

Pharma Business Strategy

Best-in-class Series

Survival Toolkit

*What to know & understand
about
Business Strategy*

Corporate strategy selects the strategic segments, business strategy creates a competitive advantage and operational strategy defines the appropriate organization

Definitions

- Amongst multiple possibilities, we propose the following definition for strategy:

“Strategy is the long-term direction and scope set by a company to fulfill stakeholders”¹ expectations through proper capability building and resources allocation”

- One can consider three basic strategic levels in any pharma company:

CORPORATE STRATEGY

In which strategic segments should we be?

- Corporate strategy defines the purpose and the scope in which companies compete or should compete and how to add value to their businesses

BUSINESS STRATEGY

How should we compete in the selected segments?

- Business or competitive strategy defines how to compete successfully in each strategic segment (e.g., R&D-based drugs, vaccines, CHC², generics, medical devices)

OPERATIONAL STRATEGY

Which organizational configuration do we need?

- Operational strategy sets the activities, capabilities, processes, structure, culture and resources needed to support corporate and business strategies

Sources: Smart Pharma Consulting, adapted after G. Johnson et al., Exploring Corporate Strategy, Pearson, 2019

¹ Basically authorities, customers, employees and shareholders –
² Consumer Health Care, including OTCs, food supplements, minerals, vitamins, etc.

The Strategic Square¹ guides companies to set their performance objective, select their preferred strategy at the corporate, business and operational levels

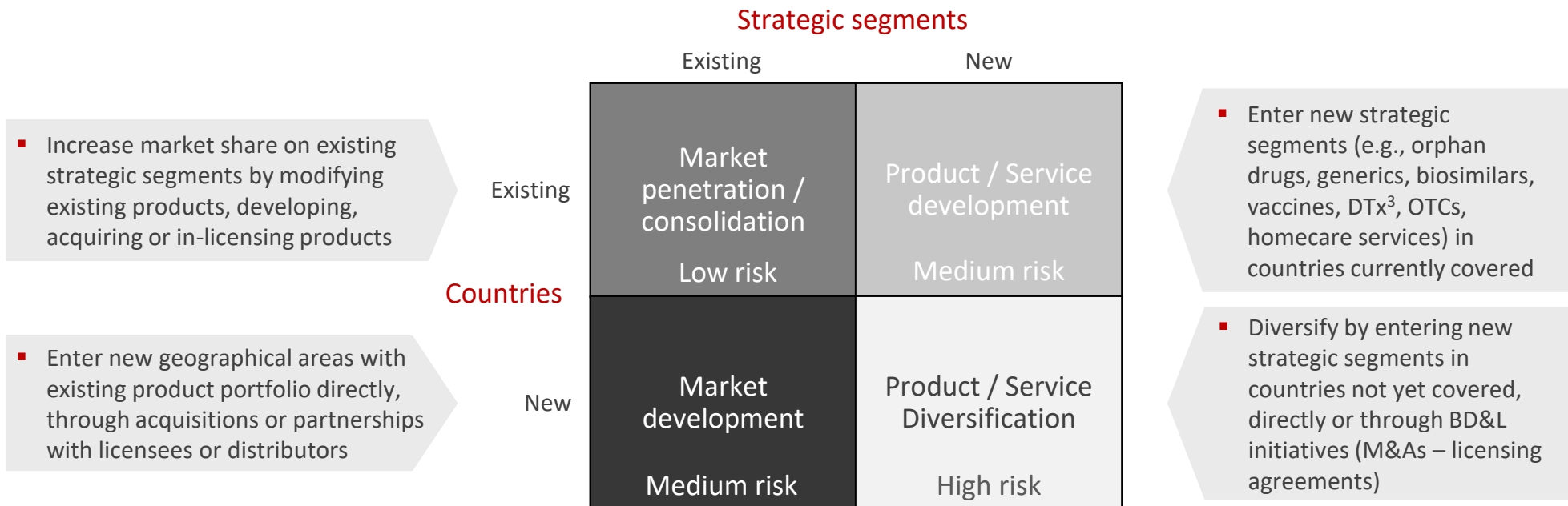
The Strategic Square – What for?



Four basic corporate strategies can be adopted by pharma companies to secure a long-term and profitable growth, in line with their shareholders' expectations

Corporate strategy: Where to Play? – Principles

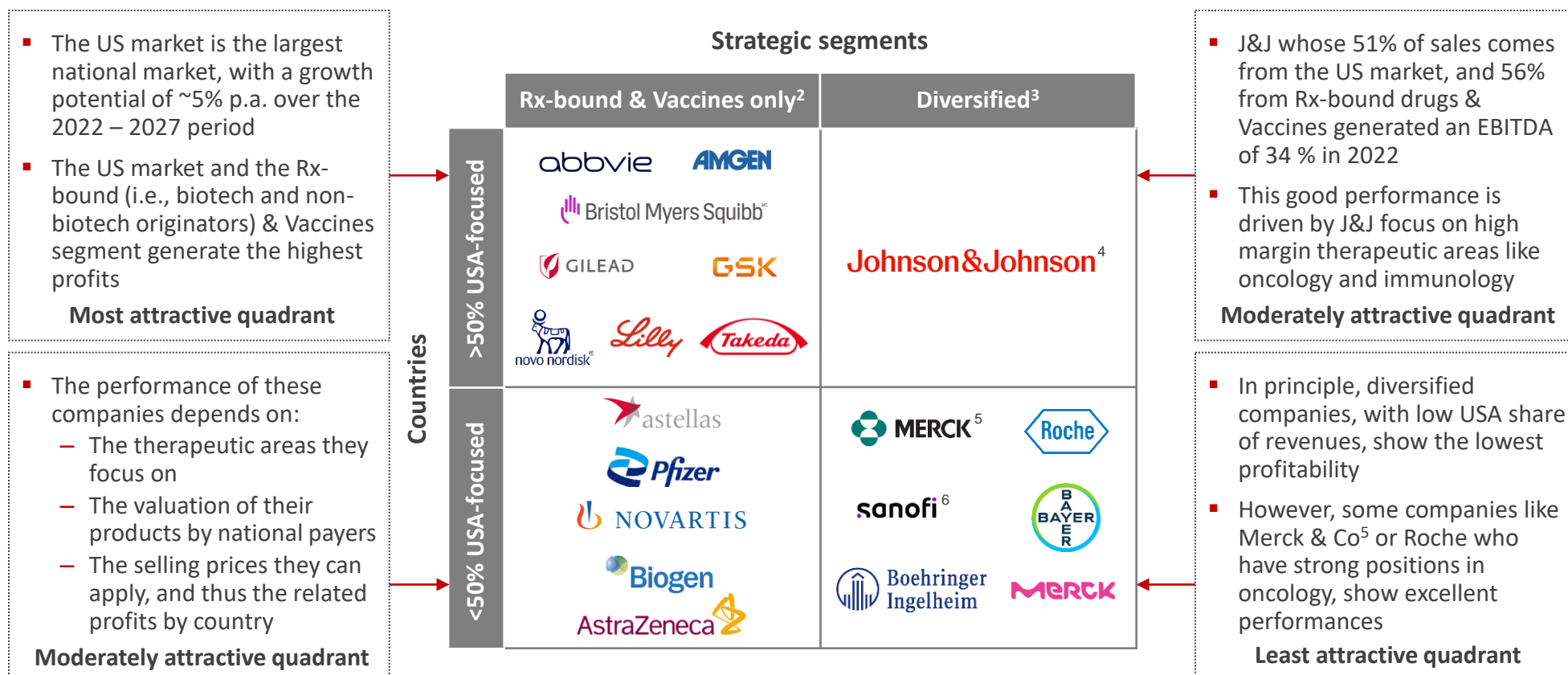
- The Development Strategy Matrix¹ is a practical tool to select the most attractive sources of growth
- Diversification is in general the riskiest option because the farthest from the company core competencies
- However, playing in diverse strategic segments² with different characteristics may enable to mitigate certain business risks



