspen during the period from 2004 to 2014, the main purpose of this study was to identify and analyse the growth strategies adopted by Aspen during this time period.

The research questions to be answered by the study were as follows:

1. What growth strategies has Aspen adopted over the past 11 years (2004 – 2014)?
2. What challenges has Aspen faced in implementing the growth strategies?
3. What learnings can other companies take from the case study analysis of Aspen?

1.4 Aim of the Study

The global pharmaceutical industry is a large, established and complex industry, with a number of stakeholders including governments, pharmaceutical companies (both innovator and generic producers), healthcare insurance providers, physicians, pharmacists and patients/consumers (Appelt, 2010). The industry is characterised by intense global competition, increasing government and payor pressure to reduce costs and demonstrate value, and restrictive legislation (Deloitte, 2014).

The aim of this study was therefore to determine how, in the face of this challenging marketplace, Aspen succeeded in growing from a small South African pharmaceutical company to a multinational company competing in the global pharmaceutical industry.

Against this background, the research also sought to identify the specific challenges which Aspen faced in implementing the growth strategies.

The study also set out to determine how the case study analysis of Aspen could be useful to other companies and, in particular, what learnings other companies could take from the findings, based on analytic generalisation.

Finally, using the findings from the case study analysis, the study sought to develop a sustainable growth model for use by companies (particularly South African pharmaceutical companies) as part of their strategic planning process for growth.

1.5 Motivation for the Study

The study was motivated by a desire to conduct a detailed analysis of Aspen in the hopes of gaining an in-depth understanding of the company and how it had achieved its impressive growth.

A personal motivation for the study was an ongoing fascination with the once small Durban pharmaceutical company which has grown into a multinational organisation competing with players on the global stage. The entrepreneurial and innovative spirit of the founders and leaders of Aspen, and the story of the organisation's growth, makes for fascinating reading for an MBA student.

From an academic perspective, the evolution of Aspen provides rich real life examples of many business management topics, such as strategy, supply chain, corporate governance, internationalisation, leadership, and corporate culture.

The motivation for the study was therefore to provide an in-depth analysis of Aspen by tracking its growth and the strategies employed to achieve such growth. It was intended that such research would benefit academics, business students and managers in their understanding of the concepts of strategy and growth, which are two important themes in the modern business world.

1.6 Significance of the Study

The study contributes to the body of knowledge on business growth strategies, particularly in the context of pharmaceutical companies and South African companies which have become global market players, as is the case with Aspen.

The study is intended to be unique as the researcher was unable to find a previous academic case study in the business management literature, which had been conducted on Aspen. The analysis of company growth in respect of a pharmaceutical company was also intended to be a unique contribution in a move away from the more frequently conducted studies on companies in the banking, telecommunications and mining sectors.

The significance of the research is that it provides an in-depth analysis of Aspen's growth and the strategies which it employed to achieve such growth.

Finally, the development of a sustainable growth model, based on the findings in the case study analysis of Aspen, provides a unique contribution to the academic writings on business growth.

1.7 Research Methodology

The research method used was a descriptive study through a single case study of Aspen by analysing secondary data. Such data consisted of publicly available company reports and presentations, as well as financial results, issued by Aspen between 2004 and 2014. Qualitative data was extracted and analysed to determine the growth strategies used by Aspen, whilst certain quantitative data was used for illustrative purposes.

A case study is considered to be appropriate for use in a descriptive study when the aim is to obtain detailed descriptions or explanations and for understanding a phenomenon in its real-world context.

Secondary data is data collected by someone else for another purpose and not originally collected for the researcher's specific study (Lee, Lee and Lee, 2013). For this study, secondary data in the form of Aspen's Annual Reports, presentations and financial results, which are made publicly available on its website, were utilised.

Qualitative data, in the form of words, was extracted from the company's accessed documents and systematically organised and analysed to establish meaningful themes or patterns. Based on these key words, core themes were identified. Quantitative data, in the form of numbers, was also extracted from the company's accessed documents. Selected figures were collated and converted into graphs for analysis and illustrative purposes.

This first stage of the case study was aimed at identifying relationships, concepts and sequences of events which could assist with arriving at findings in respect of the first two research questions (growth strategies adopted by Aspen and the challenges it faced). Analytic generalisation was then used to answer the third research question and determine whether these propositions could be applied to other companies, where similar relationships, concepts and sequences might be relevant.

1.8 Chapter Overview

Chapter 1 Introduction and Overview

This chapter introduces the research and sets out the framework of the study.

Chapter 2 Literature Review

This chapter provides the academic context in which the case study of Aspen took place. A review of the relevant literature was intended to serve as the theoretical foundation on which to base the study.

The theory on the core themes underlying the study of Aspen, namely strategy, the global pharmaceutical industry and business growth was considered. These topics were explored in order to develop a framework for answering the research questions.

Chapter 3 Research Design and Methodology

This chapter builds on the theoretical foundation in Chapter 2 and sets out how the case study was conducted. The research design and methodology adopted in this study is explained, including the choice and justification of the particular research method adopted.

The research process followed, as well as the research design, is described. This includes an explanation of the concepts of case study research, the sources of data (primary vs secondary) as well as the nature of data (quantitative vs qualitative). The data collection method and data analysis process are also explained.

Chapter 4 Case Study Analysis of Aspen

This chapter sets out the results of the case study analysis of Aspen based on the conceptual framework set out in Chapter 3.

The data extracted from the Aspen documents, with a focus on growth, is presented in the form of identified company milestones, as well as selected acquisitions and divestments which took place between 2004 and 2014. Using key words, the growth of Aspen is then tracked and grouped according to years. From these key words, specific growth themes are identified and depicted. Using specific indicators, the growth achieved by Aspen in numbers, is depicted in the form of graphs.

A similar process is followed in respect of the challenges faced by Aspen – extracted key words are grouped according to years and from this arrangement, “challenge themes” are identified and depicted.

Chapter 5 Discussion of Research Results

Using the theoretical framework provided in Chapter 2, this chapter provides an examination and discussion of the research results from the case study contained in Chapter 4. In so doing, the research questions posed in Chapter 3 are answered.

The data is analysed and discussed in relation to each of the research questions in order to determine the growth strategies adopted by Aspen as well as the challenges faced by it in implementing such strategies. Following from this, consideration is given to the learnings which other companies can take from these findings.

Chapter 6 Conclusion and Recommendations

This chapter concludes the study by setting out the implications of the research and summarising the conclusion to each of the research questions. Based on the findings of the research, a model for sustainable growth is developed and illustrated. The study closes by identifying the limitations of the research and the recommendations for future areas of investigation.

1.9 Summary

This chapter introduces the study and presents an overview of the research conducted. A brief introduction to Aspen, as the subject of the case study analysis, is provided. The problem statement is presented together with the research questions which the study seeks to answer. Thereafter, the aim of the study, the motivation for the study, as well as the significance of the research is explained. The research design and methodology utilised in order to answer the research questions is described and an overview of the remaining chapters to come is presented.

The next chapter provides a review of the literature in order to develop a theoretical framework for the study.

CHAPTER TWO
Literature Review

2.1 Introduction

This chapter identifies and highlights the academic context in which the case study of Aspen took place and is intended to serve as the theoretical foundation on which the current investigation can be based. The topics were explored in relation to the case study of Aspen as a means of developing a framework for addressing the problem statement and answering the research questions of this study.

The purpose of this literature review was to consider the theory on the core themes underlying the study of Aspen, namely strategy, the global pharmaceutical industry and business growth. This chapter therefore provides a consideration of the literature on what strategy is and some of the key concepts in strategy, specifically: the role of leadership in strategy, strategic leadership, core competencies, competitive advantage and strategic fit.

The literature review also describes the global pharmaceutical industry, including the nature and dynamics of the industry. This was intended to provide the context in which Aspen does business and illustrate the key driving forces shaping the competitive environment. Against this background, some of the growth strategies adopted by global pharmaceutical companies were considered – these include organic growth, vertical integration, takeovers, mergers and acquisitions and internationalisation, with a focus on emerging markets.

This chapter therefore sets out the framework used to examine the growth strategies adopted by Aspen over the past 11 years (2004 – 2014).

2.2 What is strategy?

"Strategy means making clear-cut choices about how to compete."

Jack Welch, Former CEO, General Electric

(Welch and Welch, 2005)

In its most simplistic form, a company's strategy is the plan by management on how it will run the business and conduct its operations. The formulation of strategy signifies management's decision and commitment to engage in a particular set of actions in order to grow a business, obtain and retain customers, conduct day-to-day operations, compete successfully in the marketplace, and in so doing, improve the performance and financial position of the company (Hough *et al.*, 2011).

Michael Porter, considered to be one of the most prominent authorities on strategy (Magretta, 2011), claims that the core of strategy lies in activities – either by a company deciding to perform its activities differently or opting to carry out activities which are different to those of its rivals (Porter, 1996; Tanwar, 2013). The former includes competing on price and being more efficient than rivals (shrinking the pie), whilst the latter requires the creation of a position based on a unique advantage (expanding the pie) (Ovans, 2015).

The vast authors of subsequent strategy ideas propose that strategy does not come down to a choice between Porter's two options. Instead they suggest alternative approaches to strategy. One of these is the concept that strategy is about doing something new (Ovans, 2015). In the now-classic work "Blue Ocean Strategy," the authors focus on finding or creating uncontested new markets which have not yet been identified by competitors. In such market spaces, so-called blue oceans, competition does not exist and demand is generated rather than fought over (Kim and Mauborgne, 2015). The authors contend that one of the prominent features of the blue ocean strategy is that, contrary to conventional theory on strategy, there is no need for companies to choose between value and cost. Creating a blue ocean allows a company to pursue differentiation and low cost simultaneously, and move away from the tendency of corporate strategy to focus on winning against competitors (red oceans) (Kim and Mauborgne, 2015).

Another alternative to Porter's two options is the strategy of a company building on what it already does well (Ovans, 2015). This is a focus on investing in strategically valuable resources (physical assets, intangible assets or capabilities) which provide a company with a competitive edge by enabling it to perform activities better or more cost effectively than rivals (Collins and Montgomery, 2008).

Finally, reacting opportunistically to emerging possibilities represents the most recent thinking in the strategy field (Ovans, 2015). One of the themes in this area emphasises the importance of companies moving away from the traditional strategic planning model, which tends to be focused on specific business units and calendar driven, towards continuous decision-focused strategic planning (Mankins and Steele, 2006; Schermerhorn Jr., 2011). The thinking is that this allows for companies to reach quality decisions through the continuous identification and systematic resolution of strategic issues – continuous strategy development (Mankins and Steele, 2006; Schermerhorn Jr., 2011).

An alternative approach to opportunistic reaction as a strategy is a methodology called "lean start-up" which advocates the principles of continuous learning, failing early in a process, and searching for a business model which can be repeated and is scalable (Blank, 2013). Given that established companies have to deal with the realities of frequent disruption and the need to continually innovate, it is thought that the same methods used by start-up companies should be implemented by other organisations to deal with ever-increasing external threats and allow for rapid innovation. This includes acting rapidly, working in agile development teams and focusing on customer development to develop a business model which works, as opposed to the more traditional approach of measured speed with functional teams focusing on product management to develop a business plan (Blank, 2013).

Finally, an approach which links the strategy of reacting opportunistically to emerging possibilities, argues that the theory and practice of strategy needs to keep up with the realities of today's markets which are characterised as being virtually free of boundaries and barriers (Kinni, 2014). The approach challenges Porter's views on sustainable competitive advantage in today's competitive environment which is in perpetual motion. It is said that in an environment of temporary advantage, competitive advantage must be thought of as something transient and companies should be organised in such a way as to exploit these temporary competitive advantages. This requires thinking about strategy in a holistic way and possessing the ability to reorganise the people within a company, as well as its assets and capabilities, in such a way that the company can easily move from one opportunity to the next as the advantage changes (Kinni, 2014).

Despite the criticisms of Porter, his work still contains many useful strategy theories and principles which can be applied in today's modern business environment. One of these is that competitive strategy is about being different, which requires an organisation to deliberately select a set of activities which distinguishes it from other organisations and enables it to deliver a unique value proposition. This means that strategy is about creating a distinguishing and valued position, which involves performing a distinctive array of activities (Porter, 1996; Harrison and St. John, 2014).

Another useful principle from Porter is that strategy also lies in choosing what not to do. This means that in selecting a strategic position, a company must identify which activities are incompatible and purposefully limit what the company offers, what Porter refers to as making trade-offs (Porter, 1996; Hunter, 2014).

Such positioning choices are important not only in terms of a company choosing which activities it will perform but also the way in which it will organise such activities and how the activities will be arranged in relation to each another (Porter, 1996; Harrison and St. John, 2014). Porter goes to great lengths to emphasise that operational effectiveness is not strategy and what the difference is between the two.

Operational effectiveness is achieved when activities or functions are performed in an optimal or superior way, whilst strategy is about how activities are combined and linked (Porter, 1996; Clegg *et al*., 2011). In particular, a company with a good strategy ensures that its activities complement each other in order to create real financial benefits such as substantially reducing costs or increasing differentiation.

An example of this is when the cost of one activity is reduced because of the way in which the system of activities is performed. This approach ensures that a strategic fit between activities is created which can give rise to competitive advantage and superior profitability. Porter (1996) therefore contends that strategy is about establishing fit between the activities of a company. The success of a strategy is thus dependent on many activities being performed well (not just a few) and integrating such activities – competitive advantage develops from the complete system of activities and a distinctive strategy is the result of the fit between the activities (Porter, 1996; Hunter, 2014).

Essentially, the strategy of a company is about the "how" – how the business will achieve growth, how a customer base will be built, how the business will compete, how each functional part of the business will operate and so on (Hough *et al*., 2011). Having considered just a few ideas on what strategy is from the broad body of work on the subject – the richness, variety and complexity of these ideas suggest that Porter's view that strategy boils down to a limited choice between two options may not be the only alternatives available to a company in crafting its strategy. Instead, companies have the freedom to choose the "hows" of their strategy by selecting from a broad expanse of opportunity in order to become a productive and profitable enterprise (Ovans, 2015).

2.3 Key concepts in strategy

"The best way to predict your future is to create it."

Peter F. Drucker

Widely known as the founder of modern management

2.3.1 The role of leadership in strategy

Much has been written on the definition and concept of leadership, which is often a central and sometimes controversial topic in organisational research (O'Reilly *et al*., 2010). As research has confirmed that group and organisational behaviour is influenced by the behaviour of the leader (O'Reilly *et al*., 2010), it can be argued that a company's superior performance does not occur by chance but is largely shaped by the choices made by its leaders (Lear, 2012).

As the role of leadership is seen to be fundamental to the success of an organisation (Lear, 2012) certain authors have adopted the view that leadership is in fact the true starting point of strategy and that, as strategy will not succeed in a vacuum, leadership is the key to identifying and realising great opportunities (Hsieh and Yik, 2005). Leadership is therefore seen as being vital to the formation and implementation of strategy. Other authors refer to leadership as being at the core of strategy, suggesting that the ability to formulate and implement strategy is one of the most important roles and a critical competence of a leader (Edinger, 2013).

This view may be said to be supported by Porter (1996) who sees the challenge of developing a clear strategy as being dependent on leadership. He contends that powerful leaders, who are willing to take important decisions in terms of the choices they make, are required to maintain the company's distinctiveness. This requires that constant discipline is maintained to decide on the setting of limits, including which customers and needs the company should serve and which industry changes the company will respond to (Porter, 1996; Hunter, 2014).

Strategy formulation and strategy implementation are said to be two of the most important elements in the strategic management process (Jooste and Fourie, 2009). Leadership, in particular strategic leadership, has broadly been identified as one of the main elements in the effective implementation of strategy (Pearce and Robinson 2007). Correspondingly, the absence of leadership, and in particular strategic leadership, by the senior executives and management team of a company, is considered to be one of the main impediments to effective strategy implementation (Hrebiniak, 2005).

The concept of strategic leadership will be expanded on in the next section.

2.3.2 Strategic leadership

In the field of strategic management there has been an increased focus over the past 30 years on managers at the most senior levels and the impact which they have on the formulation and implementation of strategy, as well as on organisational performance (Waldman, Javidan and Varella, 2004). As a result, more attention has been given in recent years to the concept and significance of strategic leadership (Lear, 2012).

Strategic leadership, like most forms of leadership, has many different descriptions however it can best be defined as the ability to think strategically, anticipate events, visualise situations, maintain flexibility, as well as to work with others to introduce decisions which support the financial health of the organisation in the short term and lead to its survival and growth in the long term (Ireland and Hitt, 2005; Rowe and Nejad, 2009).

A clear vision and shared values are said to be the most important aspects of strategic leadership, as this empowers employees in the organisation to make independent informed decisions allowing the leader to have the time and capacity to focus on the high level issues affecting the company as a whole. Such an environment, created under strategic leadership, is said to lead to continual growth and expansion of the company, resulting in a strong financial position being achieved and maintained (Rowe and Nejad, 2009; Edinger, 2013).

Strategic leadership is differentiated from managerial or transactional leadership as well as the visionary or transformational leadership style. Managerial leadership involves being predominantly involved in the activities of an organisation on a daily basis, and does not include a long-term vision for change and growth (Rowe and Nejad, 2009; Clegg *et al*., 2011). On the other end of the continuum, visionary leaders are predominantly proactive, risk-taking and future-oriented (Rowe and Nejad, 2009; Clegg *et al*., 2011). Ideally, a strategic leader is one who is able to combine the positive elements of managerial and visionary leadership, thus being able to simultaneously take advantage of the positive rational and risk-taking elements of these approaches (Rowe and Nejad, 2009; Cutler, 2014).

Strategic leadership should not be seen to be within the exclusive domain of the chief executive of a company. Given the vast amount of knowledge and expertise needed to understand and operate in many global markets, members of the top management team (comprising between three to ten of the company's executives) through a team effort utilising their collective intellect and skills, should provide strategic leadership to the company and its large number of stakeholders (Ireland and Hitt, 2005; Clegg *et al*., 2011). The examination of strategic leadership therefore does not concentrate not solely on the head of the organisation but also considers the executives who have general responsibility for such organisation (Lear, 2012). Organisations make important choices about the strategies which they will adopt in order to achieve and enhance their competitive advantage and these decisions are made through their strategic leadership.

Today's global economy, characterised by unstable market conditions, a range of technological advances, complex competitive landscapes and a diversity of competitors, requires that the top management teams of organisations effectively exercise strategic leadership in the carrying out of their roles (Ireland and Hitt, 2005; Clegg *et al*., 2011). It is said that strategic leadership and its processes can, in themselves, be seen as a core competence in an organisation. This is particularly the case when such leadership and processes are not easily understood by competitors and are thus difficult to replicate, thereby creating a competitive advantage for the company (Ireland and Hitt, 2005; Hill and Jones, 2013).

The meaning of core competencies is explained in the next section.

2.3.3 Core competence

Simply put, a company's core competence is something which it does particularly well especially in comparison to its competitors. Core competencies may be in the form of resources or capabilities, and they provide a competitive advantage for a company over its rivals (Hitt, Ireland and Hoskisson, 2015). Such core competencies allow a company to perform efficiently and effectively, which results in above average organisational performance (Clardy, 2007).

Hough *et al*. (2011) distinguish a competence from a core competence in terms of a company's proficiency to perform its operations. Whilst a competence is something which a company does well, usually as a result of experience, a core competence is an expertly performed activity which plays a part in the strategy of a company and contributes to its success – it is therefore competitively important (Hough *et al*., 2011). Thus, whilst a company may perform a number of competencies better relative to its competitors, not all of these competencies are "core" – core competencies are those which provide a company with a superior advantage (Agha, Alrubaiee and Jamhour, 2012).

The authors C.K. Prahalad and Gary Hamel introduced the concept of core competence to management literature in 1990 (Hindle, 2008). The authors identified core competencies as the way in which work is organised and value is delivered by an organisation. The collective learning in an organisation (such as the way in which different production skills and multiple flows of technologies are coordinated) was also identified by the authors as a core competence (Prahalad and Hamel, 1990; Hitt, Ireland and Hoskisson, 2015).

Some of the key elements of core competencies include the following:

- they involve all functions and many levels of people in an organisation. Core competencies therefore require communication, involvement and commitment across organisational boundaries;

- they are not diminished by use and should be supported and protected as their value is enhanced when shared and applied; and

- they unite existing businesses and stimulate new business development.

(Prahalad and Hamel, 1990)

The authors Prahalad and Hamel depict a diversified organisation as a large tree with the roots being the core competence which provide sustenance and stability (Prahalad and Hamel, 1990, cited in Hindle, 2008, p. 41). These so-called roots of competitiveness must be identified and nurtured to make organisational growth possible. Similarly, when looking at competitors, one should not only consider their end products (what the authors describe as the leaves on the tree) as one may not fully identify their strengths until the roots of their competitiveness are determined (Prahalad and Hamel, 1990; Clegg *et al*., 2011).

The success of a company is not guaranteed merely because it possesses core competencies. It is important that an organisation systematically identifies its core competencies and, in addition, develops and deploys them in the right way in order to leverage them to create a competitive advantage which is sustainable (Srivastava, 2005).

The concept of competitive advantage is further explored in the next section.

2.3.4 Competitive advantage

Michael Porter's book entitled *Competitive Advantage*, was published in 1985 and is said to have become "a bible of business thinkers" in the late 1980s (Hindle, 2008, p. 37).

In her book entitled "Understanding Michael Porter: The Essential Guide to Competition and Strategy," Magretta (2011) argues that Porter's powerful ideas have become business buzzwords and that many of the concepts are not properly understood. The author sets out to present Porter's concepts in a form which is easier to grasp. As an example, the author suggests that the concept of competitive advantage is often used to mean anything which a company thinks it is "good at" when in fact competitive advantage is about creating unique value for customers (Magretta, 2011).

Whereas Porter's previous work *Competitive Strategy* considered competition at an industry level, with a company's identity largely being described in relation to other companies (for example in terms of its relative size or market share), *Competitive Advantage* assumed a "company's-eye view" of competition, with a greater focus on internal analysis by a company (Hindle, 2008). From this unique perspective, the company is considered in terms of the series of activities which it performs and which link together to create customer value, forming what is called a value chain (Hill and Jones, 2013).

In producing or delivering products or services, a company performs various activities which create value for buyers. These activities combine to form what is known as the value chain and each link in the chain is an element which a consumer is willing to pay for, thereby adding value. The two main categories of activities in a value chain are the primary and support activities. The former are those which are the prime value creators whilst the latter are those which enable or enhance the primary activities (Hough *et al*., 2011). These value chain activities form the basic units of competitive advantage, all of which combined should be managed and performed in such a way as to create a sustainable competitive advantage for a company (Porter, 1996; Clegg *et al*., 2011).

As a company does not operate in isolation, it is also important to consider that its value chain exists within a broader arrangement of activities which includes its suppliers' and distributors' value chains (Hough *et al*., 2011). As a result, a company's delivery of a core competence to the market, or its cost competitiveness, are dependent on the effective management of its own value chain as well as on accurately assessing and managing those elements of the industry's value chain system which impact on the company (Hough *et al*., 2011).

Whilst a competitive advantage may be gained from a core competence and performing value chain activities efficiently, Porter (1996) views competitive advantage as the sum of all these parts. A sustainable competitive advantage may therefore be summarised as follows:

- creating a competitive position which is unique to the company;
- ensuring that all activities of the company are aligned with its strategy;
- making choices in relation to competitors, which may include trade-offs;
- creating and strengthening a “fit”, integration and reinforcement among a company’s activities;
- ensuring that a company’s strategy comes from the whole system of activities, not its parts or individual activities;
- developing operational effectiveness as a standard managerial responsibility and not as a strategy in itself.

