

# ***Delivering results***

## Key findings in the Pharmaceuticals and Life Sciences industry

15th Annual Global  
CEO Survey

Sector summary



Commitments to doing more business globally are accelerating in 2012 despite economic, regulatory and other uncertainties. CEOs see the fundamentals for future growth still squarely in place.

To understand how businesses are preparing for growth in their priority markets, we surveyed 1,258 CEOs based in 60 different countries and talked to a further 38 CEOs face-to-face for our 15th Annual Global CEO Survey. *Delivering results: Growth and value in a volatile world* explores CEOs' confidence in prospects, and how they are building local capabilities and creating new networks for new markets.

CEOs are adapting how they go to market, reconfiguring processes and at times entire operating models. They are also addressing risks that greater integration can amplify and are focused on making talent more strategic to pursue market opportunities.

This is a summary of the findings in the pharmaceuticals (pharma) and life sciences sector, based on interviews with 82 pharma and life sciences CEOs in 29 countries. To explore the full results of the 15th Annual Global CEO Survey, please visit [www.pwc.com/ceosurvey](http://www.pwc.com/ceosurvey).

## Introduction

We are now well into a cycle defined by weak demand in the industrialised economies, uncertainty in the emerging economies and greater volatility. Most business leaders have responded by embracing new strategies for coping with risk, but the initial phase of rapid adjustment seems to have ended. Only 34% of all CEOs – and only 22% of those running pharma and life sciences companies – plan to make strategic alterations as a result of changes in risk tolerance over the next 12 months.

That's not to say the risks have diminished. On the contrary, 54% of pharma and life sciences CEOs told us the on-going sovereign debt crisis in Europe had affected their companies. Similarly, 24% said the Japanese earthquake, and resulting destruction of the Fukushima nuclear plant had dented their finances.

The explanation lies, rather, in the fact that most pharma and life sciences have already put robust risk-management policies in place. And since many medicines are must-have products, not discretionary purchases, the industry is relatively resilient during periods of great economic turbulence.

So, even though pharma and life sciences CEOs are gloomy about the global picture, they're quite positive about the prospects for their own organisations. Only 12% believe the global economy will pick up this year. But 45% are very confident of being able to generate higher revenues over the next 12 months, and 49% are very confident of being able to do so over the next three years.

## Making it happen

To put it another way, pharma and life sciences CEOs are now focusing on the upside rather than the downside. They're refashioning their business models for a world where the opportunities and threats are increasingly interconnected but the sources of growth are often local. This presents three related challenges:

- **Reconfiguring operations to meet local market needs:** Building the right portfolio mix – the right infrastructure, operating model, strategic alliances, products and services for the right markets.
- **Defending against micro risks and macro disruptions:** Managing the consequences of local risks that may become global disruptions – such as the political upheavals, nuclear disaster, massive floods and unfolding sovereign debt crisis that featured in 2011.

- **Getting the right talent:** Putting the right employees in the right places, and managing serious short-term problems like the shortage of technically skilled people in mature markets and trained managers in emerging markets.

## Balancing global capabilities and local opportunities

Most CEOs believe greater global integration is reshaping the business landscape. But succeeding in this new environment isn't just about making products cheaply in one place and selling them in another. It's about becoming 'multi-local' – building fully-fledged operations in key markets to forge deeper relationships with customers, innovate anew, take advantage of local talent and brands, reduce risk and capitalise on the advantages each market has to offer.

CEOs in every industry are repositioning their companies accordingly – and pharma and life sciences CEOs have

been especially active. They've been cutting costs, like their fellow CEOs in other sectors. But they're also more likely to have insourced or outsourced critical business processes or functions, and to have ended an existing strategic alliance or joint venture (see Figure 1). Pharma and life sciences CEOs are increasingly challenging their companies' cost bases, especially as pricing and margins come under greater pressure.

Further changes are on the agenda. Some 66% of all pharma and life sciences CEOs plan to make other strategic alterations over the next 12 months. And 21% of them anticipate making fundamental changes, in contrast with the overall average of just 13%.

