BIOPHARMACEUTICAL COMPANIES:
The race for agility and growth

Accenture Life Sciences
Patient Inspired. Outcomes Driven.
Things look good on the surface of the biopharmaceutical industry, with positive analyst expectations for short-term growth coupled with robust treatment pipelines—both harbingers of a profitable future.

What’s not to like? What lies under the surface.

The relatively rosy picture obscures some underlying issues inherent in many biopharmaceutical companies’ operations and strategy. A quiet force is making its entrance: compressive disruption.
The biopharmaceutical industry is not unique in this regard. Compressive disruption happens cyclically in asset-heavy industries.

It results from companies being overly mired in their core business, even as consumer preferences, customer bases, industry trends and technology change around them. Compressive disruption squeezes operating margins over time, slowly eroding profits and revenue. It happens slowly and most companies do not detect the financial pressure until the balance sheet shows real damage. But, companies that can identify the symptoms of compressive disruption early are best placed to overcome it by moving into the New—finding new sources of growth to combat decline in their traditional core business.¹

Risk factors for compressive disruption

Compressive disruption tends to afflict companies with three prominent characteristics.

01 They are traditionally stable over the long term. They rely on significant barriers to entry into the industry, which has protected them from sudden, radical change.

02 They carry a sizable footprint. These large companies, over time, have become unwilling to divest old assets (tangible and intangible) or restructure.

03 They have a long track record of success in their core business. As a result, they tend to overestimate the lifespan of their business model and underinvest in building new ones.
The indicators of compressive disruption in Biopharma

In previous research, we unveiled three indicators of compressive disruption in the biopharma industry: declining Future Value, pipeline replacement ratios, and the time that a treatment holds a market-leading position. Additional research reveals two new indicators are at play.

1. **FLAT OR DECLINING EARNINGS PER SHARE (EPS)**
   The average earnings per share (EPS) has not grown for five years at more than half (56 percent) of companies we analyzed. Additionally, 60 percent have experienced flat or negative operating-profit growth. Yet the change has been gradual; on average, operating profits have only declined by roughly 3 percent on a year-over-year basis.

2. **CONSUMER AFFORDABILITY GAP CONTINUES**
   Against this backdrop, the consumer affordability gap looms large. This means pharma companies are making treatments that the market may not be able to afford; forecasted drug revenues are higher than anticipated levels of consumer spending on drugs. It is unlikely that spending on drugs will continue to increase at the rate required to cover forecasted drug revenues, so biopharma companies’ topline revenue may be impacted.
Forward-looking biopharma executives will evolve their value proposition over time as they move to “the New” with strategic investments in New Science and evolving health ecosystems. They will learn to manage a portfolio of businesses that fall into three categories—The Old, the Now and the New. The “Old” are products and services that have already reached peak growth and are stalling or will soon begin stalling. The “Now” are growing offerings but are already shifting from a focus on innovation to one based on efficiency and eventual commoditization. The “New” are the emerging parts of the business; speed and trajectory are largely unknown.

Figure 1: Evolution of value proposition

Source: Accenture
Competitive Agility: New growth from New Science

Our research shows that New Science will drive 54 percent of industry growth through 2022. New Science is an evolving, unique combination of the best in science and health technology, from genomics and biomarkers, to companion technologies and delivery methods. It fills an unmet need, raising the standard of care, includes a spectrum of innovations, between the cutting edge, and important gradual improvements in medicines.

New Science leaders are making strategic decisions to maximize their growth, profitability, sustainability and trust—at the right time and pace.

This is the essence of Competitive Agility. Our survey of 35 biopharma executives from the world’s largest companies (see About the Research) revealed there are three critical areas where companies can act immediately to fuel the competitive agility they need to compete in the era of New Science:

- investment pivot
- technology convergence
- talent and operations

What is New Science and how can it help?

Companies leading in New Science are escaping the disruptive forces of compression and building the capabilities for exceptional growth. New Science:

01 **Solves for a clear unmet need** through a new mechanism, modality, or health technology, as documented or approved by a regulatory agency. Examples include new cell therapies like CAR-T (Kymriah, Yescarta) and curative gene therapies (Luxturna, Zolgensma).

02 **Often requires a new technology device** or diagnostics for development, or as a companion to treatment. Think of Bayer’s Betaseron and associated Betaconnect injector and myBetaApp companion.

