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Challenging times require bold moves if pharma is to survive immediate storm

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Even the largest pharmaceutical companies will soon need to step outside their sector and collaborate with other organizations, according to new research by PricewaterhouseCoopers. Recently announced activity such as between the world's two largest drugmakers, GlaxoSmithKline and Pfizer, in a new HIV-focused venture, confirms that pharmaceutical companies are exploring new ways to collaborate (Marketletter April 27).

At the same time, a flurry of merger and acquisition deals have been triggered - Roche/Genentech, Pfizer/Wyeth, GSK/Stiefel and Merck/Schering Plough (Marketletters passim). While M&A will continue there are alternatives, such as collaboration, that PwC believes will actually be more flexible and value-enhancing in the long term.

The research group says that the financial crisis may force many more companies into collaboration. In fact the government's response to the economic climate has allowed agreements outside the pharma sector that would have been unthinkable before, such as waiving competition issues for mergers. Deals could address the current funding crisis for biotechnology firms, but this requires an immediate response. In fact, the pressure to change to new business models could come from outside the pharmaceutical industry, perhaps triggered by regulators, investors and health care payers.

Disease management program savings

There is plenty of evidence to suggest that there are significant benefits from a collaborative approach with longer term aims. A study by the Rand Corp estimated the financial savings from having 100% participation in disease management programs for four conditions (asthma, chronic obstructive pulmonary disease, diabetes and congestive heart failure) in the USA. It estimates the net savings to the health system to be \$28.0 billion (around 2% of total US health expenditure), with additional benefits to the economy in terms of working days saved. Moreover, companies will need to move fast, because several non-pharmaceutical companies have already entered the arena. Vodafone has, for example, joined forces with Spanish telemedicine provider Medicronic Salud and Aerotel Medical Systems to offer a wireless home monitoring service. Similarly, Prudential is collaborating with Virgin Active Health Club to offer a critical illness policy that provides subsidized gym membership and rewards people who exercise regularly.

The changing face of the wider health care model globally and the demands from different stakeholder communities, including the patient, will require that pharmaceutical companies provide holistic solutions, not narrow treatments. In tomorrow's world this means that drugmakers must work more with other parties. To do so they will have to "profit together," by joining forces with a wide range of organizations, from academic institutions, hospitals and technology providers to companies offering compliance programmes, nutritional advice, stress management, physiotherapy, exercise facilities and health screening, says PwC.

Jo Pisani, partner in the pharmaceutical and life sciences practice at PwC, commented: "in the future, collaboration will be a 'do or die' requirement for pharmaceutical companies and health care payers alike. Big Pharma's traditional fully integrated business model enabled it to 'profit alone' successfully for many years. The top companies saw their market value soar 85-fold between 1985 and 2000. But this model is now under huge pressure and if not already broken is predicted that by 2020, will not work."

Cannot "profit alone"

"In the next decade no pharmaceutical company will be able to 'profit alone.' It will be essential for pharmaceutical companies to develop effective medicines and address the demands of payers who will be increasingly well equipped to measure whether they are getting value for money. Extensive collaboration will take many pharmaceutical companies out of their comfort zone, but it's the only way they will profit by 2020." he said.

"If the leading pharmaceutical companies cannot change their business models rapidly, other firms may ultimately feature more prominently on the health care scene than they themselves. The shift in the market and strategic importance of data and new technologies opens the door to new entrants to take a leading role, such as Google and Microsoft, data providers and companies with strong brand reputations that can be stretched such as GE Healthcare," Mr Pisani warned.

A new model to the pharmaceutical industry is the federated one, whereby a company creates a network of separate entities with a common supporting infrastructure. These might include universities, hospitals, clinics, technology suppliers, data analysis firms and lifestyle service providers based in numerous countries. An example of this would be a federation to address cardiovascular disease, here the federation could include drugs companies, clinics and diagnostics to provide diagnosis and treatment, but also nutritional advisors and stress management services to prevent disease. All the players would be rewarded based on patient-centered measures such as increased quality of life.

The fully-diversified model that will be followed by the largest of drug firms is one in which a company expands from its core business into the provision of related products and services, such as diagnostics and devices, generics, nutraceuticals and health management. Johnson & Johnson is Pharma's leading exponent of this approach. This model enables companies to reduce their reliance on blockbuster medicines and spread their risk by moving into other areas of the market.

Simon Friend, global pharmaceutical and life sciences leader at PwC, concluded: "most large pharmaceutical companies use external contractors to supplement their in-house resources, but very few firms have taken the next step. Yet there is no reason why many companies could not outsource R&D, manufacturing and promotional activities. This would allow them to focus on their main value-adding functions - project management, business development, regulatory affairs, intellectual property management, pharmacoeconomic analysis and the formation of good relationships with key opinion leaders and health care payers. The world is changing fast and those who are flexible and can adapt will reap the benefits."

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