

IBM Institute for Business Value

Fade or flourish?

Rethinking the role of life sciences companies in the healthcare ecosystem



Overview

The life sciences industry stands at a crossroads. Its business model is broken, and the surrounding healthcare ecosystem is changing dramatically. So how should companies respond? They can carry on as normal and potentially fade into insignificance or completely rethink how they engage with the other stakeholders in the healthcare ecosystem in an effort to flourish anew. In today's increasingly complex and fast-changing environment, business model innovation is critical to success. Yet few understand when to make a change or – more important – how to execute one.

The challenges facing the life sciences industry are well documented. The industry's scientific and commercial productivity has declined, the blockbusters on which it has long relied for much of its financial prosperity have come off patent, sales forces are shrinking as physician access is restricted, and payers are increasing price pressures.¹ Economic, social and technological forces are simultaneously reshaping the world in which the industry operates.

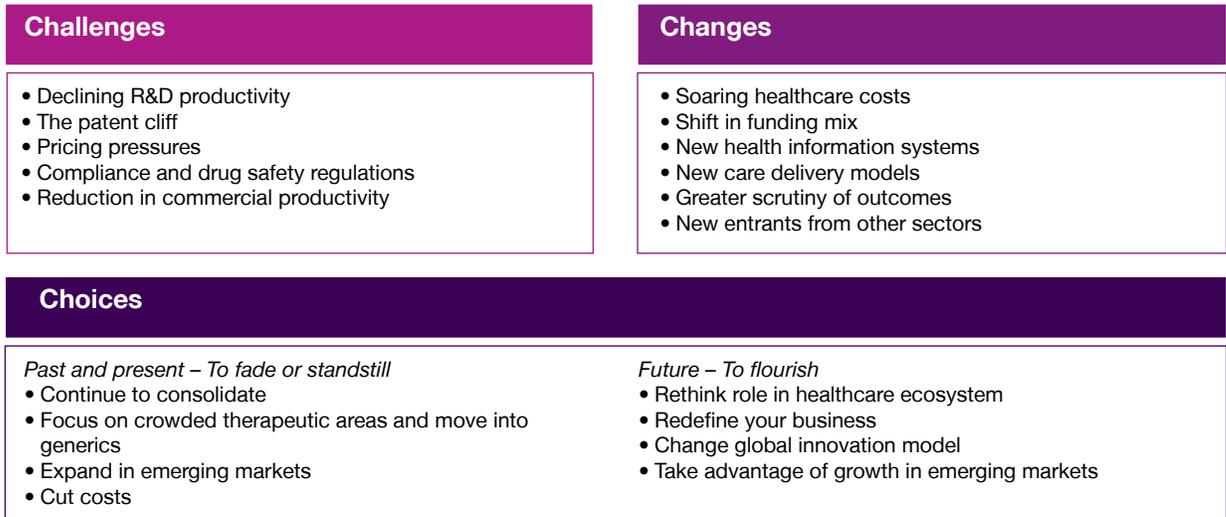
The industry now faces a “moment of truth.” It can stick to its current course: consolidating, cutting costs, tinkering with adjacent market spaces, reorganizing the existing sales force and investing ever more money in searching for new medicines in crowded therapeutic areas. Or it can completely rethink how it engages with the healthcare ecosystem.

We see four fundamental questions driving the strategic direction for life sciences companies over the next decade.

1: What will your organization's role be in the healthcare ecosystem?

Life sciences companies today are largely viewed as suppliers of products – products that many perceive to be expensive, unsafe and ineffective. However, the life sciences industry serves a noble cause. We challenge you to define your organizations in a way that broadens and unlocks the value of that cause.





Source: IBM Institute for Business Value analysis.

Figure 1: The life sciences industry faces three big Cs.

2: What business will you be in?

The industry is faced with a set of choices that provide an opportunity to expand the definition of what it offers or to focus on fixing the existing business. This choice seems to be playing out through the recent merger and integration activities. Major companies are spinning off pieces of the business to “focus on the core,” while others are acquiring new businesses to diversify. But where does the real value lie for companies and how do they move beyond diversification?

3: How do you change the global innovation model?

One of the great, unsolved challenges in life sciences is creating a more productive R&D function. What would fixing the innovation model achieve? Putting a number on the potential savings is very tricky. But Thomas Lonngren, former head of the EMA, recently estimated that about 70 percent of global life sciences R&D expenditure – now some US\$85 billion a year – is squandered.² If the industry could halve that, it would save almost US\$30 billion a year.

4: How will you take advantage of growth in the emerging markets?

While mature markets still represent the bulk of the profits for the industry, there is general agreement that growth will come from the emerging markets.³ It is less clear how best to capture that growth and create a sustainable global model that could potentially benefit both mature and emerging markets.

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Conclusion

The life sciences industry stands at a crossroads, and the road signs are clear. Global business leaders are expressing a view that the speed, immediacy, unpredictability and viral nature of change mean they can no longer expect to manage through this environment. Rather, success will depend on their ability to innovate through it.

Those companies that can innovate and reinvent what it means to be part of the life sciences industry have a real chance to flourish and play a new and transformational role in the healthcare ecosystem. Those that cannot or will not change will likely be overwhelmed by the challenges facing the industry and fade from the stage.

How can IBM help?

- R&D transformation solutions, including business model innovation clinical business intelligence
- Sales and marketing transformation solutions, including customer analytics
- Strategy and transformation solutions, including M&A and globally integrated enterprise.

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References

- 1 For many years, the life sciences industry consisted of conventional pharmaceutical companies. It now encompasses biotechnology firms, generics producers, medical device manufacturers, medical services and supplies companies, medical distributors, animal health specialists, nutraceuticals manufacturers and consumer healthcare companies – a diversity that makes both the industry and its challenges more complex.
- 2 Stovall, Sten. “Europe’s Drug Regulator Says Innovation Must Pick Up.” *The Wall Street Journal*. December 15, 2010.
- 3 “Strength Emerging In The Health-Care Sector” *istock analyst*. July 5th, 2011. <http://www.istockanalyst.com/finance/story/5272732/strength-emerging-in-the-health-care-sector>



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