Pharma companies focusing on the human Rx-bound drugs & Vaccines strategic segment, whose revenues come mainly from the US market, are more likely to exhibit a superior performance

Pharma corporate strategy matrix (2022¹)

Illustrative














Source: Smart Pharma Consulting analyses

¹ Excepting Takeda and Astellas for which data are from April 2022 to March 2023 – ² 100% of sales in Rx-bound human drugs and/or vaccines – ³ Including other strategic segments such as: OTCs, animal health, medical devices, diagnostics, and for Bayer only, activities in crop science – ⁴ In 2023, J&J divested its consumer business – ⁵ Merck & Co which is named Merck in the USA and Canada, and MSD in other countries – ⁶ In 2023, after the divestiture of its CHC business, Sanofi has become a 100% Rx-bound & vaccines company

Most of pharma companies operating only on the human Rx-bound drugs & Vaccines strategic segment are focused on the onco-hematology and immunology-respiratory therapeutic areas

Pharma companies' strategic segments coverage (2022¹)

Illustrative

(% of total revenues)	Human Rx-bound drugs & Vaccines strategic segment								
	Oncology & Hematology	Immunology & Respiratory ²	Neurology	Cardio-metabolic	Infective diseases ³	Vaccines	Rare Diseases	Generics & Biosimilars	Others
 Bristol Myers Squibb™	61%		1%	26%					12%
 astellas	50%	13%							37% ⁴
 AMGEN	36%	44%		5%				8%	7%
 NOVARTIS	25%	14%	10%	12%				18%	21%
 Lilly	20%	12%	5%	51%					12%
 GILEAD	18%				77%				5%
 abbvie	11%	50%	13%		3%				23%
 Takeda	11%	44%	16%				18%		11%
 GSK	2%	31%			20%	27%			20%
 novo nordisk®				88%			12%		
 AstraZeneca	33%	13%		21%		11%	16%		7%










Source: Smart Pharma Consulting analyses based on pharma companies' 2022 annual reports

¹ Excepting Takeda and Astellas for which data are from April 2022 to March 2023 – ² Immunology includes Rheumatology, Dermatology and Gastroenterology products revenues – ³ Including bacterial, viral, parasitic and fungal infections – ⁴ Of which 12% in urology products

The most diversified pharma companies usually share their revenues between more than five different therapeutic areas, in addition to one or more other strategic segments

Pharma companies' strategic segments coverage (2022¹)

Illustrative

(% of total revenues)	Human Rx-bound drugs & Vaccines strategic segment									Other strategic segments			
	Oncology & Hematology	Immunology & Respiratory ³	Neurology	Cardio-metabolic	Infective diseases ⁴	Vaccines	Rare Diseases	Generics & Biosimilars	Others	OTCs	Animal Health	MD / Diagnostic	Others
	13%		2%	13%		57%	<1%		13%				1% ⁶
			88%				<1%	7%					5% ⁶
	39%	2%	<1%	9%	12%	18%			8%		9%		3% ⁶
	38%	11%	12%		3%				8%			28%	
	6%	19%	6%	17%		17%	8%		15%	12%			
	9%		1%	27%					39% ⁵	24%			
				56%					20%		19%		5%
	17%	18%	7%	8%	3%	2%				16%		29%	
	8%		8%	13%					6%				65% ⁷









Source: Smart Pharma Consulting analyses based on pharma companies' 2022 annual reports









¹ Excepting Takeda and Astellas for which data are from April 2022 to March 2023 – ² Bayer Pharmaceuticals revenues only which accounts for 50% of Bayer group sales. The remaining 50% come from the Crop Sciences business – ³ Immunology includes Rheumatology, Dermatology and Gastroenterology products revenues – ⁴ Including bacterial, viral, parasitic and fungal infections – ⁵ Of which 13% of eye care products – ⁶ Miscellaneous or contract manufacturing revenues – ⁷ Of which 47% of Life Sciences and 18% of Electronics revenues

For 16 out of the 20 top pharma companies, the USA account for more than 40% of their total business sales, knowing that it is – by far – the most attractive country for pharmaceuticals

Pharma companies' geographical coverage (2022¹)

Illustrative

(% of total revenues)	USA	Europe	APAC	LATAM	RoW
 abbvie	79%	6% ²	3% ³	12%	
 AMGEN	72%	28%			
 GILEAD	69%	16%	15%		
 Bristol Myers Squibb	69%	31%			
 Lilly	64%	15%	11% ³	10%	
 Biogen	54%	33%	7%	6%	
 Takeda	52%	21% ⁴	18%	4%	5%
 novo nordisk®	52% ⁵	25% ⁶	9% ⁷	14%	
Johnson&Johnson	51%	25%	24%		
GSK	50%	22%	28%		

(% of total revenues)	USA	Europe	APAC	LATAM	RoW
 Boehringer Ingelheim	48% ⁵	31%	21%		
 MERCK	46%	24% ⁶	21%	4%	5%
 Roche	44%	23%	25%	5%	3%
 astellas	43%		19% ⁸	38%	
sanofi	43%	23%	34%		
 Pfizer	42%	22%	8% ⁸	28%	
AstraZeneca 	39%	27%	34%		
 NOVARTIS	35%	37%	28%		
 BAYER ⁹	31%	28% ⁶	19%	18%	4%
MERCK	29% ⁵	28%	35%	6%	2%

Source: Smart Pharma Consulting analyses based on pharma companies' 2022 annual reports

¹ Excepting Takeda and Astellas for which data are from April 2022 to March 2023 – ² France, Germany, Spain, UK, Italy combined – ³ China & Japan – ⁴ Europe & Canada – ⁵ North America – ⁶ Europe, Middle East & Africa – ⁷ Chinese region – ⁸ Japan – ⁹ Include revenues from all activities

The relevance of the selected strategic segments defined at corporate level depends on companies' capabilities to win on these segments

Business strategy: How to Win? – Principles



Once a playground has been chosen, companies must define...



