# New Dimensions for New Business Models

How can pharmaceutical companies hold their own in the face of constant upheaval? Using the cardiovascular and diabetes markets as examples, Stephan Danner, Aleksandar Ruzicic and Martin Oelschlegel show the way forward.

The European healthcare industry faces a multitude of challenges. Demographic changes and medical innovations are driving up the overall demand and expenditure. Because of the resultant decrease in financial leeway, the public sector is retreating as the main provider of healthcare services, and private suppliers are moving into the market. At the same time, patients and insurance companies are striving for better information on treatment costs and quality. These changes are reflected in industry trends. Providers, such as pharmaceutical companies increasingly understand themselves not only as product suppliers but as service providers. Payers have already begun to offer targets and financial incentives to their service and product suppliers. Finally, both payors and providers have started entering into innovative forms of co-operation. A fresh approach to commercialisation is essential for success in the new market environment. However, it can also require drastic changes, as companies must redefine their business models.

## Selecting your business model dimensions

There isn't just one 'most successful' new business model. Each depends on the individual company's products, customers and competitive situation. To determine the bedrock of the new business companies have to define their focus areas first along the following six dimensions:

- from individual products to product bundles/portfolios
- from product to healthcare services
- from direct to indirect influence on prescribers
- from physicians to accounts
- from full in-house control to flexibility/outsourcing
- from a focus on sales channel to an emphasis on other channels

How a company positions itself in terms of these dimensions defines the characteristic attributes of its new business model. For example, the company can choose to focus either on accounts or on prescribers. Similarly, it can choose between the two extremes of individual product offerings or product bundles. The company's choice has a formative influence on its sales approach and offerings, and thereby on the business model that is ultimately adopted. Below we discuss and analyse two different business models will be described in terms of these six dimensions, with regard to benefits, requirements and risks.

## Define your new business model

**Example 1: Cardiology centre.** Despite its complex medical guidelines, the cardiovascular market provides plenty of opportunities for new business models, provided that reimbursement can be secured. In the hypertension market in particular, they are already in place, as we can see with Takeda UK's cardiology centre.

The cardiology centre model focuses on the following dimensions: portfolio, healthcare services, accounts and outsourcing (see Figure 1). The centre is the pharmaceutical company's franchisee, and potentially collaborates with medical devices companies. As the franchiser, the pharmaceutical company provides the cardiology centre with products and protocols, specialist medical know-how, service support and marketing tools. In return, it receives product revenues and a franchise fee based on the centre's performance (e.g. number of patients treated, outcome, etc).

Figure 1: The cardiology centre compared with the traditional business model

This model applies to companies where the specialist (cardiologist) is the dominant stakeholder. Ideally, such companies offer not only patented brand name drugs, but also mature products and generics. Furthermore, it is assumed that specialists/hospitals will open up dedicated cardiology centres to attract lucrative patients for invasive outpatient treatments.

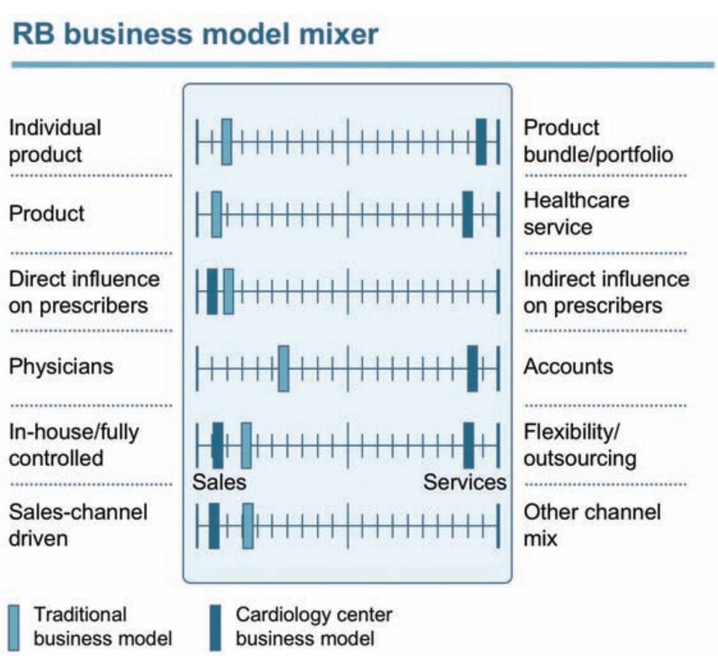
From the pharmaceutical company's perspective, this model offers several benefits. Market leaders with a competitive commercial position can benefit from applying their company brand as an umbrella brand, fully leveraging their sales presence. A broad and comprehensive product portfolio is turned into a key success factor that smaller companies cannot easily duplicate. Moreover, the business model is much more resistant to damage from expiring patents. However, it requires new competencies and skills such as franchising, evidence-based medicine for the provision of healthcare services and collaboration with medical devices companies.

