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Four strategies for creating value in life sciences.

BY RICK EDMUNDS, JO PISANI,
AND DOUGLAS STRANG

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High blood pressure now affects more than 20 percent of the adult population around the world. Complications from the condition account for 9.4 million deaths a year, according to the World Health Organization. The number of people with diabetes surged globally from 108 million in 1980 to 422 million in 2014. The rise in these and other chronic conditions is creating a need for healthcare on an epic scale. And it comes at a time when the overall demand for healthcare is growing, as a result of the Affordable Care Act in the U.S. and rising incomes in some emerging economies.

These circumstances have created growth markets for pharmaceutical and life-sciences companies. Yet new opportunities have also brought challenges. The competitive landscape for pharma companies around the world is changing rapidly, and those shifts are likely to accelerate. Drugs face greater pricing pressure; industry consolidation is creating unfamiliar dynamics among insurers, hospital systems, and doctors; and patients are far more involved in their own care. Rather than merely developing and selling medicine to treat clinical conditions, pharma companies need to shift to a value-based care mindset based on improving patient health more broadly and creating better outcomes for insurers and healthcare providers.

To confront these forces, pharma companies need to be clear about how they create value and adopt a focused strategy that allows them to dominate in one specific aspect of the industry — along with developing a set of strong capabilities to support that strategy. Some capabilities apply across the entire pharma industry; for example, most companies conduct R&D at some level. But those that can identify and build the right capabilities for their particular strategy in ways that are demonstrably better than those of their competitors will set themselves up to win.

Competitive Shifts

The role of pharma companies in the healthcare ecosystem is changing. Insurers are now asking them to interact more with patients and physicians, as part of a shift from fee-based care to value-based care. For example, some pharma companies are working to ensure that patients take their medicine as directed.

Such integrated care can ultimately be far more effective than past approaches. But it affects the way drugs are priced. Pharma companies that show superior results can potentially charge more for their products. But pharma companies don't have much experience in the delivery of care. In addition, generating positive results can be tricky for complex lifestyle diseases, for which outcomes require more than just drugs, and in fact often hinge on factors such as diet, exercise, and stress management.

At the same time, the customers that pharma companies sell to — physicians, hospitals, health systems, and pharmacy benefits managers — are all getting bigger and

Illustration by Serge Bloch

more powerful through consolidation. As they grow, those entities gain negotiating clout, leaving pharma companies with the difficult choice of accepting lower payments or losing big customers. Such consolidation also means that physicians at large hospitals and health systems tend to have less autonomy regarding what they prescribe.

Technology presents yet another challenge to pharma companies' traditional way of doing business. Patient care is becoming more high tech, through mobile apps, wearable devices, and other tools that change the way medicine gets into patients' bodies and how information gets to those responsible for their care. Rather than having to remember to take medicine in the correct dosage, a patient could soon wear a patch that delivers medicine through the skin, measures the patient's response to that medicine, adjusts the dosage as needed, and reports everything to the doctor and pharma company.

Know Thyself

For established pharma companies, the pace of change today can be dizzying. We have identified four strategic identities, each with specific capabilities, that pharma companies can adopt to help them succeed under these conditions.

1. Breakthrough science developers. Companies that follow this strategy create value by developing new medicines that lead to measurably better patient outcomes, allowing them to charge premium prices. Commercially, these companies have tools in place to help them identify and segment patient populations, and potentially tailor their medicines accordingly.

Breakthrough science developers have strong but focused R&D pipelines, with capabilities in understanding new technologies and assessing how they might apply to specific diseases. A critical aspect here is analytics. For the last four decades, both the quantity and the quality of medical information have grown exponentially, thanks to advances in electronic medical records, high-resolution medical imaging, and genomics. Yet integrating and analyzing that data simply hasn't been possible, because of technical limitations, high costs, and a traditional lab-based approach to discovering new drugs. Today, those constraints are disappearing, and leading players are employing advanced analytics to help them become more productive — in both developing new drugs and getting them to market.

M&A capabilities are also critical for breakthrough science developers. Consider U.S.-based Celgene, which specializes in innovative treatments for cancer and autoimmune diseases. The company excels at buying or partnering with VC-backed companies that have products in preclinical testing. It has no strict deal template. Instead it works on a case-by-case basis to determine the right structures (such as strategic equity investments, option licensing deals, and structured acquisitions). Moreover, Celgene has developed a corporate culture that puts science and scientists first. It allows younger and more nimble biotechs wide leeway to control their own operations — making the company more attractive to potential future partners. Celgene closed 10 acquisitions or partnerships in 2014, and in March 2015, Bloomberg reported that it had 37 active alliances.