... What does **WINNING** mean?

- Prior to answer the question “How to Win?”, one must agree on a business definition for “Winning”
- “Winning” is a subjective term which depends on:
 - Companies’ Strategic Square¹
 - Companies’ capabilities to fulfil customers’ and shareholders’ expectations, and preferably better than competitors do

“Winning is delighting your stakeholders, whoever they are, in line with your Strategic Square”

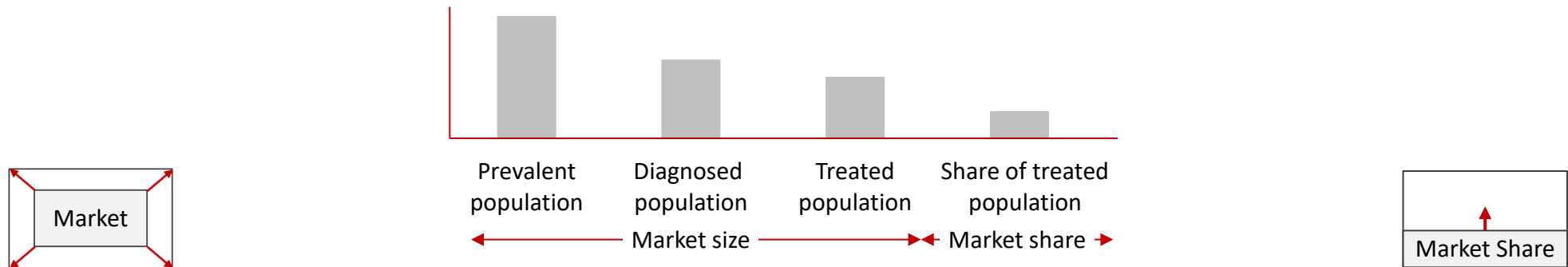


... How to **WIN**?

- There is not one single recipe to win, it depends on the business environment and the companies’ own competitive sets of strengths and weaknesses
- At a high level, the choice is whether to strive to:
 - Grow the market segment, especially on niche markets where there is no or limited competition (e.g., certain rare diseases)
- or
- Get preferred by stakeholders, to the detriment of competitors

Depending on the disease context and the pharma companies' competitive position, the business strategy priority will be crafted to grow the market and/or the market share

Business strategy: How to Win? – Strategic options



Grow the **MARKET SIZE**

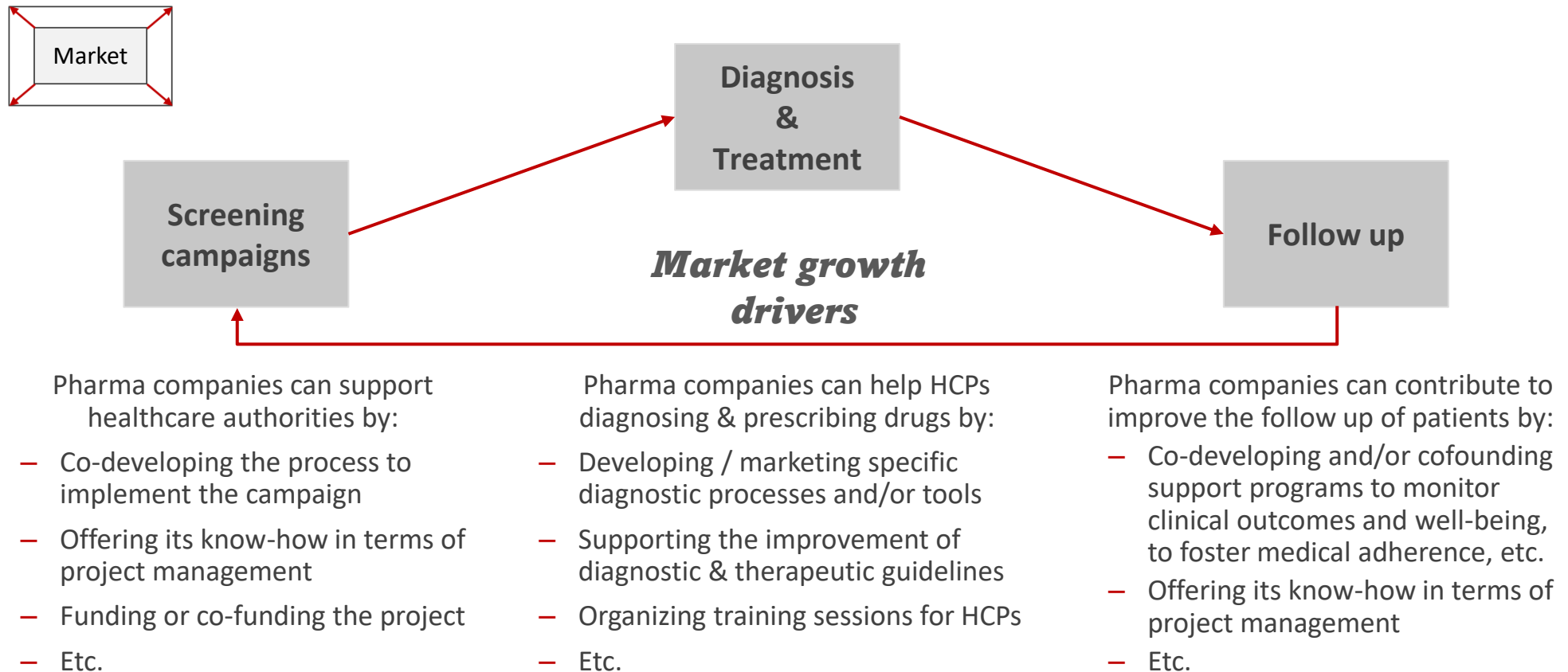
- In the rare diseases markets and/or when companies' position is largely dominant, the business strategy priority should be to grow the market
- To do so, pharma companies will support:
 - Screening campaigns initiated by health authorities
 - Diagnosis of the disease and prescription of drugs by HCPs
 - Programs to follow up the treated patients

Grow the **MARKET SHARE**

- In the great majority of cases, pharma companies' business strategy consists in fighting to optimize their market share
- To do so, they must activate the 3 drivers of their customers' preference:
 - The benefits provided by their products
 - The quality of their associated services
 - Their corporate reputation

When pharma companies are in a monopolistic or dominant position, their priority should be to grow the market by facilitating the screening, diagnosis, treatment and/or follow up of patients

