



MMPI 2007
**The Future of the
Pharmaceutical Industry**

Stewart Adkins

stewart@saadvisors.net

+ 44 1621 891143

+ 44 7775672547



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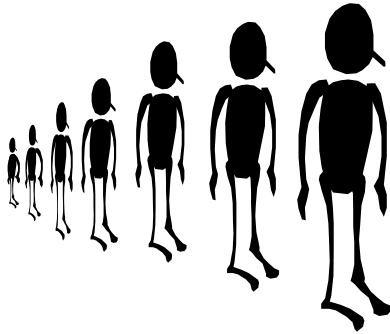
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Discussion Topics

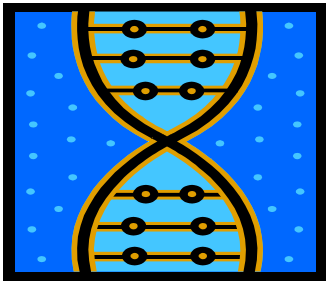
- Seismic shifts in the global pharma mkt
- Today's pharma market
- Offshoring is not the ultimate answer
- Price erosion could be devastating
- ROI a source of competitive advantage
- Some thoughts on innovation



Four seismic shifts in the global pharmaceutical market



Demographic



Technological



Geographic

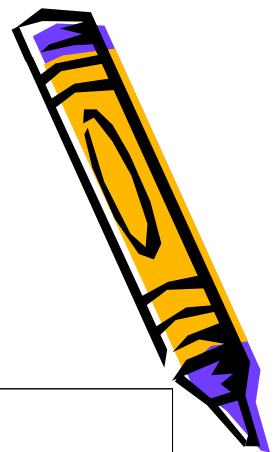
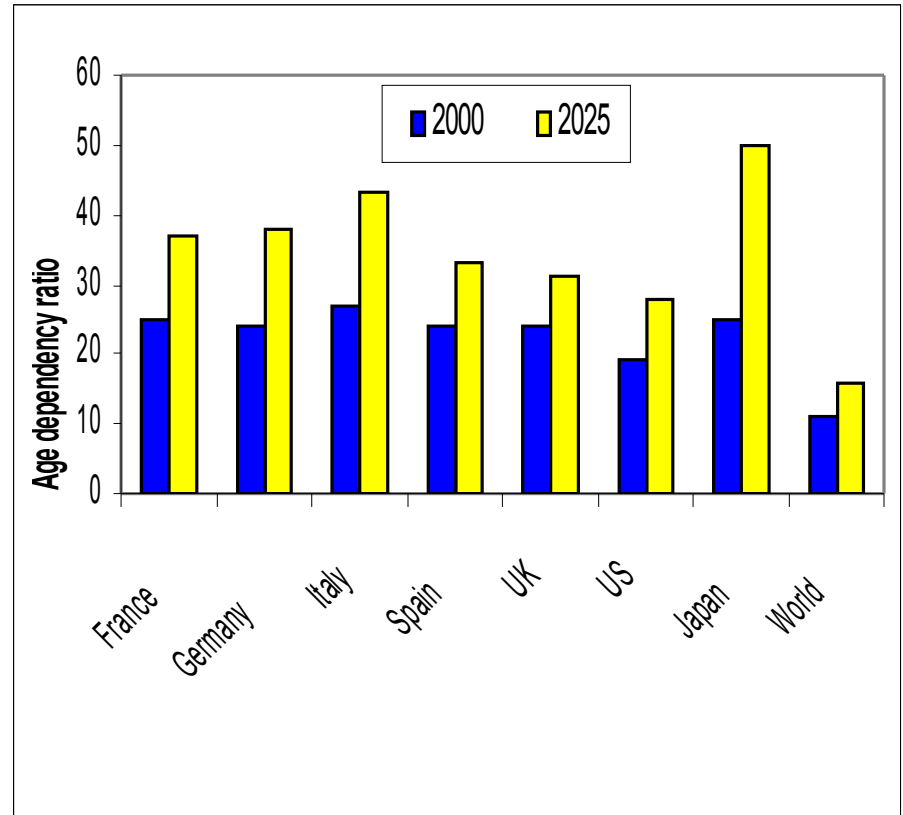


Expectational



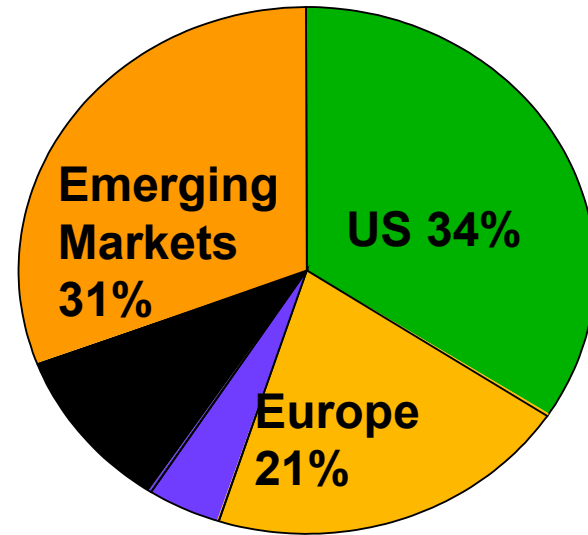
Demographic shifts will force change in funding

- Growth in old age dependency ratio will force payors to consider budgetary impact of all new drug approvals



Geographic shifts will force reallocation of marketing resources

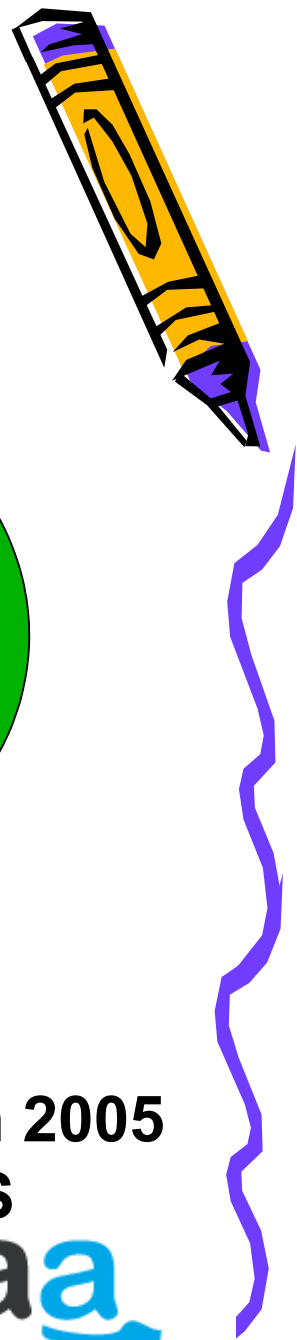
- Emerging markets in future could represent >50% of incremental sales each year



**Absolute \$ growth in 2005
= +\$36bn Source IMS**

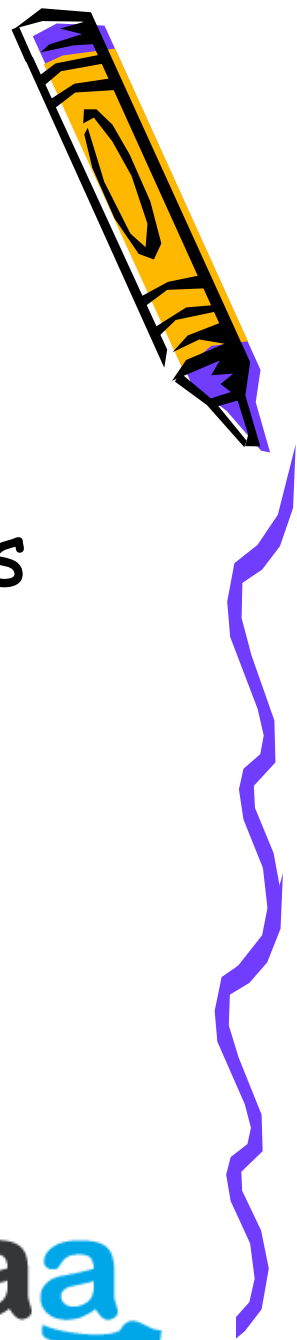
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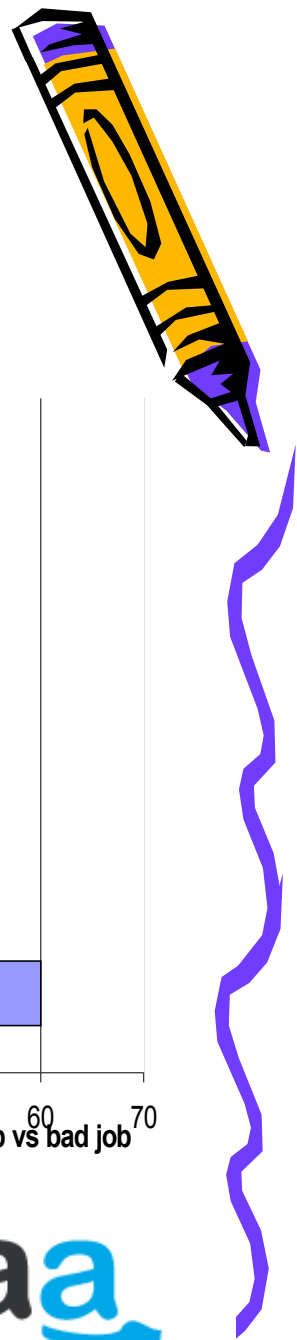
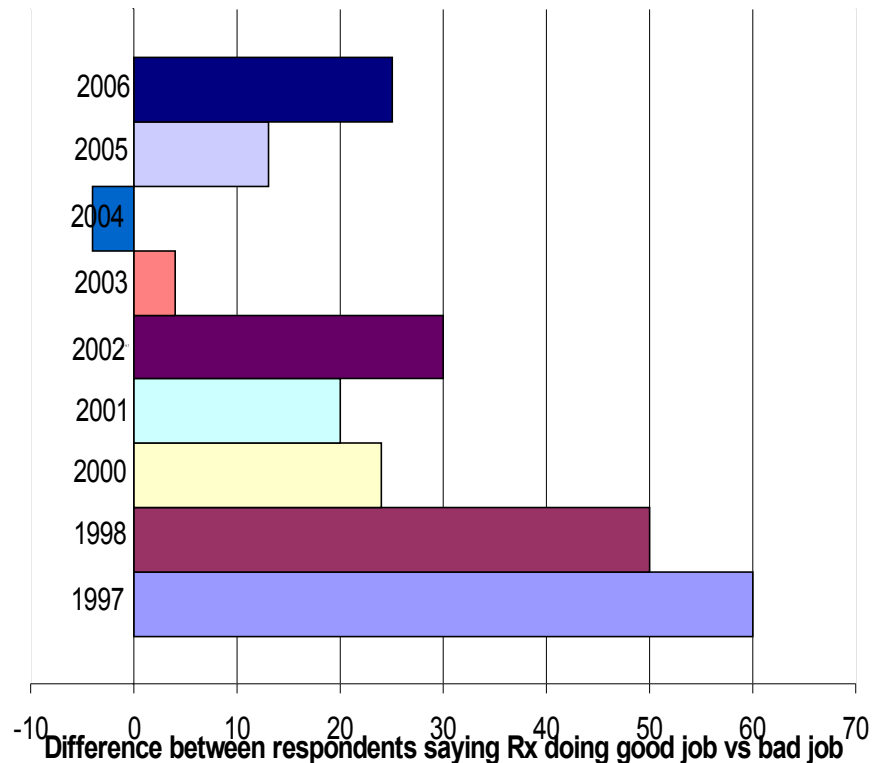
Technological shifts will reduce inappropriate treatment