03 **Could be the technology alone** (a small but rapidly growing segment). For instance, Omada Health in diabetes management.
Why competitive agility matters

Accenture’s Competitive Agility Index (CAI) measures companies on three main components of competitive agility: Growth, Profitability, and Sustainability and Trust. According to our cross-industry research, just a one-point improvement in a company’s competitive agility score can yield up to a 4.3 percent increase in revenue growth and a 6.7 percent increase in EBITDA growth. This analysis included over 7,000 companies across 20 sectors and 127 discrete industries, and including 50 leading biopharmaceutical companies.

Figure 2: The Bottom Line on Trust

Source: Competitive Agility research for Pharmaceutical companies, Accenture, 2018
Competitive Agility through investment strategy

INVESTING IN THE OLD, NOW AND NEW
Nine out of 10 companies we surveyed are planning to tackle more than 10 growth initiatives in the next 12 months. Balancing investment in growth initiatives across the Old, with the Now and the New, will be essential.

Most biopharma portfolios remain in older molecule-based science, the traditional core business. Biopharma companies need to move on simultaneous fronts to transform the core of the business—portfolio, people and processes—while determining paths towards investments in New Science (including digital, data and genomics)—matching the pace and direction to their growth strategy.
FUELING NEW GROWTH

Transforming the core business begins by freeing investment capacity and finding fuel for growth with velocity, we call this the Investment Pivot. Two key factors come into play when doing so. The first is financial transparency within your own organization. The second is investment pivot as assessed in Figure 3—the capacity to invest at the right time and pace, shifting as you need to support strategic goals. Uniquely this analysis demonstrates not just a company’s ability to invest, but the strategic direction—are they investing in the old, now or new? Few biopharma executives can compare their investment pivot to peers as few have financial transparency within their own organization. But both are critical for wise, rapid decision-making.

Figure 3: Average Biopharmaceutical Investment Pivot by Revenue Segment 2019-2021 N= 20

Quantification Framework:

- *Ability to Invest: Cash, liquidity, Access to Financing, Deployed Capacity
- *Direction of functional and emerging investments (Old-Now-New)
- *Pace or Frequency of Investing

- The big pharmaceuticals (> $50B), exhibit an overall trend towards declining capacity to invest and a neutral position on direction and pace of investment over time.
- Mid Size Biopharmas show shifts in velocity over time generally increasing either capacity or changing the direction of investments, especially the circa $20B group which is generally the most adaptive and responsive to change.
- The $30B segment demonstrates a swing in their capacity in 2021 and are more likely to have the ammunition for a pivot.
- Given the recent investment and higher valuations into the < $20B group, there are higher capacities to pivot, although a relatively lower rate of frequency of investments.
INVESTMENT SHIFTS TO THE NEW IN R&D AND COMMERCIAL

Our survey revealed that biopharma executives are increasing their investment in partnerships and ecosystems in R&D over the next 12 to 36 months. Today, 40 percent are executing growth initiatives that involve ecosystem partnerships. In the next 12 to 36 months, that will increase to 49 percent. Executives also plan to increase investment in agile development from 40 percent to 57 percent (see Figure 4). These shifts indicate a move toward the ecosystem and agile environment required to developed New Science. Average investments in these areas range between US$10-50M, although some companies are spending much more.

In the commercial area, 63 percent of executives plan to invest for growth in lifecycle management over the next 12-36 months. As our earlier research revealed, the average tenure a treatment retains its market leadership has declined by 51 percent between 2001 and 2017. This shortened lifecycle means companies need to be diligent in proactively managing them to ensure peak revenues and profitability is achievable.

Our research also reflects much stronger investment in improving the patient experience as a means to drive growth, shifting from 31 percent currently investing to 48 percent in the future. Investment in digital, analytics and marketing access/pricing looks to remain strong, with 90 percent of companies currently using or intend to use these tools in the next 12 months to grow (see Figure 5).

---

Figure 4: R&D

Q: What initiatives are you planning or currently executing to increase growth in each of the following areas in the next 12 to 36 months?