Business strategy: How to Win? – Grow the market size

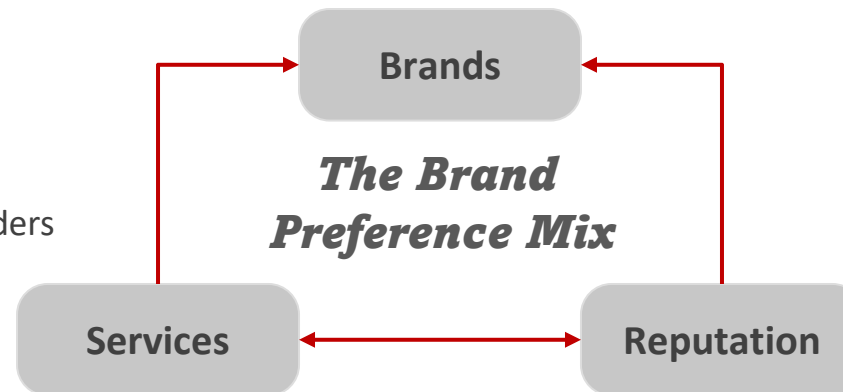


To gain market share, pharma companies must activate the three determinants of stakeholders' preference, i.e., the value of their brands and associated services, and their corporate reputation

Business strategy: How to Win? – Grow the market share

Brands are valued based on:

- Scope of indications
- Efficacy – safety – convenience
- Pricing
- Performance vs. competition as perceived by various stakeholders



Services are valued based on:

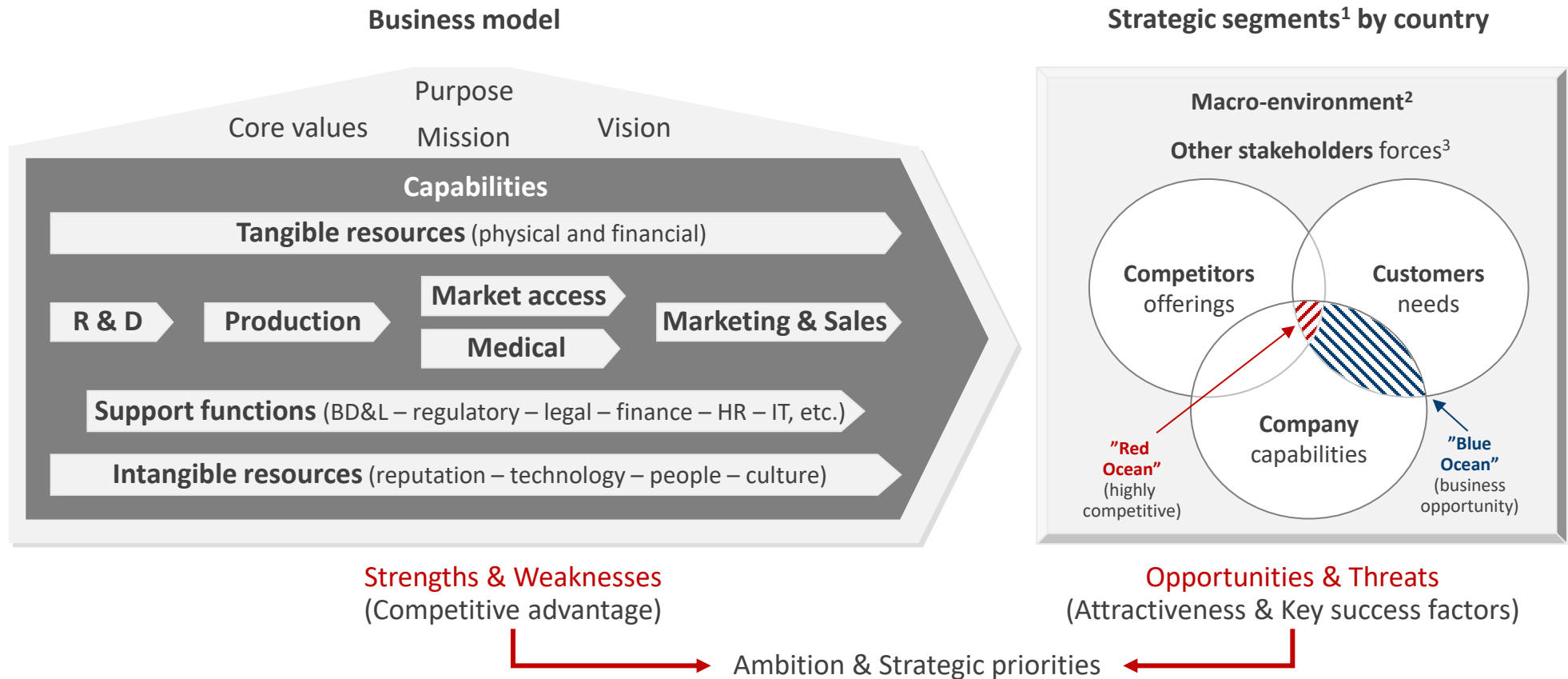
- Usefulness
 - Interest
 - Practicality
 - Execution
- as perceived by various stakeholders

Corporate Reputation is valued based on:

- Products pipeline
 - Product portfolio
 - Collaborators
 - Governance & ethics
 - Business performance
 - Corporate image
- as perceived by various stakeholders

The pharma business strategy must offer a value proposition that meets, better than competition, customers' needs, wants and expectations, by mobilizing the company's capabilities and resources

Pharma business strategy framework



Sources: Adapted by Smart Pharma Consulting from C. Kim et al. and from D.J. Collis, HBR April 2008

¹ Such as: Rx-bound vs. non-Rx bound markets, originators vs. generics or biosimilars, vaccines, OTCs, food supplements, medical devices, diagnostic tools, etc. – ² Political, Economic, Socio-demographic, Technological, Environmental and Legal (PESTEL) factors – ³ Including suppliers, new entrants, substitutes, complements (adapted from Porter's five forces model)

To craft a successful business strategy, pharma companies must evaluate their business environment to identify where their competitive advantage will be the strongest

Assessing strategic segments by country (1/2)

To create a successful business strategy, pharma companies should carefully evaluate the strategic segment landscape they play in by:

Customers

- Developing a detailed knowledge and understanding (i.e., insights) of customers' needs, wants and expectations
- Segmenting and targeting customers based on their opinion and behavior
- Identifying unique ways of creating superior value for customers