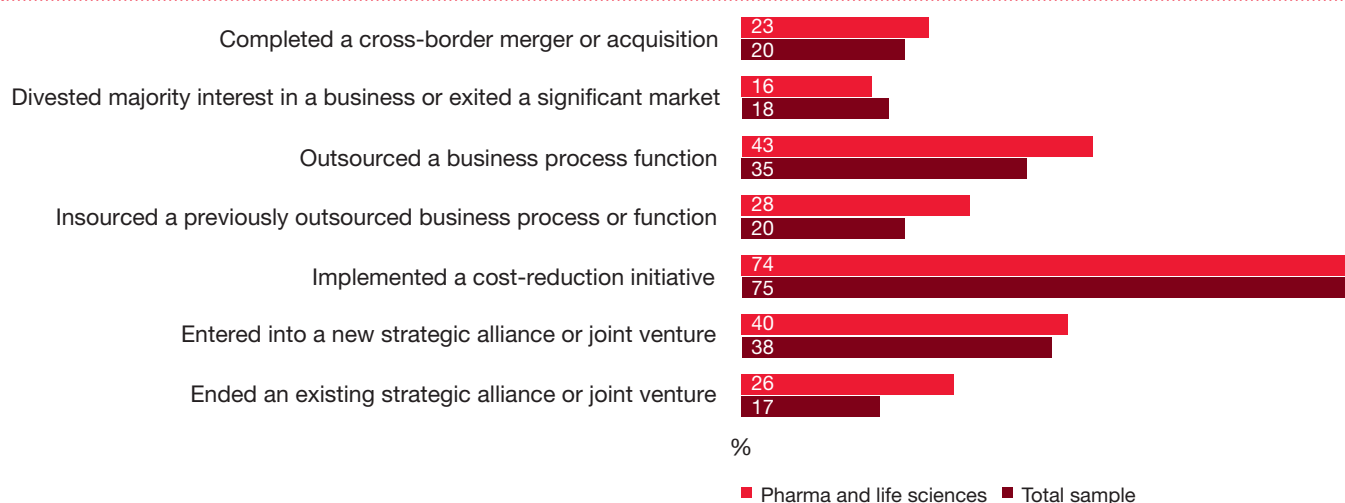
But while most CEOs are focusing almost equally on developing new products and increasing their share of existing markets, pharma and life sciences CEOs think the biggest opportunities for growth lie in creating new medicines (see Figure 2). Of course, innovation has always played a key role in the industry's success. Even so, this difference in perspective is somewhat surprising – and a measure, perhaps, of how demanding healthcare payers in the mature economies have become.<sup>1</sup>

“The business case for innovation is increasing, but as I often say, the easy stuff has been done. For innovations to be meaningfully better requires more insight into the fundamentals of science.”

**Dr Marijn Dekkers**  
Chairman  
Bayer AG

**Figure 1: Change is in the air**

Q: Which, if any, of the following restructuring activities have you initiated in the past 12 months?

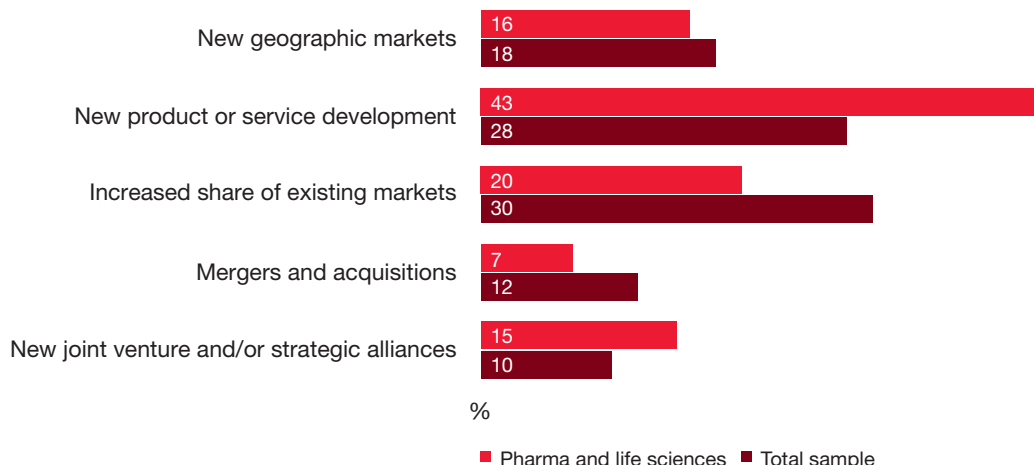


Base: All respondents (Total sample, 1,258; Pharma and life sciences, 82)  
Source: PwC 15th Annual Global CEO Survey

1 PwC, 'Pharma 2020: Marketing the future – Which path will you take?' (2009).

**Figure 2: Pharma and life sciences CEOs are focusing on innovation**

Q: Which one of these do you see as the main opportunity to grow your business over the next 12 months?