(Porter, 1996; Hunter, 2014)

As mentioned above, a company’s external environment also has a bearing on a company’s strategy and this will be considered in more detail in the next section.

2.3.5 Strategic fit

The success of a company’s strategy depends on how compatible it is with the internal and external environment (Grant, 2013). This concept of strategy being the link between a company and both its internal and external environment is known as strategic fit or alignment (Hunter, 2014). The greater degree to which a company can create a fit between its structure and its environment, the more its performance will be improved (Gammeltoft, Filatotchev and Hobdari, 2012).

In addition, to successfully operate in a business environment which is competitive and constantly changing requires that companies attain “fitness”. This means that companies need to be able to learn from new circumstances and change to fit them as may be required (Beer *et al*., 2005). Managing this strategic fit over time is therefore an important ongoing and dynamic managerial capability (Gammeltoft, Filatotchev and Hobdari, 2012).

Attaining superior organisational performance through the proper alignment of a company's internal design variables and its environment's external context variables (Gammeltoft, Filatotchev and Hobdari, 2012), requires an understanding of the framework within which the concept of strategic fit exists.

As depicted in Figure 2.1 the framework consists of three parts: the inner section being the company itself, the middle section being the industry or "microenvironment" and the outer section being the "macroenvironment".

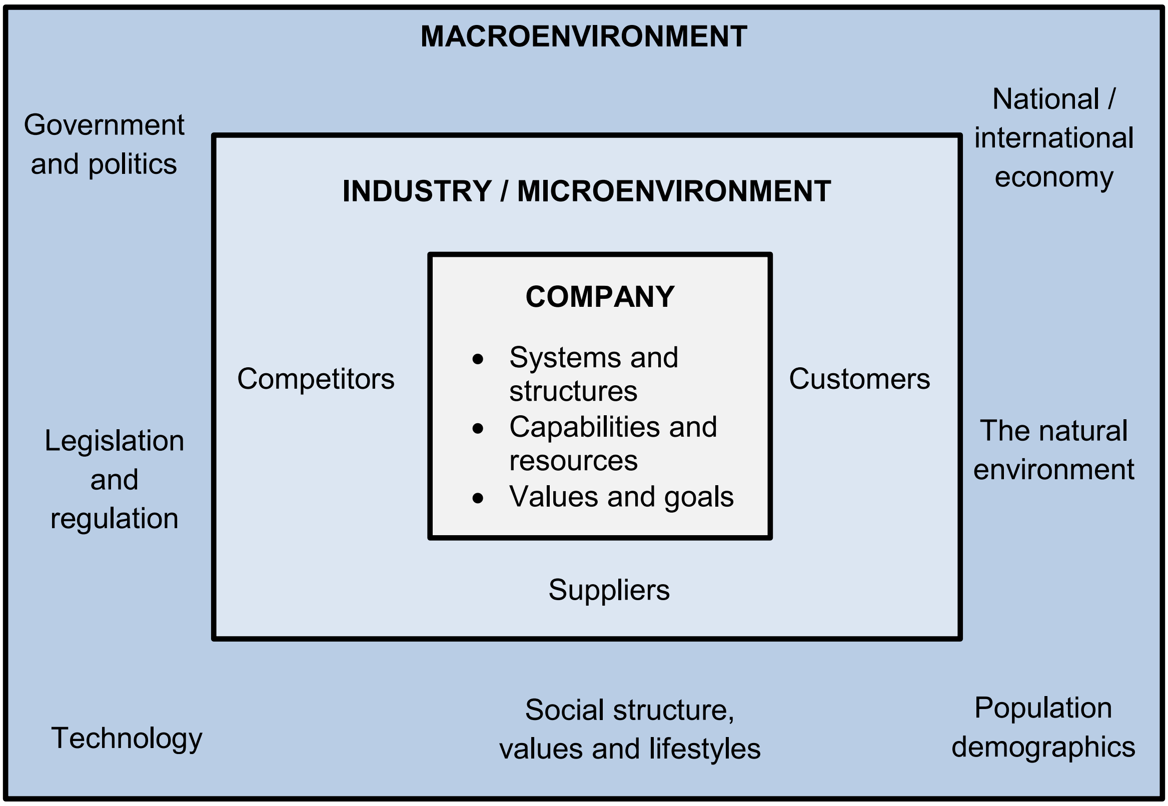


Figure 2.1 The components of a company's environment

Adapted from Hough, J., Thompson Jr, A.A., Strickland III, A.J. and Gamble, J.E. (2011) **Crafting and Executing Strategy**. 2nd ed. Berkshire: McGraw-Hill Education, pp 57 and Grant, R.M. (2010) **Contemporary strategy analysis**. 7th ed. United Kingdom: John Wiley & Sons Ltd, pp 65.

The company itself embodies three elements, namely systems and structures (which relates to the functioning of the company and effective strategy implementation), capabilities and resources (these are the company's competitive capabilities and resource strengths which set it apart from its competitors), and values and goals (which relate to a company's vision on where it is going and the consistent, long-term goals it has to get there) (Grant, 2013).

The industry or microenviroment analysis revolves around the determinants of the degree of profit in the industry. An essential part of a successful strategy is a thorough understanding of this competitive environment, and three factors may be identified to determine the profits earned by the companies in a particular industry. These are the following:

(i) Competitors: the intensity and level of competition within the industry;

(ii) Suppliers: the economic power of suppliers or bargaining power of the company in relation to its suppliers;

(iii) Customers: the value of the product to the company's customers as well as the bargaining power of the company relative to such customers.

(Grant, 2013; Harrison and St. John, 2014)

The macroenvironment consists of the external elements within which all companies operate, rather than a particular industry, such as a country or region. Of relevance is how these factors, which are more general in nature, affect a company's industry as a whole and the company itself (Hill and Jones, 2012). Thus a company will be concerned with the macroeconomic factors which are relevant in terms of having an influence on its industry and the business decisions which it makes (Hough *et al*., 2011). The different factors can have varying degrees of impact on organisations, may occur with or without warning, and may occur rapidly or slowly. Organisations must therefore remain constantly aware of these factors, assess the impact which they may have and the decisions which will need to be made to deal with them, including potential changes of direction and strategy (Hough *et al*., 2011).

For multinational companies, achieving strategic fit takes on additional complexity and becomes a multidimensional challenge (Gammeltoft, Filatotchev and Hobdari, 2012). These different dimensions are illustrated in Figure 2.2.

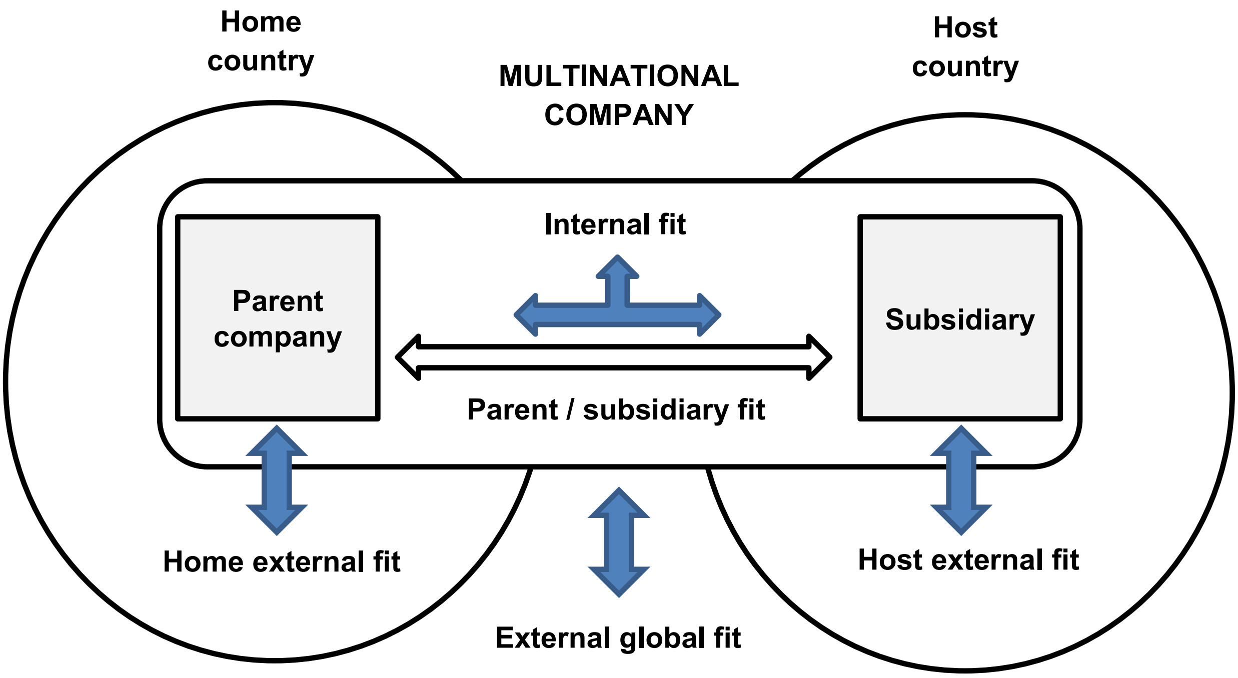


Figure 2.2 Dimensions of strategic fit for multinational companies

Adapted from Gammeltoft, P., Filatotchev, I. and Hobdari, B. (2012) **Emerging multinational companies and strategic fit: A contingency framework and future research agenda**, European Management Journal 30 (3), pp. 175 – 188, pp 177.

For a multinational company, strategic fit and alignment must be attained in multiple institutional settings and along a number of dimensions, both domestically and in the wider global environment (Gammeltoft, Filatotchev and Hobdari, 2012). As a result, multinational organisations need to align across companies (between the parent and subsidiary as well as between subsidiaries), in different locations (home country, host country and the global environment), and at multiple levels (Gammeltoft, Filatotchev and Hobdari, 2012). This is in addition to the traditional aspects of strategic fit between the organisation and its internal and external environment, which were previously discussed.

2.4 The nature and dynamics of the global pharmaceutical industry

The global pharmaceutical industry is a large, established and complex industry, with a number of stakeholders including governments, pharmaceutical companies (both innovator and generic producers), healthcare insurance providers, physicians, pharmacists and patients/consumers (Appelt, 2010). The industry is expected to grow to nearly US$1,3 trillion in total global spending by 2018 – an increase of US$290 – 320 billion from 2013 (IMS Institute for Healthcare Informatics, 2014), as depicted in Figure 2.3. This growth is driven by population growth, an ageing population, generic drugs, as well as market expansion and improved access in so-called “pharmerging” markets (IMS Institute for Healthcare Informatics, 2014).

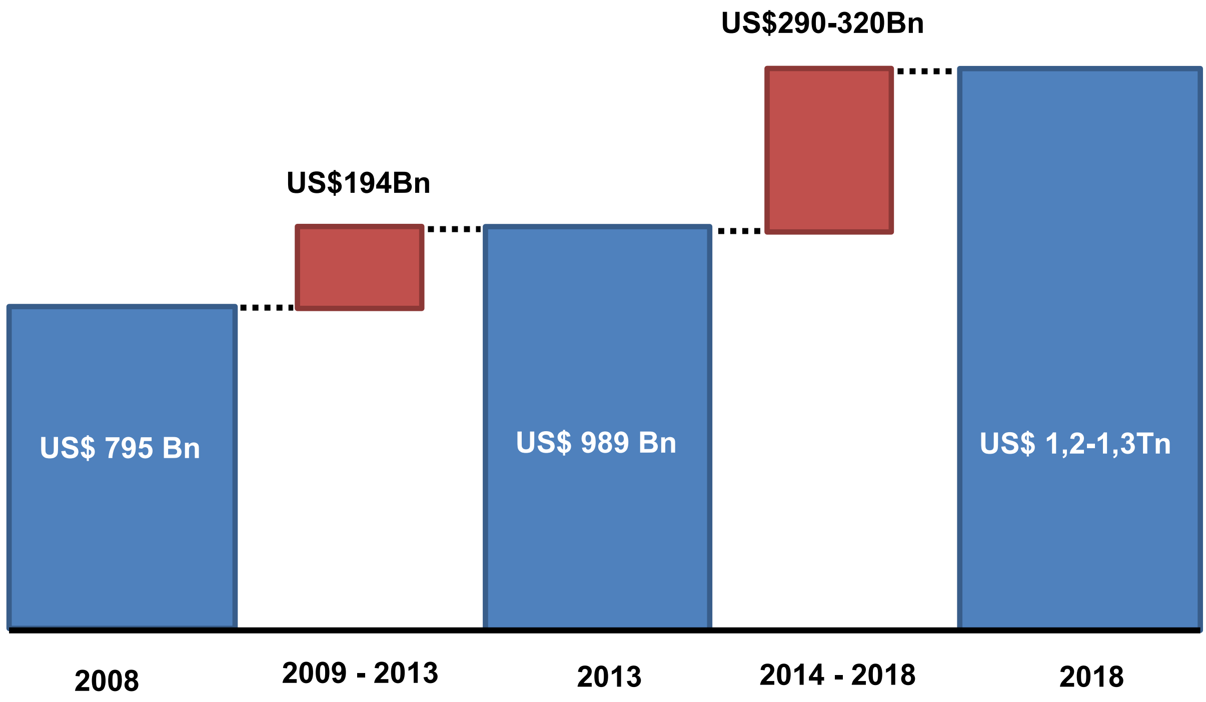


Figure 2.3 Global pharmaceutical market spending and growth, 2008 – 2018

Adapted from IMS Institute for Healthcare Informatics (2014) **Global Outlook for Medicines Through 2018**, November [Online]. Available at: http://static.correofarmaceutico.com/docs/2014/12/01/informe_ims.pdf, pp. 5.

Pharmerging markets are developing countries where the use of pharmaceuticals is growing rapidly and total drug spending over the next few years is expected to see the fastest growth, particularly in respect of lower-cost generics (Lorenzetti, 2015). The category is defined as countries that are expected to see more than US$1 billion in absolute spending growth from 2014 to 2018, and which currently have a gross domestic product per capita of less than US$25,000 – the biggest being China, followed by Brazil, India and Russia; followed by smaller emerging markets such as Mexico, Turkey, Venezuela, Poland and thirteen others (a total of 21) (Lorenzetti, 2015).

Pharmaceutical companies expend large amounts of sunk research and development costs in order to discover a new drug and bring it to the market (Brekke, Koenigbauer and Straume, 2006). In order to ensure that such costs are not a deterrent and to stimulate innovation, pharmaceutical companies with new innovations are protected by intellectual property rights, namely patents, which provide them with market power in the form of a monopoly by restricting competing companies from copying the innovation during a certain period (usually 20 years) (Brekke, Holmas and Straume, 2011). Effectively this market exclusivity allows for such innovator or brand-name drugs to be sold at high prices (due to the fact that there is no competition driving prices down), allowing for the research and development costs to be recouped.

When the patent expires, competing companies may enter the market with generic versions of the innovator drugs (Brekke, Holmas and Straume, 2011). A generic drug is bioequivalent (identical) to a brand-name drug in dosage form, safety, strength, route of administration, quality, performance characteristics and intended use – this therapeutic equivalence must be proved before the product can be launched on the market (U.S. Food and Drug Administration, 2015). Whilst generic drugs are chemically identical to the equivalent branded drug, they are usually sold at much lower prices than the branded product. The reason for this is that the generic pharmaceutical company is able to manufacture the drug without expending the research and development costs which the innovator company had to incur (U.S. Food and Drug Administration, 2015).

Another type of medication is known as biologicals. Whilst conventional drugs are made of pure chemical substances, biological products are made from living organisms. The material which they are made from can come from a number of different sources including animals, microorganisms (such as yeast or bacteria), as well as humans (U.S. Food and Drug Administration, 2015). Biosimilars are a type of biological product which are substantially similar to an already approved biological, however they cannot be said to be “generics” of biologicals as they are not identical due to the fact that they are made from living organisms and therefore have allowable differences (U.S. Food and Drug Administration, 2015). Thus whilst biosimilars compete with biologicals by aiming to mimic them at a lower price, due to the complex nature of biologicals, they are much more difficult to identify and thus replicate. This often allows biological products to maintain market dominance even after their patents have expired (Ward, 2015).

A distinction should also be drawn between prescription and over-the-counter (OTC) pharmaceuticals. The former are prescribed by a doctor and can be bought at a pharmacy whilst the latter can be bought off the shelf, without a prescription, from a variety of stockists (U.S. Food and Drug Administration, 2015). In this regard, the pharmaceutical industry is different to many other industries where the consumer chooses and pays for the good. In the prescription market, the choice of which drug is consumed by a patient is largely made by the treating physician and, in many countries, pharmacists can and may be mandated to substitute a generic equivalent of a branded drug. In addition, for many consumers, the costs of prescription drugs are also shared with insurance or medical plans. The co-payment which such plan may charge a member may also influence the choice of drug (Guha, Lacy and Woodhouse, 2008).

The pharmaceutical industry is characterised by a complex and evolving regulatory landscape. Legislation forms the basis of pharmaceutical regulation (Deloitte, 2014). Aside from the regulatory control to support innovation in the form of patents, discussed above, there are two further aspects to this regulatory control. The one is aimed at protecting consumers' health and safety (quality regulations) and the other is aimed at containing costs (price regulations).

The first aspect is the pharmaceutical approval process which is highly regulated and means that product commercialisation can only take place after compliance with all required product standards, which can take many years (Deloitte, 2014). Pharmaceutical companies must incur large costs and fees, resulting in reduced returns on investment, in order to comply with stringent safety and quality standards (Milmo, 2014).

The second aspect is pricing control, which takes place in most countries (both developed and emerging markets). This involves regulators seeking to reduce the cost of pharmaceuticals through pricing and reimbursement legislation (Aspen, 2014). Governments, healthcare providers and health insurance plans seek to reduce drug spending costs by instituting price controls and increasingly endorsing the use of generics and biosimilars (Deloitte, 2014).

The highly regulated nature of the pharmaceutical industry is just one of the barriers to entry which are said to make the industry difficult to enter. A barrier to entry is any advantage which established companies have over entrants (Hill and Jones, 2013). Other pharmaceutical industry barriers to entry include:

- High capital requirements: a capital intensive industry, such as pharmaceuticals, is one which requires a substantial amount of capital for the production of goods. Pharmaceutical companies must expend huge amounts of capital costs to develop or acquire products as well as to establish the production facilities to manufacture the products (Burns, Bradley and Weiner, 2012). The costs of a new company establishing itself in this market may therefore be prohibitive.

- Significant economies of scale: the capital and technology intensive nature of the pharmaceutical industry means that efficiency requires a large-scale operation. Established companies build significant manufacturing capabilities to attain large-scale production in order to reduce unit costs and increase profit margins. Such technology and manufacturing capabilities are therefore an important source of competitive advantage (Burns, Bradley and Weiner, 2012).

- Access to or control over supply and distribution channels: established companies often create a large operational network supporting their business. An efficient and effective distribution network is essential and can give rise to a competitive advantage. In addition, control over the supply channel, such as access to low-cost sources of raw materials, can provide established companies with a unit cost advantage over new entrants (Grant, 2013).

In a study of the 10 pharmaceutical companies which, based on total shareholder return, consistently outperformed the industry over a 20 year period, certain recurring factors were found (Bain & Company, 2014). Firstly, they all concentrated on building a leadership position in specific capabilities and categories. Secondly they all used targeted merger and acquisition (“M&A”)

strategies to build on their leadership positions (Bain & Company, 2014). Most of the focused M&A strategies resulted in deals which were aimed at delivering sustained value and which built speciality category leadership positions (thus linking to the first mentioned factor). To illustrate this, between 1992 and 2012, eight of the studied core pharma companies generated 70% of their cumulative revenue inorganically and the bulk of this (80%) came through M&A (Bain & Company, 2014).

The study acknowledged that the enduringly successful pharmaceutical companies had to make difficult choices about where and where not to focus their investments and efforts. This pointed to the significance of strong business leaders with a clear vision of the importance of leading in pharmaceutical categories (category leadership) and distinctive business capabilities (capability leadership) which allowed for survival and superior value creation in the constantly changing pharmaceutical industry (Bain & Company, 2014).

The pharmaceutical industry has been described as unique as it continues to be profitable despite the changing and challenging business environment in which it operates (Laws, 2015). The industry is also, by its nature, a defensive sector due to the fact that people continue to need pharmaceuticals regardless of the economic environment (particularly chronic medication), which can translate into fairly stable cash flows for pharmaceutical companies (Cairns, 2011).

According to IMS Institute for Healthcare Informatics (2014), the pharmaceutical industry is expected to be driven by high levels of growth during the next five years, in comparison to the past five years. Some of the reasons for this include the following:

- expected strengthening of the global economy;
- increased pharmaceutical spending in pharmerging countries as a result of government-funded economic stimulus programmes and increased access to new medicines and healthcare;

- demographic trends including an ageing population in developed markets, population growth in emerging markets, as well as an increase in the diagnosis and treatment of chronic and lifestyle diseases.

(IMS Institute for Healthcare Informatics, 2014)

Some of the distinguishing features of this growth in the pharmaceutical industry include the following:

- globally generics are the biggest growth driver, with Latin America being the largest contributor and North America the smallest contributor;

- rising demand in Latin America will be focused on locally manufactured generics. In African markets, local manufacturers often receive preferential treatment in order to encourage domestic production, as these locally manufactured products are the main source of affordable drugs in these markets;

- growth in pharmerging markets is likely to be driven mainly by generic and non-branded products which are expected to double the growth rate of branded products;

- in developed regions (such as Europe and North America) speciality medicines are bigger drivers of spending growth than in pharmerging markets. In Europe, speciality medicines have become a key growth driver as the majority of new drugs are aimed at catering to the unmet needs of specific niche populations.

  (IMS Institute for Healthcare Informatics, 2014; Hillmann and Bates, 2015; van Arnum, 2015)

Such growth will however not be without its difficulties. In an industry characterised by intense global competition, increasing government and payor pressure to reduce costs and demonstrate value, restrictive legislation, and slowing growth in developed markets, pharmaceutical companies will need to focus their commercial efforts on containing costs, maintaining regulatory compliance and increasing focus on emerging markets (Deloitte, 2014).

2.5 The growth strategies of a global pharmaceutical company

2.5.1 The growth imperative

In business it is said that growth is an imperative not an option and some authors even go to the extent of saying “your company can either grow or die” (Rich, 1999, p. 27). Growth is key to long term success as it is a prerequisite for increasing revenue, profits and shareholder value. A business that is growing is a healthy business as it ensures that the business has a future and is an attractive prospect for investors (Strategic Direction, 2006; Bürkner, King and Razali, 2013).

A survey of over 1,200 chief executives from many of the world’s largest and most complex companies revealed that growth is an imperative and a focus in the broader business strategies (KPMG, 2015). In particular, in the top strategic priorities and challenges facing CEOs, growth was a factor in every single one (KPMG, 2015). This emphasis on growth has gained focus amongst the leadership structures of many prominent companies who have introduced a new role in senior management known as the Chief Growth Officer (CGO) (Dalton and Dalton, 2006). The role is aimed at ensuring that sustained and profitable growth remains at the forefront of a company’s strategy (Buss, 2014).