- Genomics/proteomics should lead to parallel development of therapeutics and biomarkers that are:
 - 1/ Predictive to identify responders
 - 2/ Pharmacodynamic to adjust dose
 - 3/ Prognostic to predict outcome

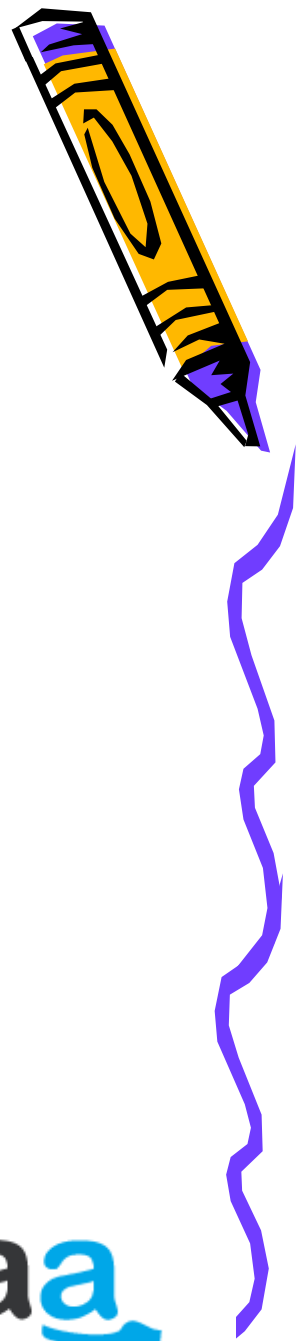


Expectational shifts

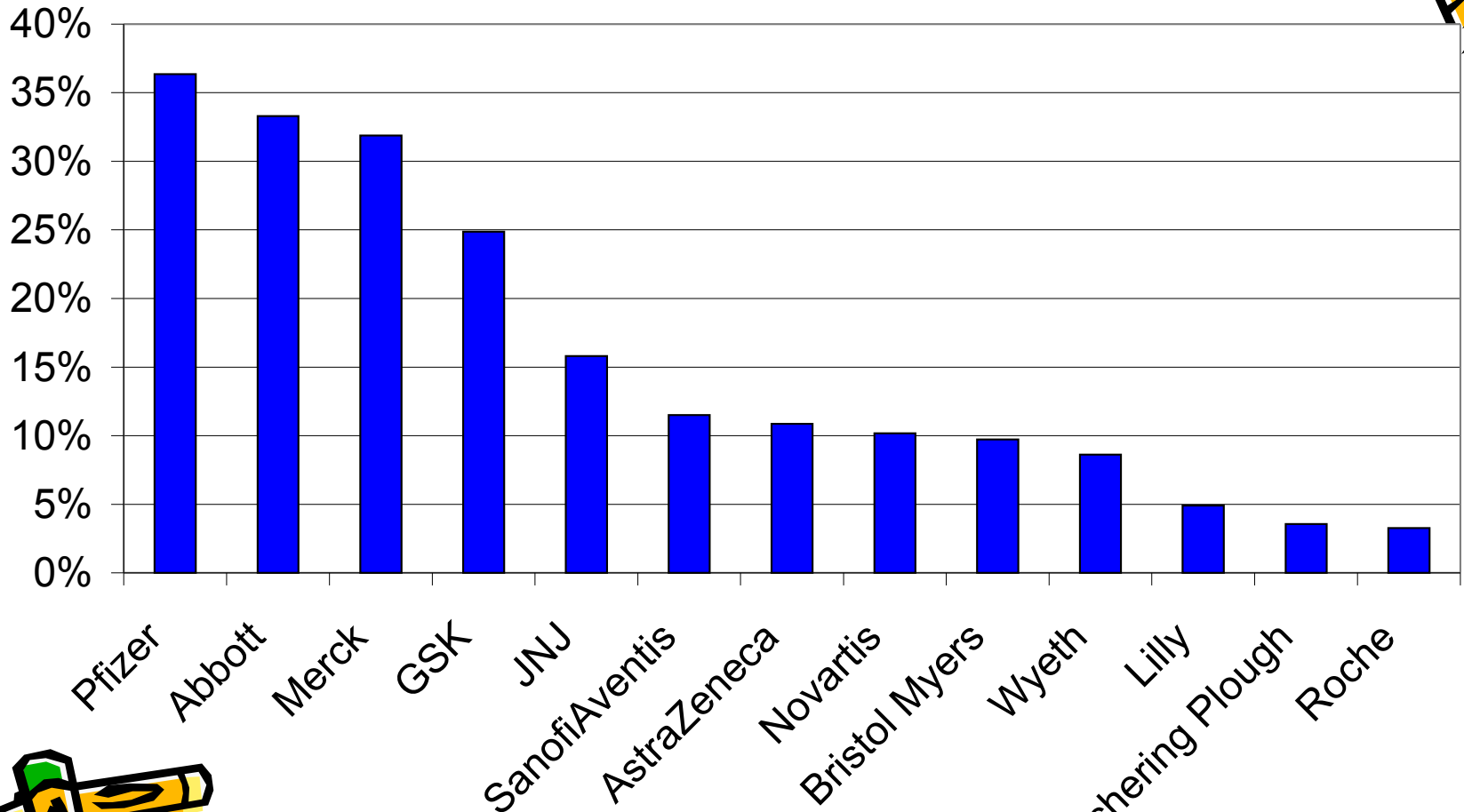
- Innovation must move up the agenda and access to medicines must be considered as part of the business model, if poor reputation is to be reversed



