



Social Impact Consultants

Discovering better ways
to solve social problems

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



March 8, 2012

Contents

- 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

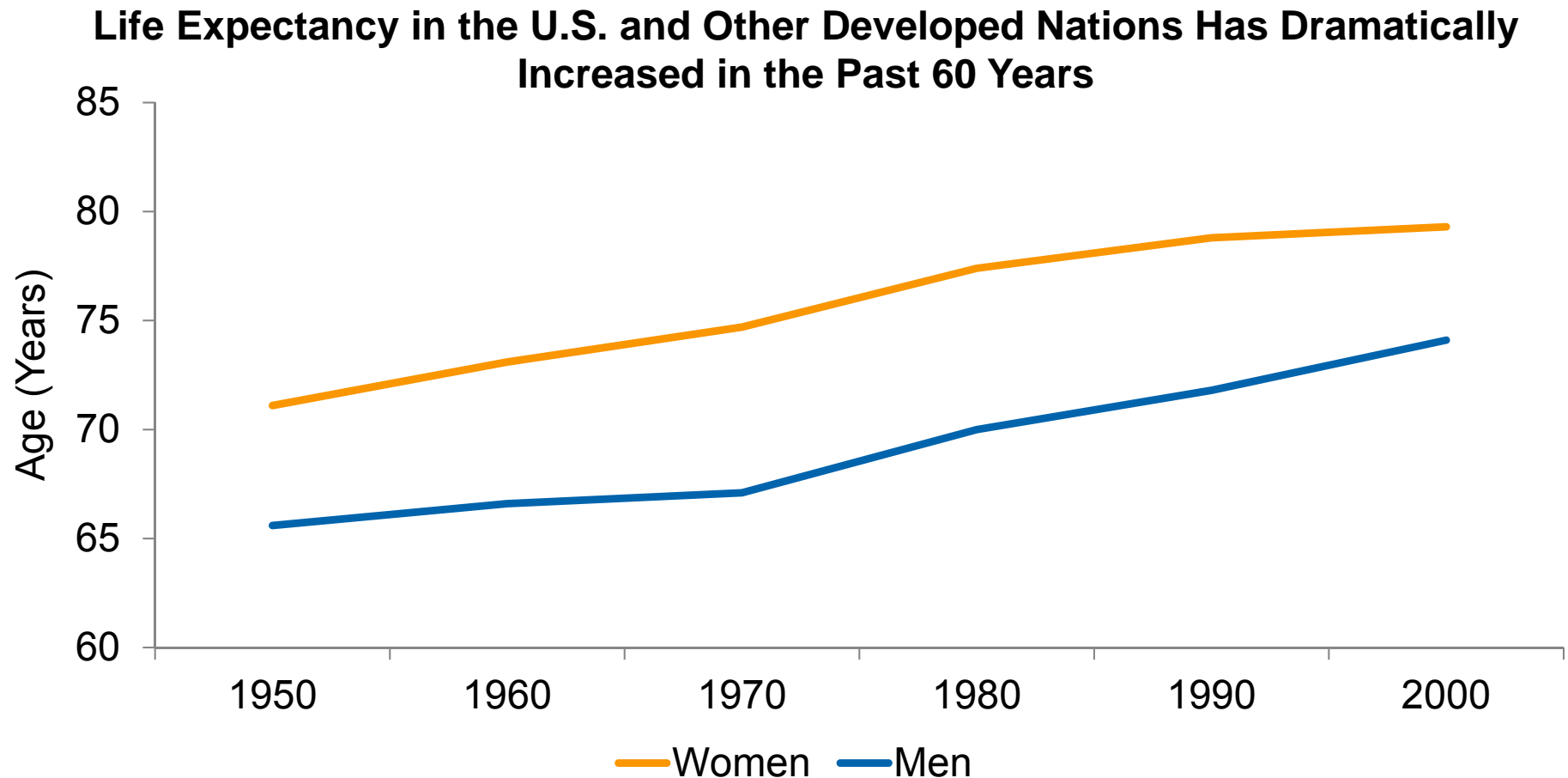
Redefining Productivity in Value Chains

- 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

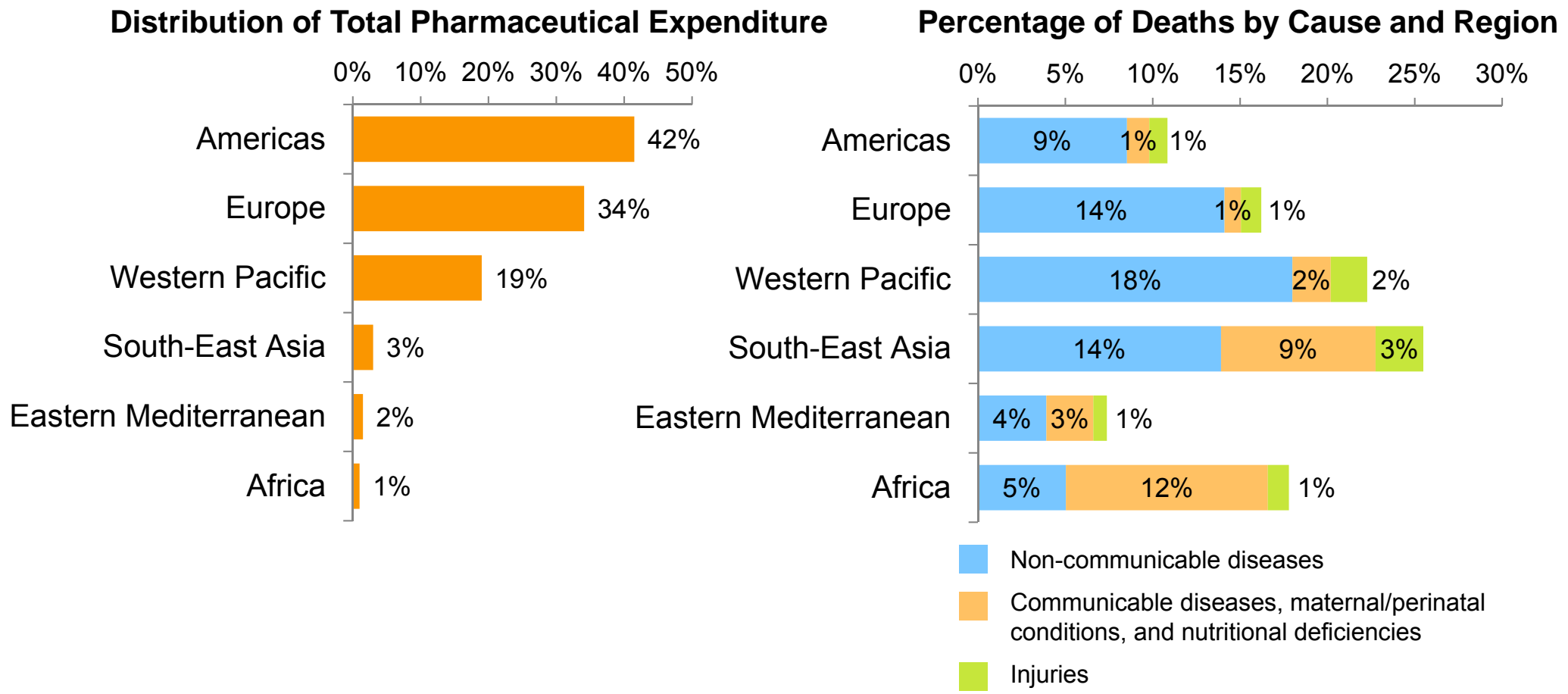
- A strong local cluster with capable local suppliers and institutions **improves company productivity**
- Companies, working collaboratively, can **catalyze major improvements** in the local cluster and business environment
- This **strengthens the link** between a company's success and community success

Pharmaceutical and Medical Device Companies Have Contributed to Great Improvements in Health and Well-Being in the Developed World