There are a number of diverse approaches to growing a company. Growth through internally focused organic growth, externally focused inorganic growth, or a combination of both, is available to most companies, regardless of their size. Each has its benefits, risks and trade-offs and careful planning and execution is required to ensure that the end result creates value for the company (Kuntz, 2014). A carefully formulated growth strategy, appropriate to the company and which takes into account the importance of execution and integration, is key to achieving sustainable growth.

In the global pharmaceutical industry, faced with pricing and cost pressures, stringent regulations and shrinking margins in both mature and emerging markets, growth is fundamental to continued survival and profitability (Roland Berger, 2013). The next section will focus on some of the growth strategies available to global pharmaceutical companies.

2.5.2 Organic growth

Organic growth is the growth rate achieved by a company due to internal operations, which excludes any growth or profit from takeovers, mergers or acquisitions. Organic growth is achieved when a company grows from within and is also known as core growth as it is the growth from the core of the company (Dalton and Dalton, 2006). Organic growth is said to be a useful sign of how effectively the management of a company has used internal resources to generate profits (Investopedia, 2015).

Mognetti (2002, p. xviii) describes organic growth as a permanent opportunity which is a “stone’s throw” away from where a company is currently positioned. Organic growth is said to offer a less expensive, faster and less risky short-term return on investment than external growth (Mognetti, 2002).

A basic form of organic growth involves selling more of a company’s existing products to its existing customers and is also known as market penetration (Duckler, 2015). The focus is on leveraging a company’s resources and capabilities to optimise existing customer relationships. Two of the ways in which this can be achieved is through an improvement in marketing effectiveness (such as increasing advertising) or sales productivity (such as increasing the sales force). Whilst not overly innovative, these efforts can lead to broad scale and system wide growth if done correctly (Duckler, 2015).

2.5.3 Vertical integration

Vertical integration occurs when two businesses, which are at different stages of a value chain, merge. This may be contrasted to horizontal integration which occurs when two businesses at the same stage of production or a value chain, merge (Hindle, 2008). Vertical integration is thus a company's ownership of activities which are vertically related. This may take the form of either *backward* integration, where the company takes ownership and control of an activity behind it such as the production of its own components or inputs, or it can be *forward* integration, where the company takes control of an activity further on in the production process such as activities undertaken by its distributors (Hill and Jones, 2013).

The more parts of the stages of the value chain which a company owns in respect of its products, the greater the degree of vertical integration. In this regard vertical integration may also be full (where the company owns the whole value chain) or partial (where the company uses a combination of its own value chain as well as others – producing and selling its products using both company businesses as well as outside sources) (Hitt, Ireland and Hoskisson, 2015).

One of the major benefits of backward vertical integration is the control which it gives a company over its access to the inputs which it requires – including the cost, quality and delivery of such inputs (Hindle, 2008). The conventional determinant of vertical integration is to compare the efficiency of markets with the efficiency of firms, thus if the cost of transacting through the market at a particular stage of the value chain is greater than the cost of administering the activity within the company then vertical integration should take place for the benefit of the company (Grant, 2013).

In the generic pharmaceutical industry there is often a distinct separation between the upstream and downstream parts of the supply chain. Upstream manufacturers produce active pharmaceutical ingredients ("APIs") (which are chemical compounds with therapeutic properties) through the use of raw materials such as catalysts, solvents and chemicals. These APIs are supplied to downstream manufacturers who combine them with inactive ingredients and process them into finished products such as tablets (Kubo, 2011).

The sourcing of APIs is an important part of generic product development (Kubo, 2011). As a result, backward vertical integration by a generic drug manufacturer into API manufacturing provides critical mass and a number of advantages. These include greater control of the supply chain, the ability to ensure timely availability of the required API to allow uninterrupted production of the generic products, and input cost reduction resulting in greater profit margins – all of which contribute to the growth of the generic company.

2.5.4 Takeovers, mergers and acquisitions

Takeovers, mergers and acquisitions involve the growth of a company other than from its own business activities and are therefore forms of inorganic growth. Such inorganic growth is considered to be an accelerated form of growth as it generally results in new skills and knowledge being available, gives rise to an increase in assets and market share, and provides access to capital and new markets faster than by means of organic growth (Kuntz, 2014). Mergers and acquisitions in particular are considered to be important tools in corporate strategy as they allow companies to achieve major expansions in the range of their activities and thus accelerate the company's growth (Gaughan, 2013).

Whilst takeovers and acquisitions have a similar meaning, an acquisition could relate to either a company or a product. A takeover however generally refers to one company acquiring another company and in so doing taking on the target company's operations, assets and liabilities. A takeover may have a negative connotation particularly in the context of a hostile takeover. This occurs when the takeover is accomplished without the acquiring company coming to an agreement with the target company's management. Instead the acquiring company purchases shares directly from the shareholders of the target company in order to secure a controlling interest (Investopedia, 2015).

A merger takes place when two companies join and form a new company. This requires the consent of the shareholders of both companies. Mergers typically occur when the two companies are of comparable strength and size and an entirely new company is formed (Gaughan, 2013).

Whilst mergers and acquisitions ("M&As") are not new to the global pharmaceutical industry, the current dealmaking activity which is taking place has been described as "a frenetic explosion of M&A activity" (Wieczner, 2015), "merger fever" (Megget, 2015), and "a record wave of dealmaking" (Ward, 2015). According to a PwC report on deals in the pharmaceutical industry, in the <u>first half of 2015</u> the total global closed deal value in the pharmaceutical sector was approximately US$170 billion, nearly double the total closed deal value for the <u>whole of 2014</u> (PwC, 2015).

From an analysis of the multitude of deals, involving both horizontal and vertical activity, a number of trends have been identified:

- <u>Consolidation</u>: the trend of consolidating business units or companies into a larger organisation is often associated with M&As as it is a means of gaining larger market share and creating shareholder value (KPMG, 2015). It is also intended to create and explore synergies, achieve critical mass and improve operational efficiency aimed at long-term cost optimisation and savings.

- <u>Divestitures</u>: whereas in the past, pharmaceutical dealmaking was largely focused on achieving sheer scale and building a broad portfolio of products for a range of illnesses (The Economist, 2014), there is now an increasing move towards divesting low margin and non-core products and operations. Coupled with the acquisition of specific products and businesses, there is thus a move to build leadership in specific categories and capabilities, and strengthen the core business by focusing on core competencies (KPMG, 2015).

- Generic companies: traditional generic companies have been shifting their strategic focus and restructuring their product portfolios in order to gain access to niche and specialised products and create a diversified product portfolio (KPMG, 2015). This allows them to capitalise on more opportunities, such as gaining access to new technologies and capabilities (Harding, 2010).

In an industry searching for innovation and growth in an environment of contracting prices and profit margins, M&As offer pharmaceutical companies the opportunity to effectively purchase growth “off-the-shelf” (Ward, 2015). Rising demand and competition for generic drugs, as well as loss of revenue from blockbuster patent expiries is driving both generics and research-based companies to look for acquisitions of varying sizes in order to consolidate and achieve economies of scale (Deloitte, 2014).

Providing access to new products and new markets is an attractive prospect for an acquiring company, however using M&As to expand involves a number of major risks (Gaughan, 2013). The current so-called “M&A frenzy” of competition for valuable assets has prompted bidding wars which has resulted in valuations ballooning and companies paying an acquisition premium to obtain the targeted company or product (Megget, 2015). In addition to being expensive, the purchase may include a large amount of additional capabilities and resources which are not required by the acquiring company (Grant, 2013). Finally, integration of the capabilities/company into the acquiring company is often a major challenge which requires a significant investment of effort, time and other resources (Schroeder, 2013). Proper selection and integration of company acquisitions thus requires comprehensive planning and understanding (Christensen *et al*., 2011).

2.5.5 Internationalisation and the focus on emerging markets

In the pursuit of growth, new customers and profitability, internationalisation presents a multitude of markets and offers vast opportunities to companies. At the same time, such expansion is complex and requires thorough research and planning as well as a strategic approach before the company's resources are committed to new markets (Lessard, Lucea and Vives, 2012).

The move from a national to an international trading environment requires a focus on the profit implications of such expansion. The profitability of entering a foreign market rests on two key factors: (i) the attractiveness of the market, and (ii) whether the company can create a competitive advantage in such market, particularly in relation to local companies and other multinationals. This latter requirement depends on whether the company is able to move or replicate its capabilities and resources to the new market whilst still retaining the ability to generate a competitive advantage (Grant, 2013).

Assuming these two requirements are met and the company determines that the potential exists for it to create value from internationalisation, this is only the start of the journey. Thereafter, the company needs to design the international strategy as well as the suitable organisational structures and systems to support it (Cullen and Parboteeah, 2014).

2.5.5.1 Modes of market entry

Entry into a foreign market takes place through trade or contractual modes (being the sale and delivery of products or services from one county to another) or direct investment (which involves acquiring or building assets in another country which can produce the goods or services) (Reinert, 2012). Between each of these approaches is a range of market entry options.

According to Grant (2010) the spectrum of options for market entry can be arranged based on the level of resources committed by the company, as depicted in Figure 2.4.

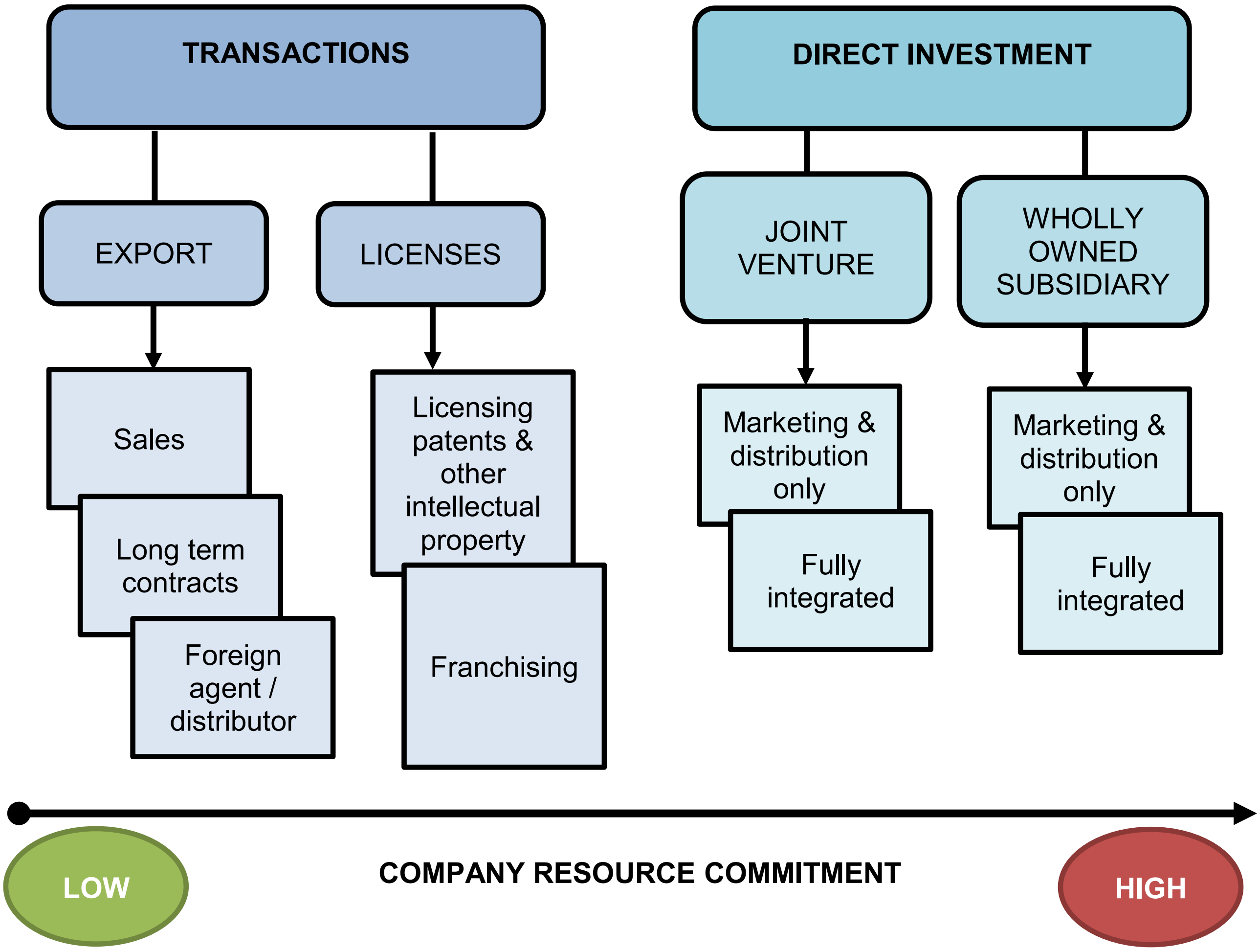


Figure 2.4 Alternative modes of foreign market entry

Adapted from Grant, R.M. (2010) **Contemporary strategy analysis**. 7th ed. United Kingdom: John Wiley & Sons Ltd, pp. 383.

At the far left extreme, exporting takes place through individual transactions and requires low resource commitment by the company, relative to the far right extreme which involves the establishment of a wholly owned subsidiary, requiring a high level of resource commitment by the company (Grant, 2010; Reinert, 2012).

The following key factors may be used to guide a company's decision regarding which mode of entry to select:

1. Is the company's competitive advantage <u>country</u>-specific or is it based on <u>company</u>-specific assets or resources?

2. Can the product be traded and, if so, are there any barriers to such trade?
3. Does the company hold all of the capabilities and resources which are required to create a competitive advantage in the foreign market or will additional resources need to be obtained in-market?
4. Can returns be directly allocated to the company's resources?
5. What will the transaction costs be?

(Grant, 2013)

2.5.5.2 Structures and systems

A critical element in the strategy design and implementation process is the choice of organisational structure and arrangement of management systems. In particular, it is important that these structures and systems align with the company and its pursued strategies (Worren, 2013). Getting these building blocks right can be a critical determinant of competitive advantage, whilst failing to do so can severely constrain the company's strategic capabilities.

Three basic strategy-structure configurations can guide companies in designing their organisational structure, as depicted in Figure 2.5.

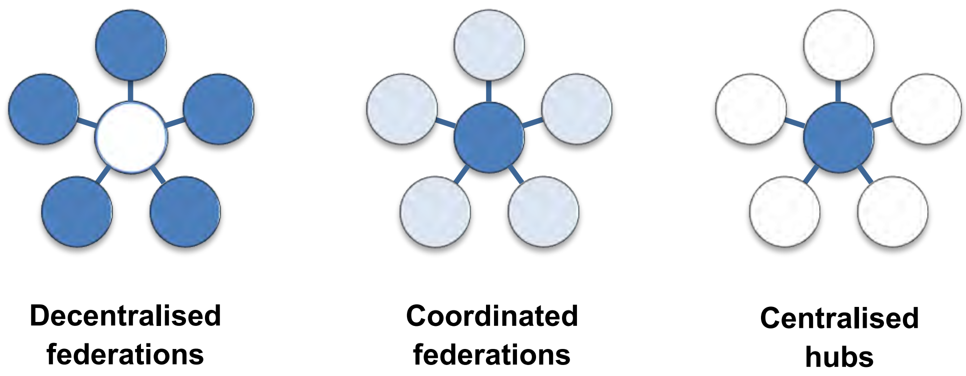


Figure 2.5 Parent-subsidiary structure options

Adapted from de Wit, B. and Meyer, R. (2010) **Strategy: Process, Content, Context**. 4th ed. United Kingdom: Cengage Learning EMEA, pp. 546.

The shading indicates the concentration of decision making, thus moving from the left of the figure: (i) in decentralised federations, each subsidiary is able to operate independently and undertakes all of the company functions; (ii) in coordinated federations the parent retains a dominant position in terms of capital, new products, management capabilities and systems, whilst the overseas subsidiaries are given substantial autonomy; and (iii) in centralised hubs, global strategies and production are controlled from the parent company whilst the subsidiaries are responsible for activities such as sales and distribution (de Wit and Meyer, 2010).

Whilst these strategy structures provide basic frameworks, a convergence of these strategies, which represents a less static form and aims to maximise the benefits and minimise the drawbacks of each of these approaches, has developed into what is known as the transnational organisation. The transnational organisational structure combines the capabilities of the independent subsidiaries upon which the company's international business is built (decentralised federations), with the control, coordination and integration of these operations at a central level (centralised hubs) (Bartlett, 1986).

As depicted in Figure 2.6, the transnational organisation is an integrated network.

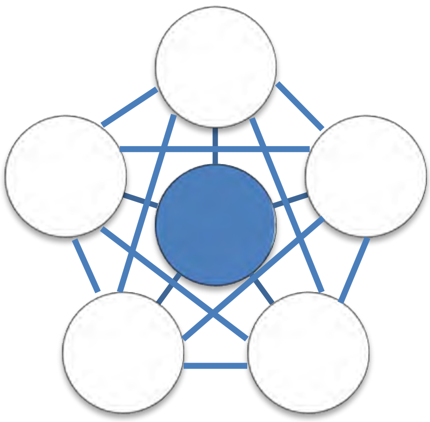


Figure 2.6 The transnational organisation

Adapted from de Wit, B. and Meyer, R. (2010) **Strategy: Process, Content, Context**. 4th ed. United Kingdom: Cengage Learning EMEA, pp. 546.

The transnational organisation thus represents a network of dispersed capabilities and resources which are integrated and interdependent. This allows the organisation to adapt to the different needs and requirements in respect of products and functions, in the various countries (Grant, 2013). This structure therefore recognises the need for a company to be simultaneously globally efficient and competitive, on the one hand, and responsive to national differences, on the other (Bartlett and Ghoshal, 2002).

2.5.5.3 Glocalisation

A global strategy is one which regards the world largely as a single market with little local variation (Lynch, 2014). Whilst there are certain benefits to having a global strategy, the need for national differentiation should not be overlooked. Glocalisation (a combination of the words globalisation and localisation) is the incorporation of local aspects into products which are sold globally. It involves balancing the efficiencies of operating on a global scale with the need for local adaption, and recognises that there is a greater likelihood of succeeding in transplanting a product into a new market if it is adapted to meet local preferences (Matusitz, 2010).

Companies should standardise their activities and the features of their products where economies of scale demand this. At the same time, they should allow for differentiation where country specific preferences are greatest – thus requiring a careful combination of global standardisation and local adaptation (Grant, 2013).

2.5.5.4 Pharmerging markets

Whilst the pharmaceutical industry continues to grow in developed markets, the level of future growth is uncertain and expected to flatten. This is due to the changing healthcare reforms which result in pricing pressures, as well as macroeconomic factors (IMS Institute for Healthcare Informatics, 2014). Emerging pharmaceutical markets, so called “pharmerging markets”, are however expected to grow more strongly than developed markets and are thus considered to offer significant growth opportunities for pharmaceutical companies (McKinsey & Company, 2012).

It is expected that by 2016, these rapidly growing emerging markets will amount to almost one third of the global pharmaceutical market (approximately double the percentage in 2006) and are therefore seen to play a vital role in sustaining growth in the pharmaceutical industry (PwC, 2013). Some of the key growth drivers include large populations, an increase in wealth and income levels, a growing trend towards healthier lifestyles, as well as increasing government and consumer awareness about the benefits of a good healthcare system (Deloitte, 2014).

Accessing this untapped potential is however not without its difficulties as pharmaceutical companies, who attempt to establish or increase their presence in these expanding markets, find they that are faced with a number of risks and challenges, including:

- increasing government intervention through mechanisms such as price setting and changes in manufacturing requirements;
- increased competition as local and multinational companies enter these markets;
- geographic size and cultural diversity;
- underdeveloped healthcare infrastructure and fragmented distribution systems; and
- the growth markets differ on a number of levels including their geographies, politics, religions, as well as socially and structurally. They also differ in respect of the medications which they require and their ability and willingness to pay for new medicines.

(McKinsey & Company, 2012; PwC, 2012)

Given the commercial potential which these markets hold, both generic and innovator companies are responding to the opportunities which these new, expanding markets offer, either on their own or by pursuing mergers, acquisitions or joint ventures. However given the diversity among these regions, a "one-size-fits-all" approach cannot be used (PwC, 2013). Commercial success is thus likely to be dependent on a thorough understanding of each market and its intricacies, investment in local research, development and manufacturing as well as tailoring commercial models and approaches to meet the specific needs and characteristics of each market (Deloitte, 2014). This need for localisation thus requires that pharmaceutical companies balance their global competencies with tailored approaches for the local markets (PwC, 2013).

2.6 Summary

The purpose of this literature review was to consider the theory on the core themes underlying the case study analysis of Aspen, namely strategy, the global pharmaceutical industry and business growth.

In essence, a company's strategy is the plan by management on how it will run the business and conduct its operations (Hough *et al*., 2011). Whilst Porter (1996) claims that the essence of strategy is in a company deciding either to perform its activities differently or opting to carry out activities which are different to those of its rivals, the vast authors of subsequent strategy ideas propose that strategy does not come down to a choice between these two options. Instead, it is suggested that companies have the freedom to choose the "hows" of their strategy by selecting from a broad expanse of opportunity to become a productive and profitable enterprise (Porter, 1996; Ovans, 2015).

Against the above background, some of the key concepts of strategy were considered. These included an emphasis on the importance of leadership in strategy and the concept and significance of strategic leadership. Theory regarding core competencies, competitive advantage and strategic fit were also analysed to provide a theoretical framework of some of the foundational strategy concepts.

An analysis of the nature and dynamics of the global pharmaceutical industry was aimed at illustrating the large, complex and unique nature of the competitive environment in which Aspen operates. This analysis provided the context for considering certain of the growth strategies adopted by global pharmaceutical companies. This involved a consideration of the imperative for growth as well as the concepts of organic growth, vertical integration, takeovers, mergers and acquisitions and internationalisation, particularly in emerging markets.

In order to address the research questions to be answered in this study, a descriptive case study analysis was conducted on Aspen. Chapter 3 covers the research methodology used in this descriptive study.

CHAPTER THREE

Research Design and Methodology

3.1 Introduction

The last chapter provided the academic context in which the case study of Aspen took place. This chapter builds on this theoretical foundation and sets out how the case study was conducted.

This chapter therefore sets out the research design and methodology adopted in this study. The purpose of this chapter is to conduct a literature review of how to perform research and sets out the choice and justification of the particular research method adopted.

The chapter commences with a theoretical explanation of the concept of research, which includes an overview of the research process. This is followed by a description of the choice of research and the research design. The research design covers the concepts of case study research, the sources of data (primary vs secondary) as well as the nature of data (quantitative vs qualitative). Finally, the data collection method and data analysis are explained.

3.2 The concept of research

According to Bourgeois (2011), human beings have an innate desire and need to explain the world around them. As a result of this, disciplined study is used to give meaning and purpose to life and its processes. The purpose of research is therefore to learn about how the world works as this understanding is said to provide the ability to predict or control events (Bourgeois, 2011).

Extending this social-scientific approach to the business context, Cooper and Schindler (2014) describe research as an organised enquiry which is carried out to provide information for solving problems. More specifically, business research is a methodical investigation which provides information aimed at guiding decision makers in order to mobilise the organisation to take actions which maximise its performance (Cooper and Schindler, 2014).

The research process is the method of designing and conducting research, from the formulation of ideas about a research topic to the final reporting of the results as depicted in Figure 3.1.