The Industry Today



% of 2005 Rx sales exposed to patent expiry 2006-2010

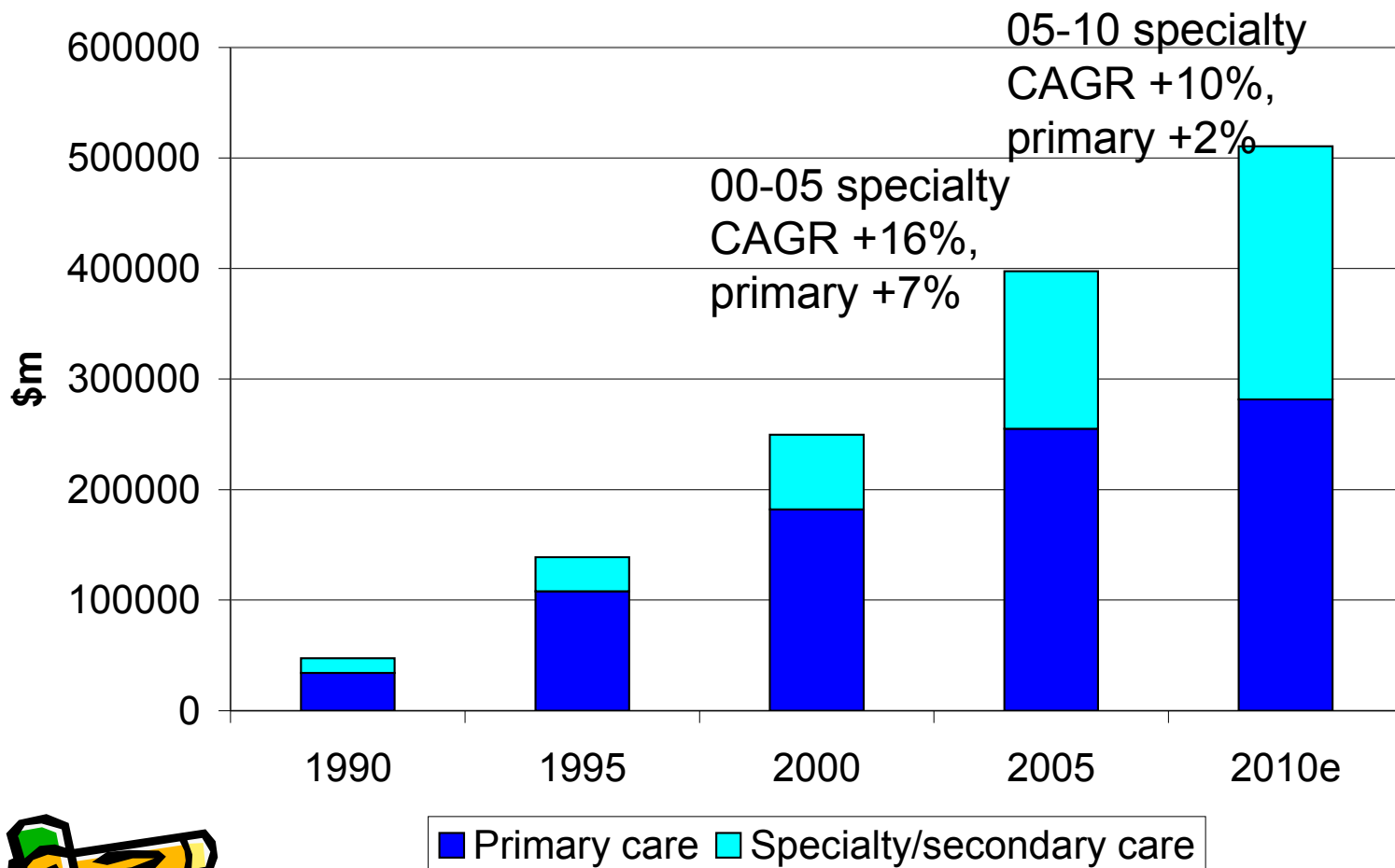


Source: Lehman Brothers
PharmaPipelines™ analysis 9

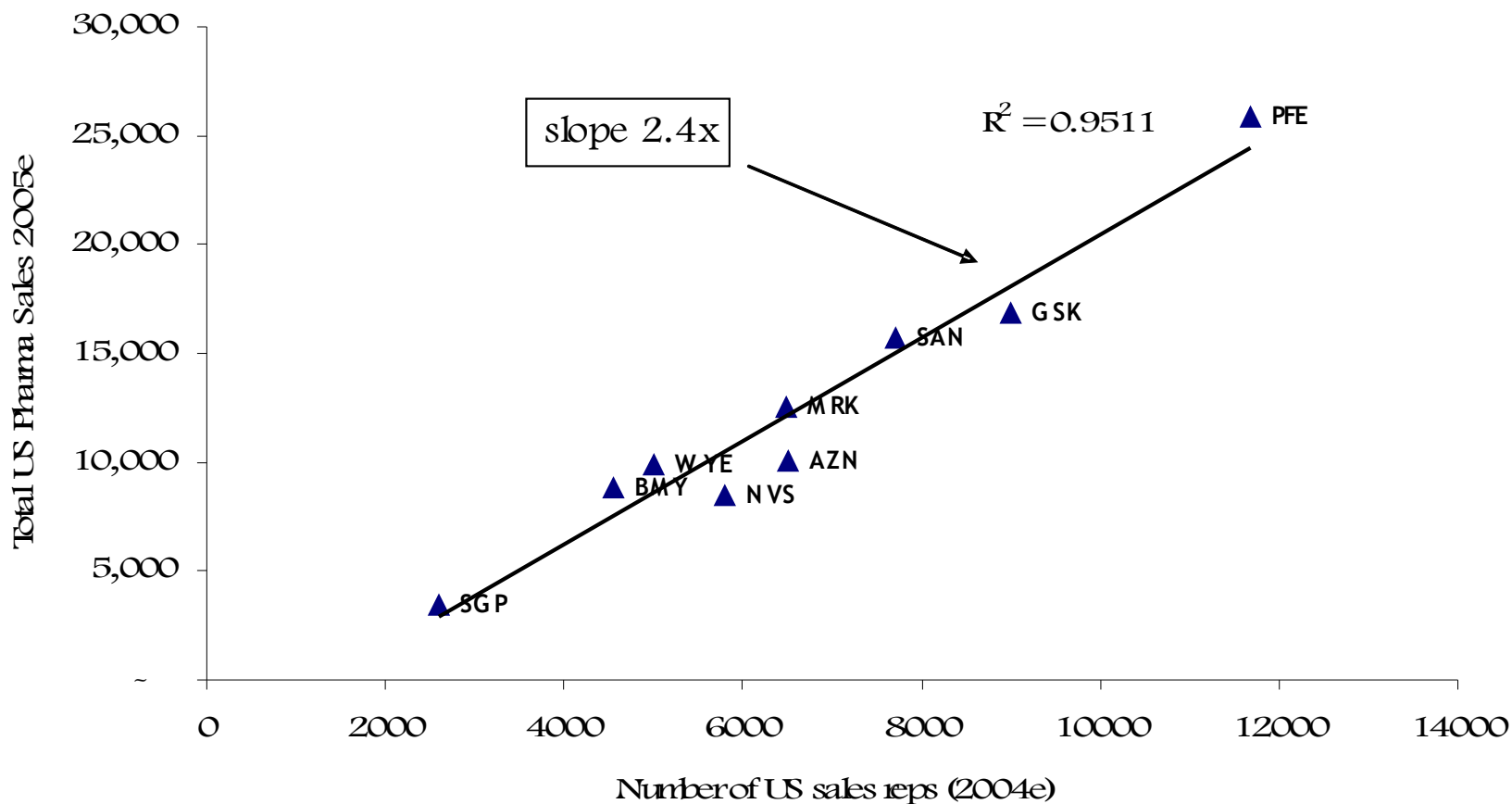
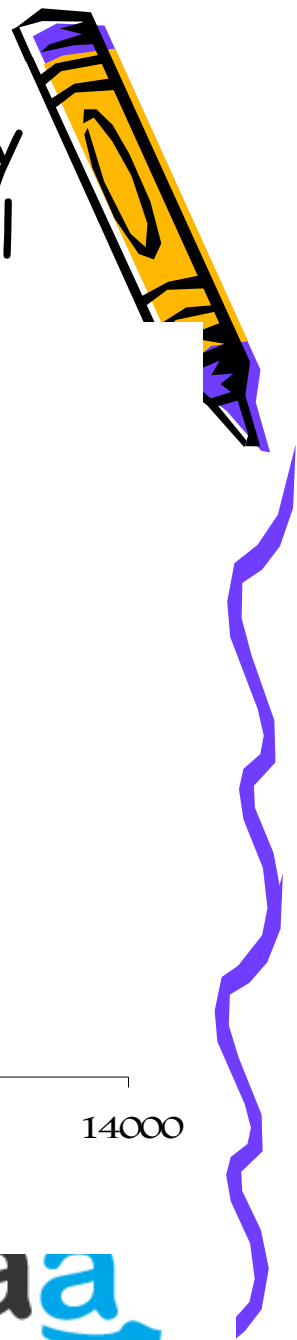
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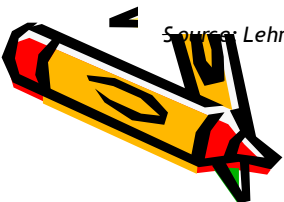
Primary Care Growth is Minimal



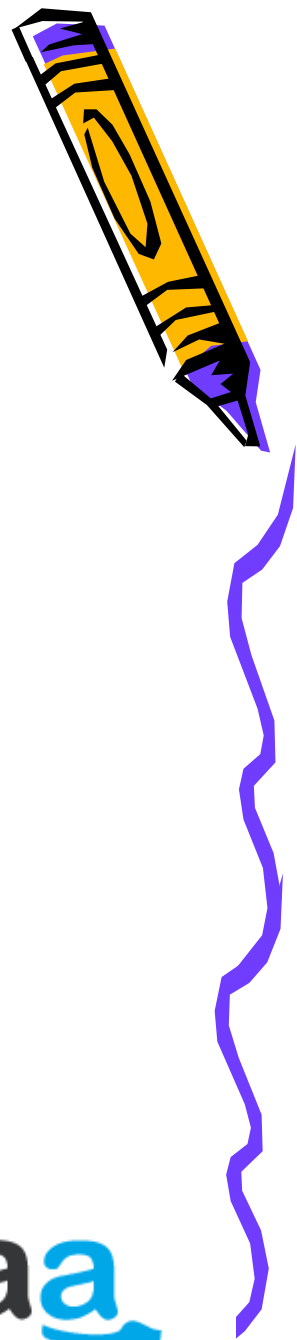
Strong Link Between Salesforce and Primary Care Sales Supports "Share of Voice" Model



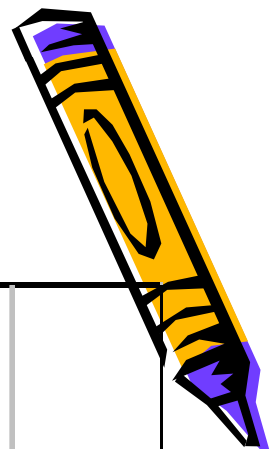
Source: Lehman Brothers estimates



Offshoring can save money
but it is not the ultimate
answer



Potential impact of offshoring

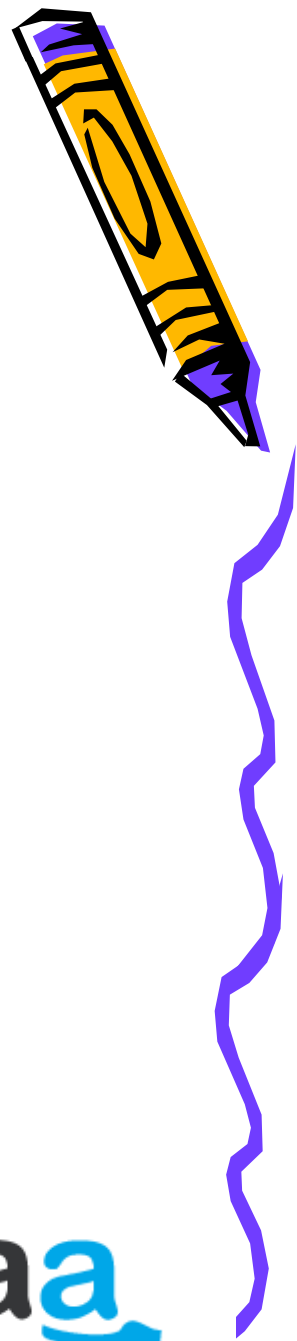


Split of Employee Numbers by Function for Weighted Average European Pharma Company (using Big 5 companies)		% of employees	Estimated % of costs	Costs Split \$m	% of employee functions that could move offshore	Estimated saving per employee	Savings \$m	New costs \$m
Total	84145.6	100%	100%	7782			1144	6638
Production - est	26085.14	31%	15%	1167	70%	70%	572	595
R&D - est	14304.75	17%	25%	1946	30%	70%	409	1537
Admin - est	10097.47	12%	15%	1167	20%	70%	163	1004
Marketing - est	33658.24	40%	45%	3502	0%	0%	0%	3502