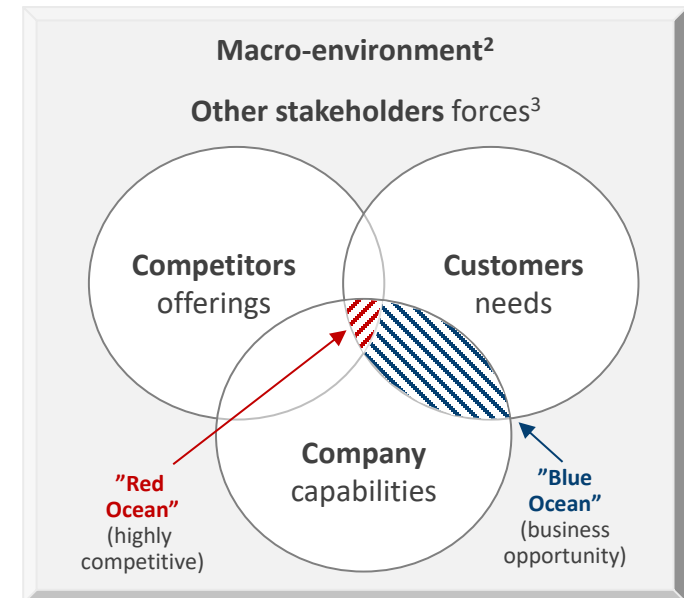
Competitors

- Analyzing competitors' strengths and weaknesses, strategies, impact, and predicting how they might change in the future

Company

- Providing products and services fulfilling better than competition, tangible and intangible customers' needs, wants and expectations
- Finding strategic spaces or "blue oceans" that align the company's capabilities with customers' unmet needs, and...
- ... raising barriers to prevent competitors to enter and/or to grow

Strategic segments¹ by country



"Don't just give customers excellent services, make sure they realize how great is the service they get"

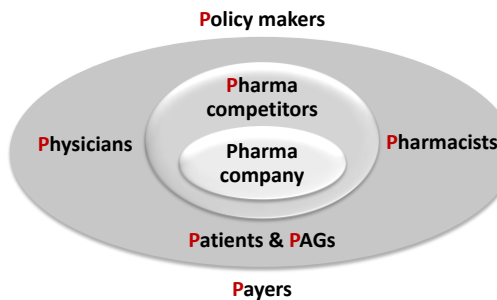
The competitive landscape analysis consists in identifying the current and evolving opinions and behaviors of key stakeholders, the corresponding driving factors and their business implications

Assessing strategic segments by country (2/2)

Illustrative

Policy makers / Payers

- Registration process and policies
- Pricing and reimbursement policies
- Medical guidelines developed by health authorities
- Trade regulations
- Public health initiatives



Pharma Competitors

- Customer preference strategy:
 - Product portfolio
 - Service offering
 - Corporate reputation
- Resource allocation (medico-marketing & sales)
- Organizational model

Physicians

- Evolving practice (working time and organization, tele-medicine)
- Prescribing habits and alignment with guidelines
- Budget constraints
- Relationships with patients
- Relationships with pharma companies (in-field and office-based collaborators)
- Unmet needs

Patients / PAGs

- Role of PAGs to influence other stakeholders (e.g., authorities, physicians, individual patients)
- Position vis-a-vis pharma companies
- Relationships with HCPs
- Patients' knowledge re. health and pharma ecosystem
- Unmet needs

Hospital-based pharmacists

- Drug listing and purchasing policy
- Position re. the use of generics and biosimilars
- Power of influence within the hospital

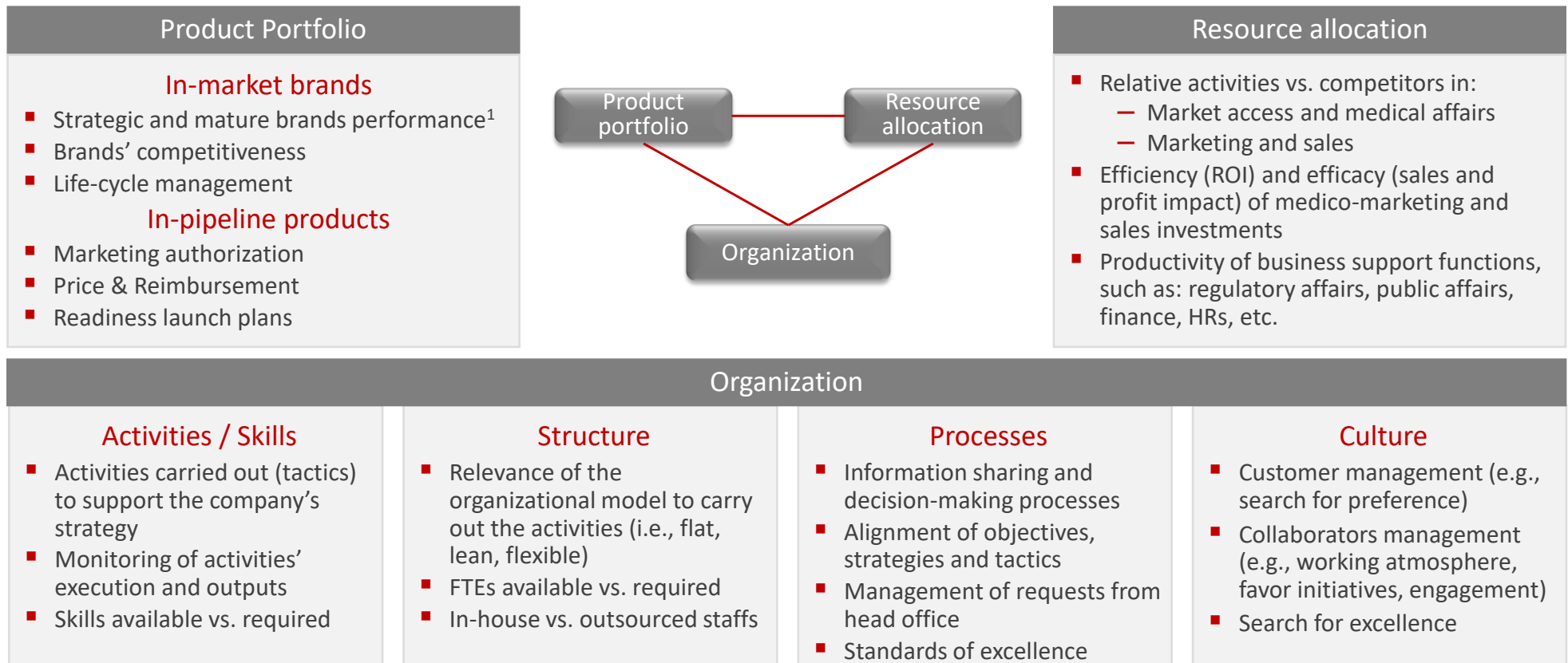
Retail pharmacists

- Role in public health initiatives (e.g., screening, education at the point of sale)
- Purchasing policies and selling priorities

Pharma companies should evaluate their competitive position by strategic segment and country re. their products, their resources and the configuration of their organization

Assessing company's assets and capabilities (1/2)