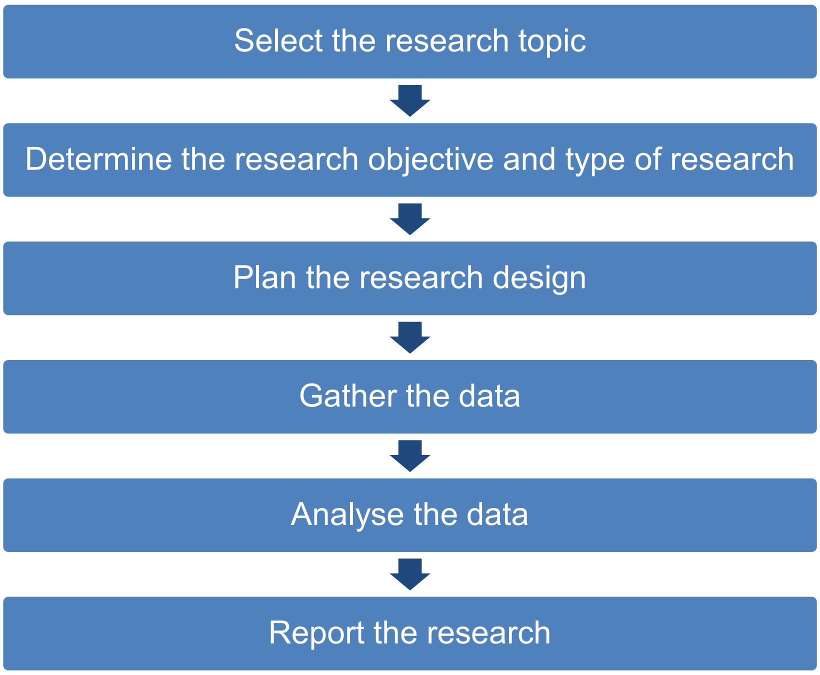


Figure 3.1 The research process

Adapted from Dul, J. and Hak, T. (2008) **Case Study Methodology in Business Research**, Burlington, Massachusetts: Elsevier Ltd, pp. 13.

Whilst the research process is depicted as a sequential process involving clearly defined steps, certain of the steps may take place out of sequence and even simultaneously and each step need not be completed before going to the next. However, for the purposes of developing the research project and keeping it orderly it is useful to show the process as a sequence (Zikmund *et al.*, 2013).

The decision on the type of research is linked to the objectives of the study. Essentially, a study will either be causal, descriptive or exploratory in nature (Sekaran and Bougie, 2013). A causal study is one which is aimed at determining and explaining the relationship between variables (Cooper and Schindler, 2014). A descriptive study is one which provides an overall "picture" of a population or phenomenon by describing a situation or events (Thyer, 2001). Finally, an exploratory study is conducted when little is known about an event or situation and the research aims to discover and generate theory (Sekaran and Bougie, 2013).

The research design is the plan of a study and the way in which the research questions will be answered. It is the framework for the study which outlines the type of data which will be collected, the sources of the data, how the data will be measured and ultimately the analysis of the data (Cooper and Schindler, 2014).

3.3 Choice of research

The choice of the type of research is determined by the kind of research question which the study is trying to answer. The purpose of this research was to identify and analyse the growth strategies adopted by Aspen over the past 11 years (2004 – 2014).

The nature of this research was thus concerned with finding out "what" as opposed to "why". The question being asked is therefore "what has happened" contrasted with "why did something happen" (Yin, 2012). As a result the research is of a descriptive nature, as opposed to explanatory in nature, and for this reason a descriptive study was selected as the type of research.

In addition, a descriptive study was considered the appropriate research approach due to the fact that (i) the elements (growth strategies) were not yet known and were to be discovered in the research, and (ii) the identification and description of these elements did not involve the testing of causal relations between variables (Dul and Hak, 2008).

The aim of a descriptive study, as the name suggests, is to describe. Studies of this nature are thus usually constructed to accumulate data which describes people, organisations, occurrences or situations and their characteristics (Sekaran and Bougie, 2013). As a result, the information is collected without any manipulation and the research may therefore be referred to as an observational study.

3.4 Research design

The research method used was a descriptive study through a single case study of Aspen by analysing secondary data in the form of publicly available company reports and presentations, as well as financial results, issued by Aspen between 2004 and 2014. Qualitative data was extracted and analysed to determine the growth strategies used by Aspen, whilst certain quantitative data was used for illustrative purposes.

The nature of and rationale for pursuing a descriptive study were explained above. The rest of the elements of the research design will now be individually analysed.

3.4.1 Case study research

Yin (2012) defines a case study as an enquiry about a phenomenon in its real-world setting. The “case” is the phenomenon which is being studied and a case study is usually conducted on one or a few cases. This is one of the features of a case study as the in-depth analysis of the case/s allows an invaluable and insightful understanding to be gained, with the aim of producing new knowledge about behaviours and their meaning (Yin, 2012). The fact that the case is studied in its real life context is another distinctive characteristic of the case study as neither the phenomenon nor its environment are manipulated (Dul and Hak, 2008).

A case study is considered to be appropriate for use in a descriptive study when answering a research question such as “what is happening or has happened?” as a case study is able to provide the detailed descriptions or explanations required to answer a question of this nature (Yin, 2012; Farquhar, 2012). This can be contrasted with the experiment (which may be useful when trying to determine the effectiveness of an initiative) and the survey (which may be used to determine how often something has happened) (Yin, 2012).

Furthermore, a case study is appropriate for understanding an event in its actual setting as the method used is often a collection of data in natural settings over which the researcher has no control (Remenyi, 2013). This is different to relying on data which is derived from responses – such as in an experiment (where a researcher uses various instruments to obtain responses) or a survey (where a researcher uses a questionnaire to obtain responses) (Sauro, 2015).

For these reasons, a descriptive case study was considered to be the appropriate method for identifying and analysing Aspen's growth strategies over the past 11 years (2004 – 2014).

Although case studies may be used to study many real-world situations and can address important research questions, it is often criticised as a research method and has not received general recognition as the method of choice (Yin, 2012). Some of the reasons for this include:

- a case study is not considered to involve a serious enquiry and lacks rigour;
- the credibility of the case study is questioned due to the potential for bias by the researcher in finding what they set out to find, that is it lacks objectivity; and
- that it is not possible to generalise the results of the case study for wider use, that is it lacks generalizability.

(Yin, 2012; Farquhar, 2012)

Yin (2012) argues that these criticisms are outdated and whilst the potential for such challenges exist, the effective contemporary approach to case study research employs systematic procedures to overcome these potential pitfalls. Through systematic data collection and examination, the researcher may use analytic generalisation to allow the case study findings to be generalised to other situations (Yin, 2012).

It is therefore the responsibility of the researcher to ensure that the methodology employed overcomes these challenges and upholds the reliability of the case study research.

The type of case study design selected was a holistic single case study, meaning a single-unit of analysis and single-case was used (as opposed to multiple units and multiple cases), namely Aspen. Whilst such a method may be criticised for being too narrow, this approach was selected as it allows for the selected case to be analysed in detail and allows the researcher to study the phenomenon more intensively. Having become the largest pharmaceutical company (i) in Africa, and (ii) listed on the Johannesburg Stock Exchange (South African stock exchange) (Aspen, 2014) Aspen was considered a unique and rich enough source of information to warrant individual analysis.

A case study allows for an emphasis on detail in order to provide valuable insights and places more focus on a full contextual analysis (Cooper and Schindler, 2014). Using qualitative analysis in respect of a single or small number of occurrences, conclusions are usually arrived at (Dul and Hak, 2008). This can be contrasted to a statistical study which is designed for breadth rather than depth as the characteristics of a population (with a large number of instances) are presented by making inferences from a sample. In a statistical study, hypotheses are generally tested and conclusions drawn based on quantitative analysis (Cooper and Schindler, 2014).

3.4.2 Sources of data: primary vs secondary

Cooper and Schindler (2014) define data as the facts which are provided to a researcher from the setting of a study. There are two sources of data, namely primary data and secondary data. Primary data is information which is collected first hand by a researcher, specifically for the purpose of their study, through tools such as interviews and surveys. Secondary data is information which already exists such as company records and archives. The nature of secondary data is that it was collected by someone other than the researcher for another purpose and was not originally collected for the researcher's specific study (Lee, Lee and Lee, 2013).

For this study, data was obtained by accessing the company reports, presentations and financial results issued by Aspen between 2004 and 2014 and made publicly available on the company's website. This is therefore secondary data.

One of the advantages of using secondary data is the breadth of the data which is available. An individual researcher may not have the resources to personally collect and collate the information which is made available through the secondary data. This links to another advantage of using secondary data which is economy, in that the researcher does not have to expend the resources (time, cost and experience) in collecting the data "from scratch". Another advantage is that often the secondary data has been obtained through an expert and professional process which may not be available to an individual researcher (Boslaugh, 2007).

There are however certain inherent disadvantages to using secondary data as opposed to primary data. One of these is that the researcher has no control over how the data was collected. As the data was not collected for the specific purpose of answering the researcher's particular study objectives, there may be excessive data which the researcher has to review but which is not relevant to the topic. Conversely, information which the researcher requires may not have been collected. In addition, having no participation in the planning and execution of the data collection process, the researcher may not know exactly how it was carried out and therefore what the validity of the data is (Boslaugh, 2007).

The reliability of secondary data in the form of archival data may also be affected by the bias of its preparers (Yin, 2012). For example the selection of data used and how events are portrayed, may be subject to systematic bias. A researcher using archival data should therefore be sensitive to the editorial choices made by the preparer of the data, and guard against simply accepting the data as factual without remaining aware of potential shortcomings in the data (Yin, 2012)

In this study, Aspen's Annual Reports, presentations and financial results, which are made publicly available on its website, were utilised as the source of secondary data. Aspen is a public company which means that it is permitted to offer shares to the public. As a result, it is listed on the Johannesburg Stock Exchange ("JSE"). The main function of the JSE is to provide a facility for securities to be listed and at the same time to regulate the marketplace for the orderly trading of such securities (JSE, 2014).

As part of this regulation, the JSE has issued Listings Requirements which apply to companies when listing for the first time on the JSE, as well as to those companies which are already listed. The JSE Listings Requirements contain rules and procedures and are "aimed at ensuring that the business of the JSE is carried on with due regard to the public interest" (JSE, 2014, p. 3). The General Principles in the JSE Listings Requirements must be followed in all corporate actions, in particular there is an obligation on listed entities to:

(v) "ensure that all parties involved in the dissemination of information into the market place, whether directly to holders of relevant securities or to the public, observe the highest standards of care in doing so;" and

(vii) "ensure that the Listings Requirements, and in particular the continuing obligations, promote investor confidence in standards of disclosure and corporate governance in the conduct of applicant issuers' affairs and in the market as a whole."

(JSE, 2014, p. 4)

In light of the above, there is an obligation on listed entities, such as Aspen, to ensure that the information which they disseminate into the marketplace, including its Annual Reports, presentations and financial results, meets the highest standard of care. This requirement lends credibility to such documents.

In terms of the JSE Listing Requirements, listed entities are required to issue an Annual Report which includes the company's annual financial statements. An Annual Report is a publication which a listed company issues after each financial year which essentially chronicles the activities of the company over the past year. The Annual Report also contains details regarding the operational and financial condition of the company and its performance over the preceding financial year (Investopedia, 2015).

The Annual Reports are issued to the public as they are intended to provide valuable information to existing and prospective shareholders (who are the ultimate owners of the company) on the company's performance and positioning. This includes items such as the company's objectives and performance (particularly financial) during the period under review, as well as the strategy and future direction of the company (Ernst & Young, 2008).

The performance highlights in an Annual Report provide key financial and statistical information on the company's performance during the period, which can be compared to the company's past performance as well as measured against the objectives and strategies of the company. These can be used to determine how financially sound the company is, how well it is being managed and what progress it is making in achieving its goals (Ernst & Young, 2008).

Listed companies also provide information regarding their strategies in the Annual Reports as this gives shareholders an understanding of the decisions made in respect of the allocation of the company's resources. Information regarding a company's organisational capabilities as well as the key risks and challenges it faces in achieving its purpose, are critical for investors to determine the strategic positioning and competitive advantage of the company (Ernst & Young, 2008). In addition to the explicit information provided regarding a company's strategy, the financial results provide an indication of the success of a strategy in terms of output, outcome or impact (PwC, 2015).

Over the past two decades, the field of corporate reporting has evolved and grown in importance. An increased focus on sustainability and the so-called "triple bottom line" of people, planet and profit as well as the advent of the King Reports on Corporate Governance for South Africa and the International Integrated Reporting Framework have brought Annual Reports (now referred to as Integrated Reports) to the fore as one of the most prominent channels of a company's communication with its stakeholders (PwC, 2014).

As one of the primary purposes of an Annual Report is accountability to stakeholders, particularly shareholders, listed companies are expected to move beyond the traditional financial focus of solely business thinking and reporting, towards conveying information about the organisation's strategy, performance and future prospects (PwC, 2014). An organisation's Annual Report is now expected to provide details of its strategy including how such strategy translates into its ability to generate value in the short, medium and long term. The Annual Report should also indicate how the organisation is performing against such strategy. An Annual Report is thus intended to provide invaluable insight into the organisation through management's eyes (PwC, 2013).

As a result, Aspen's Annual Reports were considered to be a reliable source of information on the growth strategies adopted by the company and how successful such strategies had been in terms of translating into positive financial performance. Such reliability was however tempered by an awareness of the potential shortcomings of secondary data as well as the potential bias in the portrayal of such data (being archival data).

3.4.3 Nature of data: quantitative vs qualitative

"Not everything that can be counted counts,
and not everything that counts can be counted."

Albert Einstein

The basic distinction between quantitative data and qualitative data is that the former is in the form of numbers and the latter is in the form of words (Sekaran and Bougie, 2013).

Cooper and Schindler (2014) define quantitative research as the attempt to precisely measure something, for example measuring consumer behaviour opinions, and this methodology is used to answer questions such as "how much", "how often", or "how many". This can be contrasted against qualitative research which aims to obtain a comprehensive understanding of a situation and thus seeks to describe the meaning, as opposed to the frequency, of a phenomenon (Cooper and Schindler, 2014).

Quantitative data often consists of participant responses to research instruments such as surveys or questionnaires. These need to be categorised and reduced to numbers so that they can be subjected to statistical analysis. Such process can be distinguished from qualitative data where text in the form of detailed descriptions is obtained, analysed and interpreted by the researcher (Zikmund *et al.*, 2013).

Qualitative data is often criticised as being too subjective and susceptible to human bias in its collection and interpretation. However, quantitative data is not without its limitations as it is said to lack the insights which qualitative data may provide and which is often critical to facilitate a business decision (Cooper and Schindler, 2014; Creswell, 2015). The researcher remains responsible for taking steps to alleviate the shortcomings of the data and its analysis by carefully planning the research process and structuring the data analysis in such a way as to avoid the pitfalls.

This study was based on qualitative data. This was considered to be the most appropriate approach given that the research utilises the descriptive case study method in answering questions about what growth strategies were adopted by Aspen and what challenges it faced in implementing such strategies. Such questions required a comprehensive understanding (qualitative analysis) as opposed to measuring frequency (quantitative).

Qualitative data was thus extracted from Aspen's Annual Reports and presentations, and analysed to determine the answers to the research questions. In addition to this, certain quantitative data from the financial results was selected as this was considered useful for illustrative purposes and to give context to the qualitative data.

3.5 Data collection and analysis

Dul and Hak (2008) simplistically yet effectively define data collection as the process of selecting an object of measurement, extracting evidence of the characteristics from such an object, and recording such evidence.

From Aspen's publicly available corporate website, the following documents, issued by Aspen during the period 2004 to 2014 (both years inclusive), were downloaded and saved:

- Annual / Integrated Reports;
- interim financial results (December of each year), including results presentations, announcements and booklets;
- final financial results (June of each year), including results presentations, announcements and booklets; and
- presentations (such as investor and site presentations).

The time period of 2004 to 2014 was selected as (i) Aspen has a 30 June financial year end and thus, at the time of the study, the most current data available was in respect of the 2014 financial year; (ii) working back from the 2014 data, an eleven year period in the company's history was considered long enough to provide valuable insight into the company, whilst at the same time being reasonable and manageable in terms of the researcher's resource constraints.

These documents, which totalled 58, were the source of the qualitative and quantitative data described in the previous section.

Prior to collecting the data, it was important that the research questions to be answered at the end of the study were framed. The questions served as a mental framework for collecting the data and ensured that such collection was focused and intentional. The questions were as follows:

1. What growth strategies has Aspen adopted over the past 11 years (2004 – 2014)?
2. What challenges has Aspen faced in implementing the growth strategies?
3. What learnings can other companies take from the case study analysis of Aspen?

Using the mental framework of the research questions, the accessed documents were read in their entirety, and carefully and comprehensively analysed to extract qualitative and quantitative data. The accessed documents were read chronologically from oldest to most recent.

With regard to the qualitative data, narratives and words were extracted from the accessed documents and systematically organised into a word table for each year. The tables were divided into multiple rows and two columns – the first column being the data copied and pasted from the accessed documents and the second column being key words to describe the data.

Selection of the data for the first research question, relating to growth, was guided by identifying the following:

- key words and themes such as "growth" and "strategy" as well as related words and themes;

- details regarding products (such as launches), transactions, acquisitions (products and businesses), divestments (products and businesses), expansion (of capacity and geographically), partnerships and joint ventures, and capital expenditure projects;
- stated strategies;
- initiatives and success factors;
- core competencies;
- strategic objectives and initiatives; and
- company milestones.

The data extracted from the documents was collated into one document resulting in an approximately 300 page document being produced. The process of data reduction involved further editing this data to remove repetitive and superfluous information, reducing the document to 20 pages. From this document the data was narrowed down to key words for each year under review and arranged into a data display which encouraged conclusion drawing through the establishment of meaningful themes or patterns. Based on these key words, core themes were identified.

The same approach was followed in respect of the extraction and organisation of the data for the second research question relating to challenges. Selection of the data for this enquiry was guided by identifying the following:

- the key word "challenge/s" and related words and themes;
- stated challenges; and
- business and operational risks.

The data extracted from the documents was collated into one document resulting in an approximately 30 page document being produced. The process of data reduction involved further editing this data to remove repetitive and superfluous information, reducing the document to approximately 14 pages. From this document the data was narrowed down to key words for each year under review and arranged into a data display which was aimed at facilitating conclusion drawing through the establishment of meaningful themes or patterns. Based on these key words, core themes were identified.

The quantitative data in the accessed documents was also analysed and selective information was extracted (data reduction) and exported into a spreadsheet (data display). The spreadsheet was arranged in columns for each year and rows for each of the categories set out below:

- revenue (money brought in by a company from goods sold);
- operating profit (profit earned by a company from the core operations of the business);
- earnings per share (measures the profitability per share);
- headline earnings per share (earnings per share from core operations of the business);
- market capitalisation at year-end (total market value of a company's outstanding shares);
- share price at year-end (market price of one share);
- cash flow from capital expenditure – property, plant & equipment (acquisition or upgrade of physical assets);
- cash flow from capital expenditure – intangible assets (acquisition of assets such as intellectual property rights); and
- cash flow from the acquisition of subsidiaries and businesses.

The quantitative data was also converted into graphs, with the intention of obtaining a better understanding of the data through this form of data display and possibly identifying a pattern which could facilitate the drawing of conclusions (Sekaran and Bougie, 2013). For example a dramatic increase in profit in one year, encouraged a more focused look at the corresponding qualitative data for that year, to determine what events took place and investigate whether a causal relationship could be established between the increase in profit and the activities of or steps taken by the company in that particular year.

In quantitative studies, where a research instrument such as a survey or questionnaire is used, researchers often input their numeric data into a pre-packaged computer software program which utilities an automated algorithm to produce output data for analysis. Case study analysis is however less formulaic and, with no prescribed or routine procedure to follow, the researcher must determine what process they will use to logically extract data and then essentially create a unique "algorithm" to piece such data together into broader logical themes for interpretation (Yin, 2012).

The qualitative data analysis was aimed at making valid inferences from the considerable amount of data which was collected (Sekaran and Bougie, 2013). The details extracted from the accessed documents represented raw data. The purpose of the data analysis was to convert this into more useable information by reducing it into a manageable size through the process of data reduction (Cooper and Schindler, 2014).

As the motive for doing the case study was to answer the research questions, the technique for analysing the data was directed at these questions. The data was summarised and categorised which allowed for patterns and themes to be identified. By organising both the qualitative and quantitative data chronologically, insightful descriptive patterns were produced (Farquhar, 2012).

Attempting to answer the third research question, namely what learnings other companies can take from the case study analysis of Aspen, involved the process of generalisation. Whilst quantitative research, in the form of surveys and questionnaires for example, usually involves statistical generalisations through generalising the known traits of a sample to the population from which they are drawn (sampling logic), case study research is more suited to analytic generalisation based on replication logic (Piekkari and Welch, 2011).

This required that the first stage of the case study identified relationships, concepts and sequences of events which could assist with arriving at findings in respect of the first two research questions (growth strategies adopted by Aspen and the challenges it faced). Determining whether these propositions could be applied to other companies, where similar relationships, concepts and sequences might be relevant, was the second stage.

Through analytic claims, the case study thus attempts to generalise the findings to other situations. It should however be noted that such generalisations are not intended to be conclusive but instead provide a theoretical proposition which further research or case studies could investigate to determine categorical findings (Yin, 2012).

3.6 Summary

This chapter set out and explained the research design and methodology which was selected and utilised in this study with the intention of answering the stated research questions.

Against a theoretical background defining research as disciplined study used to give meaning and purpose to life and its processes, the research process was described. As the choice of the type of research adopted (exploratory, descriptive or causal) is linked to the objectives of the study, a descriptive study was considered the appropriate approach for this research.

In order to identify and analyse the growth strategies adopted by Aspen over the past 11 years (2004 – 2014), a case study was selected as the appropriate method as this allowed for the company to be considered in detail as well as in its real-world context. Criticisms of the case study approach were considered, emphasising the responsibility of the researcher to ensure that the research methodology overcomes such challenges.

The differences between primary and secondary data were described and the reasons for using secondary data for this study were provided. An explanation of the JSE Listings Requirements (which Aspen, as a listed entity, is subject to) as well as the growth in importance of corporate reporting, highlighted the value of the information which a listed company disseminates in communicating with its stakeholders.

Quantitative data (numbers) was utilised for illustrative purposes whilst qualitative data (words) was used to facilitate an in-depth comprehension of the subject matter. The method of data collection and analysis were explained. This included using the research questions as a framework to collect the raw data, through an analysis of Aspen's publicly available Annual Reports, presentations and financial results (issued by the company). Such data was then reduced and converted into more useable information through a process of chronological and systematic summarising to allow for meaningful patterns and themes to be identified, and thereafter analytic generalisation was used in an attempt to apply the findings to similar situations.

Having described the research design and methodology adopted, the results of such research are presented in Chapter 4.

CHAPTER FOUR
Case Study Analysis of Aspen

4.1 Introduction

This chapter sets out the results of the case study analysis of Aspen, based on the examination of secondary data in the form of Aspen's publicly available Annual Reports, presentations and financial results. These case study results are presented according to the conceptual framework set out in Chapter 3.

A brief introduction to Aspen is provided followed by the stated strategic objectives contained in the Annual Reports between 2005 (the 2004 Report did not contain this information) and 2014, in relation to the goal of sustained growth. The analysis of the Aspen documents, with a focus on growth, is presented in the form of the identified company milestones up to 2014, as well as selected acquisitions and divestments which took place between 2004 and 2014.