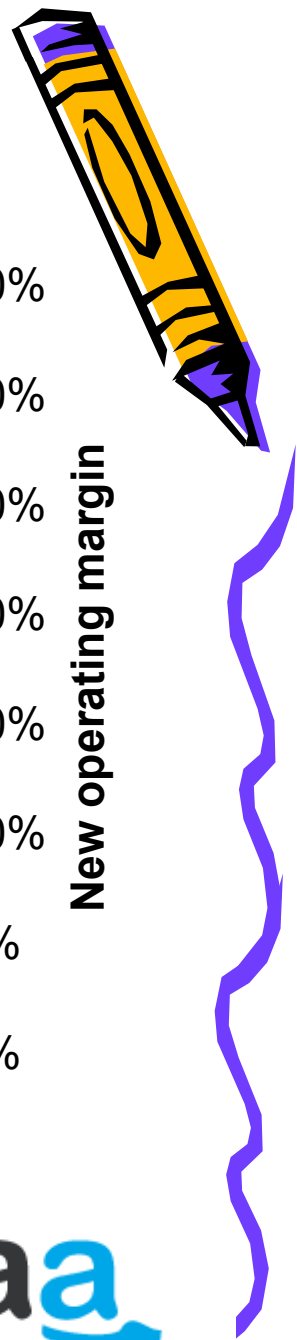
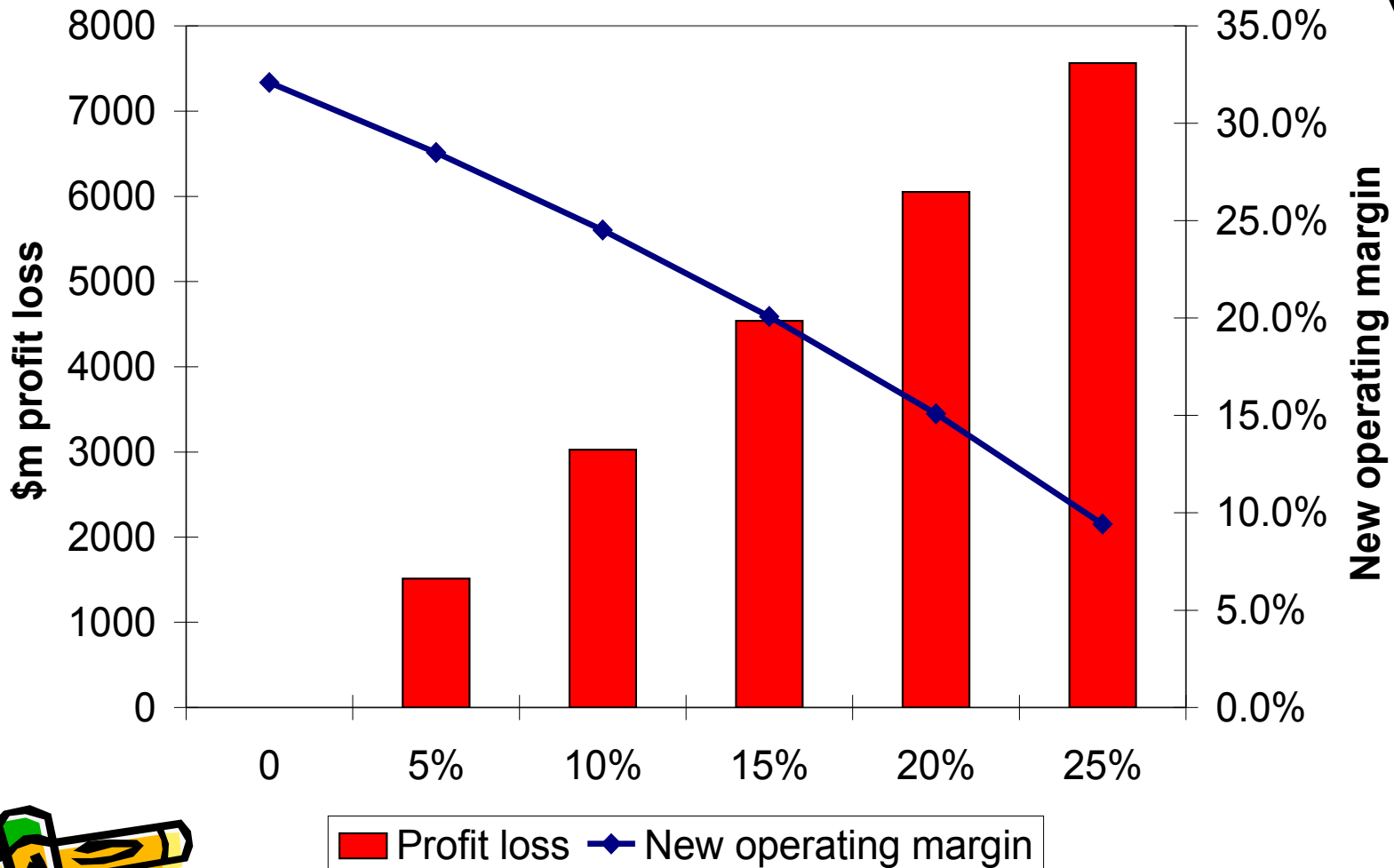
Offshoring could save the average European Big Pharma company \$1.1bn, improving margins from 28% to 32%



Price erosion could be
devastating

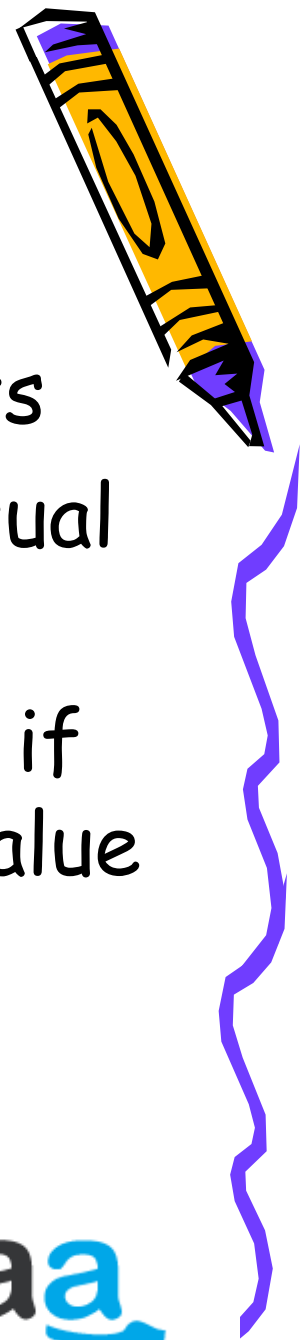


Impact of global price cuts on profit

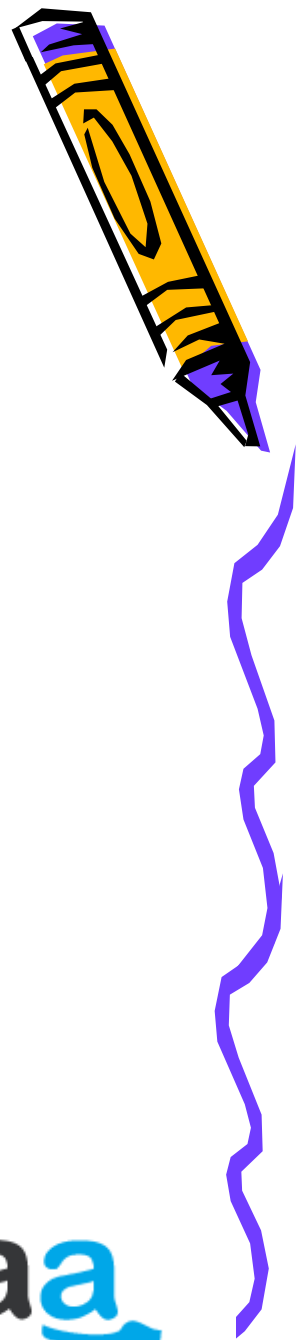


The GSK experiment

- Two European markets; two products
- Agreement to launch earlier than usual at a lower price than ideal
- Agreement that price can be raised if pharmacoeconomic data can prove value



