

Creating Sustainable Growth, PROFITABILITY, AND INNOVATION

Contributed by

**BALKRISHAN KALRA**

Senior Vice President & Global Business Leader — Life Sciences
Genpact

Today, the life sciences industry faces unprecedented challenges, uncertainty and risk that are unlikely to abate anytime soon. Most players are exploring a variety of organizational strategies to adapt to these new conditions. In a recent interview, Balkrishan Kalra, Senior Vice President & Global Business Leader — Life Sciences, CPG & Retail, for Genpact, discusses how life sciences companies can transform their businesses to create a sustainable path for growth, profitability, and innovation.

What are the top three challenges life sciences companies are facing?

Life science companies are facing an increasingly complex market environment that stresses traditional business models and in return create new asks for their operating structures — from standardization and transparency to cost and flexibility. These requirements are hard to meet with the current, often fragmented and expensive business process operations.

- **Business Model Post Patent Cliff** — Life sciences companies need to adapt to an era of lower growth in developed economies and growth in expanding but highly competitive emerging markets. To maintain and enhance profitability and generate returns for shareholders in this scenario is a challenge. Driving efficiencies and looking for better returns for spend across the value chain is a priority.
- **Healthcare Reform** — There is mounting pressure to reduce overall healthcare costs and improve outcomes for patients. Life sciences companies are facing challenges to meet increasing demands from payers for truly innovative drugs and not rewarding incremental advances in benefits.
- **Regulatory Complexity** — The regulatory environment will continue to be a challenge. Efforts for

Can your business process operations support disruptive new strategies, and nontraditional business models?

harmonizing regulations across the world have not made much progress. Life sciences companies are looking to optimize costs on one hand while coping with more diverse regulations and increased scrutiny.

Traditional operating models are overly stretched to withstand the impact of these trends — companies are grappling on one side with the agility required to meet new revenue sources and adjust cost structures fast, and on the other side with the legacy operating models created in decades of strong and relatively stable performance.

You mentioned increased regulatory complexity as a top challenge for life sciences companies. What impact do you see the implementation of the Affordable Care Act (ACA) having in 2014?

The ACA underscores the need for life sciences companies to be agile and flexible as it impacts the industry in the coming months. There are two primary schools of thought. The first is that newly insured patients will seek treatment for conditions that have gone untreated, thus driving demand for treatments. The second is that high-deductible plans will drive down utilization as consumers experience higher out-of-pocket costs. In the second scenario there is concern that patients will not be as compliant with treatment for chronic conditions and are likely to put off treatment for non-life threatening conditions such as knee and hip replacements.

No matter what the outcome is, there will be increased scrutiny on the part of providers and patients on the cost of treatment. They will also be seeking higher levels of customer service and financial incentives. The need for life sciences companies to be customer focused

will intensify, related expenses will grow, margins will be impacted. New delivery models for a number of business processes — from finance to access and reimbursement — will be sought to enable better and faster decisions at lower cost.

Along the theme of regulatory scrutiny, what will the implementation of the Sunshine Act have on the industry in 2014?

The reporting requirements for the Sunshine Act are comprehensive, significant, and require detailed record keeping. Failure to comply with the Sunshine Act can result in heavy penalties up to a maximum of \$1M if reporting errors are found to be intentional. Additionally, companies found to be non-compliant or inaccurate in their reporting run the risk of public and customer backlash and alienation, which will far outweigh any financial penalties.