The growth of Aspen is then tracked through key words which are grouped according to years. From these key words, specific growth themes are identified and depicted. Using specific indicators, the growth achieved by Aspen in numbers, is depicted in the form of graphs.

The challenges faced by Aspen are then identified by the grouping of key words according to years. From these key words, "challenge themes" are identified and depicted.

4.2 Introduction to Aspen

Aspen supplies branded and generic pharmaceutical products globally. It also supplies infant nutritional and consumer healthcare products in selected territories (Aspen, 2014).

The Aspen Group's strategic direction is determined by its vision (Aspen, 2014, p. 4):

ASPEN'S VISION

"To deliver value to all stakeholders as a responsible corporate citizen that provides high quality, affordable medicines and products globally."

under the guidance of its values depicted in Figure 4.1.

Figure 4.1 Aspen values

Aspen (2013) **Aspen Pharmacare Holdings Limited Integrated Report 2013**, [Online]. Available at: http://financialresults.co.za/2013/aspen_ir2013/downloads/Aspen_IR_2013.pdf, pp 3.

4.3 Stated strategic objectives

As part of its corporate governance reporting, from 2005, Aspen set out in its Annual Reports the identified business and operational risks which it faced as well as the initiatives or success factors which contributed to the reduction of such risk. These provide useful insight into the strategic objectives of the business, particularly with regard to growth.

In 2005 the initiatives or success factors in mitigating the business and operational risk of "Maintenance of a leading position in the South African Market" were:

- Increasing investment in new product development;
- Pioneering the manufacture of generic ARVs in Africa;
- Continually commercialising new pharmaceutical products;
- Cost-effectively supplying the growing generic pharmaceutical market;
- Diversifying manufacturing capability into healthcare consumer products eg. infant milk formulas;
- Organic expansion into new markets eg. Africa; and
- Acquisitive growth.

(Aspen, 2005, p. 54)

In 2006 the identified business and operational risk was broadened to "Sustaining growth" and, in addition to the 2005 initiatives and success factors set out above, the following mitigating elements were identified:

- Diversifying manufacturing capability;
- Expansion into new markets; and
- Differentiating Aspen from competitors through niche products and markets.

(Aspen, 2006, p. 55)

In 2007 the following additional initiatives and success factors were identified:

- Diversifying and increasing manufacturing capability;
- Assessing acquisitive opportunities;
- Ability to source and launch new product pipeline; and
- First to market in new product launches.

(Aspen, 2007, p. 58)

In 2008, a number of new initiatives and success factors were identified:

- Increasing awareness of Aspen's brands in all markets;
- Identifying, fostering and leveraging business relationships with credible, established partners;
- Optimising strategic relationships with multi-nationals;
- Upgrading and improving manufacturing facilities to ensure sustained compliance;
- Transforming the organisation for international growth; and
- Optimising on the experience, competence and expertise of capable people to drive future growth.

(Aspen, 2008, p. 80)

In 2009, these were expanded to include the following:

- Expanding into new markets, with a particular emphasis on emerging markets;
- Supplying cost-effective, high-quality products;
- Sourcing and launching the new product pipeline;
- Attracting and retaining appropriately experienced and skilled employees;
- Upskilling employees to work with new technology, new markets and new products;
- Consistent application of best practice throughout the Group; and
- Growing leaders.

(Aspen, 2009, p. 88)

In 2010, the risk mitigation initiatives and activities were identified as:

- Aspen has expanded into a broad base of international territories to diversify the Group's growth opportunities;

- Aspen's product pipeline extends across a number of key therapeutic categories for each region;
- Significant investment has been made in the Group's manufacturing facilities to secure supply of high quality products to meet future demand and manufacturing requirements; and
- The product pipeline and manufacturing capability enables the Group to focus on a portfolio of specialised products for growing disease management regimes.

(Aspen, 2010, p. 92)

In 2011 the strategic risk of "Effective strategy and ability to ensure the long-term growth of the Aspen Group" was said to be mitigated by the following initiatives:

- The Group Chief Executive and Deputy Group Chief Executive continuously monitor the relevance and sustainability of the Group strategy and update the Board at least quarterly;
- Aspen has been effective in building and leveraging strategic relationships with leading pharmaceutical companies worldwide and the continuity and expansion of these relationships is managed by the Group Chief Executive, Deputy Group Chief Executive and Group executives;
- Aspen's flexible business model and quick decision-making ability enables it to respond with speed to growth opportunities which are presented to the Group; and
- Executive management in each region is responsible for monitoring market indicators, for identifying regional growth opportunities and ensuring effective implementation of the approved strategy.

(Aspen, 2011, p. 60)

In 2012 the following mitigation activities were identified:

- The Group's strategy is reviewed and approved by the Board annually;

- The strategy provides for an entrepreneurial response to a dynamic operating environment; and
- The Group's strategy is translated into annual budget plans and the key performance indicators of the business are monitored quarterly.

(Aspen, 2012, p. 81)

In 2013 a separate Key Risk Mitigation Activities Report was made available online. Aspen's business model was set out, namely:

ASPEN'S BUSINESS MODEL

Aspen's strength lies in its understanding of the dynamic markets in which the Group operates and identifying and pursuing opportunities that align with the Group's vision and strategy. The Aspen business model creates value for stakeholders by the application of high levels of expertise and advanced processes under the framework of the Group's values to optimise the returns on its unique assets, tangible, intangible and human.

(Aspen, 2013, p. 5)

In expanding on the business model, the following key enablers were identified in the quest to deliver value to stakeholders:

- Diverse, niche and innovative intellectual property that is relevant to the regions we operate in – acquired, developed and licensed;
- Robust product pipeline for targeted strategic regions;
- Significant presence in emerging markets;
- Accredited strategic and regional manufacturing facilities that are flexible and scalable to demand. In-house as well as third party manufacturing network; and
- Committed employees living the Aspen values.

(Aspen, 2013, p. 5)

In the 2014 Annual Report, the challenges and risks which Aspen faced in relation to its strategic objectives were set out. These strategic objectives, considered and agreed annually by the Board of Directors, included the following:

- To deliver sustainable growth in earnings from a diversified portfolio of products and geographies;
- To supply customers and patients with high quality medicines at competitive prices;
- To increase the direct promotion of Aspen products worldwide;
- To achieve superior returns on investment for our shareholders over the long term;
- To continuously increase and improve our offering to healthcare professionals and patients through a prolific product pipeline;
- To achieve a strategic advantage through our production capabilities; and
- To be alert to opportunities to enhance the value of the Group for its stakeholders.

(Aspen, 2014, p. 4)

This section has set out the following elements, relating to growth, drawn from the analysis of the Aspen documents:

- stated strategic objectives,
- initiatives and success factors;
- risk mitigation initiatives and activities;
- the company's business model; and
- challenges and risks in relation to the strategic objectives.

These offer invaluable insight into the organisation through management's eyes (PwC, 2013). As a result they provided a foundation for the further analysis of the company in order to achieve the study objectives.

4.4 Focus on growth

Aspen is listed on the Johannesburg Stock Exchange ("JSE") (the South African stock exchange), and has its Group headquarters in Durban, South Africa. Aspen has grown from a company with businesses in South Africa, Australia and the United Kingdom and a market capitalisation of approximately R4,8 million in 2004, to a truly global company with businesses on six continents and a market capitalisation of R136 billion in 2014 (Aspen, 2014).

Aspen is now the largest pharmaceutical company listed on the JSE and is one of the top 20 companies listed on this stock exchange. It is ranked among the top five generic pharmaceutical producers globally and has 26 manufacturing facilities at 18 sites on six continents and approximately 10 000 employees (Aspen, 2014).

Against this background, the growth of Aspen was considered by tracking the developments reported in the Annual Reports between 2004 and 2014. These company milestones are summarised in Appendix 1.

In addition to the company milestones, a useful way of analysing the nature of the business and the changes thereto over the period 2004 to 2014, was by extracting selected acquisitions and divestments, as set out in Appendix 2.

Drawing from this information and a comprehensive analysis of the Annual Reports issued by Aspen between 2004 and 2014, it was possible to extract key words relating to the growth strategies which Aspen adopted. These are depicted in Figure 4.2.

2004

investments
- enhancing production capabilities
- competitive advantage

growth
- increased volumes
- new products

acquisitions
- businesses
- products
- manufacturing facility
- strategic investment

2005

construction of complex facility

organic growth
- good volumes
- new products

entered new product markets

vertical integration

2006

- additional revenue streams
  - manufacturing
  - product development
  - sales territories
- organic growth
  - increasing generic volumes
  - new product launches
- investment
  - specialist manufacturing
  - product development capabilities
- access to new markets
- explore acquisitive prospects
- extended international footprint

2007

- enhancement of manufacturing
  - capacities
  - standards
- strategic production capabilities
  - competitive advantage
- organic growth
  - strengthening product pipeline
- acquisitive opportunities
  - identify and assess
- backward integration

2008

- transactions
  - joint venture
  - acquisition (business, products)
- internationalisation
  - strength in emerging markets
- investment in capital expenditure
  - tangible fixed assets
- strategic decision to divest
- shifting focus to emerging markets
- organic growth
  - product pipeline

2009

watershed year
- regionally focused to global

concentration on emerging markets

South Africa business
- catalyst to growth
- investment in capital projects
- product development

intensive period of acquisitive activity
- access to new markets
- critical mass
- rights to products

strategic transactions

organic growth
- product pipeline

period of significant investment
- business and product acquisitions
- property, plant and equipment

assess opportunities for vertical integration

2010

enhancements to manufacturing
- capabilities
- critical strategic asset
- strategic advantage

disposals
- no fit with business model

key driver of organic growth
- product pipeline

acquisitive opportunities continue to be assessed

capital investment programme
- property, plant and equipment
- intangible assets
- product development

distribution infrastructure

product launch plan

profit generation
- primary objective

diversified into international markets

products selected in terms of the growth objectives and profitability prospects in each territory

implementing business model to succeed in emerging markets

2011

focus on core business
- discontinuations
- disposals

expanding geographic presence

organic growth
- product pipeline
- valuable asset
- critical to sustainability

significant investment in manufacturing
- technologies
- capacities

globally competitive manufacturer

material asset classes
- goodwill
- intangible assets

concentrate business
- disposals

acquisition
- pharmaceutical business, products and manufacturing facilities

carefully selected product portfolio for each territory

organic growth
- pre-existing products and business
- product pipeline

strategic commercial partnerships

emerging pharmaceutical markets
- high level of focus

2012

capital expenditure
- continued investment in manufacturing facilities
- continued competitiveness
- strategic advantage

transformation from a predominantly SA business to a diversified global business

seeking growth opportunities in other geographies
- emerging pharmaceutical markets

organic growth
- product pipeline
- differentiated products relevant to specific markets

value enhancing acquisition
- portfolio of products
- excellent fit to geographic footprint

2013

pursuing opportunities aligned with vision
- and strategy

organic growth
- product portfolio
- operational efficiencies
- manufacturing excellence

acquisitions
- thoroughly planned and carefully executed
- aligned with the strategy

transformed into a multinational
- company on the global stage

strong and growing footprint in emerging
- markets

manufacturing capability and supply
- chain competency
- key enabler
- critical advantage

investment in future growth
- property, plant and equipment
- acquisition of businesses and products

2014

transformational acquisitions

value enhancing transactions
- increased product portfolio
- extended geographic presence
- further specialised manufacturing capability
- commercial and strategic fit

vertical integration

multinational company

synergistic opportunities

organic growth opportunities
- key factor in creating incremental value

manufacturing capabilities and capacity
- expansion and enhancement
- strategic advantage

diversification strategy

truly globalised company

Figure 4.2 Tracking Aspen's growth through key words in the 2004 – 2014 Aspen Annual Reports

Source: Compiled using Aspen company documents (2004 – 2014)

Identifying and analysing these key words was an essential element of this study. It provided insight into the activities and objectives of the company and its management during the period under review. It was important to be able to identify what strategies were being implemented in each year, which strategies were abandoned, as well as the overall progress of strategy development and implementation over the course of the full period under review.

The key words effectively painted a "strategy picture" of the business from which growth themes could be identified. These growth themes are depicted in Figure 4.3.

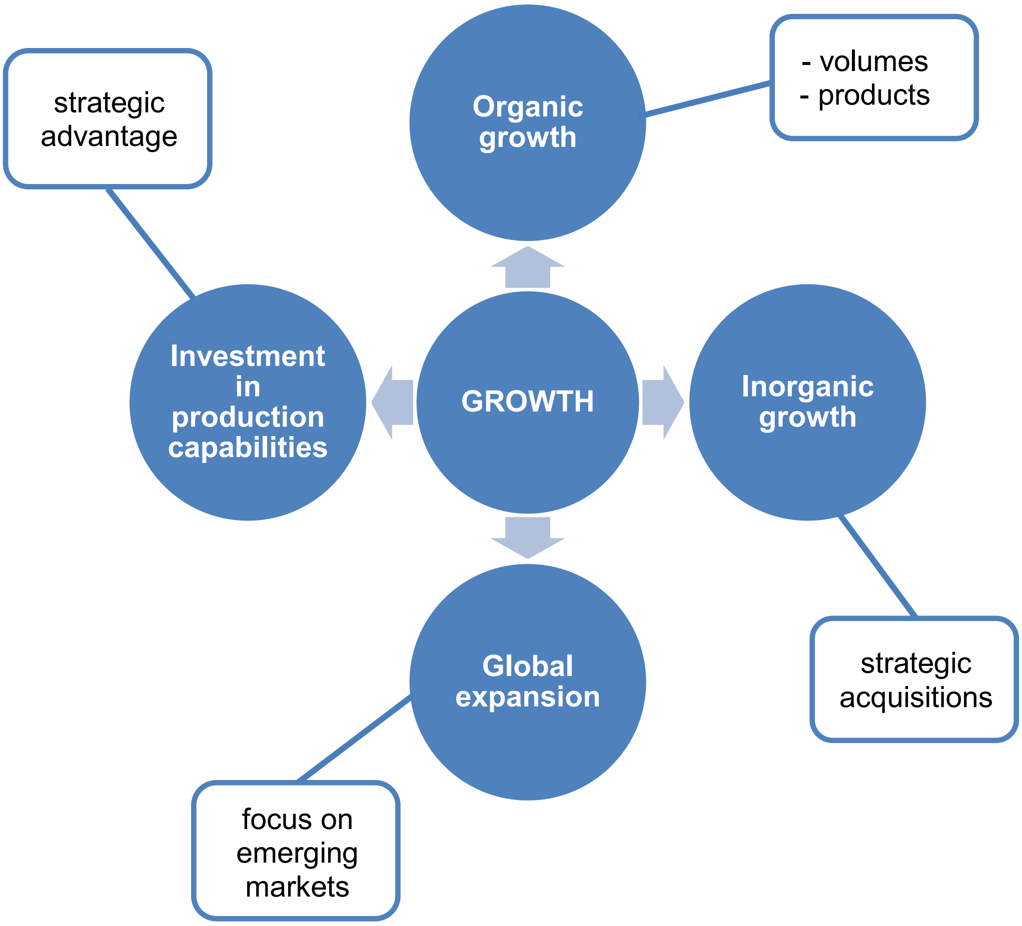


Figure 4.3 Aspen growth themes

Up to this point, Aspen's growth has been considered in terms of stated strategic objectives, key words and growth themes. These elements could not however be studied in isolation and without a corresponding analysis of the actual growth of Aspen during the period under review. At the core of the study was the growth of Aspen in financial terms, in relation to the generation by the company of positive and increasing revenue, profits and shareholder value.

This required a selection and analysis of certain financial indicators, which are summarised in Appendix 3. In order to view the figures visually, these indicators were converted into graphs. This provided an overview of the growth between

2004 and 2014. In addition, it made it possible to identify any above or below average results which could be further investigated to determine whether any growth strategies or challenges, which had given rise to such changes, could be identified. The analysis of Aspen's financial performance was therefore necessary to address the objectives of the study.

These graphs are set out in Figure 4.4 to Figure 4.12.

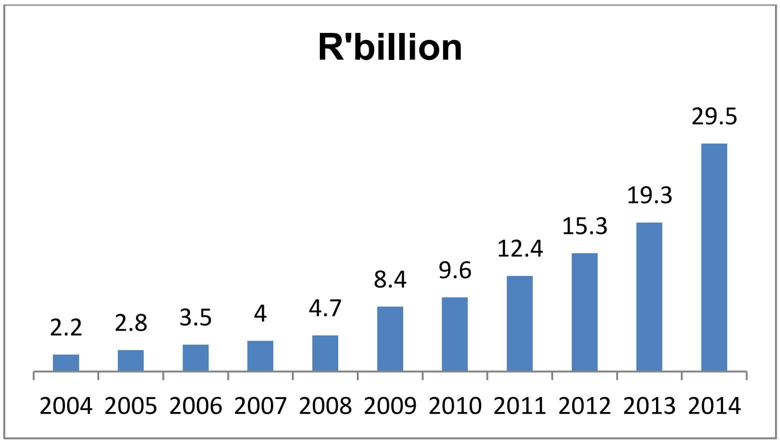


Figure 4.4 Revenue 2004 – 2014

Source: Compiled using Aspen company documents (2004 – 2014)

Revenue is money brought in by a company from goods sold. Revenue is important in assessing the growth of a company as it shows whether the company is able to continually generate more sales over time. Without revenue, a company is unable to cover its expenses, generate profits and stay viable in the long term (Kokemuller, no date).

Figure 4.4 illustrates that:

- Aspen sustained positive revenue growth throughout the period under consideration;
- Between 2004 and 2008 the revenue growth was stable;
- In 2009 the revenue almost doubled;
- From 2010 to 2013 revenue grew by more than 20% per annum; and
- In 2014 revenue increased by more than 50%.

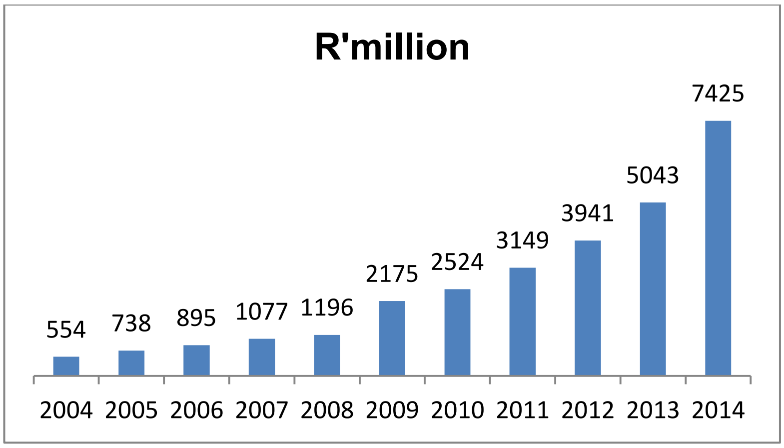


Figure 4.5 Operating profit 2004 – 2014

Source: Compiled using Aspen company documents (2004 – 2014)

Operating profit is profit earned from the core operations of a business and reflects a company's ability to generate profit for its owners and shareholders (Investopedia, 2015).

Figure 4.5 illustrates that:

- Aspen sustained positive growth in operating profit throughout the period under consideration;
- Between 2004 and 2008 the operating profit growth was stable;
- In 2009 the operating profit almost doubled;
- From 2010 to 2013 operating profit grew by more than 20% per annum; and
- In 2014 operating profit increased by approximately 47%.

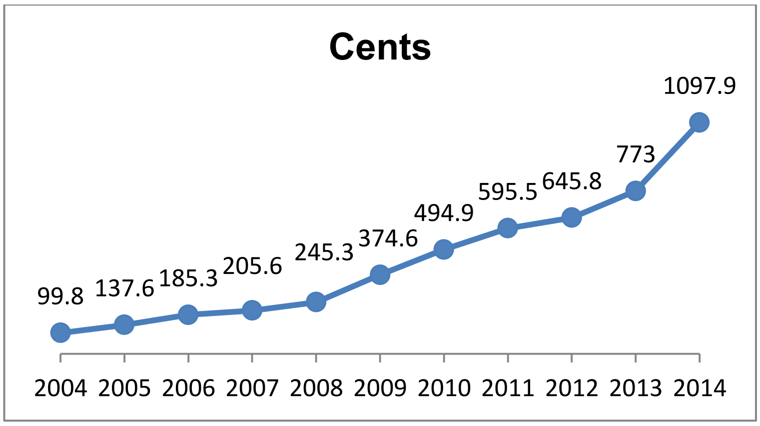


Figure 4.6 Earnings per share 2004 – 2014

Source: Compiled using Aspen company documents (2004 – 2014)

Earnings per share is the portion of a company's profit allocated to each outstanding ordinary share. It is an indicator of the company's profitability (Investopedia, 2015).

Figure 4.6 illustrates that:

- Aspen sustained positive growth in earnings per share throughout the period under consideration;
- Between 2004 and 2008 the earnings per share growth was stable;
- In 2009 the earnings per share grew by more than 50%;
- From 2010 to 2013 earnings per share grew steadily; and
- In 2014 earnings per share increased by approximately 42%.

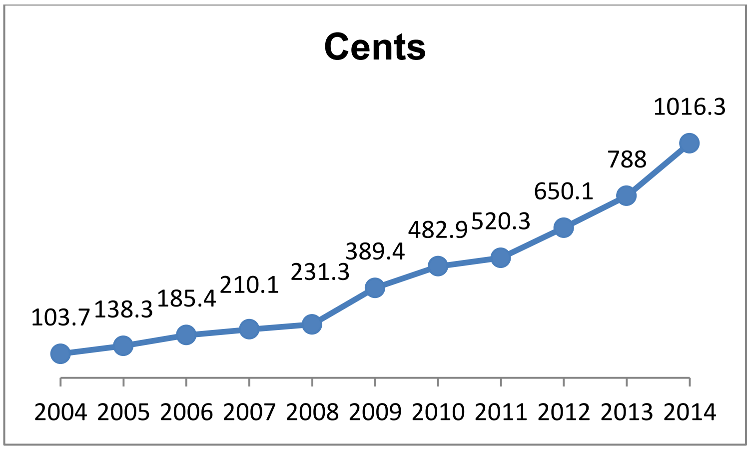


Figure 4.7 Headline earnings per share 2004 – 2014

Source: Compiled using Aspen company documents (2004 – 2014)

Headline earnings per share are the earnings per share from the core operations of the business. Headline earnings is a subset of total profits reported by a business which excludes ancillary transactions such as the sale of assets or a reduction in employees and therefore indicates profitability in respect of the day-to-day operations of the business (Bragg, 2013).

Figure 4.7 illustrates that:

- Aspen sustained positive growth in headline earnings per share throughout the period under consideration;
- Between 2004 and 2008 the headline earnings per share growth was stable;
- In 2009 the headline earnings per share grew by more than 60%; and
- From 2011 to 2014 headline earnings per share increased by more than 20% per annum.