ROI (in sales and marketing) as a source of competitive advantage

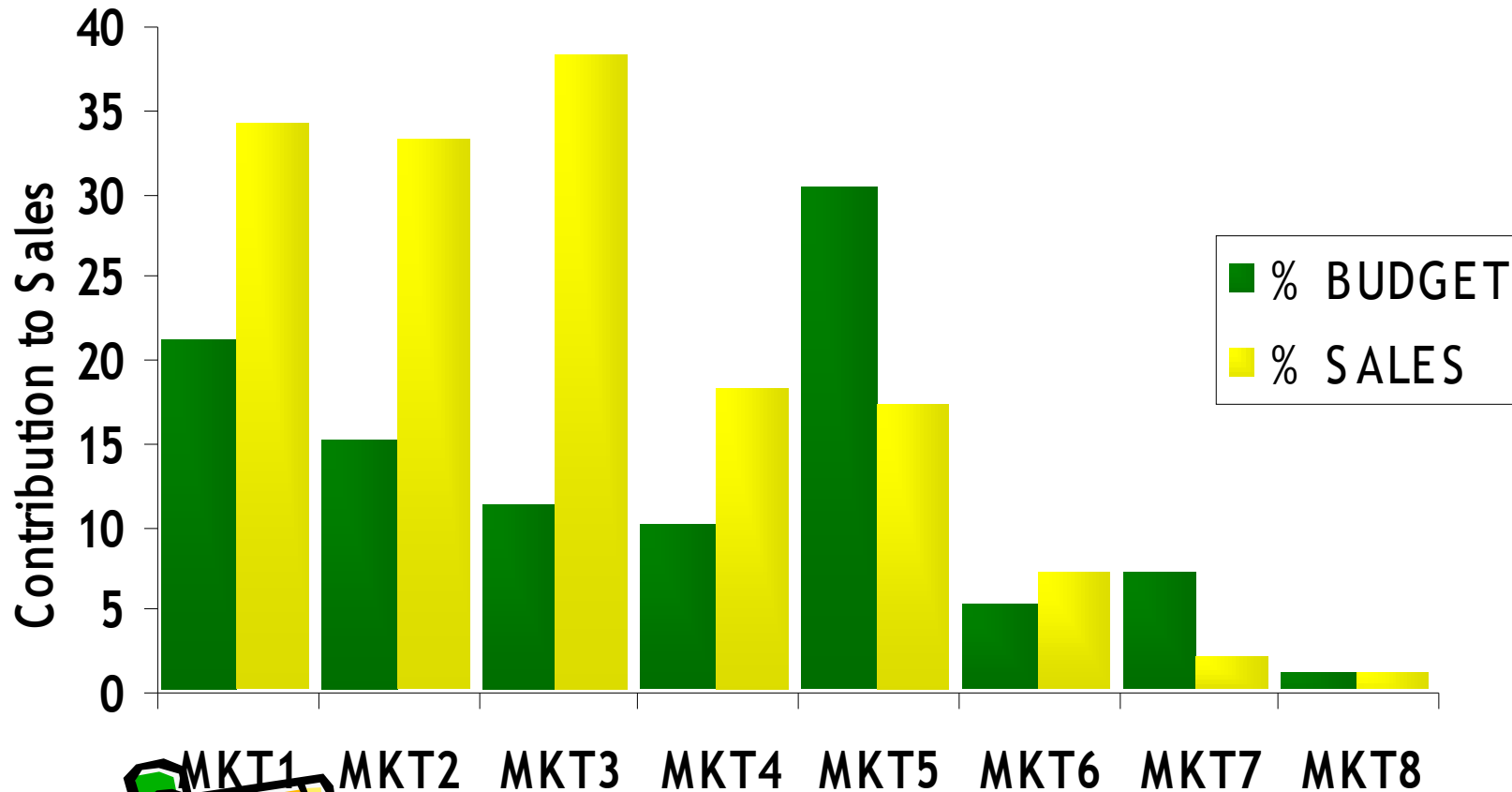


SG&A is the largest source of future cost savings

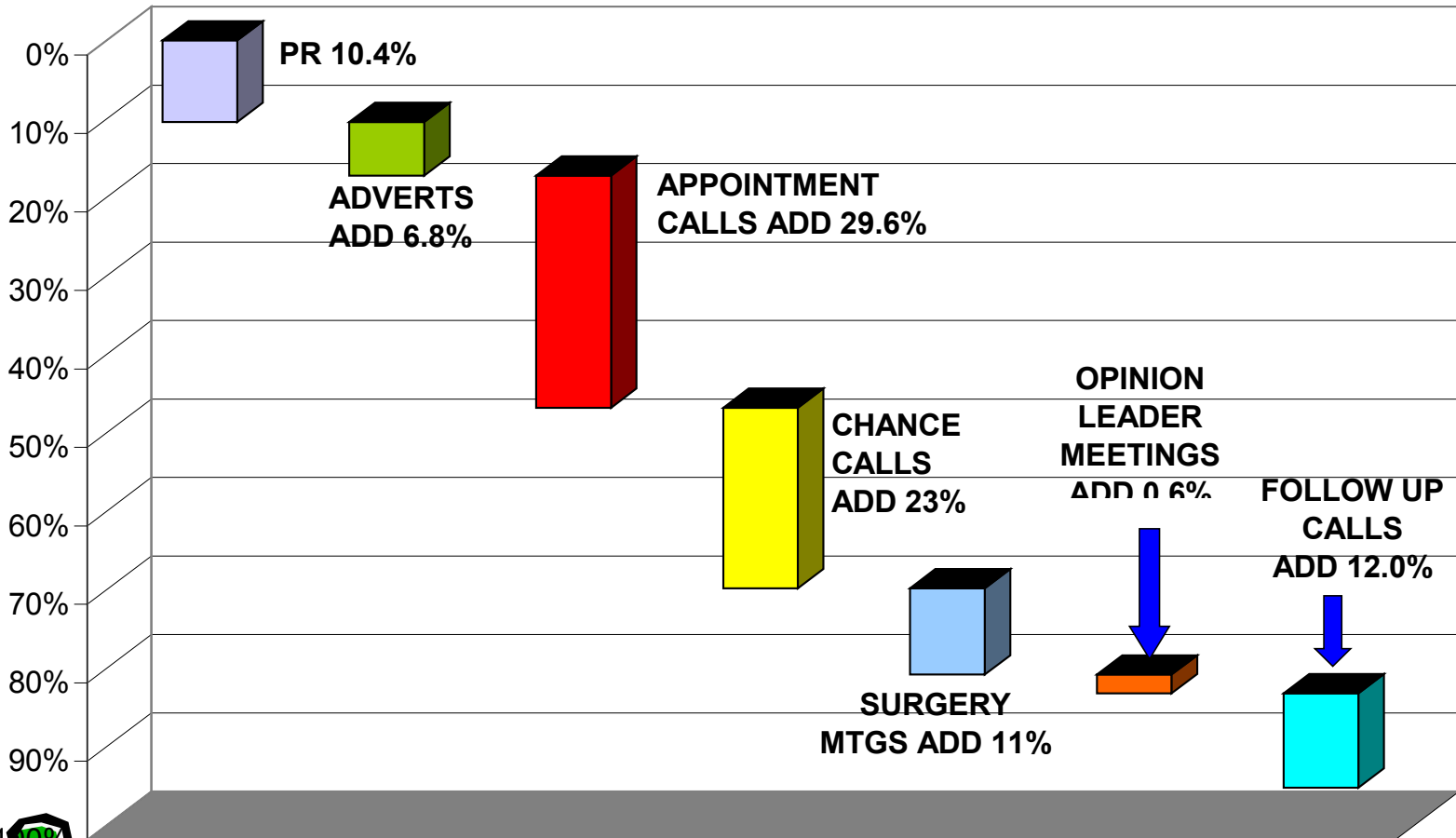
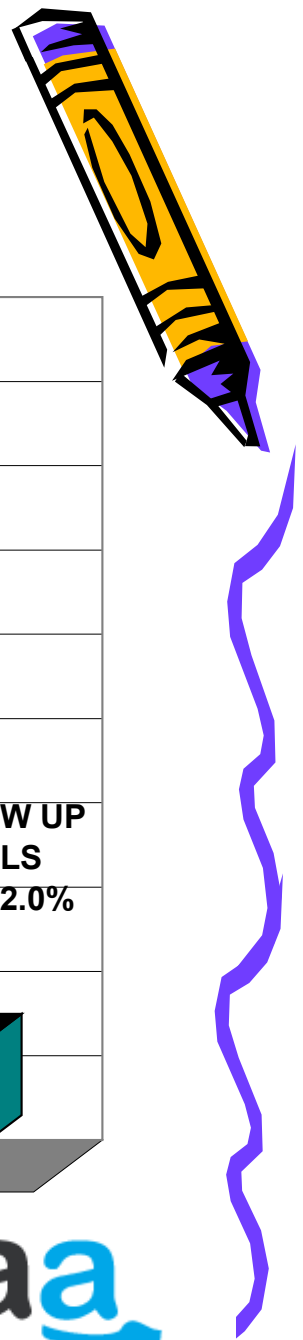
1. Companies invest on average 30% of revenue on promotional activities
2. Rarely is zero budgeting carried out therefore companies become locked into set promotional responses
3. We measure efficiency by various benchmarks but not effectiveness
4. Sales forces are directed to apply a set intended strategy but the realized strategy is often very different



Which Marketing Activities Give The Best Return?

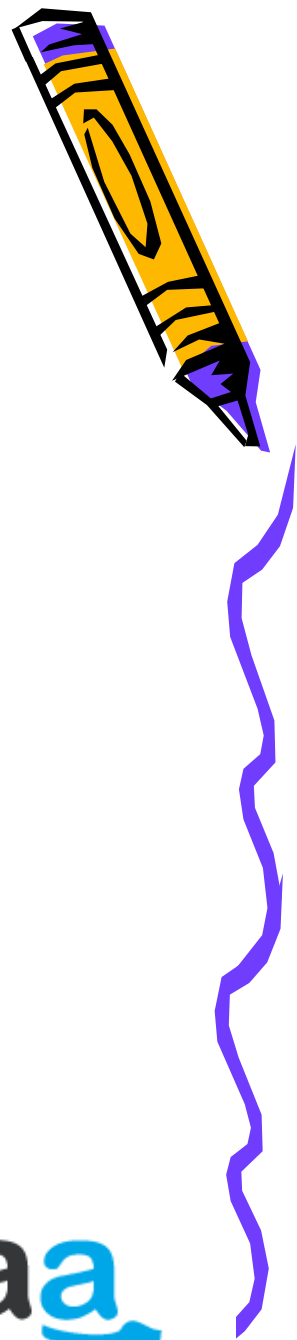


Chronic Primary Care Product Promotional Model

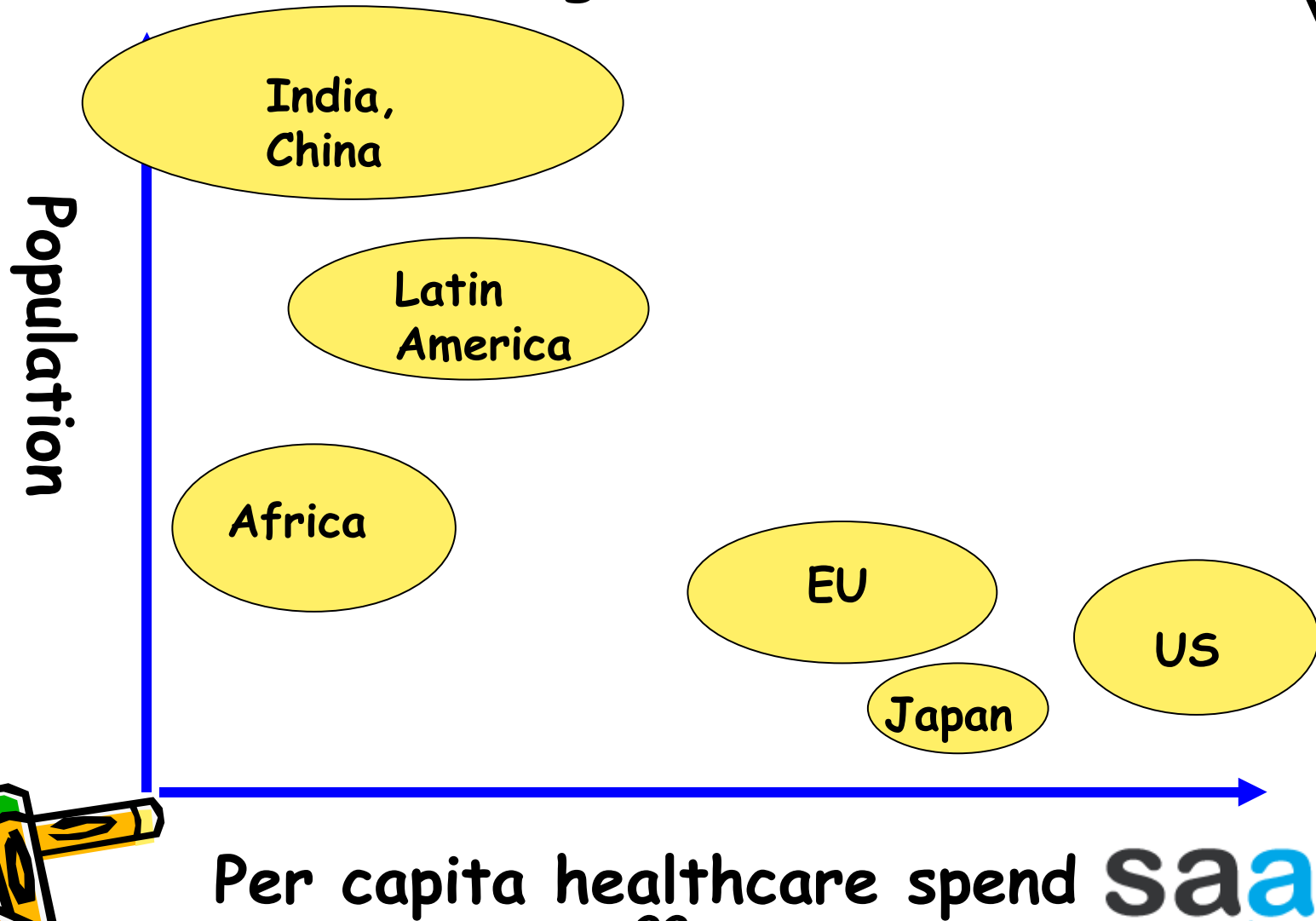


The Industry Tomorrow

- Opportunities in new markets
- Accessing new consumers
- Innovations in the supply chain