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

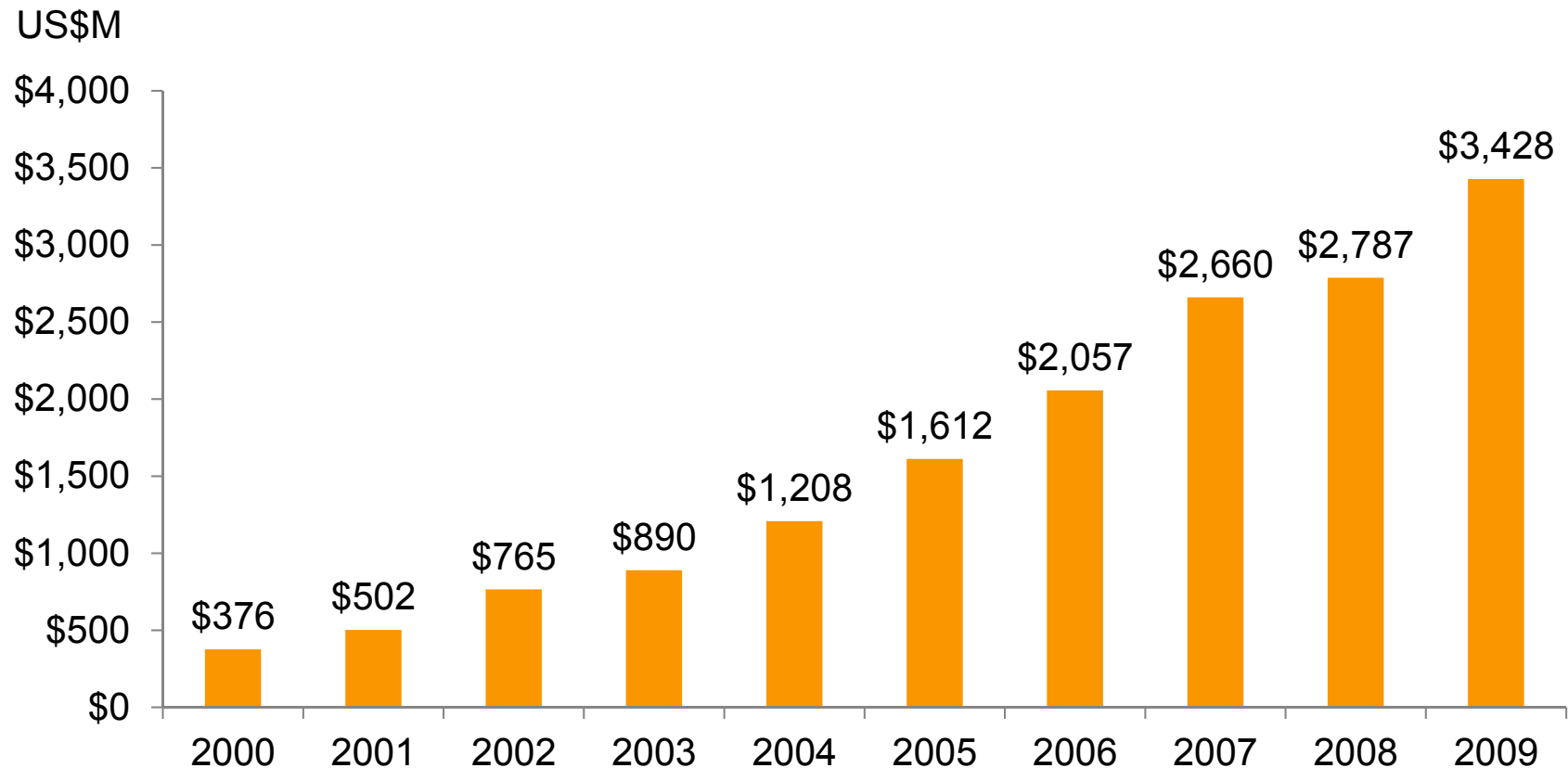
However, This Shared Value Has Been Created Disproportionately in High-Income Countries



Too often the health needs of billions of people in low- and middle-income countries are left unaddressed

