

Stephan Danner, Aleksandar Ruzicic, Patrick Biecheler

Study

Pharma at the crossroads

Choosing directions in a transforming healthcare world

Roland Berger
Strategy Consultants



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Table of contents

Letter from the authors	3
Executive Summary	4
1. A world of risks and opportunities	6
2. Why market access has developed into such a challenge	14
3. Time for a change: New commercial business models	20
4. The art of managing a product portfolio	27
5. How to improve productivity and profitability	33
6. The disaggregation of the value chain	38
7. How can Roland Berger help	42
8. Sources	44
9. Who to contact	45

Letter from the authors

For the pharmaceutical industry, the challenge is far from over.

While financial pressures, regulatory changes and increasingly active stakeholders have already forced many companies to rethink their business models, it seems that the most demanding times are yet to come. "For the first time in history, it is evident that this industry will have winners and losers", says one executive.

Nevertheless, the corporations still lack a clear blueprint for the future.

Conducted for the third year in a row, this study by Roland Berger Strategy Consultants once again provides a unique snapshot of the industry's current thinking. It follows on from our study "Commercial excellence in the pharmaceutical industry – Delivering superior value to your customers in challenging times" which was published in 2007 and generated a lot of interest. However, given the obstacles the corporations and their managers are currently grappling with, this year's study poses a more fundamental question: Is the industry's operating model sustainable and which areas will be subject to the biggest changes?

In order to provide a global scenario, this study presents findings from the US, Europe, Japan, as well as from emerging markets exemplified by the "BRIC" countries (Brazil, Russia, India and China). Once again, our main take is on the markets and companies dealing with patent protected prescription drugs. It should be noted that we did not research potential diversification strategies into generics, over-the-counter (OTC) drugs, vaccines, medical devices or other medical products.

This study is based upon two sources: In a first round, a great number of managers – who represent companies which account for more than half of global pharmaceutical revenues – participated in a questionnaire-based survey. This provided us with valuable quantitative information. In addition, we generated qualitative insights from 50 face-to-face interviews with top executives, such as Chief Executive Officers, Chief Financial Officers, Heads of Europe and Heads of Marketing.

A general report will never be able to create specific directions for individual companies. But we trust that this study can give a detailed overview of an ever-changing healthcare world and map out its most relevant risks and opportunities.

We would like to express our gratitude to everyone who contributed to this study. By filling in our questionnaires and taking the time for the interviews, you alone made it possible.

Stephan Danner

Aleksandar Ruzicic

Patrick Biecheler

Executive Summary

For some time now, pharmaceutical managers have been preparing for the "perfect storm". While some have re-evaluated their business models, others have implemented new market access programs or reduced costs. Although all of these measures can be considered important and necessary, this study shows that these efforts are by no means sufficient to successfully address the fundamental obstacles which lay ahead.

In order to feature among the winners of the ongoing challenges, corporations need to step up. Two types of trends are testing them: Some have arisen because the world is questioning the way healthcare is delivered. Other issues, such as the expiration of patents or empty pipelines, are specific to the industry.

In terms of healthcare opportunities, a number of executives is considering the **expansion of product companies through services**. However, although players such as Fresenius Medical Care have shown that this model can be successful, this strategy is not undisputed. Many argue that such services have to either leverage the company's core business – or become profitable in themselves. Managers are also examining the possibility of **novel forms of cooperation within and across the value chain**, since corporations will have to partner with the best institutions in the future. Although an increasing part of the population is **willing to pay for healthcare service**, the industry is as yet too conservative to reap the significant potential which the out-of-pocket sector provides.

Within the industry, new stakeholders, such as payors and patients, have gained influence, increasing the need for **novel commercial models**. In addition, **emerging markets** are guaranteed to be among the key growth drivers in the years to come. However, this development will have to be actively managed by the industry – in part, because many of these countries are still working on stumbling blocks, such as the protection of intellectual property or liberalization. At the same time, increasingly difficult **market access and issues related to reimbursement** have resulted in significant **pricing pressure** across most markets. Traditional hurdles have been heightened and new ones put into place. In combination with the discounts which are granted to payors, the trend not to launch products in certain markets can therefore be expected to accelerate. Another issue of ongoing concern is **R&D productivity**. Undoubtedly one of the key challenges for corporations, many executives are even convinced that this is the underlying issue for all of the industry's problems: While costs remain on a steady rise, the number of approvals is lagging behind – due to poor clinical trial results and higher regulatory hurdles.

It should be noted that although these trends affect the entire industry, **regional differences** are adding to the challenges. This is true not only for individual profit pools, but also for the relative importance of market access hurdles. For instance, although the largest part of the global profit pool of USD 210-280 billion can still be allotted to the US, emerging markets are expected to play a crucial role beyond the 5-year time-horizon. Moreover, whilst registration is considered the biggest hurdle in the US, reimbursement and pricing are the most pressing issues for corporations in Europe. Hence, stringent and (cost-) effective programs tailored to individual markets are called for.

In the years to come, commercial topics will remain high on the agenda of industry executives. Pharmaceutical companies will have to adapt to new realities, by implementing **new commercial business models**. Since future growth will depend upon innovation and clear clinical differentiation, Roland Berger Strategy Consultants has further developed its holistic consulting approach, the proven **Business Model Mixer**[®]. Based on six key dimensions, each company has to determine its position and define its goals, depending on its products, customers and competitive situation. Each choice has a formative influence on the company's sales approach and offerings, and thereby on the business model that is ultimately adopted.

However, the challenge for the industry is even greater. Not only is market access difficult; in fact, many **product portfolios** and thus a large proportion of the industry's revenues are already at risk. In the past, the majority of corporations concentrated on individual products, particularly blockbusters. Yet many of these patents are set to expire, opening up the markets to generic products. Hence, companies need to react through timely business and product innovation – in this context, external sources will become key.

Just how intense the pressure on companies has become, is reflected by the increase of **cost-saving announcements across the industry**. Looking ahead, managers still feel that reducing costs provides the highest, short-term potential to relieve the pressure on the bottom line. However, such measures only reassure analysts and buy time. With margins continuing to erode, corporations will need to take a close look at their **value chains**. Which areas are still considered to be core competencies? Would it be sensible to outsource? How lucrative are services for third-party customers? The answers to these questions will determine the future success of pharmaceutical companies – and differentiate between winners and losers.