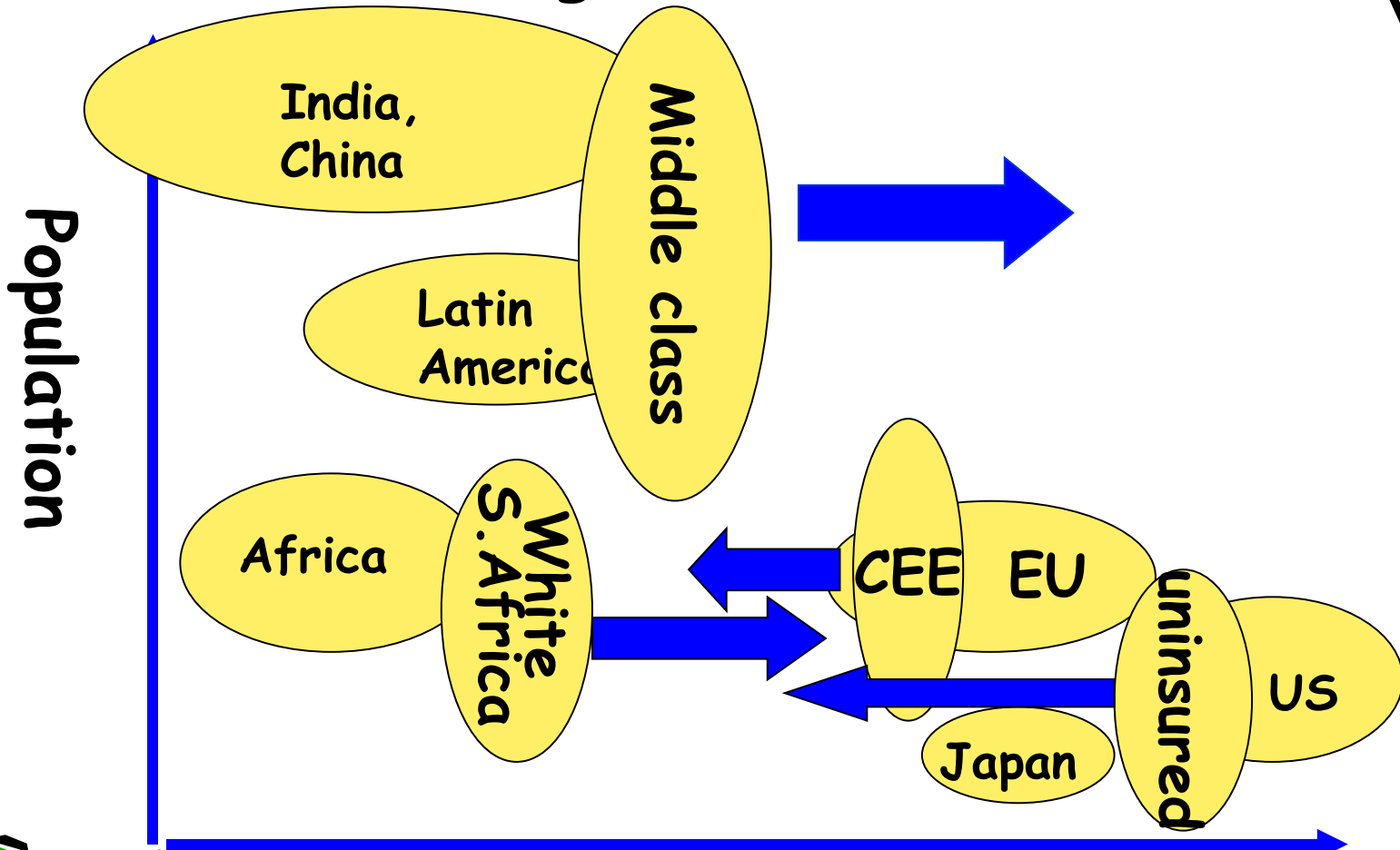
Today's Pharmaceutical Market - unsegmented



Per capita healthcare spend



Today's Pharmaceutical Market - segmented



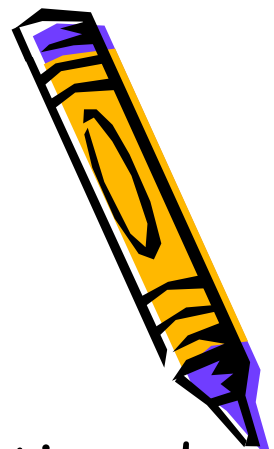
Per capita healthcare spend



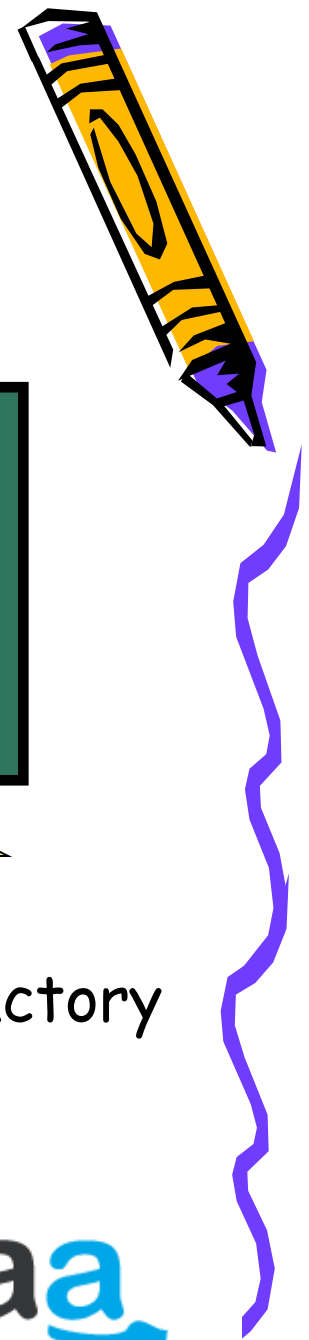
Potential for disruptive innovation in emerging markets

- Affordability
 - Low COGS, microfinance, insurance schemes, tiered pricing, secondary brands
- Access
 - New distribution channels, novel cold chain, stable drugs, novel packaging

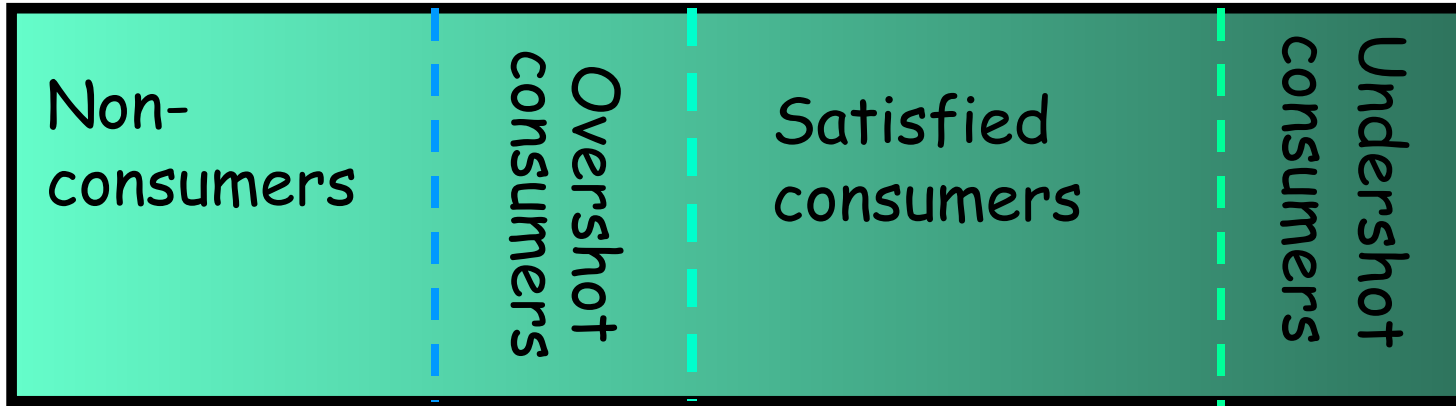
Hindustan Lever sell more washing powder to the low end markets than to the high end markets. Why? The fortune at the bottom of the pyramid



Consumers and non-consumers



Example: Hypertension



↑
Un-diagnosed
and/or poor

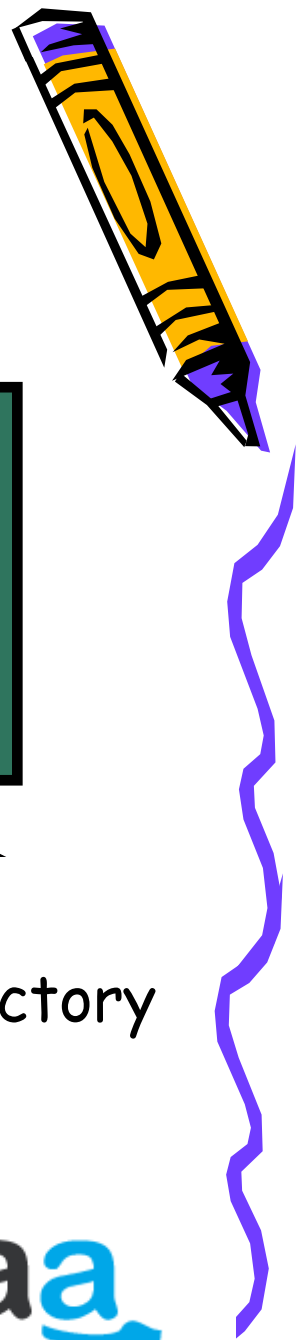
↑
Branded ARBs
when generic
enalapril will do

