

The New Commercial Model Myth

Pharma professionals need to find new competitive—not commercial—models to succeed in the competitive stage of the industry's lifecycle.

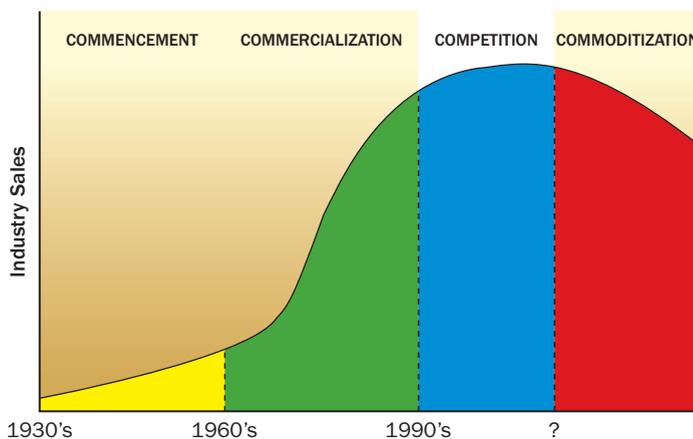
A recent Cegedim Relationship Management survey revealed that the number one concern of nearly three-quarters of pharmaceutical executives is the “changing commercial business model.” Desperately seeking new commercial models, many executives have experimented with a myriad of approaches, including corporate restructuring, sales force realignments, customer-centric account management, multi-channel marketing, and new emerging markets strategies. Unfortunately, these commercially-focused efforts were doomed to fail. Because the pharmaceutical industry has transitioned from the commercial to the competitive stage of its lifecycle, companies seeking new commercial models in the competitive stage are fighting today's battles with yesterday's battle plans and weapons (Figure 1). Pharma companies need new competitive—not new commercial—models.

The industry's commercial or growth stage extended from the 1960s to the 1990s. During that period, there were significant unmet clinical needs, many new products and indications; expanding markets, pricing flexibility, and relatively little competition. Numerous companies, products, and brand teams experienced double-digit sales growth resulting in many

pharma “winners.” However, that changed in the 1990s when the European and the US markets transitioned from the commercial stage to the competitive stage of their lifecycle. This stage has been characterized by brutal competition among a countless number of brands, generics, and

growth in the late 1990s. IMS projects that the US and European markets will have low single-digit growth rates ranging from 3 to 6 percent and 1 to 4 percent, respectively, through 2014. While emerging markets remain in the growth or commercial stage, companies are recognizing the competitive challenges these markets represent for innovative brands, especially biologics and other higher-priced medicines.

Several industry CEO's have acknowledged this important lifecycle transition. In 2008 Andrew Witty, CEO of GlaxoSmithKline said, “The environment we



Source: Bernard Associates, LLC; www.BernardAssociatesLLC.com

The four lifecycle stages of the pharmaceutical industry.

substitute products; significantly reduced R&D productivity resulting in fewer new products; more sophisticated payers focused on cost minimization; and increasing industry consolidation and contraction.

The transition to the competitive stage in the United States was marked by two key indicators: the peak number of new molecular entities (NMEs) in 1996 and the end of double digit sales

find ourselves in as a pharmaceutical company is so different from seven or eight years ago that it is almost unrecognizable.” In the same year, then-CEO of Merck Richard Clark stated in a corporate press release that, “Next year will continue to be a period of fundamental transformation that establishes Merck as a different competitor for the next decade....This new Merck will be built for the new era that our industry has entered.”

In this environment, companies need a new competitive



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model to outperform rivals and thrive in these challenging conditions. Here are five examples of such models that demonstrate winning approaches:

Technology model. Beginning with its majority ownership of biotechnology pioneer Genentech in 1990, Roche has leveraged its leadership in biotechnology—specifically monoclonal antibodies—to become the world's largest oncology company, with its \$20 billion in pharmaceutical sales representing one-third of the industry's total in this category. The company is the global leader in tissue-based cancer diagnostics and cancer therapeutics, including blockbusters Herceptin (breast cancer), Avastin (colon and lung), and Rituxan (blood cancers). According to market research firm Evaluate Pharma, Roche is expected to dominate oncology, the industry's biggest therapeutic area, for at least the next five years.

