Primary Challenges in the Pharmaceutical Industry: An Interview with Christopher Bowe
Christopher Bowe is the U.S. healthcare analyst for Informa’s Scrip Intelligence. He examines strategic industry issues for the pharmaceutical and healthcare industries. This includes engaging and serving subscribers through “Ask the Analyst,” Scrip’s tailored project research advisory service. In his most recent previous role, Bowe served as counselor, Strategic Affairs at Schering-Plough, working directly with CEO Fred Hassan, as well as his senior management team, at the pharmaceutical group.

An award-winning writer, previously of the Financial Times, Bowe also has appeared in print media including Bloomberg, Dow Jones, and Reuters wire services, as well as major broadcast media such as the BBC, Bloomberg TV, CNBC, CNN, Fox Business News, PBS, NPR, and Irish radio.

Forum sat down with Mr. Bowe to discuss the primary challenges facing leaders of the pharmaceutical industry.

Forum: The pharmaceutical industry is at a crossroads: patents expiring, public policy and budgetary challenges, changes in how patients access medicine. These are just a few of the challenges to the industry. Above all of these, what is the central challenge organizations in the industry face?

Bowe: The underlying challenge to all the others is the elusive search for the right business model. There was a relative consensus for quite a while on the right model for integrated pharmaceutical companies. Within that, the strategy and model for how they operated is at least 50 years old. But their business environment is changing rapidly with heavy structural shifts. The developed world markets, particularly the most lucrative, the U.S., are increasingly challenging for the reasons you cited. Put simply, they are not the growth areas they used to be. But most of these companies’ pharmaceutical business models are built for these markets. So this leaves them with questions on how to structure their innovation, marketing and sales, manufacturing, and portfolios accordingly.

The industry consistently points to a future with new growth in the emerging markets. But that does not mean that its business model is ideally suited to take most advantage of emerging market opportunities. Some of the most interesting model shifts—from product divisions and portfolios to R&D structure—are starting to appear for emerging markets. Some companies see different kinds of model needs for these new markets.

The R&D structure of the business model is a big part of this. Some inside and outside of the industry have started to question the return on investment in R&D. Whether that question is appropriate or not, it certainly raises a flag. It points to a concern over whether capital is being allocated in the right way to meet future market and business needs—the business model of creating and selling customers what they want at the right time, and at the right price. What do the regional healthcare markets want in the future and what is the right investment to bring it?
And then of course, there’s the size issue. No discussion of the search for the right business model can escape the issue of whether there is advantage or disadvantage in size. The consolidation of the last 20 years has created companies with incredible scale. There is an argument to be made that this size had created the very challenges it was meant to ward off. For instance, in another industry, we do not see Apple purchasing direct product competitors to improve its pipeline and future growth.

So that is the picture of what leaders of these companies face as they seek to find the right model for the near future, not to mention the long term.

**Forum:** Are any models emerging as dominant?

**Bowe:** The dust has not cleared from the transition. So far, what we can see is that there are divergent views on the future business model with big companies. For instance, take the fluid contrast of model decisions made by Pfizer and Merck in the U.S. Merck has declared and continues to reiterate its philosophy that high-risk, high-reward R&D is and has always been the model. The philosophy here is that this model confers credibility and value by bringing new treatments that attract a premium price to increasingly skeptical and powerful payers. Merck states that it believes this model works in emerging markets too.

Meantime, up to this point, Pfizer has stepped in an opposite direction. While not completely eschewing the high-value, high-risk R&D, it has pushed toward a more distributed business model touching more of the value spectrum in pharmaceutical products. As we know, payers are converging with more power to determine value. Many treatments that have been on the market for 20 years are still considered to be gold standard. And in the emerging markets, these older “mature products” could bring significant value. So Pfizer possesses a wide array for global customers, from generics to older mature products, to new innovative treatments.

Of course there are other models, such as the diversified product model (drugs/devices/other products) and focus on specialty products, including premium-priced treatments for rarer serious diseases.

But what makes the Merck-Pfizer example so instructive to watch is that the contrast is so dynamic. For instance, it is possible Pfizer will change its course and try to strip itself down to a leaner entity. That shows us that business model decisions continue to be in significant flux to find what might work best in a new future environment.

**Forum:** What is the challenge of how people work inside these companies, as so many things shift, including the model?

**Bowe:** Within each of those models they have to reorient themselves to become more efficient. And efficiency is a lot more than just cutting costs and taking out things from merger redundancies or outsourcing. A lot of the efficiency gains within these business models come down to how well people work together and where they have input. That is part of the task of companies trying to reshape themselves.

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Life was clearer in these companies for many, many decades. Now the challenge is breaking down old ways of working that can act as barriers. These companies need to move faster with downfield vision.

Regulatory risk, safety risk, communication risk, public policy risk, manufacturing risk—the cause and effects move so much faster than ever before. To be able to foresee problems, proactively mitigate risk, or react to it quickly, there needs to be different ways for people to work together in key parts of the business. They need to be connected in different ways and empowered. This is where fresh approaches to the business model could be of value and instill a sense that the status quo is not the right answer anymore.

