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STRATEGY

How Pharma Can Offer More than Pills

by Sachin H. Jain

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For years, there has been a push within the pharmaceutical industry to move “beyond the pill” — in other words, to build and deploy complementary services and solutions to diversify revenue sources. The rationale is simple and elegant: A company with experience selling pharmaceutical products should be able to successfully and profitably sell its large customers (health plans, delivery systems, and governments) other health care offerings.

The impetus to move beyond the pill typically arises from one or two realizations: 1) medicines alone are often not enough for patients to achieve optimal clinical outcomes, and 2) as pharmaceutical pipelines dry up, beyond-the-pill businesses can be valuable new sources of revenues.

However, many beyond-the-pill efforts have sputtered or died. During my years working as a pharmaceutical industry executive and advisor to senior management, I have observed that these initiatives typically fail because of one of three challenges:

Leadership. Many pharmaceutical companies make the mistake of transitioning outstanding leaders from their sales operations to head their beyond-the-pill businesses. However talented they might be, these individuals often lack experience building non-pharma service businesses. In addition, pharma companies occasionally acquire new services and solutions companies and try to integrate them. These integrated businesses are also typically led by pharma managers who don't fully understand the acquired businesses and their markets.

Regulatory environment. One perceived asset in launching new beyond-the-pill businesses is existing customer relationships with large payers, health systems, and physician groups. While these relationships certainly help to open doors, anti-kickback statutes require pharma companies to document and charge back the fair-market value of any added services or solutions delivered to customers of its pharmaceutical products. This requirement is a strain with which entrepreneurial competitors outside the pharma industry do not have to contend. In addition, many top pharma customers (payers, etc.) also sell health care services and solutions. As a result, pharma companies occasionally ends up competing for business with their most important customers.

Access to capital. Capital to build and grow diversified new businesses is scarce — particularly in publicly traded companies that have obligations to shareholders. All things being equal, when boards, CEOs, and executive committees allocate capital, they are more likely to support and develop a molecule that could yield a billion-dollar annual annuity or enhance the sales of an existing molecule than enter an unfamiliar business whose margins are much smaller and whose long-term business prospects are less clear. Consequently, beyond-the-pill initiatives often start auspiciously with generous seed funding only to lose ground in later rounds of capital allocation when new scientific projects with higher potential returns must be funded.

Pharmaceutical companies can give flight to beyond-the-pill initiatives by recognizing the long history of false starts and proactively avoiding repeating mistakes associated with them. Here's how:

Recruit industry outsiders. The talent and skill needed to build and market services and solutions is different from the talent required to market drugs. So when pharma companies select leaders for the new undertakings, they should strongly consider recruiting new talent from outside the industry. For example, when Sanofi created its new chief patient officer function to build solutions that matter most to patients, it recruited Anne Beal, a physician who has been deeply involved in efforts to reform U.S. health care, to fill the role.

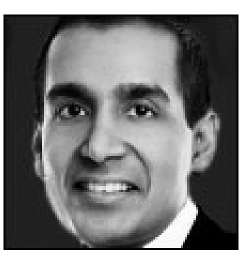
Form partnerships. When possible, companies should avoid building their own solutions or acquiring any other companies. Instead, they should partner with other companies — something Novartis recently did this when it launched a $100 million investment fund with technology giant Qualcomm. Partner companies can bring an external perspective on the solutions landscape and provide capabilities that pharma companies would have difficulty building themselves.

Revise regulations. Anti-kickback statutes were the product of an era when financial payments were given to physicians and hospital systems in exchange for prescribing. With the emergence of digital health tools and the health care industry's focus on value, these regulations require some rethinking and new industry guidance. Pharma companies should seek a new regulatory framework by proactively engaging in the United States with the Office of the Inspector General, Food and Drug Administration, and the Centers for Medicare and Medicaid Services.

Avoid standalone solutions. Any new services or solutions should be supportive of the core pharmaceutical business and not compete with it for capital or management attention. So rather than trying to build beyond-the-pill solutions that are decoupled from their core pharmaceutical products, companies should strive to enhance the effectiveness of their own medicines with tightly linked complementary services, solutions, and tools that encourage patients to be more engaged in their own care and help them adhere to their prescribed therapies.

Integrated clinical trials. Pharma companies should consider integrating beyond-the-pill solutions into clinical trials so that they can eventually sell services and drugs together as a packaged offering. A progenitor to these types of clinical trials was Biogen Idec's recent study of the use of Fitbit devices to monitor multiple sclerosis management and progression. By pairing medicines with wrap-around solutions within a clinical trial setting, companies can differentiate their offerings and generate additional revenues — particularly in chronic disease categories where patient engagement is critical to achieving better outcomes. Medicines could accordingly reach market with a label that includes an "around the pill" solution such as a wearable or another tracking device.

The world will continue to need companies that develop and commercialize new medicines. Those same companies must not lose sight of this fact and recruit the right leadership to use around-the-pill services, solutions, and tools to enhance the clinical effectiveness and commercial success of their core products.



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A.R.J. Halkes a month ago

Inspiring article Sachin. Good to see how your experience in the field made you pick and select the best tips to go beyond the pill.
We just finished a study about the activities taken by Pharma companies to go this way. Some of your tips are being underscored by the findings, others demonstrate how it is not an easy task from the perspectivce of the traditional blockbuster business model. One of the major conclusions is indeed that knowledge about what added value might be in healthcare and what the difference is between products, services and solutions are key. Besides, and even more so: development and testing services and solutions is one thing: delivering is quite a different game. Not only does the very intention impact the demands to customer relationships: how they are developed into a conditional quality of such relations, but the question of how to get revenue for the added value is quite a challenge. These things have to be thought through before scaling solutions/services to be sure about reimbursement.
See here for the study report: http://social.eyeforpharma.com/content/value-added-services-2015
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