LENVENTURES CONSULTING

Viewpoint

Strategies for Commercial Innovation in Biopharma

Industry practices and recommendations

Biopharma keeps preying on commercial innovation, as the industry's incumbent model persists

The biopharmaceutical industry still shows rather limited progress on its way to commercial innovation. While drug price criticism has become a constant in public discussions around the world, the industry remains in quest for strategies to increase drug value capture and to generate new revenue streams. The need for innovation, however goes well beyond the effects of public perception.
It is severe external and internal challenges that require new commercial strategies, and a breaking through the persistence of the industry's traditional marketing and sales approach.

External challenges

Companies face various and evolving challenges to commercializing their therapies in international markets. The spectrum of access and value demonstration hurdles, regulatory constraints or different stakeholder landscapes reveals the limitations of the traditional commercial approach with global marketing and sales standards. Decreasing return under this standard model drives the need for local solutions but challenges economics from a global perspective at the same time. Innovative strategies have to balance this dilemma.

International marketing authorization and market access requirements drive complexity in development programs. Competition in many therapeutic areas is fierce and exclusivity headroom is contested. This increasingly constrains the traditional models for revenue generation with innovative drugs. Companies require new ways to capitalize their portfolios and expertise, however this is difficult in an industry that for decades has attracted investors to the principles of single blockbuster products.

Severe external and internal challenges require biopharma to pursue innovative commercial strategies

Internal challenges

Different from the past dominance of primary care blockbuster products, today's biopharma portfolios shift to specialties therapies with more fragmented revenue shares. These therapies, often applicable in multiple medical indications, require tailored commercial models and continuous adaption of offerings and capabilities. Many biopharma organizations fail to handle this complexity and to establish the required culture for change. As a result they often focus on apparent, conventional stakeholder needs and adhere to familiar marketing and sales models.

Under these conditions biopharma has been trialing on global and local levels of organizations to innovate commercial strategies, and to overcome the inherent bond of affection to the traditional pharma approach.

Different types of strategies explored – successful innovation has to unlock the value of portfolios and capabilities

Based on our industry insights and interviews with biopharma executives Lenventures Consulting has analyzed the most prevalent strategies for commercial innovation. Results show that biopharma companies pursue *three different archetypes* of commercial innovation strategies – each different in the way they build on new offerings and new capabilities (see Exhibit 1). Corresponding commercial models can be shown for each archetype that constitute specific sets of offerings and capabilities.