↑
Good BP with
generics, or
low-price
brands

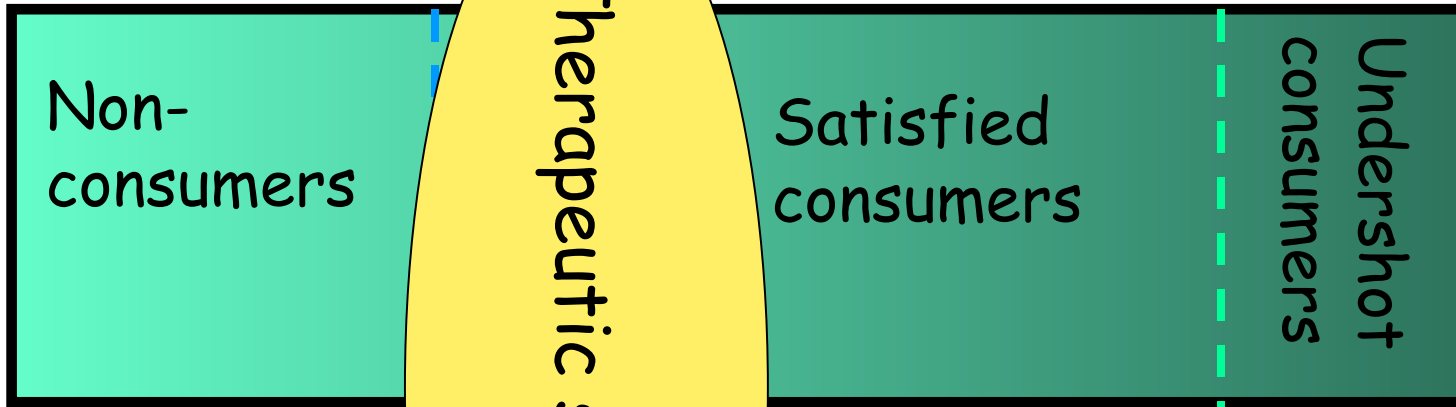
↑
Refractory
BP



Consumers and non-consumers



Example: Hypertension



Un-diagnosed and poor

Broader when enabled

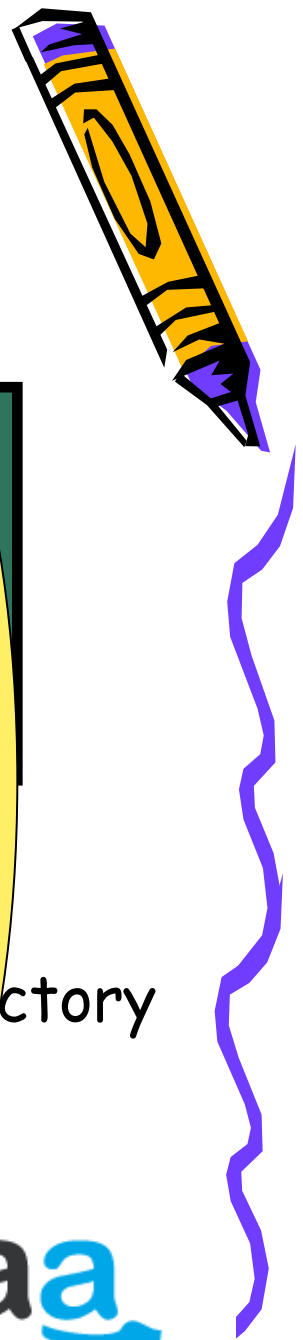
do

Good BP with generics, or low-price brands

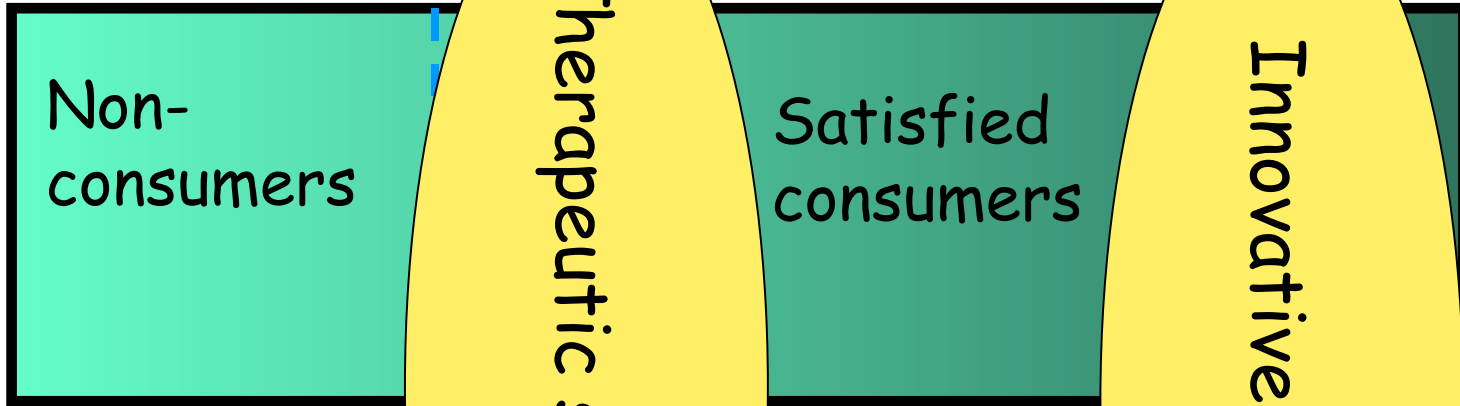
Refractory BP



Consumers and non-consumers



Example: Hypertension



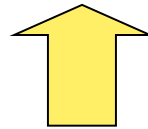
Un-diagnosed and poor



Broader when enabled

Therapeutic substitution

Good BP with generics, do low-price brands

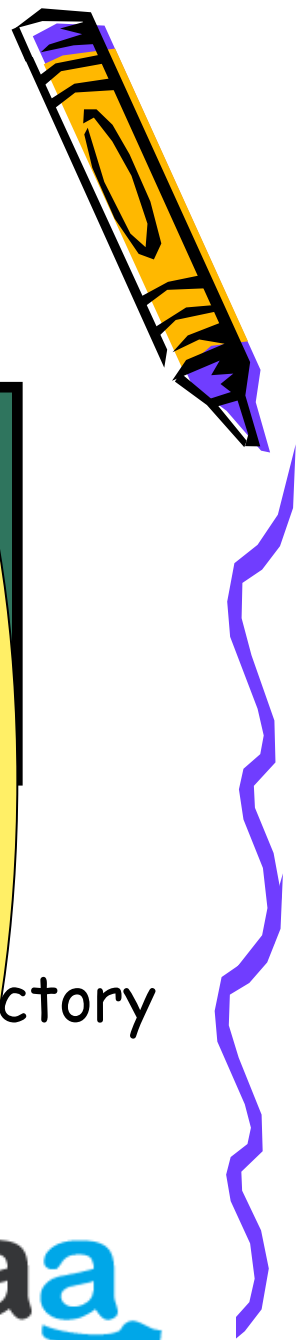


Innovative medicines

factory



Consumers and non-consumers

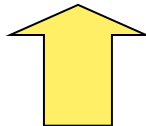


Education/Innovative
Marketing/Lower prices

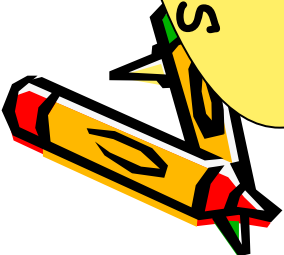
Therapeutic substitution

Satisfied
consumers

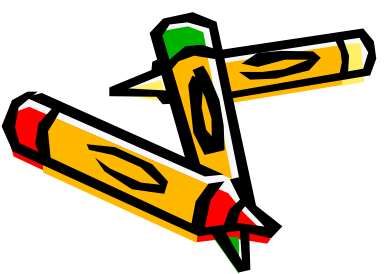
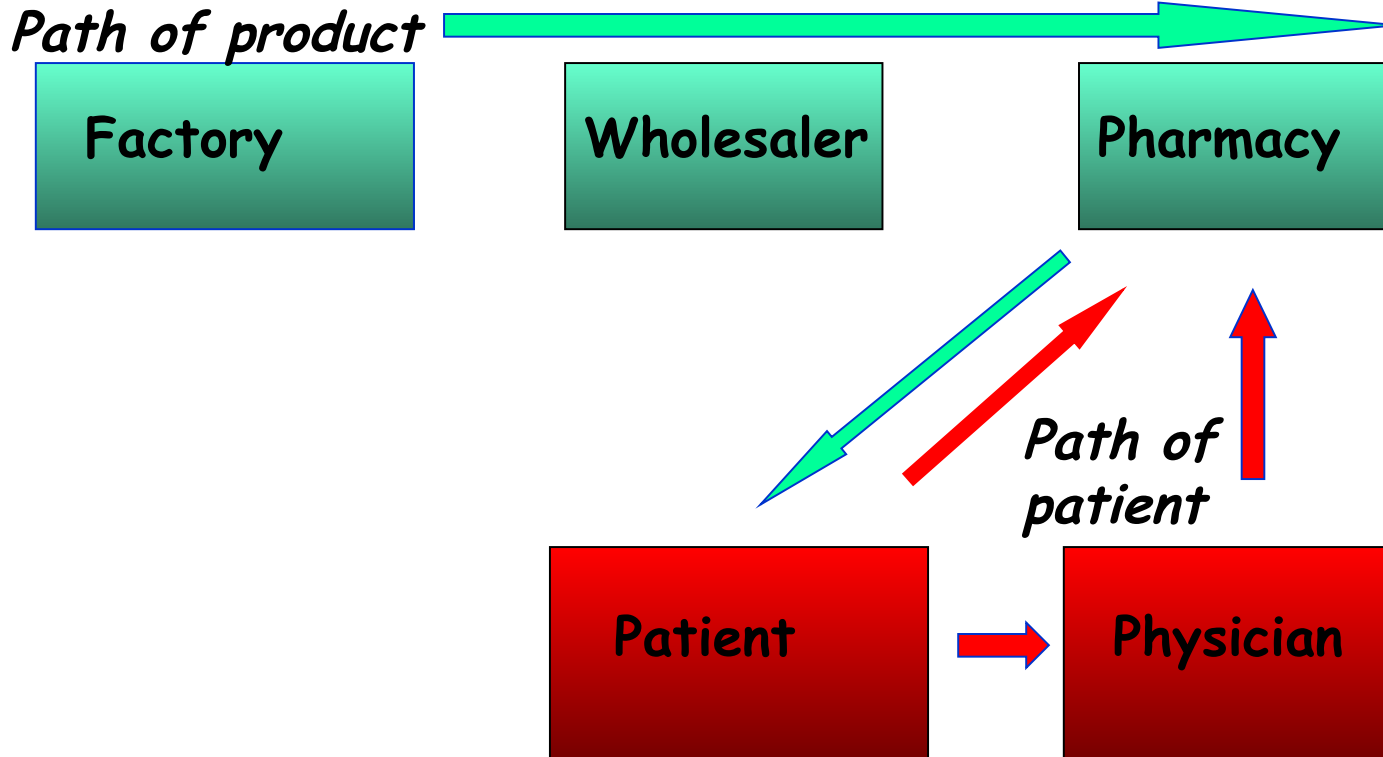
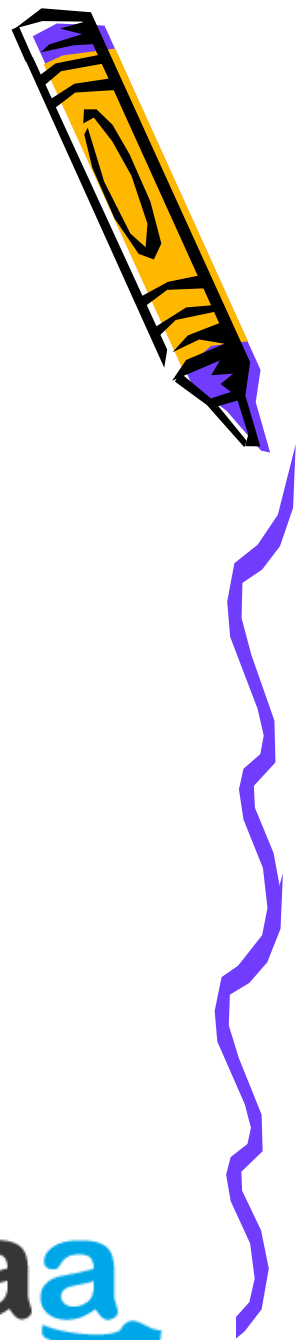
Innovative medicines