Illustrative

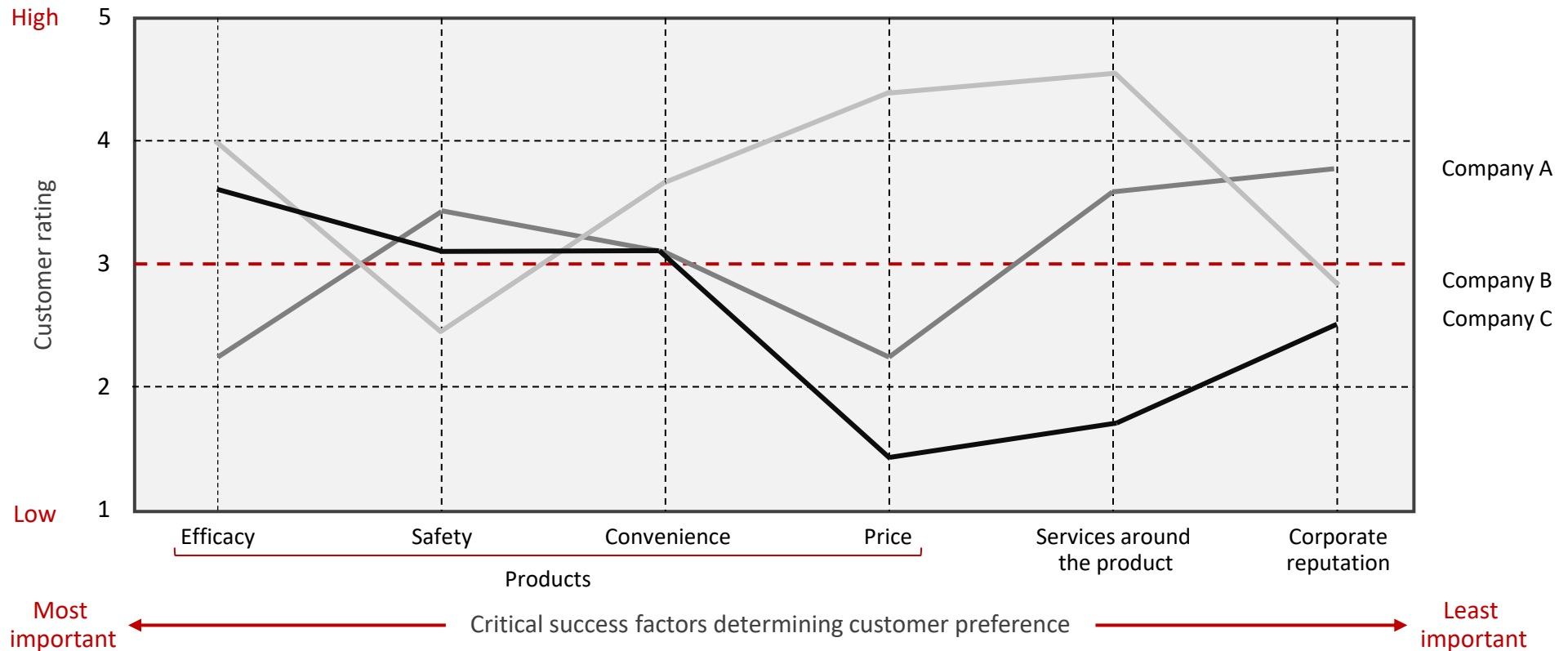


The strategic canvas can help identify strategic gaps which represent opportunities that are not being fully exploited by competition

Assessing company's assets and capabilities (2/2)

Illustrative

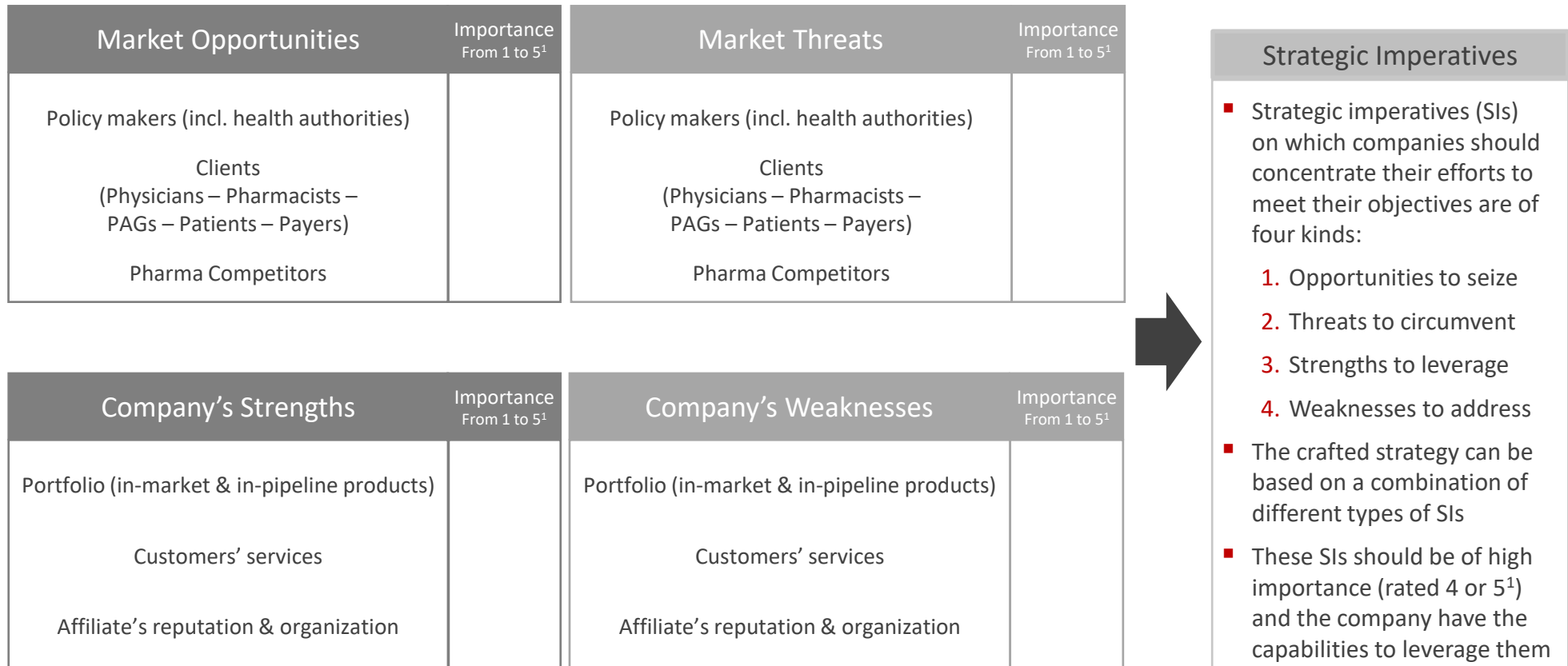
Strategic canvas



The “Advanced SWOT” facilitates the identification of strategic imperatives which correspond to opportunities to seize, threats to circumvent, strengths to leverage and/or weaknesses to address

