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Letter from the Editor

New commercial models paying dividends...

CREATING VALUE — the goal for all companies — and how they achieve this goal are as different as the companies themselves. According to a recent report — Strength in the Storm: How Biopharmaceutical and Medical Technology Companies Can Create Value in a Challenging Business Environment — from The Boston Consulting Group (BCG), several companies are delivering shareholder returns by adopting new commercial models, creating high-science products, expanding smartly into emerging markets, and emphasizing patient outcomes, despite a challenging economic environment.The report tracks several of the themes we've been following over the past couple of months, including operational efficiency through outsourcing and generics in this issue.

For the five years ending in 2010 (the most recent period for which full-year data are available), medtech ranked fifteenth of 19 industries that BCG tracks and biopharma ranked last. Nevertheless, many individual healthcare companies achieved breakout success. For example, BCG analysts say Chinese medtech company Shandong Wego and U.S.-based biopharma firm Perrigo topped their industries' shareholder scoreboards by delivering impressive five-year returns of 93.2% and 34.5%, respectively.

In addition to ranking the top-performing biopharma and medtech companies, analysts compiled forward-looking lessons for these fast-changing sectors. Among the key findings:

- Important value drivers for large-cap biopharma are R&D productivity, financial policies, operational efficiency, and the ability to maximize the sales value of the portfolio through effective life-cycle management. Several large-cap companies have performed impressive turnarounds in these areas.
- In medical devices, the high-touch sales model has resulted in costly SG&A. Rethinking the commercial model is a key way that the top medtech companies have driven value.
- For generics companies, competing in a "land grab" for the many blockbuster products with expiring patents, the best performers have been companies investing to rapidly gain market share without accumulating too much debt.

While growth is essential, it cannot be pursued at any cost. Strength in the Storm concludes that for companies facing slowing growth in their core business, the best avenues for expansion are:

- Emerging markets — Growth strategies should encompass the rapidly developing economies (RDEs) with sensible margins and customized approaches to address different demographics, commercial and regulatory environments, and distribution networks.
- Embracing Value-Based Healthcare — Payers and governments increasingly demand real-world patient outcomes to measure whether a product is worth paying for. Value-based healthcare will have profound consequences for the products that biopharma and medtech companies sell, trials conducted, partnerships with payers and providers, and on-market efforts to contribute to better outcomes.
- Spending Wisely for Growth — M&A and diversification can be attractive in the right circumstances, but markets will punish those that pursue such activities at any price.

(To download a copy of the full report, please go to bcgperspectives.com.)

Regards,

Taren Grom
Editor

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Their Word...

DENISE MYSHKO
Managing Editor

The demand for generics is increasing because of pressure to control healthcare costs.

ROBIN ROBINSON
Senior Editor

Pharmacovigilance is increasingly critical and progressively more difficult to pin down in today's environment.

KIM RIBBINK
Features Editor

The U.K. government has taken forward-thinking steps to encourage the research and development of products and to bring them to the market in a country that has long been a leader in innovation.

CAROLYN GRETTON
Contributing Editor

As part of a continued drive to cut costs, pharma companies are increasingly outsourcing industry-specific functions such as discovery and development.

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