Competing by Saving Lives: How Pharmaceutical and Medical Device Companies Create Shared Value in Global Health

March 8, 2012
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1. Plenary Session – Michael Porter

2. Panel Session – Jane Nelson

3. Breakout Session Slides – Laura Herman
The Role of Business in Society

• Only business can create prosperity
• Healthy businesses need a healthy community

BUT

• There is a growing awareness of major societal challenges
• Companies are increasingly perceived to be prospering at the expense of the broader community
• Business increasingly is seen as a major cause of social, environmental, and economic problems
• Government and civil society often attempt to address societal issues at the expense of business

Despite growing corporate citizenship activities, the legitimacy of business has fallen
The Concept of Shared Value

**Shared Value**: Corporate policies and practices that **enhance competitiveness** of the company while simultaneously **advancing social and economic conditions** in the communities in which it sells and operates.

- **Shared Value is**: 
  - Creating **economic value** by creating **societal value**
  - Using **capitalism** to address social problems

- **Shared Value is NOT**: 
  - Sharing the value already created (philanthropy)
  - Personal values
  - Balancing stakeholder interests

- All profit is **not equal**. Profit involving shared value enables society to advance and companies to grow faster.
- Incorporating societal issues into strategy and operations is the **next major transformation** in management thinking.
- Shared value thinking represents the next evolution of **capitalism itself**.
## Companies Can Create Shared Value on Three Levels

### Reconceiving Products and Markets

- Design products and services to **address societal needs**
- **Open new markets** by serving unmet needs in underserved communities
- Businesses have the potential to be more effective than governments and NGOs in **marketing solutions** to social problems

### Redefining Productivity in Value Chains

- Opportunities to create shared value arise because **societal problems can create economic costs** in the firm’s value chain
- Synergy increases when firms approach societal issues from a shared value perspective and **invent new ways of operating** to address them

### Enabling Local Cluster Development

- A strong local cluster with capable local suppliers and institutions improves **company productivity**
- Companies, working collaboratively, can **catalyze major improvements** in the local cluster and business environment
- This **strengthens the link** between a company’s success and community success
Pharmaceutical and Medical Device Companies Have Contributed to Great Improvements in Health and Well-Being in the Developed World

Life Expectancy in the U.S. and Other Developed Nations Has Dramatically Increased in the Past 60 Years

This health impact, and the associated prosperity from which your firms have benefitted, is the essence of shared value

Source: PhRMA “U.S. Life Expectancy 1950-2007.”
However, This Shared Value Has Been Created Disproportionately in High-Income Countries

Distribution of Total Pharmaceutical Expenditure

- Americas: 42%
- Europe: 34%
- Western Pacific: 19%
- South-East Asia: 3%
- Eastern Mediterranean: 2%
- Africa: 1%

Percentage of Deaths by Cause and Region

- Americas: 9% Non-communicable diseases, 1% Communicable diseases, maternal/perinatal conditions, and nutritional deficiencies, 1% Injuries
- Europe: 14% Non-communicable diseases, 1% Communicable diseases, maternal/perinatal conditions, and nutritional deficiencies, 1% Injuries
- Western Pacific: 18% Non-communicable diseases, 2% Communicable diseases, maternal/perinatal conditions, and nutritional deficiencies, 2% Injuries
- South-East Asia: 14% Non-communicable diseases, 9% Communicable diseases, maternal/perinatal conditions, and nutritional deficiencies, 3% Injuries
- Eastern Mediterranean: 4% Non-communicable diseases, 3% Communicable diseases, maternal/perinatal conditions, and nutritional deficiencies, 1% Injuries
- Africa: 5% Non-communicable diseases, 12% Communicable diseases, maternal/perinatal conditions, and nutritional deficiencies, 1% Injuries

Source: WHO Global Burden Disease 2008; WHO The World Medicines Situation 2011

Too often the health needs of billions of people in low- and middle-income countries are left unaddressed.
The Pharmaceutical Industry Has Responded to this Imbalance with Corporate Social Responsibility and Philanthropy

Value Estimate of Pharmaceutical Industry’s Corporate Social Responsibility Initiatives in Developing Countries (Donations and Capacity Building)

**These programs redistribute profits to the underserved in low- and middle-income countries**

Source: IFPMA Healthy Partnerships Survey
Health Technology Companies Have Become Increasingly Involved in Global Health Issues through Philanthropic Programs

Along with the number of philanthropic initiatives, companies have increased the sophistication of approaches over the past decade.
Major Trends Are Changing Private Sector Engagement on Health Issues in Low- and Middle-Income Countries

**Declining Opportunities in High-Income Countries**
- R&D has become more expensive
- The “patent cliff” is threatening income from prior cash cows
- Large payers in key markets such as the UK, Germany, and Japan are taking a tougher stance by only paying for improved outcomes

**Increasing Potential in Low- and Middle-Income Countries**
- Emerging markets are expected to account for 75% of growth in pharmaceutical sales
- Increasing purchasing power from growing middle class
- Increasing burden of non-communicable diseases that are treatable with existing product portfolios