Advanced SWOT & Strategic Imperatives

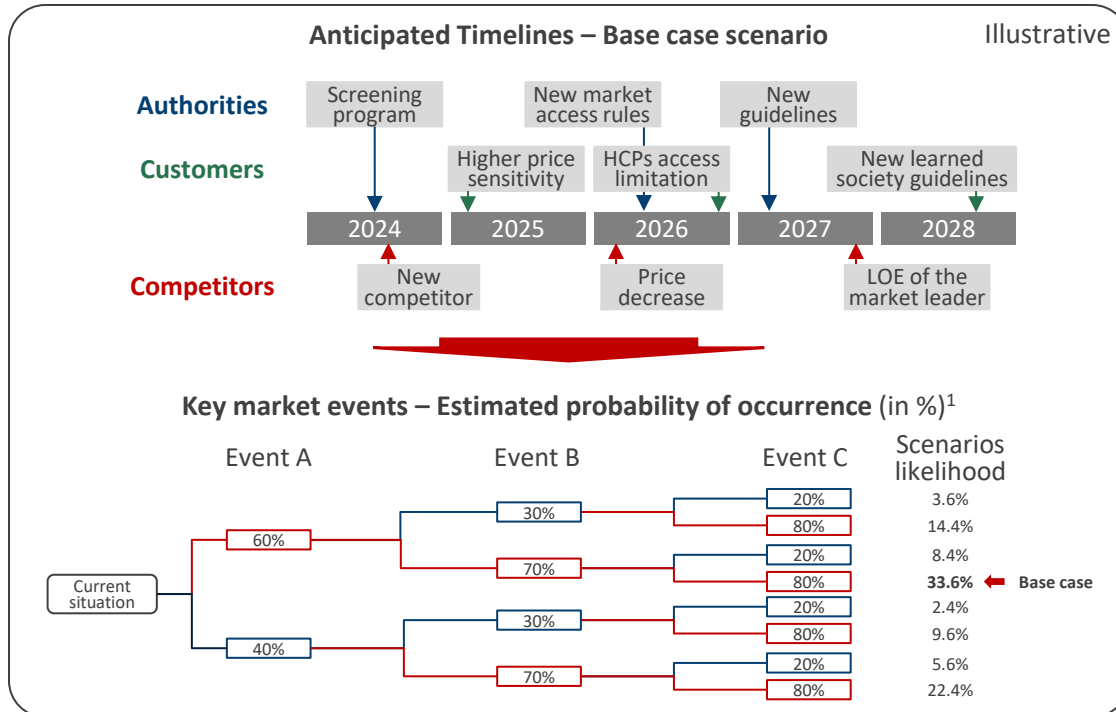
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The scenario planning provides greater insights re. market opportunities and threats; and company's strengths and weaknesses, from which strategic imperatives will be crafted

Scenario planning

- Scenario planning consists in anticipating the most likely combination of events that may impact company's performance
- Probability of plausible events are estimated, and company's proper reactions defined accordingly, on different time frames



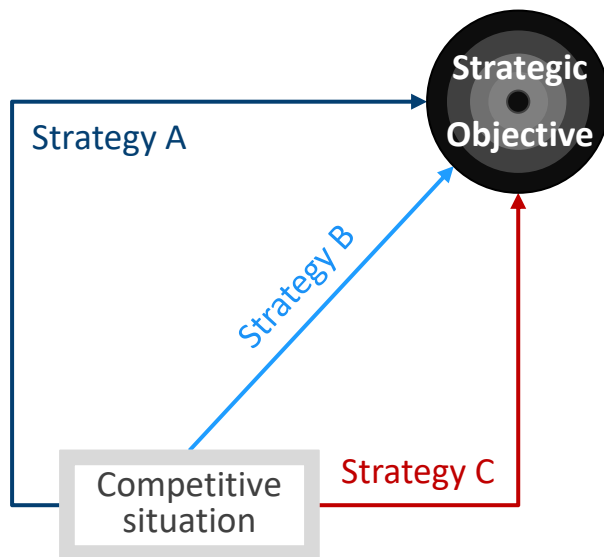
- Key events (related to authorities, customers and competitors) likely to have an impact on the market and the company's business, in the years to come, should be positioned on a time scale
- Then, the probability of occurrence¹ of these key events should be estimated to determine the base case scenario (i.e., the most likely combination of events)
- The magnitude of each event's impact, either negative or positive, should be evaluated
- It is recommended to consider 3 scenarios²:
 - The "base case" on which strategy will be crafted
 - The "worst case" to build a contingency plan
 - The "best case" to craft a voluntary strategy

The likelihood to achieve the set strategic objectives in a strategic segment depends as much on the selected strategy as on the supporting activities (tactics) and the excellence of their execution

Objective setting and strategy crafting

Illustrative

- The competitive situation analysis by strategic segment¹ – or by therapeutic domain² within a strategic segment – enables to identify the companies' competitive position, the markets' key success factors and the key challenges
- The aim of the strategy, expressed as a combination of strategic imperatives (priorities) that should be then broken down into consistent tactics (i.e., operational actions), is to achieve the set strategic objective in a time horizon of three to five years
- The strategic objective, which can be expressed in qualitative and quantitative terms, should be *S.M.A.R.T.*³



- The preferred strategy should be based on historical and future drivers and limiters⁴ related to:
 - Market opportunities and threats depending on stakeholders' behavior:
 - Policy makers (incl. health authorities)
 - Clients (physicians – pharmacists – PAGs – patients – payers⁵)
 - Competitors
 - Companies' strengths and weaknesses depending on their competitive position:
 - Brands Preference Mix⁶
 - Specific know-how and capabilities
 - Human and financial resources
- The chosen business strategy should also consider the Pharma Company "Strategic Square" which is defined by its purpose, vision, mission and core values

Understanding what drive customers' preference and how competition is structured is a prerequisite for an effective business strategy

Key success factors by strategic segment and country

What do customers need – want – expect?

Demand analysis

- Who are our customers?
(prescribers, consumers, distributors, payers, influencers, “injectors”, etc.)
- What is their respective role?
- What do they need?
- What do they want?
- What do they expect from pharma companies?
- What are their available alternatives?
- What does create customers' preference?

How to outperform competition?