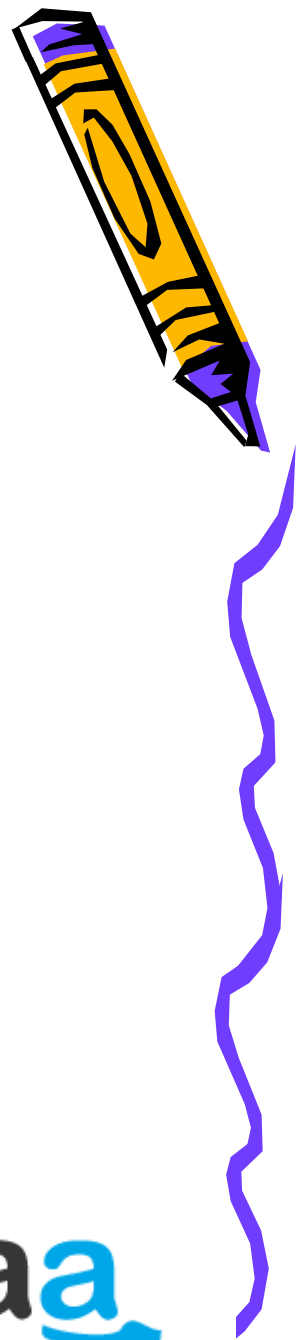
Good BP w
generics, c
do low-price
brands



The typical supply chain



Innovations in the supply chain



Path of product



Factory

Whol

Pharmacy

Mail order
pharmacy

Payor a/

P

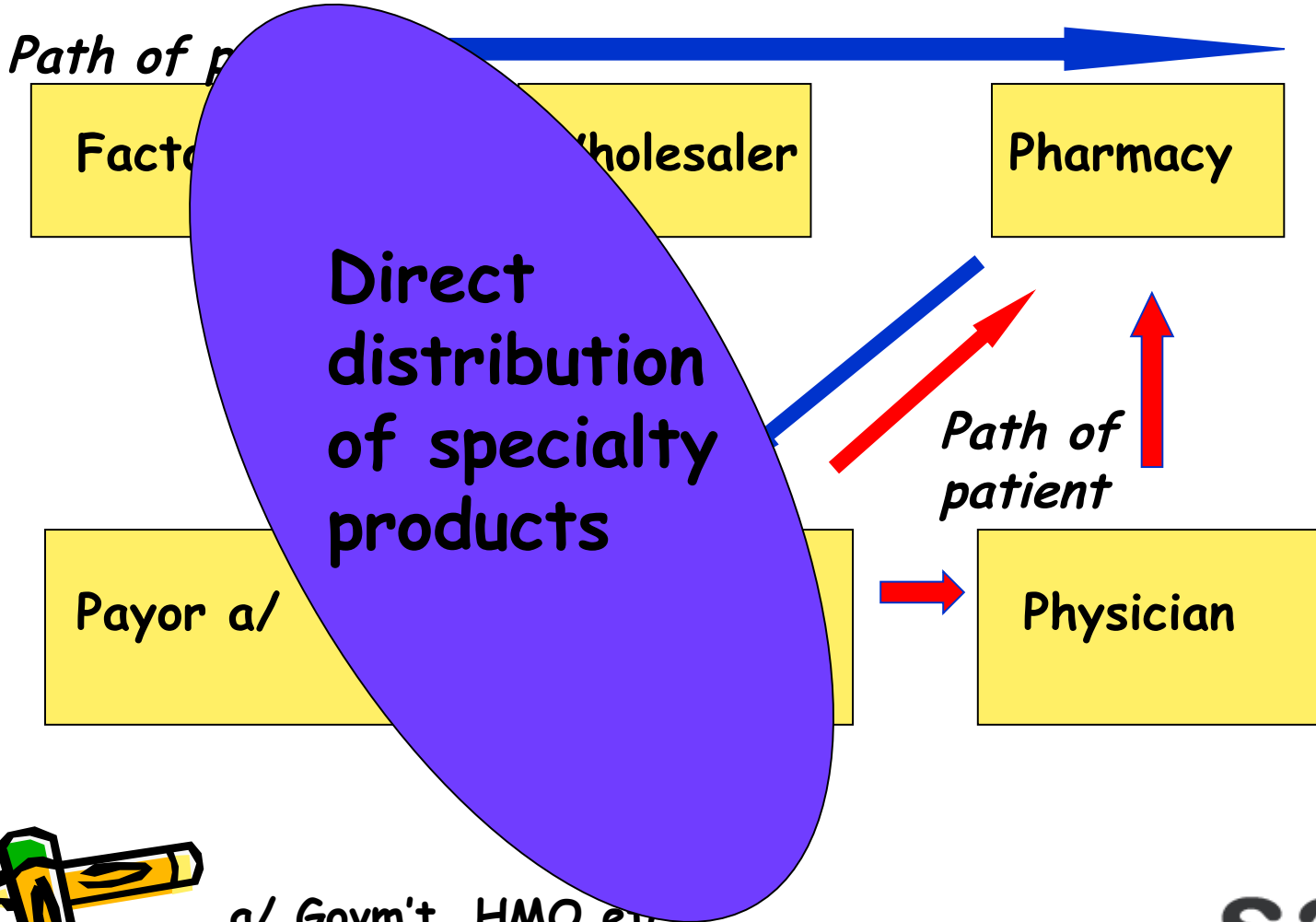
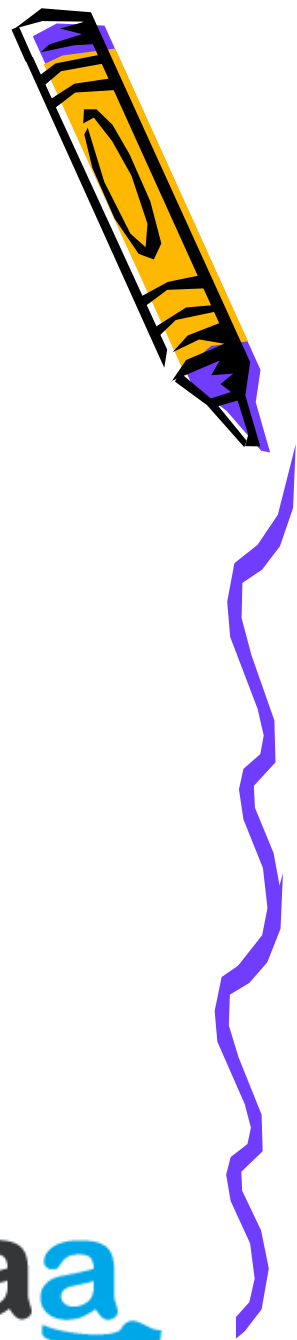
Physician

of
ent



a/ Govm't, HMO etc

Innovations in the supply chain



a/ Govm't, HMO etc



Innovations in the supply chain



Path of product

Factory

Pfizer's selective distributor strategy in UK

Pharmacy

Path of patient

Payor a/

Patient

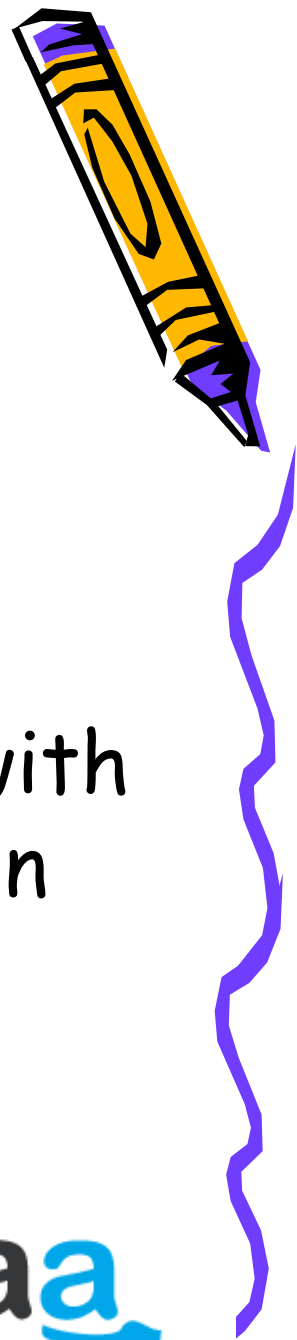
Physician



a/ Govm't, HMO etc

New technology could drive other innovations

- Electronic prescribing
- Smart patient records
- Point of care diagnostics
- Universal bar-coded original packs with scanners throughout the supply chain



Multiple influences on sales outlook



In conclusion

- Value for money, either by virtue of being cheap, or by demonstrating superior outcomes at reasonable price will be the linking theme across the industry of the future.