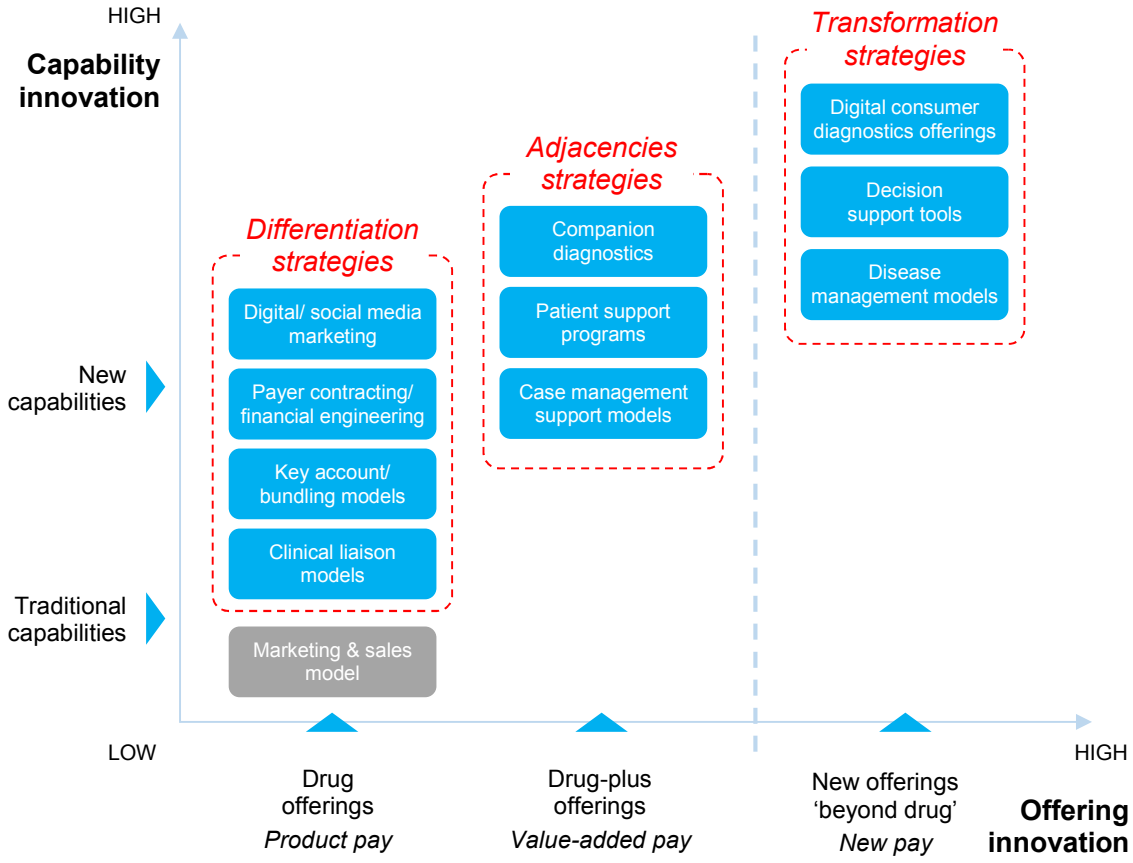

Exhibit 1: Biopharma commercial innovation strategies

1. Differentiation strategies: new capabilities to commercialize drugs

Many companies pursue new stakeholder engagement and channel models to balance limitations under the traditional approach, and to realize competitive advantage. These differentiation models present a specification of the marketing and sales approach to individual disease areas or local market context, and build on new functional capabilities. Examples of successful models include clinical liaison forces, key account management, payer contracting and financial engineering, or digital media marketing. They have shown operational impact across the industry, and many have become part of companies' standard approaches and capability systems.

Differentiation strategies have been the intuitive way forward for biopharma. Stakeholder needs are known, required functional capabilities are highly coherent with the standard marketing and sales model, and investment needs are limited. The models offer short-term effect in drug selling and can be executed across portfolios. This leads to organizational acceptance and limited implementation risk, as capabilities can be developed from existing operations and often embedded in global standards. A successful execution realizes sales effects and substantiates pricing with payers.

Differentiation is the intuitive way forward, but fails to solve limitations of the traditional model

A critical review shows that many differentiation strategies often do not realize a sustainable advantage. They are rather easy to replicate for followers, but not pursuing them exposes to obvious disadvantage. While they present new activities, their implementation in many organizations in fact has substantiated the adherence to the traditional pharma approach.

Perspective: While differentiation strategies provide impact in marketing and selling drugs, they do not resolve the limitations of the traditional approach. The challenges to value capture with portfolios persist: the drug remains the sole offering and the *product pay* paradigm may be re-engineered but not replaced. Models fail to generate offerings with incremental value proposition and correspondingly, payers' willingness to remunerate extra. Therefore companies remain under the economic and organizational limitations of the traditional approach.

2. Adjacencies strategies: enhanced value propositions for drugs

To enhance the product value proposition many companies have moved into value-added offerings as drug adjacencies. These service models provide incremental value for patients or stakeholders, typically from a more effective or safe use of therapies. Patient support programs, case management support for providers, companion diagnostics and other adjacencies models have demonstrated positive impact, and have become trusted extensions in applicable biopharma commercial approaches.

Value-added offerings have been pursued with success in many specialties indications and rare disease areas. The specific needs of smaller patient populations and provider groups offer direct engagement points, and product economics indicate the investment case for new offerings and capability-building. This leads to conceivable business and investment risks. Successful models often realize a differentiated positioning with patients and stakeholders that is also more difficult to repeat for followers. This results in new patients or increased therapeutic adherence levels.

At the same time the specificity of models makes them difficult to transfer across portfolios. Implementation is subject to diverse local regulatory and legal context, which limits options to replicate models across markets and to build global standards. As the required capabilities are different from traditional biopharma capabilities, models often require external service or technology partnerships and face barriers to acceptance in organizations. Biopharma is rather inexperienced in managing external partnerships different from business development or outsourcing.