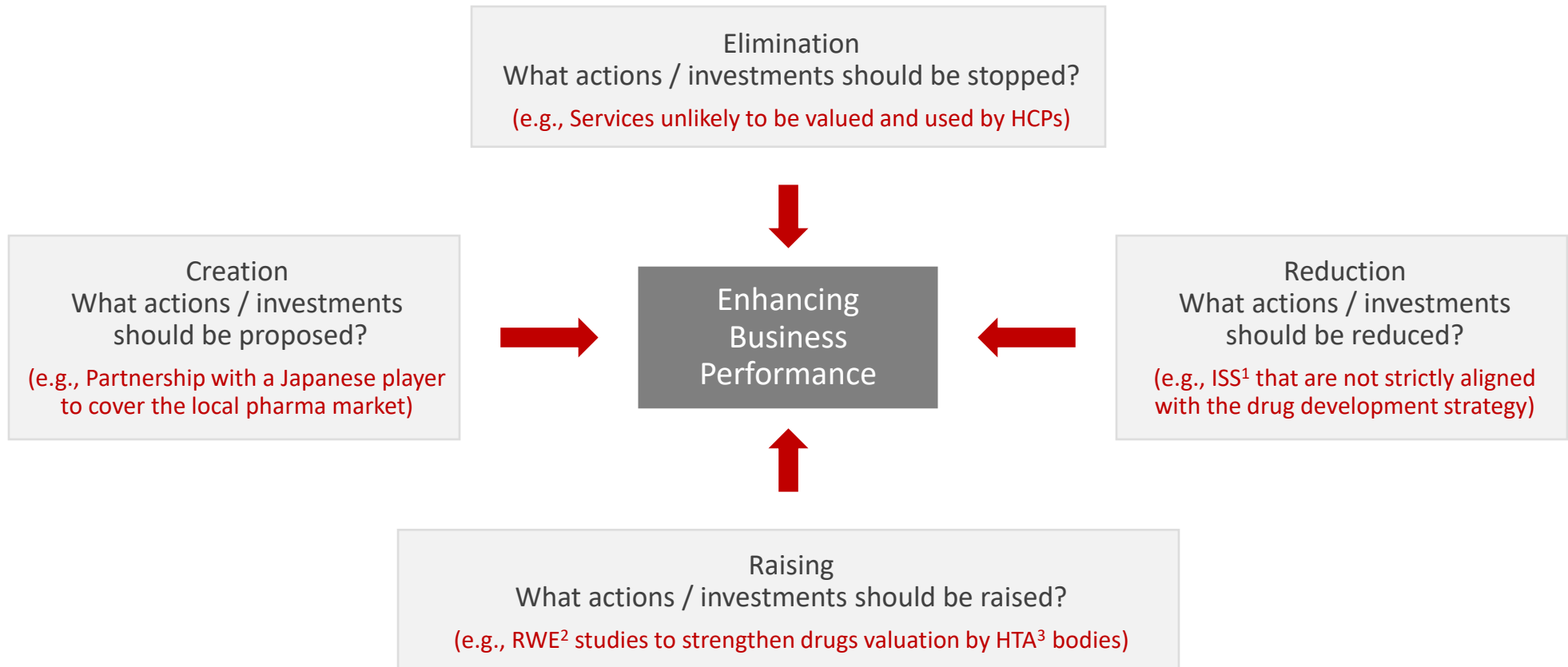
Competitive analysis

- Who are our competitors?
- What drives competition?
- What are the main dimensions of competition?
- How intense is the competition?
- How to obtain a superior and sustainable competitive position?
- How to create customers' preference?

Pharma companies can enhance their business performance by reconsidering the management of the key success factors that are specific to the strategic segments they play in

Enhancing performance through key success factors management

Illustrative



Sources: Adapted by Smart Pharma Consulting from C. Kim et al. and from D.J. Collis, HBR April 2008

¹ Investigator-Initiated Studies – ² Real World Evidence –
³ Health Technology Assessment based on clinical and cost-effectiveness data

The Business Strategy Card is a useful tool to ensure an alignment between the strategic objective, the selected strategic imperatives¹ and the corresponding tactics

The Business Strategic Card

- The Business Strategy Card describes the strategic objective, the strategic imperatives selected to achieve that objective and the key tactics supporting the strategic imperatives



- The Business Strategy Card helps to ensure the consistency between the objective – the strategic imperatives – the key tactics
- The trickiest part is to select the most relevant strategic imperatives, as derived from the Advanced SWOT, which are:
 - Opportunities to seize
 - Threats to fight again
 - Strengths to capitalize on, and/or
 - Weaknesses to address
- The preferred strategic imperatives are those which are the most likely to have an impact on the business performance so that to achieve the set strategic objective

While corporate strategy defines where pharma companies decide to play... ... business strategy sets the priorities to win

Key Takeaways

The selected strategic segments – where to play – depends on market attractiveness and companies' capabilities to win

Analysis of current and evolving opinions and behaviors of key stakeholders, of corresponding driving factors and their business implications are a prerequisite to business strategy crafting

Growing the market is the priority in monopolistic or dominant position



It is essential to leverage the “Brand Preference Mix” to gain market share

The “Advanced SWOT” is instrumental to define strategic imperatives and the supporting activities (tactics)

“The only strategy worthwhile is that fulfilling customer’s needs, wants and expectations, in a way to get preferred”

The achievement of business objectives is strongly driven by the excellence of the strategy execution

Consulting firm dedicated to the pharmaceutical sector operating
in the complementary domains of strategy, management and organization

Best-in-class Series

- The Best-in-class Series provides:
 - Conventional concepts, methods and tools...
 - ... as well as innovative ones, specifically developed by Smart Pharma Consulting for pharma companies
 - Case studies and exercises based on Smart Pharma Consulting experience
- Each issue is designed to be read in 15 to 20 minutes and not to exceed 24 pages

Pharma Business Strategy

Survival Toolkit

- The purpose of this position paper is to share insights regarding business strategy principles applied to pharma companies
- The following key issues are addressed:
 1. Corporate strategy principles reminder: Where to play?
 2. Business strategy principles: How to win?
 3. Growing market size and/or growing market share
 4. Assessing strategic segments and geographies
 5. Assessing company's asset and capabilities
 6. Advanced SWOT – Scenario Planning – Objective & Strategy

Smart Pharma Consulting Editions



- Besides our consulting activities which take 85% of our time, we are strongly engaged in sharing our knowledge and thoughts through:
 - Our teaching activities in advanced masters (ESSEC B-school, Paris Faculty of Pharmacy)
 - Training activities for pharma executives
 - The publication of articles, booklets, books and expert reports
- Our publications can be downloaded from our website:
 - 41 articles
 - 80 position papers covering the following topics:

1. Market Insights	5. Marketing
2. Strategy	6. Sales Force Effectiveness
3. Market Access	7. Management & Trainings
4. Medical Affairs	
- Our research activities in pharma business management and our consulting activities have shown to be highly synergistic
- We remain at your disposal to carry out consulting projects or training seminars to help you improve your operations

Best regards

Jean-Michel Peny