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Currently executing</th>
<th>Plan to execute in the next 12 months</th>
<th>Plan to execute in 12-36 months</th>
<th>No current plan in place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agile development</td>
<td>40%</td>
<td>57%</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>Ecosystem partnerships</td>
<td>40%</td>
<td>49%</td>
<td>11%</td>
<td></td>
</tr>
</tbody>
</table>

Figure 5: Commercial

Q: What initiatives are you planning or currently executing to increase growth in each of the following areas?

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Currently executing</th>
<th>Plan to execute in the next 12 months</th>
<th>Plan to execute in 12-36 months</th>
<th>No current plan in place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hone customer service capability to transform patient experience</td>
<td>31%</td>
<td>46%</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>Lifecycle management</td>
<td>29%</td>
<td>63%</td>
<td>9%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Competitive Agility research for Pharmaceutical companies, Accenture, 2018
Together, these actions support the ongoing shift to value through outcomes and movement toward delivering the growth promise of New Science.

Incremental investments alone are unlikely to spell success. Rather than make small changes to existing budgets, biopharma companies need to plan from the ground up—looking at where they should invest to enable desired outcomes. Historically, the greatest shifts in biopharma business have come from mergers and acquisitions. As New Science has demonstrated, new treatments will develop faster and be acquired sooner; investment approaches are changing to reflect this reality. The ability of a biopharma’s portfolio to acquire, develop and deliver new treatments may forge dramatic change in the organization’s DNA. Looking at spending from a clean-sheet perspective to understand how each dollar is being invested will help companies make the shift to New Science.

The biopharmaceutical industry has taken multiple positions on its way to achieving investment mobility and moving into the New. Companies with higher investment capacity and velocity will achieve the greatest advantage; however, only 16 percent of biopharmaceuticals analyzed demonstrate both.

As New Science has demonstrated, new treatments will develop faster and be acquired sooner; investment mobility is changing to reflect this.
Across the enterprise, biopharma companies are investing in emerging technologies. They are becoming increasingly digital players in expanded ecosystems centered on customers and patients. But leaders in New Science are on the forefront of this, investing six to seven times as much as their peers in digital, data and genomics.\(^{14}\)

It’s a logical leap. Biopharma companies are wrapping services around products to broaden and deepen their ability to deliver a better health outcome with patients—and many of these services require emerging technologies. Roche, for example, acquired Flatiron Health in early 2018, allowing it better access to real-world patient information.

---

**Figure 6: Investment focus in emerging technology**

*Industry totals N=1500*

- Investments in emerging technology in biopharma are growing x5, especially by leading players.
- Largest areas of growth are ecosystem and data.
- The patient is still a major focus, but year-over-year growth has been less than data and ecosystem combined since 2015.
- Value chain investment continues (manufacturing, supply chain, etc.), but lags other areas.

---

Source: Accenture Research 2019 Emerging Technology Database
and big data—for more targeted R&D, as well as patient outcomes. As digital technologies like data and analytics grow in importance, biopharma companies will need to continuously improve regulatory compliance and data privacy/transparency.

With investments in data growing, addressing security and trust is a key. The growing reliance on technology as a driver of competitiveness gives the industry an opportunity to recast its relationship with patients. In a sector that patients may struggle to trust, biopharma companies can foster trust with transparency on all fronts—from regulatory compliance to the front office.

### Summary recap of investment statistics

- **90%**
  - of respondents are investing in FDA regulation and approval innovation, as well as crisis-sensing capabilities.

- **97%**
  - of pharma executives are acting to improve cybersecurity.

- **80%**
  - are investing in metrics to monitor consumer and patient trust, processes for accelerated crisis response, commercial alliances/partnerships, and patient data protocols.
As the industry moves to New Science as its growth engine, many companies are faced with a talent conundrum: nearly 90 percent of those we surveyed believe their workforce is lacking the skills to drive growth and agility, and 80 percent believe a skill gap exists within their leadership.

To compete effectively, biopharma companies need a workforce with skills that support new growth—from digital to New Science. Organizing and staffing for evolved customers and patients is key to agile execution of growth initiatives. This applies across the ranks of the organization. However, 60 percent of executives surveyed said their company’s largest skill gaps are in data, analytics and growth mindset.16

The good news is that there are plenty of ways to create a workforce that supports the New—including upskilling, reskilling, hiring and acquiring the requisite skills through inorganic growth. Our survey revealed that most companies are investing incrementally, with a bias toward redesigning roles (54 percent) and hiring new talent (38 percent).17 However, just 15 percent plan to reskill.18 That decision is inconsistent with the skills gap; reskilling will be essential to the talent equation.