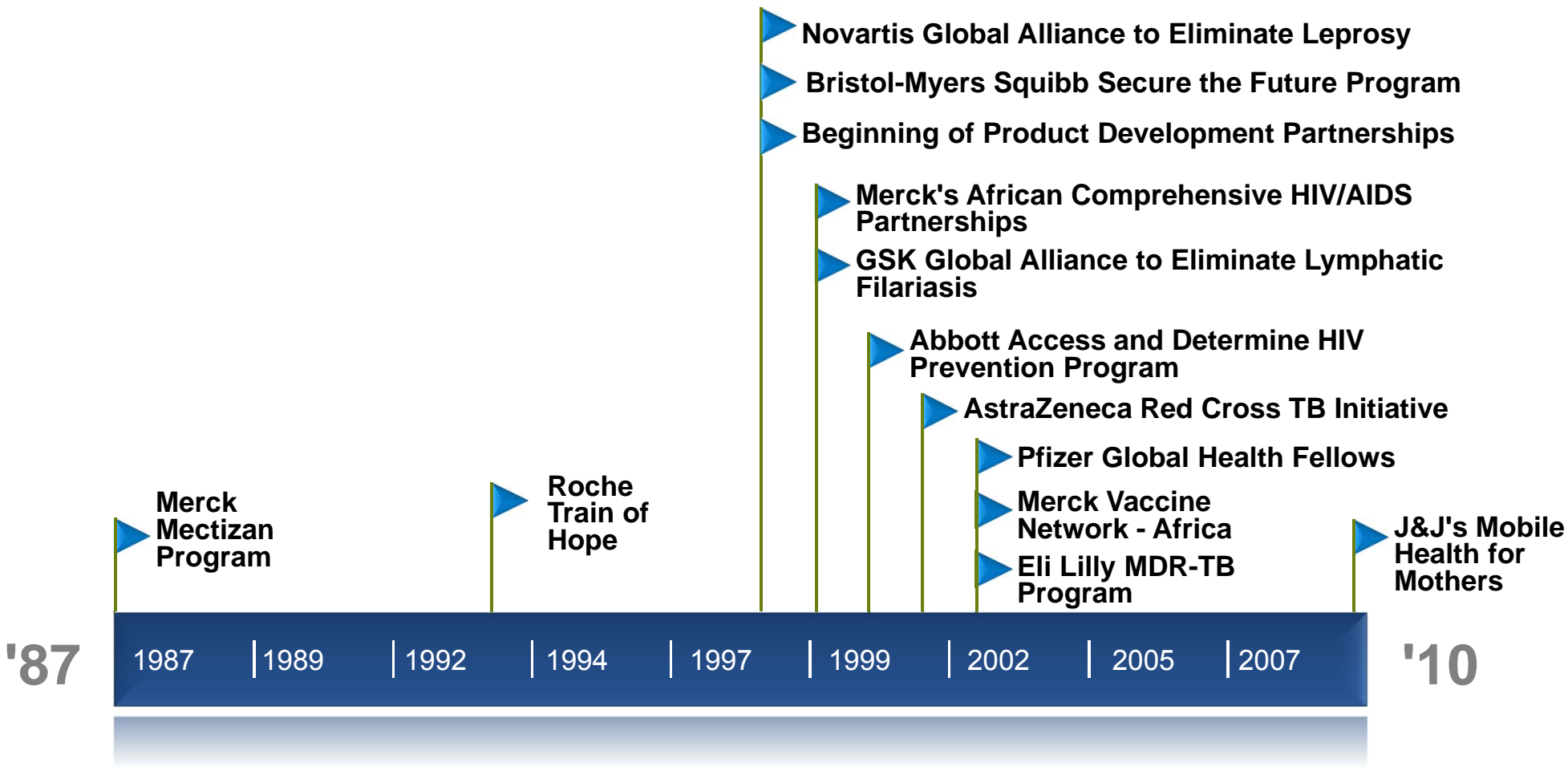
The Pharmaceutical Industry Has Responded to this Imbalance with Corporate Social Responsibility and Philanthropy

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

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

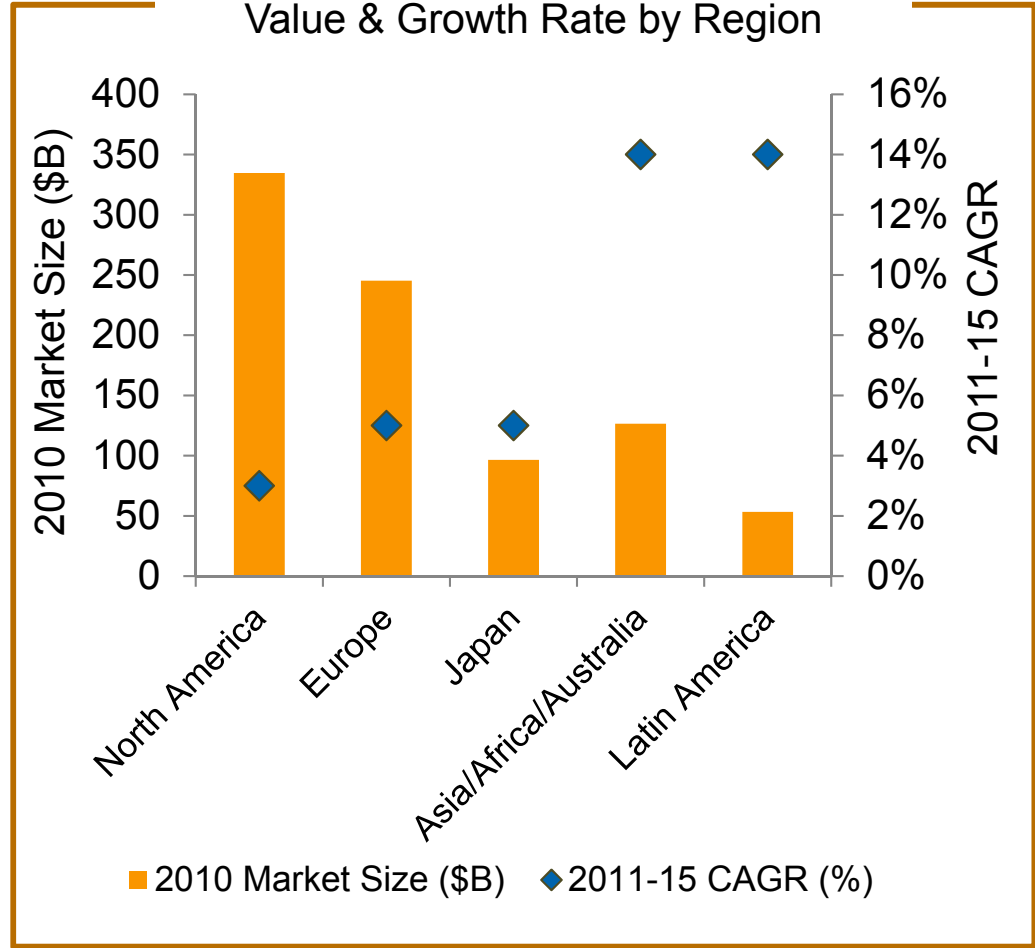
- Increasing recognition that the public sector alone cannot solve health problems
- Increasing donor and funder collaboration with the private sector (e.g., Gates Foundation’s product development partnerships)