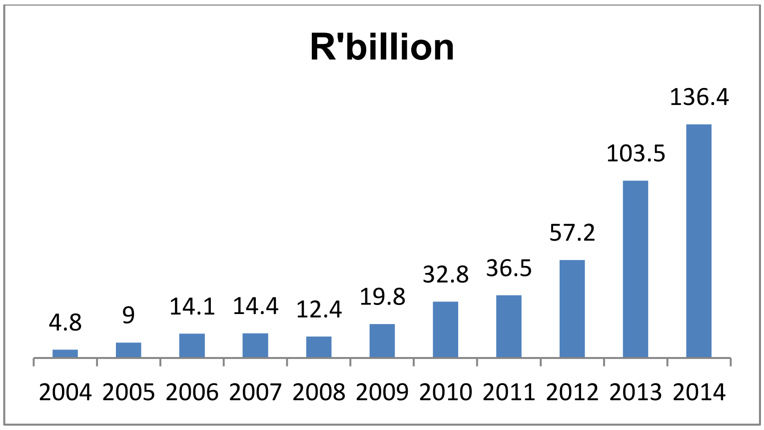


Figure 4.8 Market capitalisation at year-end 2004 – 2014

Source: Compiled using Aspen company documents (2004 – 2014)

Market capitalisation is the total market value of a company's outstanding shares and is calculated by multiplying the share price by the total number of shares in issue (in this case at year-end). It is useful for determining the size of a company as well as the growth versus risk potential of the company (Investopedia, 2015).

Figure 4.8 illustrates that:

- The market capitalisation virtually doubled from 2004 to 2005 and grew by more than 50% in 2006;
- The market capitalisation growth was muted in 2007 and decreased by more than 20% in 2008;
- From 2008 to 2014 the market capitalisation grew positively but inconsistently;
- In 2009 and 2010 the market capitalisation grew by approximately 60% and 65% respectively; and
- In 2013 the market capitalisation increased by approximately 80%.

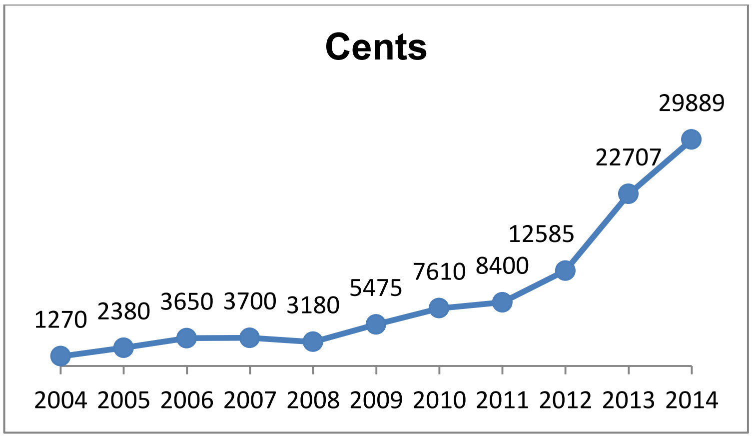


Figure 4.9 Share price at year-end 2004 – 2014

Source: Compiled using Aspen company documents (2004 – 2014)

The share price at year-end is the market price of one share. Once trading in a share starts, its price is largely determined by the forces of supply and demand. For example, a company which the market believes demonstrates long-term earnings potential is likely to attract more buyers, thereby increasing the share price (Investopedia, 2015).

Figure 4.9 illustrates that:

- The share price virtually doubled from 2004 to 2005 and grew by more than 50% in 2006;
- The share price growth was muted in 2007 and decreased by approximately 15% in 2008; and
- In 2009 and 2013 the share price grew by approximately 70% and 80% respectively.

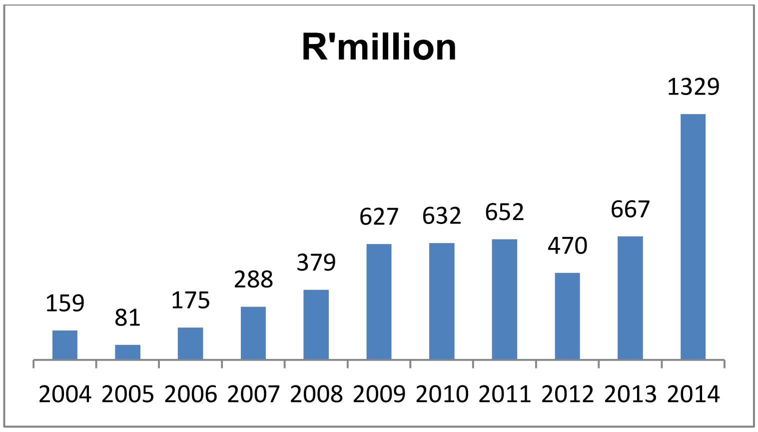


Figure 4.10 Cash flow from capital expenditure – property, plant & equipment 2004 – 2014

Source: Compiled using Aspen company documents (2004 – 2014)

This expenditure relates to the acquisition or upgrade of physical assets in the form of property, plant and equipment. For a capital-intensive business such as a pharmaceutical manufacturer a large amount of capital investment in acquiring and maintaining such assets is necessary. Current capital expenditure impacts future activities and may therefore be described as an investment a company in its future.

Figure 4.10 illustrates that:

- Capital expenditure on property, plant and equipment varied between R81 million and R379 million during the period 2004 to 2008;
- From 2009 the expenditure increased by 65% and remained over R600 million for three consecutive years (2009, 2010 and 2011);
- In 2013 the expenditure was again over R600 million;
- In 2014 the expenditure nearly doubled this amount totalling R1.3 billion; and
- During the period 2004 to 2014 a total of approximately R5,5 billion was invested in property, plant and equipment.

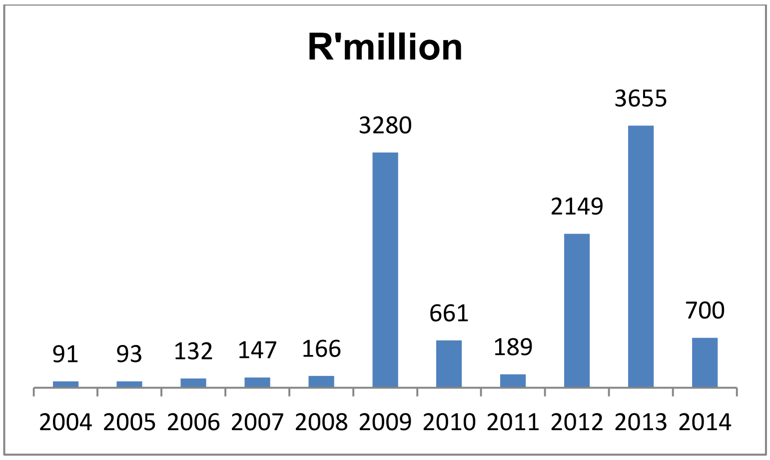


Figure 4.11 Cash flow from capital expenditure – intangible assets 2004 – 2014

Source: Compiled using Aspen company documents (2004 – 2014)

This expenditure relates to the acquisition of intangible assets such as intellectual property rights. Intangible assets are not physical assets in the sense that they cannot be seen or touched. A company receives value from the right to use its intangible assets, examples of which include licenses, patents and trademarks.

Figure 4.11 illustrates that:

- Capital expenditure on intangible assets during the period 2004 to 2008 was relatively consistent, ranging from R91 million to R166 million;
- In 2009, 2012 and 2013 there were major increases in the expenditure to over R2 billion in each of these years;
- In 2010 and 2014 the expenditure was R661 million and R700 million respectively; and
- During the period 2004 to 2014 a total of approximately R11 billion was invested in intangible assets. Approximately 80% of this total was spent in 2009, 2012 and 2013.

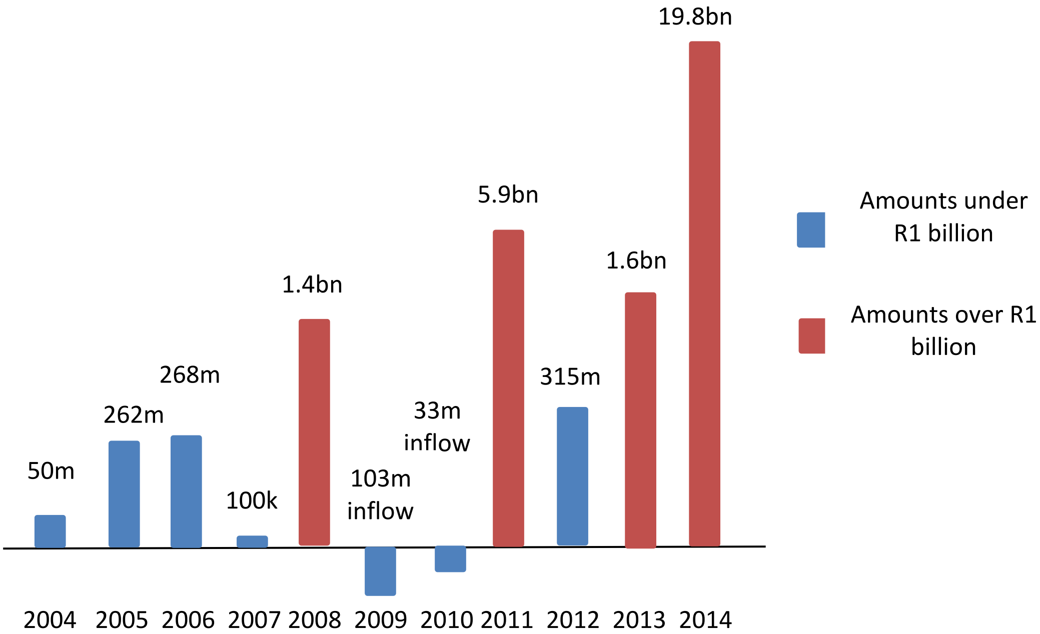


Figure 4.12 Cash flow in Rands from acquisition of subsidiaries and businesses 2004 – 2014
Source: Compiled using Aspen company documents (2004 – 2014)
(Note: not to scale, for illustrative purposes only)

These cash flows relate to the acquisition of subsidiaries and businesses and therefore the growth of a company in terms of expanding its presence and operations. A subsidiary is a company already partly owned by the parent company and the acquisition would therefore represent acquisition of more or all of the shareholding in the subsidiary. This may be contrasted to a business which is a separate entity acquired by the company.

Figure 4.12 illustrates that:

- Cash flow from the acquisition of subsidiaries and businesses during the period 2004 to 2007 was below R300 million each year, ranging from R100,000 to R268 million;
- In 2008, 2011, 2013 and 2014 the cash flow exceeded R1 billion in each of these years;
- In 2011 the cash flow was R5.9 billion;

- In 2014 the cash flow was R19.8 billion exceeding the total amount spent in the previous years from 2004 to 2014; and
- During the period 2004 to 2014 the cash flow from the acquisition of subsidiaries and businesses totalled approximately R30 billion.

4.5 Understanding the challenges

The impressive growth shown by Aspen during the period under review, resulted in it delivering double-digit earnings growth to its shareholders for 16 consecutive years. This was achieved despite the challenges presented by the industry and the markets in which Aspen operated at the time.

The need to understand these challenges was required in order to address one of the objectives of the study, namely "What challenges has Aspen faced in implementing the growth strategies?". Identifying and analysing the challenges was intended to understand the environment in which Aspen operated. The growth strategies adopted could not exist in a vacuum and were developed, implemented and altered in the context of Aspen's business environment and operating conditions. A comprehensive understanding of these challenges was therefore an important part of the study.

From the comprehensive analysis of the Annual Reports issued by Aspen between 2004 and 2014, key words were extracted relating to the challenges which Aspen faced. These are depicted in Figure 4.13.

2004

deflationary pricing environment
uncertainty created by changing legislation
intense competition
supply problems
absence of new products

2005

legislation capped prices
competitive market forces
downward pressure on prices
unable to fully service production demand
increased competition
complex regulatory compliance
highly regulated sector
products awaiting registration

2006

intensity of competition
global pressures
downward pressure on generic prices
dependence on third party suppliers
interventions by regulators the world over
meeting production demand
high level of regulation and product liability risk
products awaiting registration
complicated regulatory compliance

2007

products awaiting registration
uncertain legislative environment
intensified generic competition
regulatory intervention
price cuts
high level of regulation and product liability risk
exposure to foreign exchange fluctuations
complicated regulatory compliance

2008

pricing regulations
contraction in margins
challenging market
intense competition
legislative uncertainty
dependence on third party suppliers
re-scheduling of products
stock write-off
low rate of product registrations
rising input costs
high level of regulation and product liability risk
exposure to changes in foreign currency and global interest rates
complicated regulatory compliance

2009

legislated price cut
margin losses
barriers to entry
developing economies
regulatory and cultural challenges
raw material prices increased
dependence on third party suppliers
increase in production inflation whilst selling prices stayed fixed
increasingly competitive market
unfavourable change in the mix of relative exchange rates
high level of regulation and product liability risk
exposure to global interest rate movements
complicated regulatory compliance

2010

generic sector remains intensely competitive
low rate of product registrations
political and economic circumstances
pricing pressures
high cost of labour
global downward pressure on pharmaceutical prices
greater competition from foreign suppliers
exchange rate volatility

2011

highly regulated industry
slow rate of product registration
global pressure on the price of medicines
constant changes in healthcare legislation
currency volatility
market-specific risks

2012

challenging global market conditions
lack of infrastructure
intense competition
political instability
currency volatility
pressure on medicine prices globally
constant changes in healthcare legislation
market specific risks

2013

developed markets:

- stagnation
- increased pricing regulation
- volatile markets
- fragile economic recovery
- regulatory constraints
- pricing pressures

weakening Rand

rising inflation

pressure on margins

price cuts

intense competition

political instability

lack of basic infrastructure

complex trading and regulatory environment

pressure on medicine prices globally

constant changes in healthcare legislation

currency volatility

market specific risks

2014

regulatory challenges

pricing regulation

political unrest

increased competition

inflationary pressures

rising costs

shrinking operating margins

pressure on medicine prices globally

constant changes in healthcare legislation

currency volatility

market specific risks

Figure 4.13 Understanding the challenges faced by Aspen through key words in the 2004 – 2014 Aspen Annual Reports

Source: Compiled using Aspen company documents (2004 – 2014)

From these key words, the themes depicted in Figure 4.14 were identified.

Figure 4.14 Aspen "challenge themes"

4.6 Summary

This chapter presented the results of the case study analysis conducted in respect of Aspen. Using the research methodology described in Chapter 3, Aspen's publicly available Annual Reports, presentations and financial results were utilised as the data source. Qualitative and quantitative data was extracted, analysed and presented in order to determine meaningful patterns and themes to assist in answering the research questions which were also set out in Chapter 3.

The case study analysis revealed that Aspen adopted the following main growth strategies:

- Organic growth – focusing on increased volumes and new products;
- Inorganic growth – through carefully selected and strategic acquisitions of products, businesses and manufacturing facilities;

- Extending territorial coverage through global expansion, particularly into emerging markets; and
- Ongoing investment in production capabilities as a means of achieving a strategic advantage.

Such growth was achieved despite dealing with a number of challenges, including the following major industry and market-related challenges:

- Intense competition;
- Restrictive legislation;
- Pressure on medicine prices;
- Currency volatility; and
- Market specific risks.

These findings will be further discussed and explained in Chapter 5 in order to answer the research questions.

CHAPTER FIVE
Discussion of Research Results

5.1 Introduction

This chapter provides a discussion and analysis of the research results from the case study which are set out in Chapter 4. Using the theoretical framework set out in Chapter 2, the analysis of the research results is aimed at answering the research questions posed in Chapter 3.

Growth is the key to the long term success of a business, being a prerequisite for increasing revenue, profits and shareholder value (Strategic Direction, 2006; Bürkner, King and Razali, 2013). As a result, having a carefully formulated growth strategy, which is appropriate to the company and takes into account the importance of execution and integration, is fundamental to achieving sustainable growth.

In the period of 11 years between 2004 to 2014, Aspen's revenue grew from R2,2 billion (2004) to R29,5 billion (2014) and its operating profit from R554 million (2004) to R7,4 billion (2014), interestingly both representing an increase of approximately 1240%. Achieving such impressive growth in an industry faced with pricing and cost pressures, stringent regulations and shrinking margins in both mature and emerging markets (Roland Berger, 2013) warranted a closer analysis.

This chapter is therefore aimed at unpacking the research results which the case study analysis gave rise to in Chapter 4, in order to determine the growth strategies adopted by Aspen as well as the challenges faced by it in implementing such strategies. Following from this, consideration is given to the learnings which other companies can take from these findings.

5.2 Research question 1: growth strategies adopted by Aspen 2004 – 2014

The growth themes identified in Chapter 4 are used as the framework for analysing the growth strategies adopted by Aspen.

5.2.1 Organic growth

"…Aspen recognises that organic growth provides the most effective return on investment. …The product pipeline is critical to the future sustainability of the Group, providing opportunities to bring new products to the market and growing Aspen's presence in addition to compensating for any products in decline in the existing portfolio. The product pipeline is a most valuable asset…" (Aspen, 2009, p. 26).

Organic growth is achieved when a company grows from within. Many of Aspen's stated strategic objectives illustrate its recognition of the importance of maintaining organic growth:

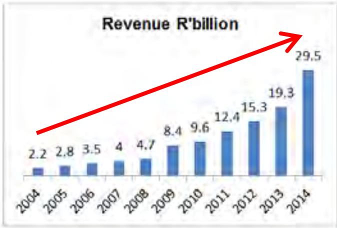
- increasing investment in new product development;
- continually commercialising new pharmaceutical products;
- ability to source and launch new product pipeline;
- first to market in new product launches;
- sourcing and launching the new product pipeline; and
- robust product pipeline for targeted strategic regions.

(Aspen company documents 2004 – 2014)

The company therefore placed much focus on developing and maintaining a strong product pipeline as a form of core growth aimed at selling more products to more customers in order to increase revenues.

Aspen also recognised that whilst "(r)evenue growth is an important factor in market share advancement and protection…without an acceptable margin of profit, growth in revenue alone is not a sustainable strategy" (Aspen, 2010, p. 74). As a result, profit generation was a primary objective in the pursuit of growth.

This positive and sustained revenue growth and profit growth are apparent from Figure 4.4 and Figure 4.5 in Chapter 4, which are reproduced below with highlighting for illustrative purposes.



One of the ways in which profitability was achieved was through operational strategies which focused on manufacturing capacity and optimising production efficiencies. The effect of this was twofold: (i) with increased volumes, the supply of products was able to meet demand, and (ii) by realising economies of scale, both the recovery of fixed costs and profit margins were improved.

5.2.2 Inorganic growth

Aspen did not only focus its efforts on organic growth. Simultaneously it set out to supplement organic growth with strategic product and business acquisitions, with stated strategies including:

- acquisitive growth; and
- assessing acquisitive opportunities.

Inorganic growth through acquisitions, effectively allows a company to purchase growth "off-the-shelf" (Ward, 2015). Whilst the access to new products and new markets is an attractive prospect for an acquiring company, the literature sets out the drawbacks of such a growth strategy. These include the high cost, particularly in what Megget (2015) describes as the current "M&A frenzy" of competition for valuable assets in the pharmaceutical industry. In addition the integration of the acquired product or business often poses a major challenge to the extent that Grant (2013) describes the selection and integration of acquisitions as an organisational capability in itself.

Aspen's approach to acquisitions appears to take all of these factors into account:

- "The acquired businesses and products bring <u>immediate added value</u> to Aspen's earnings potential as well as providing the infrastructure to allow a continuation of growth into the next decade" (Aspen, 2008, p. 21);

- "The absence of material acquisitions over the past year has been a consequence of <u>unrealistic pricing</u> preventing the conclusion of deals which represent value rather than a lack of ambition in this regard" (Aspen, 2007, p. 15); and

- <u>Effectively integrating</u> acquisitions into the business and adopting Aspen's corporate culture (by new management and employees) is recognised as a key strategic risk which requires focused mitigation activities (Aspen, 2012).

One of the key factors in Aspen identifying and assessing acquisitive opportunities was the need for them to be aligned with its business strategy. As a result, Aspen's product and business acquisitions may be described as strategic and a closer inspection reveals the strategic intent behind them:

- <u>Vertical integration</u>: recognising the benefits of vertical integration, which allows for greater control over the quality and cost of supply of raw materials, Aspen made a number of key acquisitions in pursuit of this strategy. These included:

    - the acquisition of Fine Chemicals Corporation (50% in 2004 and the remaining 50% in 2009) as a supplier of key APIs; and

- a number of strategic acquisitions in 2014 positioning Aspen as a leading global player in anticoagulants (these included the acquisition of products, a specialised production site which manufactures certain of these brands as well as a manufacturing business which supplies the raw material for certain of the brands acquired – thereby creating the opportunity to harness benefits from vertical integration).

- Niche and specialised products: Aspen made a number of acquisitions in the pursuit of differentiation from competitors and the access to profitable niche markets with high barriers to entry. These included:

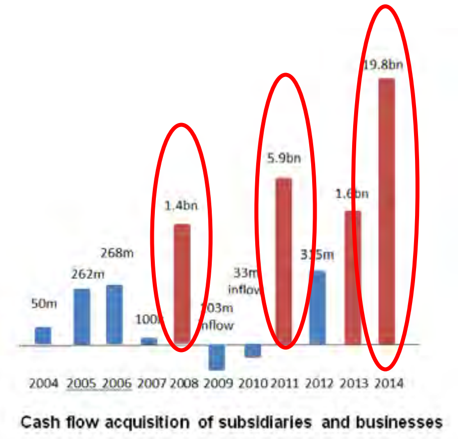
  - the building of specialist knowledge and capabilities in the infant nutritional business (2004 acquired the Infacare brand and manufacturing facility in South Africa, 2013 acquired the license rights in Australia and certain territories in southern African (including South Africa) from Nestlé, and 2014 acquired license rights and a production facility in Latin America from Nestlé);

  - the acquisition of certain products in niche areas of highly specialised treatments from GSK in 2008;

  - the acquisition from GSK in 2009 of eight specialist branded products for distribution worldwide; and

  - the 2014 anticoagulant acquisitions mentioned above related to products with few or no competitor products.

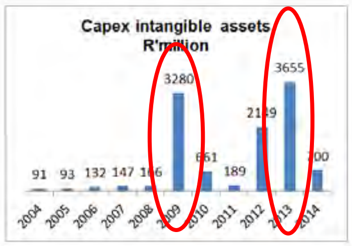
The extent and impact of Aspen's acquisitive growth strategy is apparent from a closer inspection of Figure 4.12, 4.11, 4.4 and 4.5 respectively in Chapter 4, as reproduced below with highlighting for illustrative purposes.



From Figure 4.12 it can be seen that the first major spike in acquisition expenditure occurred in 2008, exceeding R1 billion, when Aspen acquired an interest in businesses in East Africa and Latin America.

In 2011 the expenditure was close to R6 billion when Aspen acquired the pharmaceutical business of Sigma Pharmaceuticals Limited (based in Australia).

In 2014, the expenditure soared to nearly R20 billion as Aspen undertook a number of "transformational transactions" (Aspen, 2013, p. 30), including the anticoagulant and infant nutritional acquisitions mentioned above.



In respect of the acquisition of intangible assets, from Figure 4.11 it is apparent that the major purchases took place in 2009 (eight specialist branded products to be distributed worldwide) and 2013 (a portfolio of 25 branded pharmaceutical products to be distributed in the Australian market) in respect of the acquisitions from GSK.

It should be noted that Aspen's revenue (Figure 4.4) increased by 80% in 2009, the year following the first major spike in acquisition expenditure. Revenue continued along this positive growth path, peaking at R29,5 billion in 2014.

Similarly, Aspen's operating profit (Figure 4.5) increased by 82% in 2009 and continued growing, peaking at R7,4 billion in 2014.

These increases suggest that the acquisition expenditure contributed positively to the increase in revenue and profits, which demonstrate the positive effects of the inorganic growth strategy adopted.

It is thus evident that Aspen recognised that its expansion objectives could be well-served by acquisitions and it sought to acquire value enhancing products and businesses which were aligned to the Group's business strategy (Aspen, 2006).