Perspective: Adjacencies strategies with services have potential to activate value-added payment opportunities. While they deliver accepted incremental value to patients and stakeholders, biopharma in many cases fails to translate them into margin increase. Often biopharma's remuneration claims lack supportive evidence. In addition existing market access standards foreclose a conversion of value-added pay approaches. Since payer pricing mechanisms typically build on drug substance principles and barely allow for value-added elements, opportunities foremost exist in direct commercial negotiations. The cultural and capability requirements for adjacencies strategies can activate organizations to cross the boundaries of traditional pharma.

3. Transformation strategies: new offerings from core capabilities cross-over

For radical commercial innovation biopharma needs to transform core capabilities from the drug ecosystem into new areas of value creation. Disease management models, decision support tools, or digital consumer diagnostics build on marketable new offerings and business models that go 'beyond the drug'. They reflect a cross-over of disease area medical expertise, insights generation and processing, multi-stakeholder solutions or other parts of biopharma's core capability system. Transformation is different from a diversification where capabilities may be sold "as-is" at the same time to external markets, such as contract manufacturing or contract research.

Healthcare consumerism and inefficient care delivery structures in many markets provide attractive transforming innovation opportunities for companies with leading capabilities, in particular with unique medical propositions. Beyond this capability coherence, biopharma's international presence and ability to capitalize place the industry into a preferred position to fill innovative entry options.

Successful transformation requires consequent management and investment approaches

Reality shows that the majority of existing biopharma transformation models resides in conceptual or pilot phase. Foremost they offer no direct effect on drug selling. Many companies find it difficult to seize and prioritize new offerings that make best use of their core capabilities. In many cases promising concepts are not advanced to a proof of concept or commercial stage, as their business model, risk profile or short-term comparative potential to drug innovation often does not reach executive acceptance. Advanced projects are not managed with the required speed and agility which are different from drugs, and then fail market needs. At last biopharma often misses to convince customers and stakeholders about its lasting interest in a new offering – as lateral to drug core business.

Perspective: Transformation strategies can unlock new revenue streams. The corresponding new offerings build on a cross-over of core biopharma capabilities which can constitute also a 'right-to-win' in the new marketplace. Successful transformation requires the acceptance of new business models in parallel to drugs, and committed management and investment approaches to convert and scale innovation opportunities. Leadership consequence is also the key to mobilize organizations for the shift to new domains – beyond traditional biopharma.

Conclusions

The choice of commercial innovation strategy ultimately depends on a company's value proposition and uniqueness of portfolio assets, and its ability to demonstrate value for patients and healthcare systems. At some point in the product lifecycle, however the external and internal challenges discussed above will challenge every biopharma's commercialization.

As shown *differentiation and adjacencies strategies* offer direct margin or volume effects in commercialization, and therefore should be essential elements in go-to-market considerations. While they provide short-term impact they fail to reduce biopharma's strategic dependence on drug prices. Organizations focus on continuity or minor variations of offerings, and the traditional industry paradigm and its limitations prevail.
Transformation strategies based on core biopharma capabilities can lead to true commercial innovation, with revenue streams from new offerings that are independent from drug prices. At the same time they typically have no direct impact on the drug core business. Successful transformation requires commitment and focus, to scale new offerings and mobilize organizations behind them.

Biopharma requires forward-looking, balanced strategies for commercial innovation that support existing core business needs but also reduce the dependence on the drug product paradigm. It is the right choice of models from the presented archetypes that, along product and portfolio lifecycles allows to unlock both the current and future value of assets and capabilities. They combine into a company's winning commercial innovation strategy.

Recommendations

Companies should consider the following references when developing and implementing their commercial innovation strategies:

- Make commercial innovation an integrated part of product strategy along the lifecycle, and ensure that a portfolio-wide perspective is considered
- Identify innovation opportunities early on from local stakeholder insights, validate scalability across markets, and drive realization at the global or regional level
- Assess the strategic value of your company's core capabilities as part of the recurring strategy dialogue, to systematically identify transformation options "beyond the drug"
- Prioritize innovation opportunities in particular based on your company's capabilities and 'right-to-win' in a new marketplace
- Invest early into accepted evidence and 'proof of concept' for innovative offerings, in line with the objectives of target health customers and stakeholders
- Leverage strategic partnerships and external investment options to access new market insights and distinctive capabilities needed for innovation
- Organize innovation projects close to senior leadership, to balance new and core business objectives and follow through with investment decisions
- Embed innovation objectives in your organization's target setting models

LENVENTURES CONSULTING

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