Our research further revealed that a quarter of the workforce may be on-demand in the next three years. As pharma companies take stock of their skills gap and develop holistic workforce plans, the shift to more digitally savvy talent will occur—particularly in areas like scalable automation and Artificial Intelligence (AI).

Nearly 90 percent of Accenture’s survey respondents believe their workforce lacks the skills to drive growth and agility. And the gap does not stop at middle management—80 percent believe there is a skill gap within leadership as well.
How to get started toward being competitively agile

Biopharma executives need to act boldly while still in a position of relative strength. These five steps can propel your company toward competitive agility:

**Understand your investment mobility.** Plan your investment path by finding fuel for growth. Understand your investment mobility: Do you have the capacity to invest? Are you investing the right direction – the Old, Now or New? Is your pace enough to support your desired strategy? How do you compare to those you wish to compete with?

**Evaluate New Science and ecosystems for future sources of innovation.** Bolster core science with its complimentary ecosystem, invest in New Science to grow. Decide what can be “homegrown” versus contributed by a partner is key.

**Reconfigure the operating model to evolve the core business and sustain growth.** Design operations to sustain growth initiatives by reducing complexity. Refocus the organization on specific outcomes. Harness emerging technologies to create intelligent functions that support end-to-end processes, working across organizational silos.
Most companies in the biopharmaceutical industry are still in an advantaged position. Because of this, leaders have the luxury of planning, developing and implementing growth in a measured manner versus reacting to rapid disruption thrust upon them.

Despite that fact, most companies need to act now to address compressive disruption. They must increase their agility. Those that do will put themselves light years ahead in the search for new growth.

Address your talent gap to execute in the New: Determine what work needs to be done, and what new skillsets are needed. Develop the plan to train and upskill employees across levels of the organization.

Align actions and spend to support the business strategy and withstand compression. Act with the mindset to simplify spending, creating an “owner-operator” mindset across the organization. Channel cost savings to new capabilities. Be agile by rethinking core capabilities and rebalancing with those you can borrow from a business partner.
Accenture conducted research with 35 executives at the world’s largest biopharmaceutical companies in the UK, Germany, and US. Nineteen executives were from companies with annual revenues greater than $10 billion, and 16 from companies with annual revenues between $5 - $10 billion.

Copyright © 2019 Accenture. All rights reserved. Accenture and its logo are trademarks of Accenture. This document makes descriptive reference to trademarks that may be owned by others. The use of such trademark herein is not an assertion of ownership of such trademarks by Accenture and is not intended to represent or imply the existence of an association between Accenture and the lawful owners of such trademarks.

Contact the Authors

Ben Rhee
Managing Director, Accenture Strategy, Life Sciences
benjamin.w.rhee@accenture.com

Rob Rubin
Managing Director, Accenture Strategy, CFO and Enterprise Value
robert.a.rubin@accenture.com

Sanskriti Thakur
Global Life Science Research Lead
sanskriti.thakur@accenture.com

About Accenture

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions — underpinned by the world's largest delivery network — Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With 482,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.

About Accenture Life Sciences

Accenture's Life Sciences group is committed to helping our clients make a meaningful impact on patients’ lives by combining new science with leading edge technology to revolutionize how medical treatments are discovered, developed and delivered to people around the world. We provide end-to-end business services as well as individual strategy, consulting, digital, technology and operations projects around the globe in all strategic and functional areas— with a strong focus on R&D, Sales and Marketing, Patient Services and the Supply Chain. We have decades of experiences working with the world’s most successful companies to innovate and improve their performance across the entire Life Sciences value chain. Accenture’s Life Sciences group connects more than 15,000 skilled professionals in over 50 countries who are personally committed to helping our clients achieve their business objectives and deliver better health and economic outcomes.

References

3. Accenture analysis
4. Accenture analysis
10. Competitive Agility research for Pharmaceutical companies, Accenture, 2018
11. Ibid.
13. Ibid.
16. Ibid. Source note may need to change given insertion of new reference right above here
17. Ibid.
18. Ibid.