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

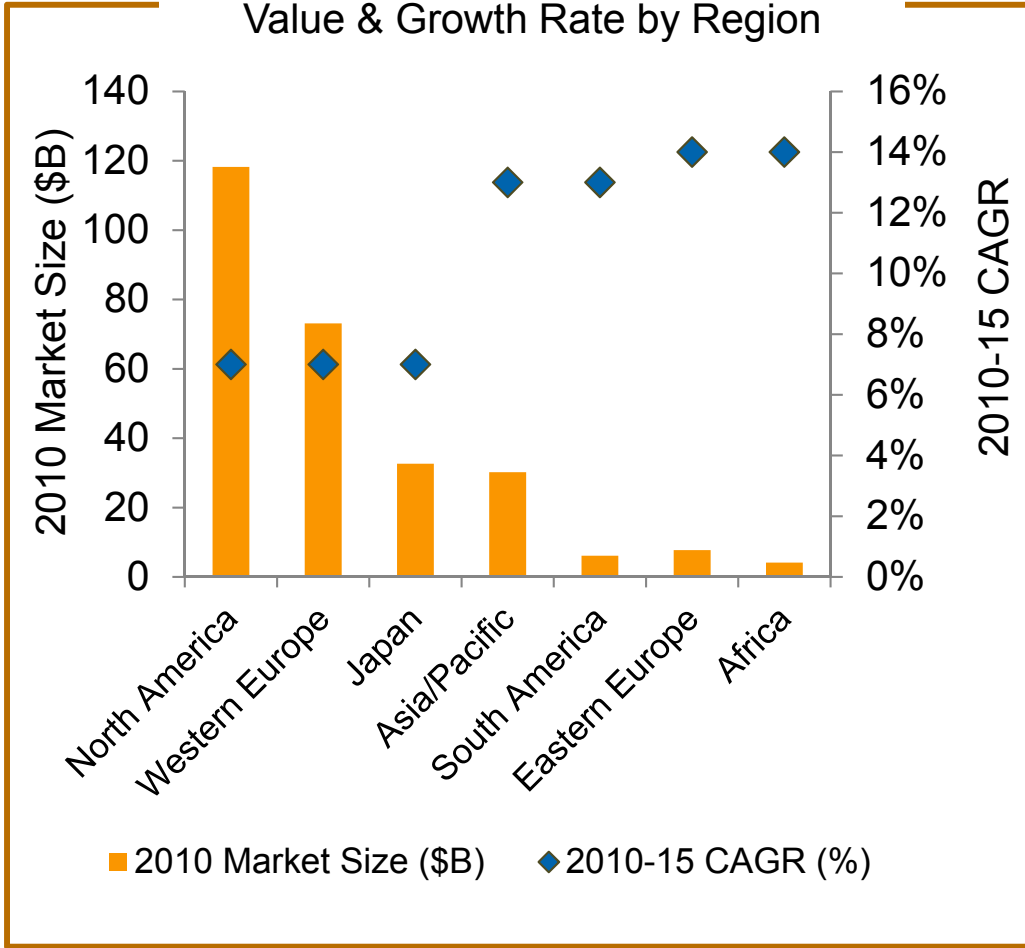
Global Pharmaceutical Market

Value & Growth Rate by Region



Global Medical Device Market

Value & Growth Rate by Region



This projected growth could increase through more concerted shared value approaches