**Greater Involvement of Private Sector in Global Health Issues**
- Increasing recognition that the public sector alone cannot solve health problems
- Increasing donor and funder collaboration with the private sector (e.g., Gates Foundation’s product development partnerships)

*Creating shared value represents an opportunity to transform health outcomes for the poor*
Low- and Middle-Income Countries Will Be the Fastest Growing Markets for Pharmaceuticals and Medical Devices

This projected growth could increase through more concerted shared value approaches

Pharmaceutical and Medical Device Companies Can Create Shared Value in Global Health on Three Levels

**Reconceiving Products and Markets**

- R&D for drugs, vaccines, and devices that **fill unmet health needs**
- Adaptation of **existing products to reduce complexity and cost**
- Tailored product offerings to meet **local market conditions**

**Redefining Productivity in Value Chains**

- **Collaborative and home-grown R&D** to reduce cost and risk
- Efficient, **local supply chains and manufacturing** to reduce production costs
- **Locally-adapted sales and distribution** to penetrate new markets and better meet patient needs

**Enabling Local Cluster Development**

- **Behavior-change campaigns** to increase the **sophistication of demand** for health care
- **Health system strengthening** to enable delivery of needed products and services
- **Advocacy and capacity building** to strengthen policy and the **regulatory environment**
The MAC ECG Innovation Exemplifies Adaptation of Existing Products to Reduce Complexity and Costs

- R&D for drugs, vaccines, and devices that fill unmet health needs
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- Tailored product offerings to meet local market conditions

- GE’s MAC line of electrocardiogram (ECG) systems were designed in India to extend the capability of a traditional ECG to remote and poor populations; now even used by “flying doctors” to reach remote Inuit populations in Northern Canada
- Newest unit costs around $500 (vs. $2,000-10,000 for hospital-use units); more than 10,000 units have been sold, 90 percent to individual physicians
  - Highly portable
  - Battery-powered
  - Two-button operation makes training much easier

Source: FSG Interviews and Analysis
GSK and Pfizer’s Collaborative R&D Reduces Risk in the Development of New HIV Medications

- Collaborative and home-grown R&D to reduce cost and risk
- Efficient, local supply chains and manufacturing to reduce production costs
- Locally-adapted sales and distribution to penetrate new markets and better meet patient needs

In 2009, Pfizer and GSK created a new, jointly-owned company, ViiV Healthcare

- Neither company’s HIV drug pipeline would be viable on their own, as there aren’t enough candidates in either to reduce the risk sufficiently to offset the investment
- Yet by combining compounds owned by each firm, they de-risk the overall pipeline, making it economically viable to invest R&D dollars where it wouldn’t have been otherwise

- Six innovative and targeted compounds in development – new and better HIV medications available to the world

Source: FSG Interviews and Analysis
Arogya Parivar Will Simultaneously Increase the Sophistication of Demand and Strengthen Health Systems

Health System Development

- Arogya Parivar is a for-profit social enterprise that plans to reach 100 million people in India
- In order to address the notoriously unreliable rural healthcare system, Novartis has created or developed capacity for:
  - Community health education programs to address lack of health-seeking behavior
  - Frequent health camps with physicians brought into rural areas
  - Microfinance partners to provide financing for new clinics and health providers

Enabling Local Cluster Development

- Behavior-change campaigns to increase the sophistication of demand for health care
- Health system strengthening to enable delivery of needed products and services
- Advocacy and capacity building to strengthen policy and the regulatory environment

Source: FSG Interviews and Analysis
Efforts to Create Shared Value Across the Three Levels Are Mutually Reinforcing

Leading firms are beginning to design multi-level approaches to harness this multiplier effect.
Novo Nordisk Has Built a >60% Share of the Chinese Insulin Market, Which Is Currently Valued at $1B and Is Growing at 40% per Year

Challenges of Local Market

• **92M** diabetics – growing due to aging population
• **70%** undiagnosed
• Only **1 in 10** of diagnosed patients successfully manage condition
• Market **CAGR 20%** 2010-15

*Novo Nordisk moved earlier than competitors to create shared value on multiple levels*

Source: FSG Interviews and Analysis
Novo Nordisk Has Created Shared Value on All Three Levels to Build Its Chinese Insulin Business

- Developed insulin products adapted for Chinese patients
- Opened local production facility in Tianjin, allowing Novo to gain production efficiencies and quicker response to market demand
- Established an R&D center in China
- Provided training and information on diabetes to physicians
- Worked with Chinese government to develop national standard treatment guidelines
- Funded the creation of the World Diabetes Foundation to increase diabetes awareness

Extending good disease management to all urban areas could be worth $37B to Chinese society and $30B to Novo Nordisk

Source: FSG Interviews and Analysis
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Five Principles of Shared Value Implementation