5.2.3 Global expansion

The literature recognises that internationalisation offers vast opportunities to companies in the pursuit of growth (Lessard, Lucea and Vives, 2012). Aspen shared this view as indicated in its stated internationalisation strategy:

- expansion into new markets;
- transforming the organisation for international growth; and
- expanding into new markets, with a specific emphasis on emerging markets.

(Aspen company documents 2004 – 2014)

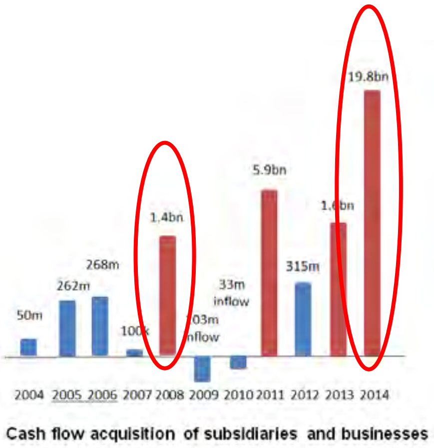
In addition to the creation of opportunities for business growth, Aspen diversified its business into international markets in order to mitigate the risk of exposure to a single market (Aspen, 2010). Aspen's reliance on its domestic South African market was reduced through its geographic diversification, thereby spreading market risk and increasing the scope for robust and sustainable financial growth (Aspen, 2010).

From being a predominantly South African business in 2008, Aspen transformed into a diversified global business by 2012, when the profits generated by Aspen's International businesses exceeded those from the South African business for the first time (Aspen, 2012).

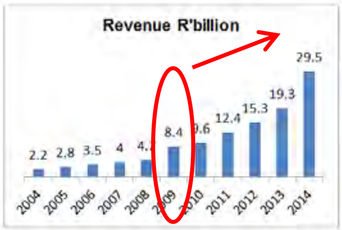
The approach followed by Aspen was a combination of acquisitive and organic growth in respect of both territory and product expansion. This commenced in 2008 with investments in businesses in Latin America (Brazil, Mexico and Venezuela) and East Africa (Kenya, Tanzania and Uganda) as well as a variety of product acquisitions which opened up a number of new global markets. Strategically, entities were established as hubs to manage the commercial activities of the international ventures (in Mauritius) and relevant regions such as EMENAC (in Dubai).

Entities were also established in Hong Kong (2010), Philippines (2012), Taiwan (2013), Malaysia (2013) and Japan (2014) as part of the establishment of a footprint in the Asia Pacific region.

The 2014 infant nutritional acquisition from Nestlé brought about expansion in Latin America (such as Colombia, Chile, Ecuador and Peru), whilst the 2014 anticoagulant transactions gave rise to expansion in Europe with business units being set up across Europe, including Eastern Europe and Russia.



These expansion activities are apparent from Figure 4.12 in Chapter 4, reproduced with highlighting for illustrative purposes. The major acquisitions resulting in territory expansion occurred in 2008 and 2014, as discussed above.



Again it may be noted that Aspen's revenue (Figure 4.4) increased by 80% in 2009, the year following the first major spike in acquisition expenditure which included the acquisition of businesses in other territories (ie. global expansion).

Similarly, Aspen's operating profit (Figure 4.5) increased by 82% in 2009.

These increases suggest that the global expansion contributed positively to the increased revenue and profits, which demonstrate the positive effects of the internationalisation strategy adopted.

Certain key elements of Aspen's internationalisation strategy should be highlighted:

- Building an international business from a solid base: Aspen's initial focus was on building a successful and stable domestic operation in South Africa. From the strength of this foundation it built its multinational business.

  The need to mitigate the risk of exposure to a single market was recognised by Aspen as early as 2001 when it entered the Australasian market. From inception, the Australian business successfully delivered sustained growth. On the strength of this established base it was able to acquire the substantially larger pharmaceutical business of Sigma Pharmaceuticals Limited in 2011.

Once it had established a leading position in the South African pharmaceutical market, Aspen diversified its geographic presence by expanding to territories outside South Africa.

As a result, the Group's global expansion was anchored by the two large, mature concerns in South Africa and Australia, each with a leading market position and an ability to efficiently convert profits into cash. Today South Africa remains the foundation of the business with its Group headquarters situated there.

- Emerging markets: Emerging pharmaceutical markets, so called "pharmerging markets", are considered to offer significant growth opportunities for pharmaceutical companies (McKinsey & Company, 2012). Aspen recognised this and, in increasing its global footprint, concentrated on emerging markets where robust growth was anticipated.

  Aspen's willingness to deal with the challenging trading conditions and barriers to entry which were generally present in these pharmerging markets was largely based on the fact that the characteristics of the selected markets had much in common with South Africa (such as a growing population, an increasing number of the aged, an expanding middle class which is vulnerable to lifestyle diseases and has an increased awareness of brands, price and quality) (Aspen, 2009).

  As a result, Aspen applied the essential components of the approach which had been successful in South Africa in order to establish growing and profitable businesses in these markets (Aspen, 2009). Such elements included supplying a broad-range portfolio of high quality medicines at affordable prices, together with an extensive sales representation and excellent service delivery.

- Glocalisation: (a combination of the words globalisation and localisation) is a recognition of the need to integrate local elements into global products in order to increase the likelihood of a product succeeding in a new market (Matusitz, 2010).

  Aspen focused on the need to offer products which were relevant to each region in which it operated. As a result, the selection of products for the pipeline received close attention in an attempt to identify products which were appropriate for the specific markets and addressed the disease profiles of each region (Aspen, 2012). This careful combination of global standardisation and local adaption involved balancing the efficiency opportunities of global scale with the need for local differentiation (Matusitz, 2010).

- Modes of market entry: Aspen's entry into foreign markets developed from low company resource commitment of export and licensing arrangements to higher resource commitment in the form of joint ventures and wholly owned subsidiaries.

  Aspen's entry into Latin America and East Africa in 2008 was facilitated through investment in existing local companies. It took full control of these businesses in 2010 and 2012 respectively. This approach allowed Aspen to gain insight into the regions and businesses before deciding whether to fully invest.

  Aspen's entry into Asia Pacific was through the formation of subsidiaries and, as previously mentioned, this was from the base of the established Australian business which facilitated expansion into the region. The entry into Europe was facilitated by the acquisition of the anticoagulant products and facilities, which then gave rise to the establishment by Aspen of business units across Europe.

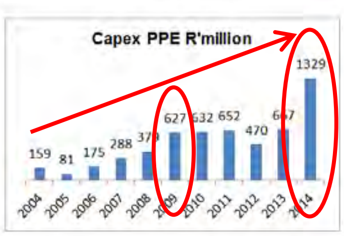
Aspen's mode of foreign market entry thus varied depending on the nature of the market and was tailored to mitigate the risks posed and take advantage of the opportunities available in each territory.

5.2.4 Investment in production capabilities

One of Aspen's stated strategic objectives is "to achieve a strategic advantage through our production capabilities" (Aspen, 2014, p. 4).

This is evident from the fact that, in addition to the investment in businesses and products, Aspen pursued profit and growth through the continual expansion and improvement of its production facilities and methods.

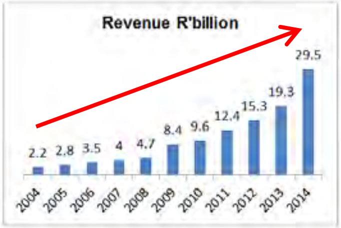
Figure 4.10 in Chapter 4, reproduced below with highlighting for illustrative purposes, shows Aspen's continual investment in its manufacturing capabilities.



From 2004 to 2008 approximately R1 billion was spent on property, plant and equipment. A 65% increase in expenditure from 2008 to 2009 marked the start of three years of investment exceeding R6 million per annum. In 2014 expenditure peaked at R1,3 billion, resulting in the total investment over the 11 year period from 2004 to 2014 being approximately R5,5 billion.

The continual investment in property, plant and equipment was aimed at increasing capacity, diversifying and increasing capabilities, as well as expanding into specialised areas of manufacture. This investment in manufacturing capability was intended to provide the Group with the ability to pursue its growth objectives (Aspen, 2007).

The positive and sustained revenue growth and profit growth are apparent from Figure 4.4 and Figure 4.5 in Chapter 4, which are reproduced below with highlighting for illustrative purposes.



This constant growth suggests that the investment in production capabilities contributed positively to the increased revenue and profits, which demonstrates the positive effects of this growth strategy.

Developing these manufacturing capabilities into a core strength had a number of positive repercussions for Aspen:

- created a catalyst for international expansion;
- transformed Aspen from a domestic producer to a manufacturer with the capability to supply a variety of products to markets around the world;
- became an important supplier to the Group's international business;
- positioned the Aspen Group as a quality manufacturer of the highest international standards, providing an ability for the Group to engage with a number of the world's leading pharmaceutical organisations from which business collaborations could be developed;
- maintained gross margins in spite of the general pressure to reduce selling prices; and
- facilitated the critical mass offered by high volume manufacture resulting in reduced cost of goods and profit improvement.

(Aspen company documents 2004 – 2014)

Through Aspen's continual investment in its production capacity and capabilities, it developed its manufacturing into a core competence. This created a competitive advantage and resulted in above average organisational performance, allowing Aspen to pursue growth through increased profitability and expansion.

5.2.5 The strategy behind the growth

The growth achieved by Aspen between 2004 and 2014 is indicative of a high performance organisation. Such growth, attained through organic and inorganic means as well as global expansion and the development of manufacturing as a critical business asset, did not occur by chance. It would therefore be remiss not to mention the effective formation and implementation of strategy which underpinned such growth.

A number of the theories underlying the concept of strategy can be identified in Aspen's development, such as:

- investing in strategically valuable resources (physical assets, intangible assets or capabilities) to obtain a competitive edge over rivals (Collins and Montgomery, 2008);
- reacting opportunistically to emerging possibilities (Ovans, 2015);
- intentionally selecting a distinctive array of activities in order to provide a unique combination of value (Porter, 1996; Harrison and St. John, 2014); and
- selecting a strategic position by identifying which activities are incompatible and purposefully limiting what the company offers (Porter, 1996; Hunter, 2014) (here note the divestments referred to in Appendix 2, which illustrate the trade-off decisions made by Aspen);

The literature on strategy suggests that leadership is at the core of strategy (Edinger, 2013) and that the challenge of developing a clear strategy is dependent on leadership (Porter, 1996; Clegg *et al*., 2011). Such strategic leadership was demonstrated by Aspen's top management team who:

- recognised the importance of maintaining organic growth as a key factor in creating incremental value;
- identified strategic acquisitive opportunities to supplement organic growth, particularly those which could differentiate Aspen from its competitors and which were a "strategic fit" for the business;

- identified an internationalisation strategy, with a particular focus on emerging markets, as a means of mitigating the risk of being exposed to a single market and creating opportunities for business growth; and
- built its manufacturing capabilities into a core competence through continuous investment and development, thereby creating a competitive advantage.

Many of the growth strategies adopted by Aspen were in keeping with the trends identified in the studies on the pharmaceutical industry as set out in Chapter 2. Whilst Aspen’s approach was thus not unique, as the largest pharmaceutical company listed on the Johannesburg Stock Exchange (South African stock exchange), it managed to outgrow and outperform its South African pharmaceutical competitors which, it could be argued, were competing in the same marketplace and had the same growth strategies available to them.

Whilst the growth strategies were thus not unique to Aspen, what the theory and case study results perhaps do not capture are the less concrete concepts underlying such growth. Innovative, passionate, logical, dedicated and persevering are all words which could be used to describe the characteristics of the skilled and experienced leadership and management which crafted and executed Aspen’s strategy across multiple territories and in so doing guided Aspen along its growth path. The balance of entrepreneurialism and sound business fundamentals is at least one factor which set Aspen apart from its South African competitors.

5.3 Research question 2: challenges faced by Aspen in implementing its growth strategies

As a generic pharmaceutical company, Aspen faced a number of challenges in implementing its growth strategies. Initially, as a predominantly South African company, these challenges were largely country specific however as Aspen expanded into global markets, similar challenges were met in other territories as well as challenges unique to those markets.

5.3.1 Intense competition

One of the major challenges faced by Aspen was competition. Whilst competition is neither unique to the pharmaceutical industry nor to South African companies, the generic pharmaceutical industry as well as the global pharmaceutical industry in general are characterised by intense competition (Deloitte, 2014). In particular, the number of generic companies competing with the launch of a product upon patent expiry of a molecule as well as the presence of low-cost Asian pharmaceutical companies in all key territories increases the level of competition in the generic pharmaceutical market space (Aspen, 2014).

5.3.2 Restrictive legislation

As the global pharmaceutical industry is characterised by a complex and evolving regulatory landscape, legislation posed another challenge to Aspen. Regulatory control aimed at protecting consumers' health and safety takes the form of quality regulations, which requires a pharmaceutical company to submit its products for registration with the relevant regulatory authority. Such submission must include proof of feasibility and efficacy of a product, as well as proof that the manufacturing capability exists to supply the product (Aspen, 2010). This process can take many years and therefore affects the launch date of the product in the relevant market.

Pharmaceutical products must be registered in each market in which they are sold. Aspen initially faced challenges only with regard to the South African Medicines Control Council and encountered major delays in the registration of its products, at times with more than 200 products awaiting registration. Following global expansion, Aspen had to deal with the challenge of registering its products in many countries with multiple regulatory agencies each with their own registration requirements.

5.3.3 Pressure on medicine prices

Another form of regulatory control is aimed at containing the costs of medicines through price regulations. This links to another challenge which Aspen faced, namely the pressure on medicine prices. In South Africa and most other countries worldwide, regulators seek to reduce the cost of pharmaceuticals through pricing legislation (Deloitte, 2014). This challenge was thus not unique to Aspen, nor to the South African pharmaceutical industry. Working within mandated price increases or price cuts, coupled with rising input costs presented an ongoing challenge to Aspen, requiring initiatives to improve cost competitiveness and protect profit margins (Aspen, 2011).

5.3.4 Currency volatility

With globalisation, comes an increase in the exposure to multiple currencies. Exchange rate fluctuations can have an effect on companies whether they are small, medium or large in size and whether they are multinationals or operate only in their home country (Picardo, 2014). Such currency volatility was another challenge faced by Aspen. Prior to its global expansion, Aspen was chiefly concerned with the strength of the Rand relative to other currencies insofar as it impacted on import and export costs. However, increasing its geographic representation and conducting business in multiple currencies meant that Aspen also had to deal with an increase in currency exposure which could have an influence on its operations and potentially a major influence on its profitability.

Entering into a number of transactions for the acquisition of foreign businesses and assets with an obligation to make payments in foreign currency meant that Aspen was exposed to the risk of exchange rate fluctuations, so called “transaction exposure” (Picardo, 2014; Ajami and Goddard, 2015). In addition, having foreign subsidiaries meant that Aspen was exposed to the effect of currency fluctuations particularly in respect of the consolidation of financial statements so called “translation exposure” (Picardo, 2014; Ajami and Goddard, 2015).

Whilst Aspen's company management could estimate the extent of the above types of currency exposure, another challenge was presented by unexpected currency fluctuations, being "economic exposure" (Picardo, 2014; Ajami and Goddard, 2015). As budgets and forecasts are prepared based on certain assumptions about exchange rate movements, unexpected currency rate changes pose a serious risk as they are not provided for and can therefore substantially impact a company's cash flows and market value (Picardo, 2014).

5.3.5 Market specific risks

One of the major challenges which Aspen had to deal with as it expanded into new territories was market specific risks. Dealing with the regulatory, cultural and political challenges in different markets required an in-depth understanding of the nature of each territory in order to determine how to overcome the hurdles presented, and ensure that the business model could succeed in such environment.

The literature recognises that global expansion into foreign markets brings with it the risks and uncertainties of the new market's economic and political stability, infrastructure, taxation, regulations and cultural barriers (Rynd, 2015).

From an analysis of the Aspen company documents, some of the market specific risks faced by Aspen, in the territories where it had established a presence, were identified. These are set out below:

- Developed markets: weak growth mainly due to an increase in pricing regulation; general pressure on the growth of the economy in these markets;
- Emerging markets: difficult trading conditions and barriers to entry;
- Asia: a variety of environments in the Asian countries (including economic, social, cultural, legal and political differences);
- Australia: aggressive legislated price cuts, increased competition and resulting stagnant market;
- Brazil: unpredictable and lengthy product registration timelines;

- Europe: pricing pressures and high cost of labour;
- Latin America: complicated market in the operating and regulatory setting which is unique to each territory (multiple individual markets); barriers to entry and cultural challenges;
- MENA: individually regulated countries with healthcare at different levels of development; challenging to navigate; political unrest in some countries;
- South Africa: regulated price increases; weakening currency; inflationary pressures; energy costs; long product registration timelines;
- SSA: political instability; lack of infrastructure; complex regulatory requirements as well as inconsistency in the registration requirements of the regulatory body in each country; unstable economic climate; differing commercial, cultural and legislative conditions in each country; counterfeit products able to easily enter certain markets; and
- Venezuela: challenging economic and political environment; devaluation of the currency.

(Aspen company documents 2004 – 2014)

5.3.6 Common challenges

A study of the literature in Chapter 2 revealed that the pharmaceutical industry is characterised by intense global competition, increasing regulatory pressure to reduce medicine prices, restrictive legislation, slowing growth in developed markets and challenging market conditions in the emerging markets (Deloitte, 2014). It is therefore evident that the challenges faced by Aspen in implementing its growth strategies were not unique to the company. This fact did not however make overcoming the challenges any easier. Thorough market research, strategic planning, and a focus on optimising cost competitiveness were required to ensure that, in the face of these challenges, the company succeeded in the global marketplace and continued on its growth path.

5.4 Research question 3: learnings other companies can take from the case study analysis of Aspen

Against the background of the first two research questions, analytic generalisation was used to generalise the findings to other situations. Such generalisations are not intended to be conclusive but instead provide a theoretical proposition which could be investigated through further research or case studies to determine categorical findings (Yin, 2012).

The suggested learnings which other companies can take from the case study analysis are set out below.

5.4.1 The importance of strategy and strategic leadership

A key learning from the case study analysis of Aspen is the importance of effective strategy formulation and implementation, as well as the significance of strategic leadership.

A strategy is critical to the existence and future of a company. This includes the company choosing the distinctive set of activities which it will perform to deliver a unique mix of value, as well as determining which activities it will not perform (Porter, 1996; Tanwar, 2013. In identifying which activities are incompatible and, in so doing, purposefully limit what the company will offer, a strategic position must be selected (Porter, 1996; Hunter, 2014).

Having a strategy is not in itself sufficient. The strategy must then be effectively implemented. This requires that the company performs its activities well and integrates them to ensure that there is “fit” amongst them – in so doing a distinctive strategy may be created (Porter, 1996; Hunter, 2014).

Leadership is key to this strategy formulation and implementation, and strategic leadership (which includes visionary leadership) is required to identify and realise significant opportunities (Hsieh and Yik, 2005). Through its top management team, a company must make strategic choices about the path which the company will take and how competitive advantage will be created and enhanced. It is thus through the choices made by its strategic leadership that superior organisational performance may be achieved (Lear, 2012).

5.4.2 The value of organic growth

In the quest for growth, companies should not lose sight of the importance of organic growth, being true growth from the core of a company. As a permanent opportunity available to a company through a focus on the leveraging of resources and capabilities to optimise existing customer relationships, it offers a faster and less risky short-term return on investment than external growth (Mognetti, 2002).

It is important that a company continuously strives to optimise organic growth and in so doing ensures that it uses its internal resources to expand profits. As a feasible driver of value creation, organic growth should not be overlooked in creating sustainable growth for a company.

5.4.3 The need to leverage core competencies to create a sustainable competitive advantage

The case study analysis of Aspen highlights the importance of an organisation identifying what it does well and building on such strength to the level of a core competence which can provide a competitive advantage over its competitors (Ovans, 2015).

A core competence, in the form of a resource or capability, can provide stability to an organisation and make organisational growth possible (Hindle, 2008). An existing core competence or the potential for one may be identified. A company can then determine what resources are required to elevate the core competence to the level of a distinctive advantage over competitors thereby creating a unique competitive position for the company (Porter, 1996; Clegg *et al*., 2011). A company should also try to determine the underlying cause of a competitor's strengths in order to determine what its core competencies are (Prahalad and Hamel, 1990).

5.4.4 Acquisitions: the importance of strategic fit and integration

If a company wishes to expand through acquisitions, either in the form of products or businesses, two important elements may be identified from the case study analysis of Aspen – these are strategic fit and integration.

In order for an acquired product or business to be value enhancing it is essential that it is compatible with the acquiring company's business model and aligns with its business strategy. This is an ongoing exercise and means that, whilst an acquisition may have initially been a good investment, as the business strategy and focus changes over time, it is important to identify those assets which no longer align with the company's strategic intent.

An example of this is Aspen's focus in the consumer division on the acquisition of products such as soap, toothpaste and deodorant around 2004 and 2005. Over time Aspen's focus shifted to its infant nutritionals business and, during 2010 and 2011, the consumer products were divested in a concerted move to leave the personal care segment (Aspen, 2011). Recognising that the personal care products were no longer a strategic fit with the business allowed Aspen to adopt a more focused approach and move towards building leadership in specific categories and capabilities.

The second element of integration is also crucial to ensuring the successful and profitable inclusion of a new product or business into the acquiring company. Effective integration requires intensive planning and preparation.

Where a business is acquired, the integration is required on multiple levels affecting all aspects of the business – such as people, products, processes, systems and strategic objectives. These include:

- management culture and structures;
- internal controls (including financial reporting controls);
- employee deployment;
- IT systems; and

- corporate governance structures.

  (Aspen, 2011)

It is important that the acquired business understands and implements the practices and policies of the acquiring company. Thus strategic and cultural alignment of the new business and its leaders with the business objectives of the organisation is essential and this may be achieved through the preparation and application of a detailed integration plan (Aspen, 2011).

The acquisition of products also requires intensive planning for operational integration. This relates to aspects such as:

- quality systems;
- logistics;
- manufacturing requirements;
- manufacturing capacities and demands; and
- supply chain.

  (Aspen, 2011)

5.4.5 Expanding internationally: building from a solid base, selecting the right strategy and careful planning

Internationalisation presents new markets, new customers and vast opportunities to many companies and is thus an attractive option in the pursuit of increased profits and growth (Lessard, Lucea and Vives, 2012). Such expansion is however complex and the Aspen case study illustrates the importance of carefully formulating and implementing strategies for competing globally.

Firstly, building the business from a solid successful base in South Africa allowed Aspen to seek global opportunities. In particular, its ongoing investment in its manufacturing capabilities, elevating them to the level of a critical strategic asset, allowed the company to set out on its path of international expansion. In Aspen's December 2008 Interim Results presentation the company states that "without our (South Africa) operations, our international aspirations would have stayed a dream" (p. 35).

Secondly, the case study of Aspen illustrates the importance of selecting the right market entry strategy as well as the establishment of systems and structures to support the business expansion.

With a combined approach of (i) strategic joint ventures, (ii) acquisitions, and (iii) the establishment of new entities, the Aspen business grew into a transnational organisation which combined the capabilities of the independent subsidiaries in the various territories around the world with the coordination of operations at a central level at the headquarters in South Africa (Bartlett, 1986). This allowed the company to be simultaneously responsive to national differences and globally efficient and competitive (Bartlett and Ghoshal, 2002).

