HEIDRICK & STRUGGLES

leading change in big pharma's new reality

By Charles Moore

After long years of adjustment Big Pharma accepts the case for change. New business models are being contemplated as are bold new sales strategies, such as sharply reducing the cost of pills sold in developed markets. These changes are, of course, a reaction to the now familiar litany of challenges the industry faces: blockbusters going off patent, aggressive generics makers in both developed and developing markets, and the still arduous process of developing new drugs. Some companies are well on their way to adjusting, others struggle. The challenge for Pharma leaders is bringing about this change, and never has the right leadership been more important.

"Life sciences firms need to innovate in terms of both their business models and their products," says Ramesh Subrahmanian, President, Asia Pacific Human Health at Merck. "We need people who can anticipate and work in rapidly evolving marketplaces. People who can see around corners and who have broad business acumen with diverse backgrounds. No longer will it be enough just to have a hardcore pharmaceutical sales background. We need the ability to balance a number of stakeholders: patients, physicians, the scientific community, payers, distribution channels, and hospitals. There will be a premium on people who can innovate and move quickly. The biggest change is to look outside pharma for the skills we need. We need to be open to drawing on best practice from other sectors."

A New Look

As Subrahmanian suggests, the leadership teams of life sciences firms will have a substantially different makeup in the decades to come. Leaders who have risen through the industry's traditional pillars of sales and research & development will still hold important roles, but as life sciences firms change to take advantage of new opportunities, so to will the composition (and relative importance) of the members in the leading team. This will see a marked change in the corporate cultures of pharmaceutical firms.

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To change a culture, leaders need to know what they are dealing with. There may be words that are linked to the corporate culture. Words like excellence, shareholder value, integrity, and customer led. But in most companies the culture is revealed not through words but through actions. Leaders must read the unwritten code that the company lives by. They must interpret culture by observation and inquiry. Transformational change is something the workforce does rather than the leader, whose role is to create the conditions for change. They invite a cultural change by instituting new operating processes, by choosing a new management team, and through leading by example.

On big change in the sector is the realization that there is life after patent expiration. The firms that have embraced the changing landscape are changing their teams, bringing in brand marketers who can build loyalty among doctors and patients. Such marketers are found not in pharmaceuticals, but in the world of fast moving consumer goods (FMCG). Marketers who, through effective branding, can induce consumers to pay a large premium for a discretionary purchase offer a powerful antidote to cheap, but faceless, generic life sciences products. When it's a question of health, what consumer would not choose the more trusted brand?

"Brands indicate value and trust," says Subrahmanian. "In markets where employees must pay for their own medications, there is an opportunity to establish a value proposition with the medical community and patients. But ultimately we need to focus on what patient outcome we are delivering. Are we delivering the outcomes that patients expect? We have a role to play in educating people about keeping healthy; it goes far beyond just providing medications."

Further Consolidation

As both big pharma players and generics search to increase their scale, spurred on by market liberalization and commoditization, forward-looking companies are in a race to boost their mergers and acquisitions capabilities. Traditionally, life sciences roles have not even been on the list for top rate financial professionals, but the malaise in the world's financial markets offers a superb opportunity to poach leading M&A professionals. M&A holds tremendous risks, both in short term execution and long term integration. A strong M&A team is essential to mitigating these risks.

To Subrahmanian, there is "no question" that further industry consolidation will happen, as the industry is still highly fragmented. But he reckons that making the right acquisitions is only one piece of the puzzle. "Far more important than acquisitions will be the types of partnerships we have in the market. All pharmaceutical companies, including Merck, have a good track record at looking at external partners, ranging from hospitals to schools to community groups. The ability to work with many different types of institution will be very important going forward."

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Change has not been kind to the life sciences industry, but in an increasingly wealthy world, where chronic "rich-world" diseases abound, there are countless opportunities for life sciences to make a difference in people's lives, while still retaining viable business models. The firms who understand this, and rise to the challenge by appointing the right people for the times, will prosper in this era of change.

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