**Principle**

1. Focused and determined leadership at the CEO and country levels

2. A culture of innovation and learning reflected in structures and incentives

3. New approaches to measurement that track the link between business value and patient lives improved

4. New skills in identifying and acting on unmet health needs

5. New partnerships for shared value insights and implementation

**Example**

- **GSK’s** CEO, Sir Andrew Witty, has set a strong mandate for company-wide focus on meeting emerging markets growth opportunities

- In companies like **Medtronic** and **Novartis**, specialized global health innovation units coordinate shared value efforts across the company

- **Novo Nordisk** measures the cost savings to society that come with expanded access to its diabetes therapies and reports on this alongside its own revenue outcomes

- At **BD**, the company’s senior leadership redefined the country director role to emphasize knowledge of local health needs and strategic planning based on addressing identified health gaps

- **Pfizer** partnered with Moksha8, a for-profit firm, to market and distribute products in Latin America for commission, leading to greater than forecasted sales
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Companies Can Accelerate Shared Value for the Benefit of Patients, Shareholders, and Stakeholders

Recommendations for Companies

- **Shift from defensive to affirmative engagement with patients in low- and middle-income countries**
  - Be transparent with global stakeholders about ambitions in low- and middle-income countries
  - Where shared value approaches are not presently feasible, explain the role of philanthropic contributions and the intentions of partnerships with government and private funders

- **Innovate and capture knowledge on health product delivery**
  - Promising multi-sector models for sharing best practices on health product distribution and disease awareness-building are emerging

- **Experiment with shared value measurement to spur learning and innovation**
  - Companies should measure their initiatives prospectively when they are setting specific targets for populations, behavior changes, health system strengthening, and disease indicators

- **Invest early to gain first-mover advantage**
  - Companies that invest ahead of their rivals, such as GSK in India and Novo Nordisk in China, find themselves with a sizable competitive advantage as new markets develop and mature
Global Health Stakeholders Can Partner with Companies to Serve Unmet Health Needs

Recommendations for Global Health Stakeholders

Context-Setters
- Monitor the evolution toward shared value
- Ensure that health technology companies develop strategies to expand access to poorer patients at the frontier of shared value
- Governments can ask companies to complement the public sector’s role in health care provision

Information and Insight Providers
- Stimulate more immediate shared value opportunities through patient research, value chain analysis, and health system auditing
- Develop case studies that show how companies are addressing barriers

Implementation Partners
- Be more proactive in offering services to companies as a value-added partner in shared value initiatives rather than acting as philanthropic grantees

Funders
- Support R&D partnerships to bridge the shared value frontier
- Create incentives to spur company innovation in the actual delivery of products at scale to reach poor populations in low- and middle-income countries
Executive Working Session Discussion Questions

• **React:** Which recommendation is most relevant to your organization? Why? What would you add to this list of recommendations?

• **Extend:** What have you learned in your work that might influence the adoption of these recommendations?

• **Advance:** Where do you see an opportunity to act on these recommendations in the next six months?
# Shared Value Is a Multi-Year Transformational Journey for Companies

## Evolution in the Shared Value Journey

<table>
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<tr>
<th>Characteristic</th>
<th>Readiness</th>
<th>Implementation</th>
<th>Execution</th>
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<tbody>
<tr>
<td><strong>Leadership</strong></td>
<td>Executives committed to understanding shared value</td>
<td>Shared value as a corporate priority</td>
<td>Catalyzing shared value in society</td>
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<tr>
<td><strong>Initiative Development</strong></td>
<td>Identified touch-points between business and society</td>
<td>Opportunistic shared value – making the business case for capital allocation for individual projects</td>
<td>Long-term opportunity identification process driven by corporate shared value strategy</td>
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<tr>
<td><strong>Integration into Business</strong></td>
<td>Business unit knowledge of shared value</td>
<td>Business unit ownership of specific shared value strategies and initiatives</td>
<td>Corporate shared value strategy with tailored business unit strategies underpinning it</td>
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<td><strong>Reporting &amp; Measurement</strong></td>
<td>Strategic framing with high level goals, but no targets or measurement activities</td>
<td>Select initiatives have strategies, goals, and targets and company measures investment levels, business, and social value</td>
<td>Shared value measurement is imbedded into standard business planning and performance management processes across the relevant businesses</td>
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<td><strong>Organization Design</strong></td>
<td>Small group charged with leading shared value</td>
<td>Champions within business units, buttressed by central shared value group</td>
<td>Training, performance management, support functions incorporate shared value</td>
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<td><strong>External Partnerships</strong></td>
<td>Idea ownership, seeking external partners for implementation support</td>
<td>Joint development of bilateral ideas with external partners</td>
<td>Multi-sector collaboration led by independent “backbone” organization</td>
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<td><strong>Cultural Understanding</strong></td>
<td>New idea being introduced as a company priority</td>
<td>Understanding of concepts and applicability; internal examples of shared value projects</td>
<td>Shared value part of competitive DNA</td>
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<td><strong>Communications</strong></td>
<td>Commitment to shared value in internal communications</td>
<td>Public commitment to shared value and announcement of goals</td>
<td>Continuous feedback loop between company and society</td>
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We’ve Just Begun the Journey. . .