**Forum:** Is the pace of change overwhelming these organizations, or their boards of directors?

**Bowe:** In recent history, you can see the boards of these larger companies struggling to find the right mix in a person to run these companies in a new world. There are so many question marks on what the companies will look like in the future. You can feel the boards searching for the right mix of traditional pharma operational experience and less-orthodox experience that might help change things. They could be one iteration away from the future leader in many cases.

**Forum:** Do you have an opinion on who that person is or the skills that the right person should have?

**Bowe:** As I said, we could be still finding our way through a generation of leaders to find the right kind of leadership in some of these companies for the new environment. Some pharmaceutical business operational skill/expertise is necessary as we have seen the results of when it is absent. Even more important is that the pharmaceutical industry requires a leader with management process and management people skills like few other industries. The intersection of disciplines and people types in this industry is an interdisciplinary puzzle: from scientists, to marketers, to chemical manufacturers and engineers, to political experts, to medical doctors and the interaction within medicine, to finance, to the unique expectation of what healthcare is for each customer. If nothing else, it requires a leader with extraordinary process and human behavior skills. On top of that, the leadership skills to drive the future of this industry require a proven ability to instill and produce real transformation of these companies. This takes a flexibility and profound curiosity to see the way that the business will be, not what the business has been. The leaders should be willing to look at everything—to say that the status quo isn’t comfortable anymore, but also be able to instill the vision and strategy and reputation of the company to everyone, inside and outside of the organization.

**Forum:** Why is that a rare skill in pharmaceutical leaders?

**Bowe:** That balance has been hard to find. The industry has been enormously successful. The culture of companies can become static. Leaders are comfortable in these cultures and are promoted within it. The peripheral vision becomes just a little bit narrower. Thus the cultures have not been particularly well suited to breed and mentor leaders that are poised to challenge the status quo for the future. Most reward
anything but that. And with few leaders available to mentor and identify such a rare mix of leadership skills in this industry, the road map has not always been clear to select that right person in the new generation of leaders.

For example, in the age of consolidation, most of the mergers lacked the attendant cultural change necessary to make them new, vibrant companies and organizations. The leaders too often left cultural change and behavior shift to lower levels of the company. But this is a CEO job—a top-down priority. Culture change can only happen with an enormous amount of time spent by the highest level of the company driving and demonstrating it. Few managers have actually seen a CEO do this, so it is not passed along in the managerial DNA spawning new evolutionary management.

Forum: Back to your point about divergent business models, if an alternate approach seems to be more appropriate or more effective, is there a risk that the organization might not be able to shift?

Bowe: To be sure, pharmaceutical companies are very sophisticated business operations. They could clearly muster the resources and energy to make appropriate moves to shift, if it became apparent that an alternative emerging business model was proving to be more in line with future trends.

The problem might come with the ability to make the organization believe in the quick model adaptation. This is where that rare transformational leader is so necessary. The companies know they’re not flexible enough. They know it. They can feel it. Add a sudden business model adaptation to the mix, and it gets even more critical for the leader to make everyone believe that this is the future to believe in. For instance, if Pfizer were to change course, the biggest task could be in making its employees and all internal and external stakeholders believe in the change, requiring a profound level of transformation and adaptation leadership. There is a lot of change still to come in the industry and an important challenge for leadership will be to link change and flexibility tangibly to their mission and role with customers, society, and shareholders.

Forum: We’ve talked about business models and leadership skills. For the future leaders of the industry, looking out 10 to 20 years, do you have an opinion on which business model will emerge on top?

Bowe: It will be the model that is best at the diversification of risk. That doesn’t always mean diversifying the portfolio. It is diversifying the risk of development, regulation, fixed-costs of labor, manufacturing, legal, pricing, customer-uptake and sales, and reputation. Eventually some of these companies could look radically different in the next 20 years.

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Forum: What will that radical differentiation look like in 20 years?

Bowe: One part could be that R&D is not a monolithic enterprise any longer, but more of a flexible strategic function that finds the innovation necessary to address each market’s needs. There also could emerge some companies that look like larger manufacturing companies, rolling up products, with predictable growth. I also think it is highly likely that companies could establish reputations in relation to and in comparison with each other, instead of a predominately overall industry reputation now.

Forum: Along those lines, PwC projected three different scenarios on what business will look like in 2020. One is that there is consolidation and businesses get larger, sort of like your large manufacturing scenario. Another is that sustainable businesses will rule. And the third scenario is that business evolves into smaller entrepreneurial units, and everything is more networked.

Bowe: I think that mirrors what I am saying. Yes, there could be companies within companies almost, such as a diabetes company inside of a big pharmaceutical company, which is happening already. Or there is the movement toward an integrated pharmaceutical network instead of an integrated company. All this really underscores that there is intense work and differences of opinion at the very heart of this industry on what constitutes the right longer-term model.
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