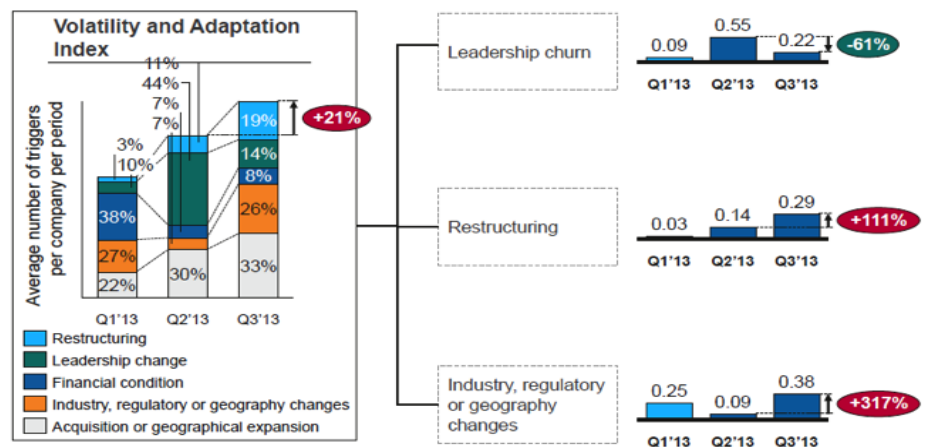
Life sciences companies will need to shift from “just” collecting and reporting payment information as a requirement, to a more holistic approach that leverages this opportunity to proactively engage the most valuable customers and taking advantage of the value of this information. Again, new operating models for the related business processes will become important.

What recommendations do you have for life sciences companies to grow their business through expansion into emerging markets or new R&D collaborations?

Become more agile and resilient, strike partnerships to create capacity and to scale up quickly. Life sciences companies can leverage the novel concept of business process industrialization that involves de-coupling

Volatility and Adaptation Index 2013 – Life Sciences

Difficult regulatory climate, increased restructuring





business functions away from geography or business unit into a unified operating entity, like those known as Global Business Services (GBS). Increasing the size of a large operation by 20% (or strengthening business infrastructure in a new country) typically takes a year or two, but industrialized operations can often achieve this in half the time. When the scale of business process services is increased by a factor of 10, the GBS model can deliver a 50% savings in cost per transaction.

The five core components of industrialization are:

1. **Consolidation** for efficiency gains through scale
2. **Standardization** of policies, processes, and systems
3. **Specialization**, which is organizing functions around process centers of excellence
4. **Global delivery** to cost effectively access talent
5. **Automation** and self-service minimizes manual tasks and support.

To date life sciences companies have mostly applied the principles of industrialization to horizontal functions like F&A — and even there, have lagged behind many other industries. Many opportunities exist to generate significant impact through applying industrialization beyond back-office support operations to decision support and core operations.

Do market factors influence life sciences companies to make changes to their operating models?

Inflections do matter. Our research indicates that industries experiencing high, or rising, volatility are more likely to initiate structural and operating business adjustments. To measure such conditions more accurately, in October 2013 we released the Genpact Volatility and Adaption Index, a proprietary framework that measures indicators of market volatility, as well as the consequences for large life sciences companies.

For the healthcare industry, including payers, providers, and life sciences companies, our findings indicate a steep rise in volatility from throughout the year, which suggests a period of structural operating adjustments are likely to follow.

How is the role of finance evolving from an advisor to a strategic business partner to address changing market dynamics?

Finance helps drive business strategy by evaluating new growth areas and analyzing opportunities. Additionally, finance must drive operational effectiveness as a competitive advantage and optimize performance across the organization.

The skills necessary to operate in this environment have changed from traditional finance and accounting (F&A) functions to decision support analysis. In this new role, F&A functions help with business development, portfolio management, competitor analysis, M&A support, and pricing strategy.

However, capacity and capabilities are constrained and to be able to fulfill its more strategic objectives, finance must leverage the appropriate operating models for the function to harness the right skills — at the right scale — globally.

Can you provide tangible examples of how life sciences companies have been shifting their finance function to that of a strategic business partner?

We have seen several trends in life sciences finance organizations as they evolve to be a strategic business partner clustered around two areas.

- **The new mission:** First, an increased role of finance and the CFO in driving business performance management processes and culture across the company; and second, enhanced forecasting and reporting accuracy in partnerships and new opportunities to optimize and prioritize research and development spending.
- **The new operating strategy:** Finance operating models emphasize specialization and sharing via centers of expertise; expansion of shared services and outsourcing to include expertise and judgment-based processes; emphasis on finance talent development and building global management skills; global programs for creating and managing master data sets; and significant investment in technology to enable business insight and support of integrated planning process.

