MMC INTERNATIONAL

From Strategy To Implementation

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On July 22, 2014—Edmund L. Valentine stated, "pharmaceutical company business model innovations will be the most disruptive pharmaceutical industry force over the next ten years. The United States pharmaceutical industry transformation is being driven by payers and providers - from outside the pharmaceutical industry. History has shown that during disruptive industry change, which the pharmaceutical industry is experiencing, most companies fail to act quickly enough because the initial disruptive effects have minimal impact on their business and managements fail to fully appreciate the implications."

Companies like Nokia (mobile phones), RIM (Blackberry phone) and Kodak (film) serve as excellent examples of what is happening to United States pharmaceutical companies today. Nokia was simultaneously challenged by mobile, internet, and computer technologies. Nokia focused on the mobile phone industry, where it was the dominant global mobile phone leader, and discounted the disruptive potential when both Apple (iPhone) and Google (Android) announced smart mobile phone initiatives. After all, Apple and Google did not know the mobile phone business. RIM also failed to act. As a result, Nokia and RIM shareholders lost over $208 billion in equity value by the time the companies were sold[1].

"**Most U.S. pharmaceutical companies are evidencing the same signs witnessed by Nokia, RIM and Kodak prior to losing their dominant positions and destroying billions in shareholder value.** The key difference is an unprecedented convergence of more than twice the number of industry disruptive forces, coming at increasing velocity to disrupt the pharmaceutical industry, than were present for either Nokia, RIM or Kodak."

Rx Industry Redefinition

MMC International forecasts pharmaceutical company business model innovations will complement the payer and provider shift in focus to packaging and pricing specific episodes of care. Redefinition of the United States pharmaceutical industry will evolve on a product-by-product and/or disease-by-disease basis.

Transformations

The necessary scope of change typically requires a company transformation. However, only about 30 percent of organizational transformations succeed[2]. History unequivocally shows most companies are unable to mount an effective response to a competitor with a superior business model that results in markedly lower costs for its customers. The significant boost in the incumbent's competitiveness is difficult to impossible to achieve, depending on the circumstances. Success requires a clear vision and a strong chief executive able to navigate a change in the company's business model. It requires managing the right balance between the new and the old at the right time (something the disrupters do not need to worry about). This is why most incumbent companies fail as a result of industry disruptions.

Incumbents in any established industry are hobbled by their organizations, cultures, and business norms during periods of industry disruption. Most incumbents, when facing industry disruption, focus on the status quo, i.e., on the near term. This is in part fostered by their compensation structures. Organizational complexity, culture, "group think", informal decision processes, operational silos, prior and present industry success, arrogance, etc. makes major adaptations extremely challenging because a strategic response requires a consensus view that is difficult to achieve quickly enough. For most companies, it only happens when facing a crisis—at which time it is generally too late.

1 When Nokia was sold to Microsoft for $7 billion, it had lost $143 billion, from its peak valuation, in stockholder value. RIM lost $65.1 billion when it was sold to Toronto-based private equity group Fairfax Financial for $4.9 billion.

2 Scott Keller and Colin Price, Beyond Performance: How Great Organizations Build Ultimate Competitive Advantage, Hoboken, NJ: John Wiley & Sons, 2011.

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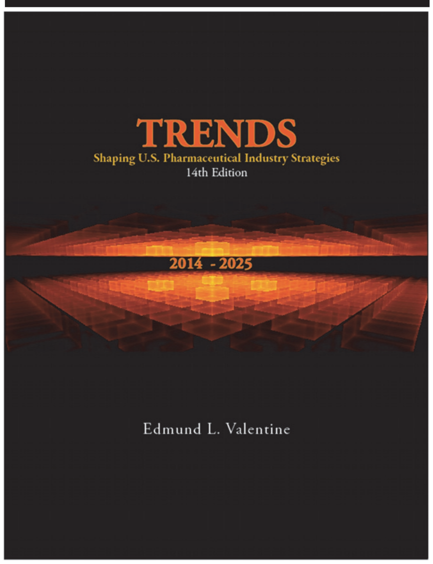
Pharmaceutical companies are forecast to develop product and value-added offerings to capitalize on reimbursement changes to capture share, share in the total cost of care savings, monetize drug-related pharmaceutical company value-added services, and protect their brands/products. There will be myriad initiatives - many will fail - however, those that succeed will be handsomely rewarded and will redefine United States pharmaceutical industry norms before 2025.

Pharmaceutical companies that fail to analyze the United States healthcare industry differently will come to the same conclusions as most other pharmaceutical companies, i.e., they will be positioned more like Nokia, RIM and Kodak. They will not be the visionaries and first movers, like Apple (product), Amazon (distribution), or Google (processes), that drive and benefit handsomely from change. The issue for pharmaceutical company management is to envision where the money pools will be, not to focus on the profitable business models of today and the past.

Begins Shipping The Week Of July 28, 2014



Trends **Shaping U.S. Pharmaceutical Industry Strategies**

"Trends" is designed to educate, inform, and challenge the reader to assist pharmaceutical management to prepare for, contribute to, and benefit from industry change and the new industry norms that will be in place in 2025. The analysis contained in the "Trends" report is the type of environmental overview conducted in preparation of a total company strategic planning process. It is the requisite step to defining the strategic issues management must address to insure the long-term viability of the company in the United States. It represents an extremely cost-effective first step prior to conducting the requisite gap analysis and portfolio review.

The unprecedented conversion of disruptive enabling technologies, innovations, legislation, regulation, organizations, alliances and joint ventures, transparency, consumerism, reimbursement, and new business models and the velocity of healthcare industry change, and the effects on pharmaceutical company strategic and marketing strategies, required a complete rewrite and a new report organization versus prior versions. The 14th edition complements but is totally different from the 13th edition of *Trends Shaping U.S. Pharmaceutical Industry Strategies*. **The report findings are the most significant since MMC began publishing the "Trends" series in July 1990.**

To thrive in the new United States healthcare environment of hyper-change, growing uncertainty, and disruptive change, it is imperative to accurately anticipate and prepare the company for the future. "Trends" presents the requisite detail needed to understand the "hard" trends which are predictable and the "soft" trends that will unleash innovations and opportunities.

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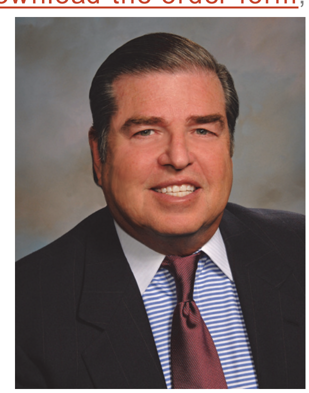
For more information, to get a copy of the "Trends" Table of Contents, or to discuss a Board of Directors and/or senior management briefing, a strategic or marketing workshop, or a presentation related to the Trends report, contact Ed Valentine at 203-961-9352 or e.valentine@mmcint.com.



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