Base: All respondents (Total sample, 1,258; Pharma and life sciences, 82)  
Source: PwC 15th Annual Global CEO Survey

Expanding into new geographic markets features much less prominently in the plans of pharma and life sciences CEOs, possibly because many of them already operate on a global basis. They're certainly not ignoring the potential of the emerging economies. When we asked which three countries (excluding the country in which they were based) they thought would be most important for their company's growth over the next 12 months, they cited China and Brazil as well as the US.

GlaxoSmithKline's CEO, Sir Andrew Witty, has already gone a long way down this path. He's an 'extreme bull' on the emerging markets and has been steadily reducing GSK's reliance on white pills for Western patients. It's a strategy that's served his shareholders well.<sup>2</sup>

Most pharma and life sciences CEOs with their eyes on the emerging economies hope to emulate Witty's success. Their main goal is to attract more customers, although some CEOs also want to access the local talent base, establish local manufacturing facilities and tap into new sources of innovation. The biggest pharmaceutical companies have all set up research centres in Asia, for example, as non-OECD countries account for a growing amount of R&D.<sup>3</sup>

Yet meeting the medical needs of the emerging markets is a complex task. Although the disease burden is slowly converging with that of the mature world, there are still significant socioeconomic and cultural variations. So the industry will have to develop medicines and devices that are cheaper and encourage greater compliance to cater for a substantial part of the population.

<sup>2</sup> Rachel Cooper, 'GlaxoSmithKline chief Andrew Witty an "extreme bull" on emerging markets', *The Telegraph* (27 October 2011), <http://www.telegraph.co.uk/finance/newsbysector/pharmaceuticalsandchemicals/8851599/GlaxoSmithKline-chief-Andrew-Witty-an-“extreme-bull”-on-emerging-markets.html>  
<sup>3</sup> PwC, 'Pharma 2020: Challenging business models – Which path will you take?' (2009).



## Resilience to macro disruptions and micro risks

With greater integration, micro risks can become macro disruptions – as the unfolding sovereign debt crisis in the Eurozone has amply demonstrated. Pharma and life sciences CEOs are well aware of the dangers. A full 72% are somewhat or extremely concerned about the prospect of uncertain or volatile economic growth. Rapidly fluctuating exchange rates and how deeply indebted governments will tackle their fiscal deficits also come high on the list of issues that keep them awake at night.

### Coping with more regulation

These concerns are common to most of the CEOs we interviewed, but pharma and life sciences CEOs have other, more industry-specific worries, too. Chief among them is the risk of over-regulation: 70% are somewhat or extremely concerned about the possibility of tighter restrictions, compared with just 56% of the total sample.

There are some obvious reasons for this. The European Medicines Agency and the US Food and Drug Administration (FDA) now place much more emphasis on risk management, for example.<sup>4</sup> The FDA is also developing a real-time system for tracking the safety of approved medicines and medical devices, which could eventually be used to compare the effectiveness of different products.<sup>5</sup> And the governments of several emerging countries are exploring new ways of regulating medicines that take advantage of technological advances like remote monitoring.<sup>6</sup>

“What is interesting and what is changing is that among Western companies, the ability to hire, develop, and retain talent in the developing economies has become a major point of competitive differentiation. There are years when we hire more than 1,500 people in China. Where can we find them? How do we train them? They’re all very young and inexperienced. In terms of competitiveness, the capacity to recruit in developing economies wasn’t significant 10-20 years ago. But it is now.”

**Dr. Marijn Dekkers**  
Chairman  
Bayer AG

### Maintaining secure supply chains

Supply-chain security is another major concern for many pharma and life sciences CEOs. Again, it’s easy to see why. Managing a global supply chain is more difficult than managing a national or regional one – and valuable medicines are especially attractive targets for criminals. The number of recorded cases of counterfeit, stolen or illegally diverted medicines has soared in recent years.<sup>7</sup>

But most pharma and life sciences companies are also ill-equipped to cope with the sort of products that are coming down the pipeline. In future, many of the medicines the industry makes will be specialist therapies that need totally different manufacturing and distribution techniques from those used for small molecules. A lot of companies will therefore have to build different supply chains for different products and patient segments.<sup>8</sup>

And, if they’re to succeed in the emerging markets, they’ll have to distribute their products over very large areas, many of which have poor infrastructure.