Finally, careful planning is an essential element in an internationalisation strategy, particularly with regard to selecting the territories and markets. The case study illustrates how Aspen strategically selected products, businesses and territories following extensive research. Companies wishing to expand internationally need to have a thorough understanding of the market dynamics of the regions which they are considering entering. This will allow them to determine the attractiveness of the market and whether the company will be able to establish a competitive advantage within the market (Grant, 2013).

5.5 Summary

This purpose of this chapter was to discuss and analyse the research results from the case study, which are set out in Chapter 4, with the objective of answering the research questions presented in Chapter 3.

Through an analysis of the qualitative and quantitative data presented in Chapter 4, the study sought to identify and analyse the growth strategies adopted by Aspen between 2004 and 2014. In addition, the study set out to determine what challenges Aspen faced in implementing its growth strategies.

Finally, through analytic generalisation, the study sought to ascertain what learnings other companies can take from the case study analysis of Aspen.

Chapter 6 brings the study to a close with concluding comments including the proposal of a model for sustainable growth, a consideration of the limitations of the research as well as suggestions for possible future studies.

CHAPTER SIX
Conclusion and Recommendations

"Aspen's strength lies in its understanding of the dynamic markets in which it operates and identifying and pursuing opportunities that align with the Group's vision and strategy." (Aspen, 2014, p. 5)

6.1 Introduction

Aspen began trading in 1997 and, since listing on the Johannesburg Stock Exchange in 1998, has delivered double-digit earnings growth to its shareholders for 16 consecutive years. Aspen was ranked tenth in the Forbes' 2014 list of "The Top 25 Most Innovative Companies in the World" (Aspen, 2014, p. 27). In the same year, Aspen was one of four South African companies included on the Boston Consulting Group's list of "100 Global Challengers." This list recognises companies from emerging markets that are "growing so quickly overseas that they are reshaping industries and surpassing many multinational companies" (Aspen, 2014, p. 27).

The phenomenal growth achieved by Aspen over the past 11 years (2004 – 2014) was considered a worthy subject for a case study analysis. Aspen's growth is impressive particularly in the context of (i) the intensely competitive and highly regulated global pharmaceutical industry, (ii) the challenges faced by South African companies trying to establish themselves in the global marketplace, (iii) established multinational companies dealing with the challenges posed by stagnant developed markets and complex emerging markets. The main aim of this study was therefore to understand how this growth was achieved by Aspen.

This concluding chapter sets out the implications of this research and summarises the conclusions to the research questions. Based on these conclusions, a model for sustainable growth was developed and is presented. The limitations of the study are identified and recommendations for future research provided.

6.2 Implications of this Research

The main purpose of this study was to identify and analyse the growth strategies adopted by Aspen, as a global pharmaceutical company, during the period from 2004 to 2014. In order to understand the context in which this growth occurred, it was considered necessary to also ascertain what challenges Aspen faced in implementing these growth strategies. In an attempt to generalise these findings, the study also sought to determine what learnings other companies could take from the case study analysis of Aspen.

Using the theoretical framework set out in Chapter 2 and the research methodology outlined in Chapter 3, the case study data presented in Chapter 4 was analysed and discussed in Chapter 5. Through this case study analysis of Aspen, the research questions have been answered. Based on the answers to the research questions, a model for sustainable growth was developed.

The study aims to contribute to the broader theory on business growth strategies. In addition, it proposes that companies (particularly South African pharmaceutical companies) may use the sustainable growth model which has been developed, as part of their strategic planning process for growth.

6.3 Conclusions to the Research Questions

6.3.1 Research question 1: What growth strategies has Aspen adopted over the past 11 years (2004 – 2014)?

The study found that, guided by strategic and visionary leadership, the following central growth strategies were adopted by Aspen during the period under review:

- organic growth, being a key factor in creating incremental value for Aspen and its stakeholders;
- inorganic growth, through thoroughly planned and carefully executed acquisitions aligned to the Group strategy;

- extending territorial coverage through global expansion, with a focus on emerging pharmaceutical markets; and
- ongoing investment in production capabilities as a means of achieving a strategic advantage.

6.3.2 Research question 2: What challenges has Aspen faced in implementing the growth strategies?

The study identified and discussed the following challenges:

- intense competition;
- restrictive legislation;
- pressure on medicine prices;
- currency volatility; and
- market specific risks.

6.3.3 Research question 3: What learnings can other companies take from the case study analysis of Aspen?

The study identified the following key takeaways for other companies:

- the importance of strategy and strategic leadership;
- the value of organic growth;
- the need to leverage core competencies to create a sustainable competitive advantage;
- the importance of strategic fit and integration when acquiring products or businesses; and
- the need to build from a solid base, select the right strategy and plan carefully when expanding internationally.

6.4 A Model for Sustainable Growth

The findings of the research and the answers to the research questions were used to identify key factors which other companies can use, particularly South African pharmaceutical companies, in their growth planning process.

These key factors were used to develop a model for sustainable growth, which is depicted in Figure 6.1.

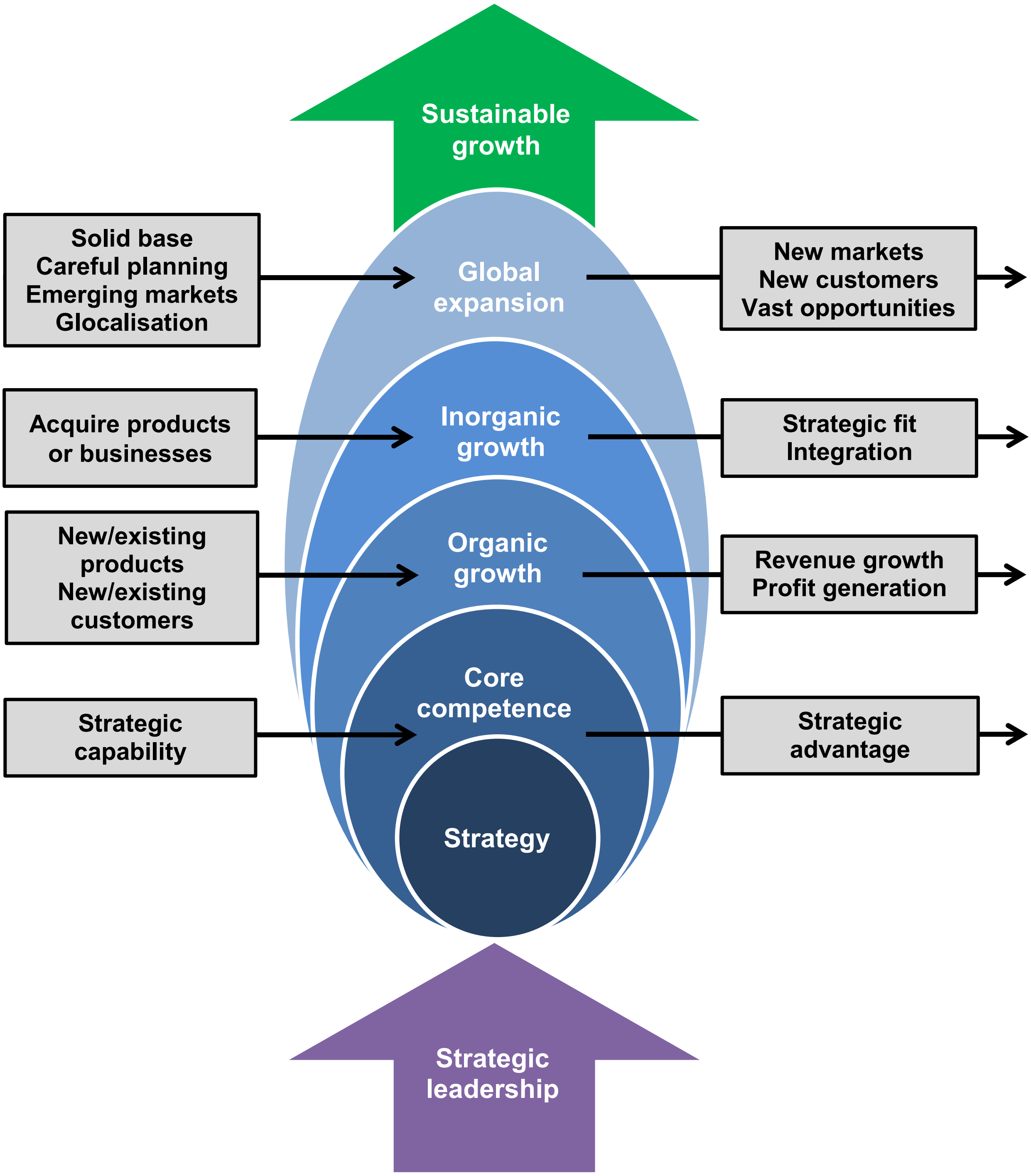


Figure 6.1 A Model for Sustainable Growth

Starting at the bottom of the diagram, strategic leadership is identified as a critical input into the model. At the core of the model is strategy. The next level of the model is the identification or establishment of a core competence. Through the development of this strategic capability a strategic advantage may be obtained.

The next level of the model is organic growth which relies on new and existing products being provided to new and existing customers to increase revenue and generate profits. The following level of the model provides for inorganic growth through the acquisition of products or businesses which are a strategic fit with the business and which are seamlessly integrated into the organisation.

The final layer of the model is global expansion. Working from a solid base and through careful planning, companies may focus on emerging markets and use glocalisation to expand the business into global territories. In so doing, the company is provided with new markets, new customers and vast opportunities.

The intended outcome of these elements and strategies is the sustainable growth of the company, as depicted at the top of the diagram.

6.5 Limitations of the Study

Chapter 3 sets out the research methodology adopted in this study and certain of the limitations in the approach followed were discussed. A summary of the limitations of the study is set out below:

- The use of a single case study may be criticised for being too narrow as the use of Aspen as a single case in the case study analysis limited the research. Other South African pharmaceutical companies were not analysed or compared to Aspen and the growth of Aspen was not shown in context with its competitors.

- The use of secondary data in the form of Aspen's archival data, limited the researcher to information which was publicly available. The possibility of the reliability of such archival data being affected by the bias of its preparers may also have limited the study.

- The use of a descriptive study, without proof of any causal relationship between events that occurred during the period under review and the growth of the company, limited the research and made inferential analysis difficult.

- The analytic generalisation used to determine what learnings other companies can take from the case study analysis of Aspen was not conclusive (nor was it intended to be) and may thus be considered a limitation of the study.

6.6 Recommendations for Future Research

The identification of the study limitations provides a useful source of recommendations for future research.

A study of more South African pharmaceutical companies, including the growth strategies adopted by them and the challenges faced by them, could highlight trends within this sector and enable a comparative analysis.

A study may be conducted which supplements Aspen's publicly available reports, being secondary data, with primary data. For example, the use of interviews with Aspen's key executives and top management may provide further insight into the subject. Such interviews may provide valuable first-hand insight into the growth strategies adopted by Aspen and the challenges faced by the company.

A statistical study of Aspen using more quantitative data and the testing of hypotheses could be used to study the strategies adopted and the growth of the company over the same period in order to determine whether a causal link existed between the two.

With regard to the analytic generalisation used to determine what learnings other companies can take from the case study analysis of Aspen, further research or case studies could investigate the propositions put forward in order to determine categorical findings and test whether a relationship exists between the suggested learnings and a company's growth.

6.7 Conclusion

Through an aggressive growth strategy and a rapid global expansion strategy, Aspen has grown from a business in a suburban house in Durban, South Africa to a southern hemisphere pharmaceutical giant with its products reaching more than 150 countries across the world. This evolution of Aspen provided fascinating material for an MBA case study used to identify and analyse the growth strategies adopted by a global pharmaceutical company.

As Aspen continues on its growth trajectory and builds on the foundation which it has laid in its transformation from a South African company to a truly global company, it is expected that the company will continue to be of great interest to competing pharmaceutical companies, investors, investment analysts and business students over the coming years.

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Appendix 1

Aspen milestones up to 2014

Year	Milestone
1850	The commencement of the business in Port Elizabeth, South Africa, which later became Lennon Limited, the originator company to the Aspen Group today
1997	Aspen Healthcare (Pty) Limited began trading with Stephen Saad (current Group Chief Executive) and Gus Attridge (current Deputy Group Chief Executive) as two of the four founding members
1998	Listed on the JSE through reverse listing into Medhold Limited
1999	Acquired the pharmaceutical business of South African Druggists for R2,4 billion in a hostile takeover
2001	Aspen Australia commenced trade as a start-up operation
2003	Entered into a fostering arrangement with GSK for the marketing and distribution of 40 branded products into the South African private sector
2003	• Aspen Stavudine was launched – Africa's first generic ARV • Aspen became the first generic company globally to be accredited to the PEPFAR Fund (United States President's Emergency Plan for AIDS Relief) • The US-based Clinton Foundation announced that it had selected Aspen, together with two other multinational companies, for the manufacture of ARVs
2004	Acquired FCC, the only South African manufacturer of APIs
2004	Acquired Infacare, the infant nutritional brand, from Dutch-based Royal Numico
2004	Aspen's multi-million Rand Port Elizabeth-based Unit 1 facility became operational
2005	Aspen's Unit 1 facility in Port Elizabeth became the world's first manufacturing site to receive tentative US FDA approval for the production of certain generic ARVs
2006	Secured distribution rights for a number of important ARVs from MSD, Bristol Myers Squibb, Roche and Tibotec as the Group extended its portfolio as the biggest supplier of ARVs in Africa
2007	Prestige Brands Incorporated entered into an agreement with Aspen for the supply of eye drops from Aspen's sterile facility in Port Elizabeth to the US market

2008	Entered the Latin American market through an investment with Strides Acrolab Ltd in businesses established in Brazil, Mexico and Venezuela
2008	Acquired 60% of the share capital of Shelys with businesses in Kenya, Tanzania and Uganda
2008	• Aspen Global, was set up to manage the intellectual property and commercial activities of Aspen's international ventures • Aspen Global acquired the intellectual property rights to four GSK-branded products for R2,7 billion, enabling Aspen to distribute these global brands, namely Eltroxin, Imuran, Lanoxin and Zyloric, to more than 100 countries
2009	Concluded a series of strategic transactions with GSK worth R4,6 billion comprising: - the acquisition of the rights to distribute GSK's pharmaceutical products in South Africa, - the formation of The GSK Aspen Healthcare for Africa Collaboration in SSA to market and sell pharmaceuticals in SSA, - the acquisition of eight specialist branded products for worldwide distribution, and - the acquisition of a manufacturing site in Bad Oldesloe, Germany
2009	Aspen Healthcare FZ LLC, was set up in Dubai to manage and represent the global brands portfolio in the European, Middle Eastern, North African and Canadian (EMENAC) region
2010	Aspen Asia Company Limited was established
2010	Took full control of the Latin American businesses acquired in 2008
2010	Beta Healthcare commenced with commercial production at its newly built pharmaceutical manufacturing facility in Nairobi
2010	Revenue exceeded R10 billion for the first time
2011	Acquired the pharmaceutical business of Australian-based Sigma Pharmaceuticals Limited, now Aspen Pharma (Pty) Limited, for R5,9 billion
2012	For the first time in its history, profits from Aspen's International businesses exceeded those generated by the South African business
2012	Aspen Philippines Inc. began trading
2012	Acquired a portfolio of established GSK OTC products in selected territories for R2,1 billion
2013	The International business became the biggest contributor to Group revenue for the first time
2013	Acquired a portfolio of 25 established prescription-branded products from GSK ("classic brands") with distribution rights in Australia

2013	Aspen Australia commenced the distribution of the leading infant nutritional products in that country following the acquisition of the rights to certain intellectual property licences and the related business by the Aspen Group
2013	• Aspen Healthcare Taiwan Ltd was established • Aspen Pharmacare Nigeria Limited began trading • Aspen Medical Products Malaysia SDN BHD began trading
2013	• Aspen was one of five South African companies named on the Boston Consulting Group's 2013 list of "100 Global Challengers" companies from emerging markets that are "growing so quickly overseas that they are reshaping industries and surpassing many traditional multinational companies" • Aspen Pharmacare was ranked 10th in the Sunday Times' Business Times 2012 Top 100 South African Companies, while Group Chief Executive Stephen Saad received the Sunday Times "Business Leader of the Year" award
2014	• Aspen was one of four South African companies included on the Boston Consulting Group's 2014 list of "100 Global Challengers" companies from emerging markets that are "growing so quickly overseas that they are reshaping industries and surpassing many traditional multinational companies" • Aspen was ranked as the 10th most innovative company by Forbes' "The Top 25 Most Innovative Companies in the World 2014" list (Forbes September 2014) • Aspen was ranked 10th in the top 100 companies over five years category and second in the top 40 index companies over five years in the 2013 Sunday Times "Top 100 Companies Awards" in South Africa
2014	Acquired an API business and a portfolio of branded finish dose form molecules from MSD as well as two branded injectable anticoagulants and a specialised sterile production site from GSK
2014	Established a number of additional offices across Europe, the CIS and in Latin America, increasing coverage to more than 50 locations across the world
2014	Intellectual property rights in related infant nutritional businesses in Latin America and South Africa were acquired from Nestlé
2014	Aspen Japan KK was established

Source: Compiled using Aspen company documents (2004 – 2014)

Appendix 2

Selected Aspen acquisitions and divestments 2004 – 2014

Financial year	Acquisition	Divestment
2004	Acquired FCC, the only South African manufacturer of APIs	
2004	Acquired the Vinolia soap range (FMCG)	
2004	Acquired Dutch-based Royal Numico's South African baby food business, as well as the Infacare brand and their manufacturing facility based in Clayville, Gauteng	
2005	Acquired Mentadent P and secured a long-term agreement for Close-up from Unilever South Africa (both toothpaste products)	
2006	Joint venture with Matrix Laboratories in terms of which Aspen acquired a 50% share in Astrix Laboratories Ltd, an ARV API manufacturing facility in India	Joint venture with Matrix Laboratories in terms of which 50% of the FCC business was sold to Matrix
2008		Divested of its nutraceutical range
2008		Divested of 51% in the UK-based Co-pharma Ltd
2008	Transactions were entered into with Strides Acrolab Ltd to acquire 50% (subsequently an additional 1% stake was acquired by Aspen) of its joint ventures in Latin America (Brazil, Mexico and Venezuela) and 50% of an oncology development and production business in India	
2008	Concluded a deal for the acquisition of 60% of Shelys Africa Ltd, with operations in East Africa (Kenya, Tanzania and Uganda)	

Financial year	Acquisition	Divestment
2008	Acquired four branded products from GSK for R2,7 billion for distribution of these global brands to more than 100 countries	
2009	Termination of the Matrix Laboratories Ltd joint venture (Aspen acquired remaining 50% share in FCC gaining full control)	Termination of the Matrix Laboratories Ltd joint venture (Aspen disposed of its 50% share in Astrix Laboratories Ltd)
2009	• Acquisition of the rights to distribute GSK's pharmaceutical products in South Africa (45 GSK brands) • Acquisition of eight specialist, branded products from GSK for worldwide distribution • Acquisition of GSK's manufacturing facility in Bad Oldesloe, Germany	
2009		Divested of its business in the USA
2010		Disposed to Strides Arcolab Ltd the Campos facility and related products in Brazil as well as Aspen's 50% share in the oncology joint ventures
2011	Acquired the pharmaceutical business of Australian-based Sigma Pharmaceuticals Limited, now Aspen Pharma (Pty) Limited, for R5,9 billion (including branded, OTC and a consumer range of products as well as manufacturing facilities)	
2011		Disposed of remaining 49% investment in UK-based Co-pharma Ltd
2011		Disposed of Vinolia, Playboy and Playgirl ranges and certain Formule Naturelle products

Financial year	Acquisition	Divestment
2012		Disposed of the Mentadent P brand and cancelled the unexpired portion of the Close-Up licence
2012	Acquired the 40% minority shareholding in Shelys resulting in the company and its subsidiaries becoming wholly owned subsidiaries of Aspen (Kenya, Tanzania and Uganda)	
2012	Acquired a portfolio of established OTC products from GSK for R2,1 billion for selected territories	
2013	Acquired a portfolio of 25 branded pharmaceutical products from GSK for distribution in the Australian market	
2013	Acquired the rights to intellectual property licences and related businesses in infant nutrition, in Australia and certain southern African territories (including South Africa), from Nestlé for USD215 million	
2014	Acquired certain licence rights to infant nutritional intellectual property, including a production facility in Mexico, and shares in infant nutritional businesses in several countries in Latin America from Nestlé for a purchase consideration of USD180 million	
2014	Acquired an API manufacturing business, primarily in the Netherlands with a satellite operation in the United States, from MSD for approximately EUR36 million plus the value of inventory	

Financial year	Acquisition	Divestment
2014	Acquired a portfolio of 11 branded finished dose form molecules from MSD for USD600 million	
2014	• Acquired the Arixtra and Fraxiparine / Fraxodi thrombolytic brands worldwide (excluding China, India and Pakistan) from GSK for GBP505 million • Acquired the specialised sterile production site in France, which manufactures the above brands, from GSK for GBP194 million	

Source: Compiled using Aspen company documents (2004 – 2014)

Appendix 3

Aspen growth in numbers 2004 – 2014

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenue (R'million)	2 201,7	2 814,6	3 449,3	4 025,9	4 682,5	8 441,4	9 619,2	12 383,2	15 255,8	19 308,0	29 515,1
Operating profit (R'million)	553,8	738,2	894,7	1 076,6	1 196,3	2 174,7	2 524,4	3 149,0	3 940,6	5 043,3	7 424,8
Earnings per share (cents)	99,8	137,6	185,3	205,6	245,3	374,6	494,9	595,5	645,8	773,0	1 097,9
Headline earnings per share (cents)	103,7	138,3	185,4	210,1	231,3	389,4	482,9	520,3	650,1	788,0	1 016,3
Market capitalisation at year-end (R'million)	4 788,1	9 005,3	14 102,9	14 413,9	12 444,7	19 783,7	32 845,6	36 480,8	57 234,0	103 484,6	136 395,8
Share price at year-end (R)	12.70	23.80	36.50	37.00	31.80	54.75	76.10	84.00	125.85	227.07	298.89

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Cash flow from capital expenditure – property, plant & equipment (R'million)	(158,6)	(81,1)	(174,6)	(287,7)	(379,3)	(626,7)	(632,0)	(651,5)	(469,6)	(667,1)	(1 328,9)
Cash flow from capital expenditure – intangible assets (R'million)	(90,6)	(93,4)	(132,4)	(147,0)	(166,0)	(3 279,9)	(660,5)	(188,7)	(2 148,8)	(3 654,9)	(700,4)
Cash flow from acquisition of subsidiaries and businesses (R'million)	(50,3)	(262,1)	(267,6)	(0,1)	(1 357,5)	102,9	33,4	(5 893,2)	(315,6)	(1 578,6)	(19 764,2)

Source: Compiled using Aspen company documents (2004 – 2014)

Chapter 1 - 6

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19 October 2015

Ms Victoria Margaret Hodgon (971138443)
Graduate School of Business & Leadership
Westville Campus

Dear Ms Hodgon,

Protocol reference number: HSS/1337/015M
Project title: The growth strategies of a global pharmaceutical company: A case study of Aspen Pharmacare Holdings Limited

Full Approval – No Risk / Exempt Application

In response to your application received on 21 September 2015, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol have been granted **FULL APPROVAL.**

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

....

Dr Shenuka Singh (Chair)

/ms

Cc Supervisor: Dr Muhammad Hoque
Cc Academic Leader Research: Dr Muhammad Hoque
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