2. Disease outcome enablers. Companies that adopt this strategy have historically thrived by building up expertise and credibility within one or two therapeutic areas, along with a cohesive portfolio of products that capitalize on their expertise. This approach dovetails with the industry shift to value-based care. Some disease outcome enablers have gotten much better at engaging with patients and providers. For example, they have developed patient-education programs and other kinds of support that help patients manage their own treatment, leading to better outcomes at lower costs.

In the next couple of years, these companies will need to build on this progress, with capabilities in integrating drugs, devices, and technology to better track patient health, collect data, and adjust dosages over time. Other critical capabilities for disease outcome enablers include helping standardize the way patients receive care and coordinating directly with physicians, researchers, labs, and other entities involved in treating patients in the pharma company's target area.

Shire, based in Ireland, specializes not in one clinical area but in a category: rare diseases, for which patients usually need more personalized attention. In the U.S., Shire has developed the OnePath program, which designates a personal case manager for each patient. Case managers serve as a single contact who can coordinate care and access to therapy. They communicate with nurses, genetic counselors, pharmacists, and physicians, and they make sure that patients have the information and support they need, even regarding nonclinical issues such as finding a treatment center and demystifying insurance coverage.

3. Commercial value optimizers. Companies that adopt this strategy typically have a portfolio of lowrisk, established products; a large global network; and a highly efficient infrastructure. They have strong capabilities in manufacturing different categories of drugs and selling them through various channels, and they are ruthless about wringing out costs.

These advantages are generating potential rewards for commercial value optimizers as several trends develop. Growing global demand for effective healthcare in multiple customer channels and segments will likely boost their business. Innovative technologies, such as advanced manufacturing tools that help lean manufacturers accurately plan for demand, have emerged to help fuel operational efficiencies as well. U.S.-based Mylan is a good example. The company has a wide-ranging portfolio of more than 1,400 generic and branded products, and it benefits from a large research and production system of more than 50 facilities around the world. Many pharmaceutical companies outsource a large portion of their manufacturing, but Mylan produces roughly 80 percent of its medicines internally.

4. Disciplined portfolio managers. The fourth strategic approach — and the hardest — is to operate with a large, diversified portfolio of business units and product areas. This category includes many of the larger legacy pharma companies, which historically have been able to succeed through diversification. Pfizer and Novartis, for example, are legacy pharma companies with multiple business units and a wide portfolio of products, including generics, specialty drugs, and primary-care treatments. These companies require capabilities in managing brands, marketing, and assessing the ROI of new products in a range of categories and markets. And they need to strike the right balance between assigning accountability to each unit and having central oversight of all of them.

The optimist's stance is that in a highly volatile market, disciplined portfolio managers may be better able to respond to market shifts by reallocating resources among their various businesses. Because they have bets in many areas, they are less vulnerable to major disruptions. Yet disciplined portfolio managers still face clear risks. Their approach complicates their ability to differentiate themselves from competitors, which limits the potential upside to the strategy. In addition, companies that have grown through acquisition may struggle to maintain deal volume as competition for assets gets tougher. Some of these companies may need to get better at selling off poorly performing drugs and business units.

In the current healthcare market, success requires that pharma companies do some soul searching. The complexities mean that a me-too strategy is no longer a viable option.

Meeting the Bar

In the current healthcare market, success requires that pharma companies do some soul searching. They need to look at their current strategy and capabilities and determine whether that combination will allow them to outperform the competition. Some companies may have the right strategy, but discover that they need to build up key capabilities. Others may find that they need a new strategy, with corresponding changes to their organizational structure and portfolio of products and services.

That's strong medicine, but the complexities of healthcare today mean that a me-too strategy is no longer a viable option. New competitive dynamics and customer expectations have raised the bar, and the market will reward those that are truly able to deliver. +

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Rick Edmunds
rick.edmunds@pwc.com
is an advisor to executives for Strategy&, PwC's strategy consulting business. He is a principal with PwC US based in Arlington, Va., and he leads the strategy group within the pharma and life-sciences practice.

Jo Pisani
jo.pisani@strategyand.uk.pwc.com
is an advisor to executives for Strategy&. She is a partner with PwC UK based in London, and she leads the U.K. pharma and life-sciences practice.

Douglas Strang
dstrang@pwc.com
is a partner with PwC US based in Philadelphia. He is PwC's global pharmaceuticals and life-sciences advisory leader.

Michael Swanick, a partner with PwC US and PwC's global pharmaceuticals and life-sciences industry leader, also contributed to this article.

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