

PHARMA'S ROLE IN EMERGING HEALTH ECOSYSTEMS

FROM DRUG, TO CURE

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The onslaught of disruptive trends and the emergence of new health ecosystems are jeopardizing some of the pharmaceutical industry's most historically profitable businesses. There must be a greater focus on prevention, treatment, and/or disease management for areas like rheumatology, oncology, cardiovascular disease, and diabetes.

THREE WELL-ESTABLISHED TRENDS SPELL DISRUPTION FOR PHARMA

1. ONGOING HEALTHCARE COST CRISIS

Government and private payers around the globe are concerned with rising healthcare costs. And patients across the US share this concern, as payers continually offload risk onto consumers through high deductible plans and health savings accounts. Despite this cost crisis, pharmaceutical companies have maintained¹⁶ margins that range between 15 to 20 percent. Prices of innovative drugs are increasingly being challenged, resulting in demands for risk share or access and reimbursement restrictions.

2. TECHNOLOGY INNOVATION BECOMES MAINSTREAM

Many innovations are creating new touchpoints, threatening established engagement paradigms. Some of these innovations include telehealth, virtual care, patient monitoring, patient engagement, personalized medicine, or large-scale population health data analysis. Some of these complement pharma, while others compete directly with pharma's value proposition.



3. THE PATIENT TO CONSUMER REVOLUTION PRESSES ONWARD

Consumers' healthcare expectations have been upended by their seamless experiences with service industries like e-commerce, mobile banking, and online travel planning. Consumers have more money at risk in their healthcare purchases, and more opportunity to access patient support groups. They have an unprecedented ability to compare treatments and to share ideas in areas where manufacturers used to hold an information monopoly. As evidenced by low industry-wide net sentiment, consumers are dissatisfied with the level of service they get from healthcare stakeholders, and are taking on greater power, responsibility, and advocacy over their health decisions. Drug choice will not be spared from consumer decisions.

A FRAMEWORK FOR ANALYZING RISK OF DISRUPTION FOR SPECIFIC THERAPEUTIC AREAS

Three factors determine disruption risk levels specific to therapeutic areas in this changing healthcare environment:

1. Market size. The bigger the market, the more attractive it is to challengers.

2. Substitution risk. Innovators recognize and are addressing that consumers with diverse medical needs have unique (yet, also broadly defined) challenges and needs. In response, innovators are bringing prevention, wellness, information, and advice to the mainstream market to capture new value across the care delivery spectrum. Some of these offerings represent a direct competition to current healthcare players. When a variety of offerings and treatment options

exists for consumers to choose from, such as various therapeutic agents, non-pharmaceutical approaches like surgery, radiation, medical devices, or lifestyle changes, the disruption risk for incumbents gets even greater.

3. Complementary opportunity. If a particular therapeutic area entails unmet patient needs beyond the immediate treatment – for example, helping a patient deal with treatment side effects – challengers that address critical patient needs beyond treatment will become a significant threat to those incumbents only treating a single medical need.

When applying the above framework to the therapeutic categories, our analysis demonstrates some of the most affected areas include rheumatology, oncology, cardiovascular disease, and diabetes.

PHARMA'S TOOLKIT FOR CHANGE

To face this new competitive paradigm, the industry needs to evolve its value proposition, with bold investments in new approaches. It has valuable assets at its disposal, including:

- **The capability to demonstrate outcomes**, both during clinical trials and in real-world settings
- **Strong medical expertise**, both within organizations and by accessing its base of prescribing clinicians
- **Strong relationships with key healthcare stakeholders**, including payers, providers, and regulators
- **An enormous amount of clinical data**, with the capability to generate more, and analytics that can make data actionable
- **Large-scale operations**, both geographically and in functional depth
- **Financial strength** to make investments that complement and expand existing activities

Creating new value in health. We have chosen two examples of therapeutic areas in order to illustrate how the pharmaceutical industry can leverage its capabilities in this new competitive paradigm.

Creating new value in cancer treatment. In **oncology**, there has been a strong focus on efficacy, improving survival for patients. However, there are other unmet needs beyond efficacy that are far from being completely addressed and that are primed to drive further disruption. Consequently, opportunities to create value in oncology may lie outside the traditional pathway of drug manufacturing. These may include using big data resources to identify the best treatment paths, creating tools to improve care coordination among multiple providers, and improving diagnostics using developments in areas like genomics, proteomics, and metabolomics, which generate large amounts of data. Pharmaceutical companies may also find a role in helping patients maintain and improve their quality of life during treatment through adopting better nutrition habits or in providing support for caregivers and families.

Creating new value in chronic diseases. For decades, many pharmaceutical companies have derived an overwhelming share of revenues and profits from treating **diabetes** or **cardiovascular disease**. Payers and patients are looking hard at the value of specific interventions for managing chronic conditions, and are searching for strategies to postpone their progression or prevent them entirely. Condition management innovators draw on patient monitoring and engagement, powered by advanced analytics for behavior modification that drives outcomes. This is enabling new players to address chronic disease prevention, mitigation, and management differently. New generations of smartphone and other groundbreaking technological developments are finding applications in this space.

Several pharmaceutical companies have started to form partnerships with and invest in these innovators. For example, Sanofi is partnering with and investing in the condition health company Omada, and Roche has acquired the oncology data company, Flatiron Health.

Pharmaceutical companies can choose to compete in the new paradigm – or they can find ways to participate by partnering and leveraging their capabilities. Companies that put all their eggs in the drug manufacturing basket risk being excluded from valuable profit pools. To survive and thrive in a rapidly changing health ecosystem, pharma companies will need to focus on those therapeutic areas they can best serve, identify unmet needs, and discover new and innovative ways of addressing them.

KEY TAKEAWAYS

- Consumers are dissatisfied with the level of service they get from healthcare stakeholders, and are taking on greater power, responsibility, and advocacy over their health decisions. Drug choice will not be spared from consumer decisions.
- Those challengers that address critical patient needs beyond traditional treatment needs will become a significant threat to incumbents.
- Opportunities to create value in oncology, diabetes, and cardiovascular disease may lie beyond the confines of traditional drug manufacturing alone.