Merging Medicine Chests

May 1, 2000 By Paul Michael Mueller

When the news hit of Glaxo Wellcome's plans to acquire SmithKline Beecham in a deal worth an estimated $76 billion in stock, shareholders reached for their calculators and HIV positive pill-poppers checked their wallets. When the dust settles this summer, the new super-company will boast some $189 billion in assets, but what will it mean at the pharmacy checkout?

Pending approval by regulatory agencies, the proposed blockbuster deal between the two British drug makers would create the world's largest pharmaceutical, named Glaxo SmithKline. It would control 7.3 percent of the industry and produce everything from Aquafresh to AZT.

"Today there is so much potential for research with new developments," says Glaxo's Sir Richard Sykes, who will fill the newly created position of Non-Executive Chairman, "that if we can power ahead of the competition, we will have a tremendous opportunity to make this a great company for the future."

Jean-Pierre Garnier, CEO-elect of Smith Kline Beecham says, "This will give us a major advantage to succeed in the fast-changing health-care environment."

Fast-changing, indeed. Mega-mergers are the name of the game in the drug industry these days. Last year, Hoechst AG and Rhone-Poulenc SA made a merger-mania match, creating what was then the global behemoth. Meanwhile, the battle continues between Pfizer and American Home Products for acquisition of the world's fastest-growing major pharmaceutical, Warner-Lambert. Their longtime negotiations were overshadowed by news of the Glaxo wedding.

Jubilant CEOs may point to increased research and development war chests (Glaxo SmithKline will have a yearly budget of $4 billion), but critics argue that all that talk of competition points less toward a bigger and better medicine chest than to a powerful and potentially dangerous monopoly.

"If you only have a few large companies competing, then the question becomes, will there be enough motivation for smaller companies to start up," says consumer analyst Bob Masi. "Maybe yes, because of potential acquisitions, but can they compete with the big companies? The answer is generally no."

"It's 180 degrees from inhibiting research and development productivity," counters Glaxo rep Rick

Sluder. He says that drug research is not spurred on by what the company down the street is doing, and the merger is just “taking the game to a new level.”

“There’s no synergy [between what the two companies make],” says Mike Immel, of the HIV health program at Boston’s AIDS Action Committee, pointing to Glaxo’s heavy HIV artillery—including AZT (retrovir), Agenerase (amprenavir) and Ziagen (abacavir)—and SmithKline’s meds for opportunistic infections, such as Famvir. “In a merger, there should be a purpose higher than just combining two companies, and I don’t see it.”

On the other hand, Carlos Arboleda, a treatment educator at New York City’s Gay Men’s Health Crisis, says there’s no need to be overly concerned about the lack of a shared HIV focus. “If they have control over HIV meds, they could force prices and inflate them and that’s a risk,” he says. “But since they don’t have the same kinds of drugs, the risk is not that great.”

But will this merger bump up prices for HIV drug consumers? We’ll have to wait until after the merger takes place this summer to see, but one industry analyst doubts that the merger itself will hit consumers too hard in the purse. “I don’t think we will see higher prices just because of the mergers,” says industry analyst Hament Shah. “I think we will see higher prices anyway.”

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