**Example 2: Diabetes disease management.** The market for diabetes treatment is one of the most promising for new business models. The number of people with diabetes is expected to double from 171 million in 2000 to 366 million in 2030. Yet despite this sky-rocketing demand, various challenges are creating a strong need for change. Expiring patents and an empty pipeline are forcing innovation leaders to take action. Furthermore, the diabetes market is fragmented into individual value chain segments, making it difficult for players to control patient flow and improve overall patient results. A potential new business model for managing the diabetes epidemic involves offering more integrated services. In this model, companies no longer function as pure product suppliers, but as holistic value providers.

The diabetes disease management model represents a radical change from the traditional business model across all dimensions. The pharmaceutical company guarantees superior diabetes treatment to patients that decide to participate in the disease management model. This could include, for example, access to the latest measurement devices and drugs, continuous monitoring by qualified physicians using automated regular data transfer, hotline services, regular visits by medical staff, lifestyle counsulting, etc. In return, the patient pays an out-of-pocket fee to participate in the disease management programme.

Figure 2: The diabetes disease management model compared with the traditional business model

**Figure 1:** Cardiology center business model.



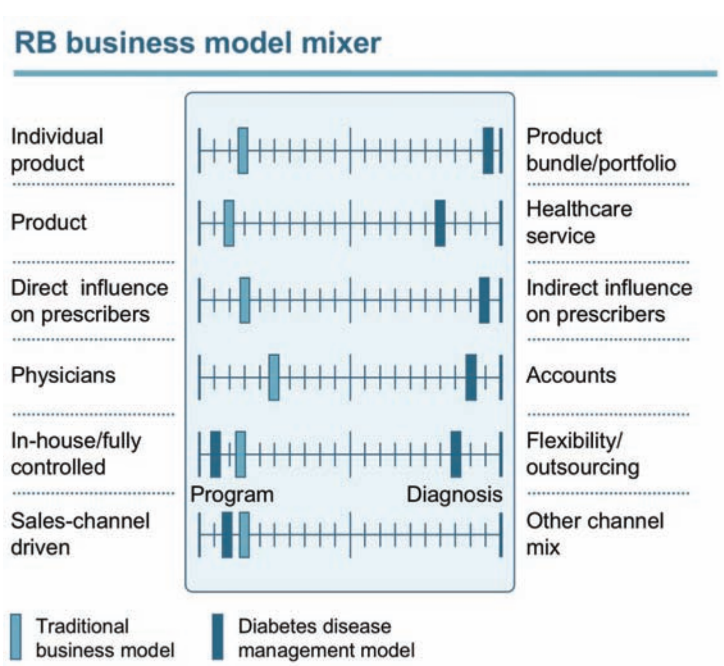
This business model assumes that the wealthy population forms a significant market in which patients are the dominant stakeholders and are willing to spend more on healthcare. Furthermore, it is assumed that patients can be made aware of benefits resulting from disease management and that patients have influence on the treatment prescribed.

Although this model requires a good degree of change, pharmaceutical companies can build on the strength of their traditional business models. They can exploit their ability to create and promote product innovations and can also use their classical sales channels to recruit interested payers/regions and providers. The core strength of this new business model is the opportunity to fully leverage the patient's power to influence prescribers once they have been recruited through participating payers/providers. However, the model is very patient-focused and requires extensive administrative efforts if the services are provided mainly by in-house units. Reduced quality control from outsourced treatments and lack of experience in determining out-of-pocket fees add to the challenges of this business model.

## Conclusion

New business models have to be developed for each country as they need to be tailored to country-specific requirements and prerequisites for profitability. This includes determining key dominant external stakeholders and corresponding value propositions, deriving potential options for new business models, assessing them in terms of impact and feasibility and identifying the best environment for quick and pragmatic testing. While such pilot programmes cannot fully eliminate all uncertainty, they enable pharmaceutical companies to take calculated risks. Since 72% of pharmaceutical managers believe that their companies will introduce fundamentally new business models in the next two years in light of challenges in the healthcare environment, it can be assumed that companies that don´t risk change will fail in the medium term.

**Figure 2:** Diabetes disease management model.




## About the Authors

Stephan Danner is a partner in the global Pharma & Healthcare Competence Centre at Roland Berger Strategy Consultants in Berlin, Germany. Stephan works with clients to design and implement corporate strategies and highly effective operating models.

Aleksandar Ruzicic is a principal at the Zurich, Switzerland, office of Roland Berger Strategy Consultants. He has advised international pharmaceutical companies on strategic and operational topics from R&D to marketing and sales.

Martin Oelschlegel is a consultant in the global Pharma & Healthcare Competence Centre at Roland Berger Strategy Consultants in Berlin. His expertise includes developing and implementing new commercial strategies for global pharmaceutical clients. (Martin_Oelschlegel@de.rolandberger.com)