

New Business Models, and its applicability & application to Emerging Markets

There is a growing interest among consultants and thought leaders focused on the healthcare industry in applying new business models. due to its high contribution to the GDP expenditures of the developed countries. the pharmaceutical manufacturers, due to its dynamics (or more like lack-of) and slow pace to adapt to an environment that is the more and more hostile due to externalities and competitive features that are common for other sectors, but unforeseen in the ethical market.

The pharmaceutical manufacturers have been resilient to change, and, during the last years, lack of retail innovative drugs, legislation and generics have been eroding top- and bottom-line balance sheets, to levels that start being unacceptable to shareholders. A sector that was used to wealthy margins, is finding itself, one decade on the go, with few additional 'SF effectiveness' to implement and sustain the current figures.. Beyond the small commercial operations implementation changes (SF reduction, targeting, call planning, territorial alignment), that have been the focus of the operational management in the last years, there is a deeper, more strategic, and higher-management change needed.

This very much needed strategic change should start at board level, considering the sustainability of the company business model, focused on core competencies. The decisions at this level pass by traumatic strategic decisions, like the one taken by IBM when PC's and Dell's competitive pressure became unbearable, or like the one Takeda took in UK a decade ago. As an example of more or less intended decisions in this field, Pfizer's last years strategy has been more focused on development by acquisition than by organic R&D blockbuster's growth, profiting from the commercial and



marketing best-in-class practices, recognizing the weakness of the (expected) core competency of a pharma company. Pfizer is, today, behaving more like a P&G FMCG, maximizing bottom-line to prepare for the next acquisition to maintain momentum of growth and margin levels

One level underneath, the non executive directors should focus on portfolio management and business development expansion possibilities. On this particular segment of decisions include licensing in/out, strategic manufacturing alliances, co-marketing / co-promotion initiatives, or even (if at all) launch of products on a given geography or TA.

Finally, executive directors should direct their attention towards changing the commercial operations modus operandi – but not just the sales force. Among these initiatives, the ones that resonate the best with the executive directors include differential commercial models, key account management, guidelines and i stakeholder mapping, influencers valuing, market access or even HEOR studies for improving price / reimbursing levels and patent expansion.

New business models (NBM) initiatives focuses on the latter of these three levers. For developed

markets, with structured and saturated markets, and where the companies have penetrated the market with their full product portfolio, and innovation introduction is a standard procedure with predictable timings and penetration rates, this NBM is the low barrier entry to the very much needed change in the sector. Higher more traumatic changes (on portfolio decisions or strategic company directions) due to the high stakes, and the stability of the market, will take more time, effort, and cultural change to be considered, and even yet, undertaken.

If we turn our attention to developing / emerging economies, these markets are heavily underdeveloped in the healthcare sector; the social security care is not granted universally, and neither by far with a basket of goods that is the minimum needed as considered in other richer countries. Most of the products are today out-of-pocket, the portfolio of retail products that has been launch and established for years by the international companies in developed markets might or might not have been launched, legislation swings happen at leapfrogs, and, in some of them, IP is not fully granted. Truly, fully, a by-the-book unstructured market definition.



Because of this swirling milieu, the companies have not been able, had the chance, the time, or the interest, to establish best practices, or even in some cases, stable or full operations. The high sustained growth of these markets on the last 10 years (mimicking the macroeconomic environment) has been providing all companies, branded and generics alike, with superb topline at minimum investments. Expected growth year on year, minimum concern, and good exchange rates have been fueling uncontrolled operations, left in most cases on the hands of wholesalers, distributors, local partners, and with only partial portfolios launched.

During the last two years, we have seen the environment on the emerging markets evolving and rationalizing at a quicker pace than companies have established operations. Legislation on pricing, reimbursement lists, structuring of the market, market generitisation, and governmental facilitation mirroring market structures of companies ten years in advance, are leaving most of the international companies on off-side.

What would be most beneficial to companies in this market? What should be the company's initiatives prioritized in the markets where the basics have not been established, where operations are not fully fleshed, where the behavior of players of the market does not imitate developed countries and where backbone portfolios have not been introduced? Working on new commercial models at executive director level is like making a puzzle without model and missing half of the pieces.

The new business models in emerging markets is not-or shouldn't be- focused on changing commercial models at local executive director level; it should be considered at two higher levels. We are talking about portfolio expansion strategy, managing maybe a third party product portfolio

and becoming an expert marketer, or allowing others to exploit your portfolio at a fee, we are talking about market structuring and consolidation strategies – collaborating with governments and insurance funds, and, ultimately, a leapfrog from board level on a strategic decision regarding differential management (operations and expectations) on these markets.

Of course, basic operations, whilst established, shouldn't be disregarded. But these operational - scale improvement – the same one the structured markets have undergone during the last 5 years, to assure cost minimization- should not lose the focus of management for the need of considering a high-level scenario planning, innovative strategic portfolio and competencies management and risk-game management associated to the business model change chosen.

For further information on portfolio management, emerging markets and strategy for business development, check www.zarzia.com or contact us at office@zarzia.com