4 PwC, ‘Pharma 2020: Virtual R&D – Which path will you take’ (2008).

5 John Gever, ‘FDA “Mini-Sentinel” System Up and Running’, *MedPage Today* (12 January 2011), <http://www.medpagetoday.com/PublicHealthPolicy/FDAGeneral/24309>

6 PwC & Association of Biotechnology-Led Enterprises, ‘Vision 2020: A Biopharma Strategy for India’ (2010).

7 Pharmaceutical Security Institute, ‘Incident Trends’, <http://psi-inc.org/IncidentTrends.cfm>

8 PwC, ‘Pharma 2020: Supplying the future – Which path will you take?’ (2011).

## The talent challenge

Creating a company that can draw on its global strengths to realise local opportunities and manage micro risks with macro implications are two of the key challenges CEOs face, if they're to access local sources of growth. The third is managing a global workforce and competing for scarce human resources with other sectors – a problem that's particularly acute in the pharma and life sciences industry.

More than half the pharma and life sciences CEOs we interviewed reported that hiring people with the necessary skills has become harder. Middle managers with the potential to rise to the top are in particularly short supply, but there's a dearth of good people at every level – and it's taking its toll. In the past 12 months alone, talent constraints have restricted innovation in 33% of pharma and life sciences companies, and 45% have seen their labour costs climb more than expected.

## Tapping external sources of talent

A number of pharma and life sciences CEOs are now exploring new strategies to deal with the talent deficit. Over the next three years, for example, 40% plan to partner with other organisations. Gilead Sciences is one such instance; it recently signed a US\$40m deal with Yale School of Medicine to collaborate on the discovery of new medicines for cancer.<sup>9</sup> Similarly, Johnson & Johnson has joined forces with China's Tianjin Medical University Cancer Institute and Hospital.<sup>10</sup> Such international alliances are likely to proliferate, with growing recognition that many of tomorrow's industry leaders may well come from the emerging markets. Some Western companies may find it difficult to recognise, and adjust to, this shift in the sources of talent.

## Mobilising expertise

Some pharma and life sciences CEOs are also moving talented people from one market to another. And the traffic's more likely to be two-way than in many other sectors: 26% plan to move experienced employees from newer markets to their company's home markets to circumvent the skills shortage, compared with the overall average of just 16%.

## Investing in new technologies

But transferring highly qualified employees to overseas locations is expensive and does nothing to address the innate shortage of skills, which is why 49% of pharma and life sciences CEOs are turning to technology. Eli Lilly has, for example, invested heavily in computational analysis and cloud computing to improve the productivity of its research team.<sup>11</sup> Some companies are also looking beyond the lab. Take the case of Merck, which recently replaced the barcode scanning systems in its Portuguese warehouse with a voice recognition system that's delivered significant improvements in productivity and accuracy.<sup>12</sup>

Advances in e-learning should help, too, by making it easier for pharma and life sciences companies to capture organisational knowledge and pass it on effectively to new employees. Such techniques are particularly well suited to the 'YouTube' generation, which is more comfortable absorbing information electronically than previous generations.

9 'Yale and Gilead Sciences Announce Cancer Research Collaboration', *Yale News* (30 March 2011), <http://news.yale.edu/2011/03/30/yale-and-gilead-sciences-announce-cancer-research-collaboration>

10 'Evolving R&D for emerging markets', *Nature Reviews Drug Discovery* 9, 417-420 (June 2010), <http://www.nature.com/nrd/journal/v9/n6/full/nrd3204.html>

11 Ryan McBride, 'Eli Lilly CEO sees computational tools as key to R&D boost', *FierceBiotech IT* (22 November 2011), <http://www.fiercebitechit.com/story/eli-lilly-ceo-sees-computational-tools-key-rd-boost/2011-11-22>

12 Zetes press release, 'Pharma giant Merck improves multiple warehouse operations with just 8 voice pickers' (31 March 2011), <http://www.zetes.com/en/press-and-events/press-releases/2011/515038>

## Targeting millennials and keeping boomers

Many pharma and life sciences companies will have to do far more to make themselves attractive to the ‘millennials’, though. And one way of doing this might be to stress the opportunities for getting international experience. Our research shows that millennials are more interested in overseas postings than their predecessors: 71% want to work abroad at some point in their careers.<sup>13</sup>

The industry will also have to adopt more flexible working patterns to retain people at the other end of the age spectrum. Retiring boomers are already influencing how pharma and life sciences companies in developed economies manage their workforces. At Abbott Laboratories, for example, employees aged 55 or older can opt to work four days a week and mentor or train other staff members rather than continuing to work on projects.<sup>14</sup>