In your work with senior executives at life sciences companies, what results are you seeing from transforming the F&A function?

Our more forward-thinking clients see an opportunity for finance and accounting to be more efficient, agile, and deliver higher-quality services. The desire to improve operational capabilities is shared broadly amongst senior finance and procurement executives.

To confirm this we conducted a survey with CFO.com covering 100 senior finance and procurement executives in the US and UK. An overwhelming majority of respondents (88%) agreed that their operational capabilities must improve, and the most progressive firms are moving ahead, and some are taking an aggressive approach including:

- **Standardizing systems** to streamline reporting
- **Improving financial planning and analysis** capabilities through centralized processes
- **Supporting collaborative partnering models**
- **Adding shared service centers** and outsourcing initiatives
- **Benchmarking their processes** to become best-in-class in the life sciences industry.

To overcome the three challenges facing life sciences companies— discovering and delivering new drugs and compounds, reducing expenses, and increasing market share —what is your primary recommendation for life sciences companies to focus on?

More sophisticated analytics that are better embedded into business processes. This is a key opportunity for life sciences companies to derive actionable insights to im-

prove profitability and maintain competitiveness. Today, a host of stakeholders, including physicians, patients, payers, regulatory agencies, and care givers are increasingly shaping the perception of drugs and, therefore, impacting brands. Social media for example has caused a paradigm change in stakeholders' roles and influence. Operating models that enable sophisticated analytics at scale through the right use of technology, talent, and process excellence are crucial in this journey.

How are life sciences companies enhancing their analytics capabilities?

There are a wide variety of initiatives and partnerships in this area. Mostly large life sciences companies are using a combination of internal resources and leveraging partnerships with consulting companies, agencies, and service providers. Given the complexities of working in this industry — changing healthcare policies, government reforms, pricing, and regulatory issues — life sciences companies need partners that understand these complexities and can provide effective insights to support effective decision-making.

Look for partners that have the experience in guiding the transformation process and the specialized knowledge needed to navigate the continuum of design choices.

Where are life sciences companies enhancing their analytics capabilities?

We see activity around clinical and commercial areas. In particular, we have worked with clients to enhance their analytics capabilities related to data management and validation, commercial excellence, competitive intelligence, market research, managed care and payer analytics, marketing analytics, sales analytics, and supply chain analytics.

In closing, what recommendations do you have for life sciences companies that are looking to transform their operating models?

Look for partners that have the experience in guiding the transformation process and the specialized knowledge needed to navigate the continuum of design choices. Well-qualified partners should have previous experiences working with organizations similar to yours to transform the function(s) you are focused on. They can guide you to identify the right impact metrics, identify and understanding relevant benchmarks, and share insights and best practices from direct client experiences.

Combining this experience with a clear understanding of your organization's strategic needs, capabilities, and industry context can help craft the right strategy for your target operating model. PV

Genpact Limited (NYSE: G) is a global leader in transforming and running business processes and operations. We help clients become more competitive by making their enterprises more intelligent: more adaptive, innovative, globally effective, and connected. Genpact stands for Generating Impact for hundreds of clients including over 100 of the Fortune Global 500. We offer an unbiased combination of smarter processes, analytics and technology through our 60,000+ employees in 24 countries, with key management based in New York City. Behind Genpact's passion for process and operational excellence is the Lean and Six Sigma heritage of a former General Electric division that has served GE businesses for 15+ years.

More than 25 life sciences companies, including 10 of the top 15, partner with Genpact for enterprise process optimization, process re-engineering, analytics and benchmarking, finance & accounting, global business services, and compliance services.

▼ To learn more about Genpact, visit www.genpact.com or e-mail Balkrishan Kalra, Senior Vice President & Business Leader – Life Sciences, at balkrishan.kalra1@genpact.com.