Diversification model. Beginning in the mid-1990s, Novartis adopted a “focused diversification portfolio” strategy by incorporating pharmaceuticals, vaccines, generics, and consumer health. Novartis invested in new areas of health-care, such as generics and eye-care, highlighted by its \$52 billion acquisition of US eye-care company Alcon. According to CEO Joseph Jimenez, “A broad, diversified portfolio is going to become increasingly important as more and more payers look for low-cost generics and preventive vaccines as complements to innovative pharmaceuticals.” By leveraging this unique competitive model, Novartis will generate sales exceeding \$60 billion and become the world's largest pharmaceutical company by 2017, according to First Word.

Specialization model. Gilead Sciences (viral infections), Novo Nordisk (diabetes), and a number of other pharmaceutical companies have built dominating disease specialty companies. Gilead, the current leader in anti-HIV product sales, is expected to command an over 40 percent share of the anti-viral market by 2018 by adding new Hepati-

tis C anti-viral agents. Similarly, Novo's insulin and non-insulin (Victoza) franchises will represent nearly 30 percent of the entire global diabetes market over the next five years. Such focused disease models offer numerous competitive advantages, including product portfolio co-positioning and segmentation; potential portfolio product combinations; enhanced corporate reputation and recognition; potential pricing and contracting leverage; substantive, longer-term relationships with key stakeholders, including regulators, thought leaders, and prescribers; and better business development and licensing opportunities. A 2011 Oliver Wyman study revealed that leading disease specialty companies complete 2.2 times more business development deals, achieve 70 percent higher development success rates, and generate 5.5 times more revenue than non-specialty companies.

Execution model. Teva Pharmaceuticals has become the world's largest generic company by relentlessly focusing on better execution to outperform its rivals. Over the past 15 years, the company has been the global leader in acquiring and integrating numerous generic manufacturers, including Taiya; Barr Pharmaceuticals; IVAX; Scios; Novopharma; Copley; and Ratiopharm, a pivotal European player for which Teva beat out Pfizer, the world's largest pharma company. In the United States, Teva routinely beats its generic rivals to market by filing abbreviated new drug applications (ANDAs) for its generic products much earlier and with fewer revisions than competitors. Teva has been an implementation innovator in supply chain management, information technology, and research and development. For example, Teva effectively developed its branded multiple sclerosis blockbuster Copaxone for one-fifth of the average cost of innovative products. The company is increasingly leveraging its efficiency model for developing and commercializing other innovative products as demonstrated

by its recent investments in Cephalon and CureTech. Execution excellence has catapulted Teva this year into the top 10 of global pharma companies, according to Evaluate Pharma.

Virtual outsourcing model. Several biopharma companies have adopted a competitive model characterized by a small number of full-time employees directing a virtual network of support vendors responsible for core corporate functions. In 2006, NPS Pharmaceuticals was a floundering, nearly bankrupt biopharma company with over 400 employees, a failed lead development product, and four research and operational facilities. New CEO Francois Nader dramatically transformed NPS into a virtual pharma company by outsourcing most of its non-core functions to third-parties. NPS closed all but one of its facilities, including its research laboratories and original headquarters in Salt Lake City, effectively eliminating the firm's discovery, manufacturing, and commercial operations. Nader slashed the workforce to 40 people and focused on the development of two key orphan drugs. Today, NPS is a thriving competitor which recently gained FDA and European approval of Gattex, a treatment for short bowel syndrome, and is submitting a biologic license application (BLA) to the FDA in the second half of 2013 for Natpara, a novel treatment of adult hypoparathyroidism. The company recently regained the worldwide rights to these two products from Takeda, making the company a global player in the orphan diseases space. Similarly, Ferrokine Biosciences was a virtual pharma company comprised of seven home-based employees who for several years directed an outsourced group of 60 vendors and contractors developing a novel, once-daily, oral iron chelator for treating transfusional iron overload. In March, 2013, Shire Pharmaceuticals bought the highly successful virtual biotech company in a deal valued potentially at over \$300 million. PE