## Getting the right information

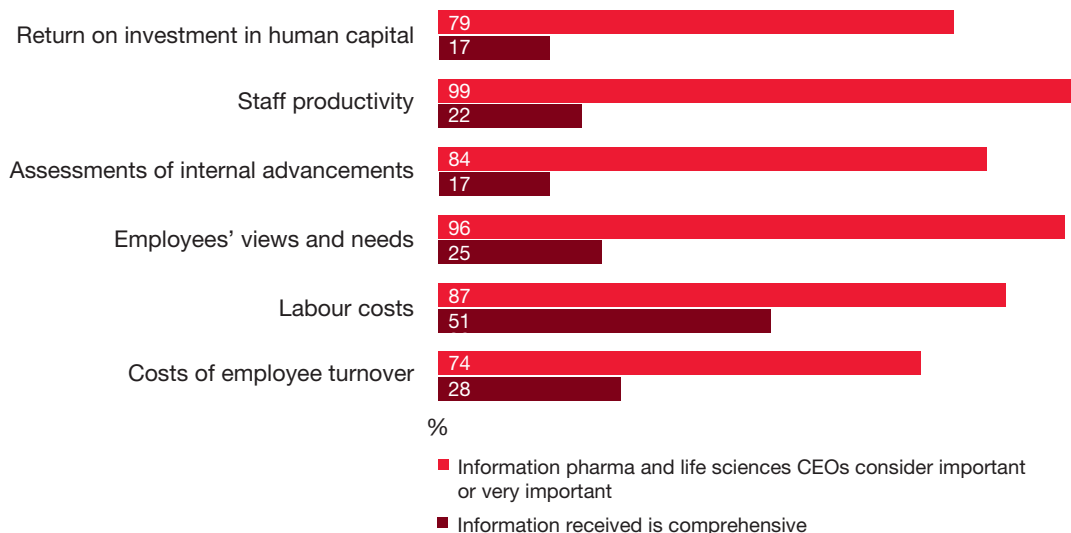
But adopting a more creative approach to the talent challenge is only part of the equation. The other is getting the information required to make the right decisions in the first place. Most pharma and life sciences CEOs track traditional indicators like productivity and labour costs. They’re rather less likely to measure the cost of losing talent or the return they get on training and other such activities – which are also critical benchmarks. Yet even those who measure everything that matters don’t get the whole story. Less than a third of all pharma and life sciences CEOs receive comprehensive information all but one of the key pointers listed in Figure 3.

Not that industry alone can fill the talent gap; that’s partly a job for governments. But pharma and life sciences CEOs recognise business also has a major role to play. And 84% of them are investing in measures to help develop the workforce in the markets where they have a significant presence.

They’re looking to government for other things. Like their peers in other sectors, they want governments to focus, first and foremost, on building a stable financial sector and strong national infrastructure. Given strong financial institutions, clear rules and good roads, ports and communication networks, pharma and life sciences CEOs are confident they can deliver growth.

**Figure 3: Pharma and life sciences CEOs want more information on key talent measures**

Q: When making decisions, how important is it to have information on the following issues? And how comprehensive is the information you receive?



Base: All respondents (Total sample, 1,258; Pharma and life sciences, 82)

Source: PwC 15th Annual Global CEO Survey

<sup>13</sup> PwC, ‘Millennials at Work: Shaping the workplace’, (December 2011).

<sup>14</sup> Gary M. Stern, ‘Not letting go: Companies hang on to their baby boomers, *CNNMoney* (18 October 2011), <http://management.fortune.cnn.com/2011/10/18/baby-boomers-retirement/>

## What's next?

Deciding which processes and capabilities need to be global, regional and local isn't just about taking advantage of growth opportunities it's also about developing the flexibility to survive disruptions, wherever they may surface. That's not an easy balance to strike. We've distilled eight key questions from the feedback CEOs have given us in this year's CEO Survey:

1. How local is your global growth strategy?
2. How are you balancing global capabilities with local opportunities?
3. Is your talent strategy fit for growth?
4. Are your innovations creating value for your customers – or just novelty?
5. Do your strategic plans account for the macro impact of micro risks?
6. Are you looking at, and understanding, the consequences of those high-impact but low-probability risks?
7. Where are the biggest opportunities for business and government to coordinate better?
8. Does your governance model account for the ways in which organisations' and people's expectations are changing?

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