The pharmaceutical industry is broken! How many times now have we heard this kind of doom-mongering? I can remember starting out on my career as a pharmaceutical representative in 1997 and, even then, the medical industry and others were heralding the end of pharmaceutical representatives. Yet here we are in 2014 and pharmaceutical representatives still exist. Their role has changed, as well as the regulations that govern them. Today they are more likely to present information on a tablet computer rather than use a detail aid but essentially the objective of their role is the same; to sell branded drugs.

Now, people talk of the pharmaceutical business model being broken and how hard it will be for pharmaceutical companies to survive the coming decades: the impact of the impending death of the ‘blockbuster’ business model by which pharmaceutical companies have relied on a small number of molecules having global sales of over $1bn globally to fund the rest of their business functions.

The pharmaceutical industry would undoubtedly be in a far worse situation were it not for therapy areas such as oncology, that will tolerate prescription medicine prices of $100,000 and more, or rheumatoid arthritis with treatment costs of around $20,000 per year. In 2012 sales of Roche/Genentech’s Herceptin were $6.5bn globally. In the same year sales of AbbVie’s Humira were $9.3bn. Both Herceptin and Humira make it on to the list of best-selling drugs of all time, where it will be of little surprise that 7 of the top 20 drugs of all time are biologics. With sales figures like these it is hard to say that the blockbuster-based business model is broken. But that is not to say the industry can stand still; in fact, the pharmaceutical industry is in a state of flux as the seemingly never ending announcements of re-organisations, mergers and acquisitions tells us.

To prosper in this new world it will be essential to ask questions about how the healthcare environment is changing and consider how a new business model can help achieve success in this new world. Questions such as: How much longer will healthcare providers agree to pay...
such significant sums for new treatments? What happens when high drug prices are being asked for new treatments in areas like Alzheimer’s where much larger patient numbers are involved? How will fast-growing markets fund healthcare if they have over a billion citizens compared to the millions in western markets?

The future of healthcare provision has many challenges but within these challenges are commercial opportunities. The question is, which industries will realise those opportunities?

There are some clear challenges ahead for healthcare provision in the sheer numbers of patients globally. By 2030 it is estimated that there will be 552 million cases of diabetes, with huge cost to healthcare and multiple complications and co-morbidities, including cardiovascular disease; in the same year there will be an estimated 21 million cases of cancer diagnosed, compared to 12.6 million per year currently, and 75.6 million people with dementia,

Global sales of Roche/Genentech’s Herceptin in 2012

$6.5bn
Comparing to the estimated 44 million in 2013, these patient numbers increase as the global population is living longer than ever before. By 2050, for the first time in history, the number of people over 60 will equal the number of people under 15 at 21 per cent of the population. These population changes bring challenges for healthcare provision not only from a medical perspective but from a funding one too.

"Rolls Royce Engines transformed its business to one based on ‘selling the air’ from their engines"

Discussing the ageing population in Japan, Mr Nakamichi, head of Sandoz, Japan, said: “With an ageing population, fewer people in Japan are paying health insurance premiums, even as the cost of caring for the elderly rises. Our health insurance system isn’t sustainable unless we cut costs. And the government has recognised that generics are one of the key tools they have in their hands to contain costs.”

In China, the next 15 years will see changes as a legacy of its one child policy. Worries about the growing ranks of the elderly in China are amplified by what is being dubbed the 4-2-1 problem; soon a single person in China will be expected to help support two parents and four grandparents.

Learning from others to accelerate change

Across industries, companies are continually facing new environments and challenges and they must innovate and adapt in order to thrive. We can look to good examples of this and translate learnings for the pharmaceutical industry.

IBM provides a good example of a company successfully reinventing its business model. In the late 1980s IBM was a product-centric business, much like the pharmaceutical industry is today, and was in danger of bankruptcy when the market shifted from mainframe computers to PCs but over the next two decades IBM made a concerted effort to shift its business model to a service and customer centric one, providing software and services turning it into the $100+bn global technology leader it is today.

Interestingly, IBM, through its partnership programme, has brought innovation into the business without the risk of significant investment needed to support these functions within its own business structure. The network of organisations created, and the resulting cross-pollination, benefits both the partners and IBM.

Another example to take learnings from is Rolls Royce Engines; having transformed its business model over the last two decades. It moved from a product-based business model selling commercial aircraft engines to one that is based on ‘selling the air that comes out of the back of those engines’ ie customers don’t buy an engine, they pay when the engine is in use. This business model shift has led to greater integration of Rolls Royce with its customers.

To ensure the planes are in the air as often as possible Rolls Royce monitors thousands of engines globally, in real time, as well as efficiently servicing and maintaining those engines. As well as the obvious customer benefits, the data from monitoring those engines has allowed Rolls Royce to develop incremental innovations, keeping its engines as efficient and up-to-date as possible.

Learnings from both of these examples can be applied to the pharmaceutical business model.
What could a new world business model look like?
Business models are built on assumptions – ‘regulators will only do these things’, ‘governments will only pass these laws’, ‘healthcare providers will only pay in this way’, ‘we are only commercially successful if we have this level of revenues in any one year’ etc. To create a new business model fit for a new world these assumptions need to be clearly defined and then challenged. There are important questions to be asked such as: Can we apply the same business model to chronic and acute conditions? On what platform could we build preventative treatments? How do we develop closer relationships with patients as they become paying customers?

To innovate your business model you need to consider each element in detail, for example you need to have a clearly defined value proposition. When we talk about value proposition within the pharmaceutical industry many will default to a typical payer value proposition. But this is not the whole story; a true value proposition addresses three key elements of how value is created in the eyes of the customer; it speaks to the functional, emotional and social elements of value. Humans, no matter how scientifically-minded or highly-trained, are not automatons. Our cultural norms, our personal beliefs, our emotions and our perceptions all play a part in our decision-making and so these factors need to be taken into account rather than simply considering a rational, logical mindset.

It be will essential, in reviewing your business model, to consider how healthcare provision is changing, for example, what can the role of the pharmaceutical industry be in prevention? In Alzheimer’s disease current clinical measures are not accurate enough to be of use in the very early stages of Alzheimer’s before symptoms present. So how could you have a business model that actually pays on prevention? Could you define algorithms for time to development, earlier treatment at low cost that increases as the patient ages or has milestone costs? Of course it is easy to come up with scientific, regulatory or legal reasons why this would not be possible today but that is part of the point; if we are constrained by what is possible now rather than what could be possible in the future then there would be no innovation.

Where will new business models be embraced?
New business models will have impact across the globe but fast growing markets will be quick to adopt new models in healthcare because existing western models do not apply, with the vast differences in population size and healthcare provision infrastructures.

If you want to innovate your business model find markets that face significant challenges and work there to develop prototype business models that you can apply to other markets. China and India both wrestle with the challenge of providing healthcare to over a billion people and this challenge brings with it opportunities. There are also western countries ready to adopt new business models and Novartis is conducting trials in Spain of its Novartis telehealth hub for COPD patients, a sub-group of the ageing population who have high healthcare utilisation costs. Novartis is also trialling its system in Brazil and Nigeria.

There are many other examples of how to innovate your business model out there in healthcare and you can learn from other industries. What it really takes to innovate your business model is commitment and the determination to look for new ways of working and not just accept what has gone before. What we know is that the opportunities are there and that someone will realise those opportunities. The question is will it be the pharmaceutical industry?

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Estimated cases of diabetes around the world by 2030

from adopting a more collaborative, innovative research community through to becoming a more integrated part of healthcare provision on the whole, rather than just the provider of the pill.

552m

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