Source: 1. IMS "Total Unaudited and Audited Global Pharmaceutical Market by Region," March 2011 2. "Market Report: World Medical Device Market" Acmite Market Intelligence, 2007

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

Reconceiving Products and Markets

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healthymagination

MAC ECG Machine



- 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

GSK and Pfizer's Collaborative R&D Reduces Risk in the Development of New HIV Medications

Redefining Productivity in Value Chains

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R&D Pipeline for HIV Medications

- 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



Arogya Parivar Will Simultaneously Increase the Sophistication of Demand and Strengthen Health Systems

Enabling Local Cluster Development

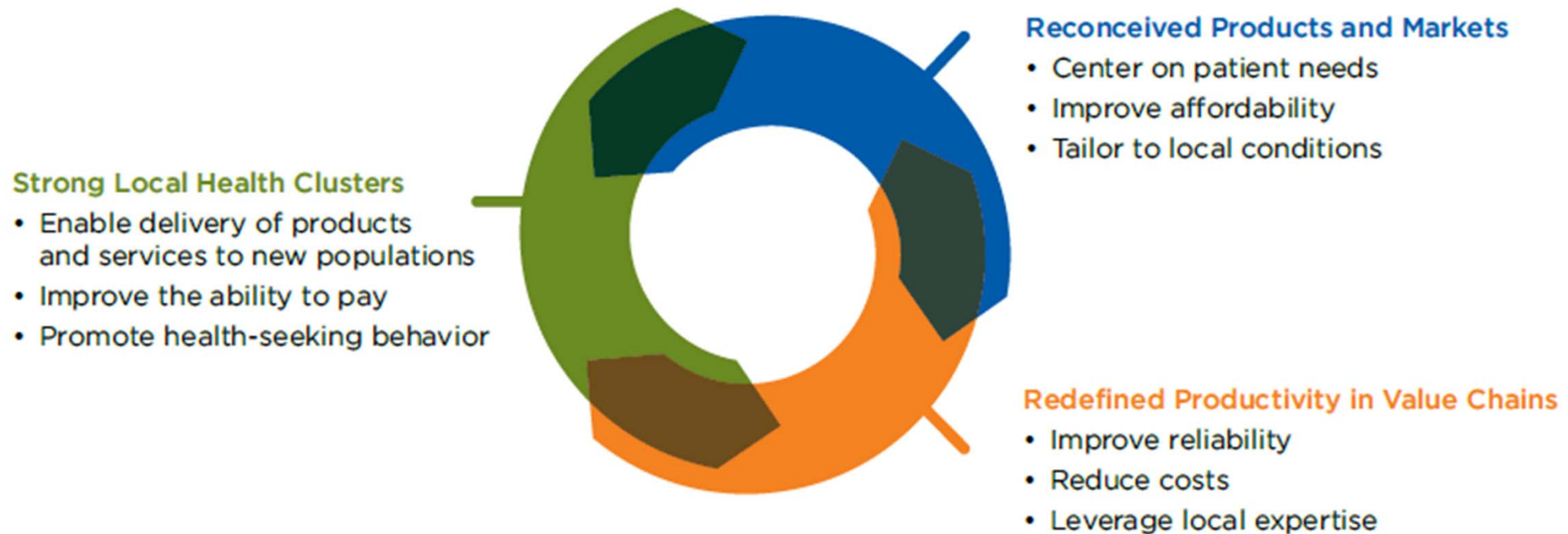
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NOVARTIS Health System Development



- 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

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

Novo Nordisk Has Created Shared Value on All Three Levels to Build Its Chinese Insulin Business



Novo Nordisk was one of the first Western firms to enter the Chinese insulin market in 1994, and has **saved an estimated 140,000 life years** through an innovative shared value approach

Reconceived Products and Markets

- Developed **insulin products adapted** for Chinese patients

Strong Local Health Clusters

- Funded the creation of the World Diabetes Foundation to **increase diabetes awareness**
- Worked with Chinese government to **develop national standard treatment guidelines**
- **Provided training and information** on diabetes to physicians

Redefined Productivity in the Value Chain

- **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

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

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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

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

We've Just Begun the Journey. . .

