

# THE ENTERPRISE OF THE FUTURE

...IN THE LIFE SCIENCES INDUSTRY



As companies progress toward the vision painted by more than 1,000 CEOs in the IBM Global CEO Study, what are the key implications for Life Sciences leaders?<sup>1</sup>

## ● HUNGRY FOR CHANGE

Seventy-nine percent of Life Sciences CEOs anticipate significant change over the next three years. People Skills top the list of change drivers across the entire sample, but talent concerns are far more intense among Life Sciences CEOs (63 percent versus 48 percent). Regulatory issues ranked second (53 percent), well ahead of Market Factors (45 percent). Clearly, drug safety, counterfeiting and intellectual property protection continue to weigh heavily on these CEOs' minds. Arguably, our most disconcerting finding is that 24 percent of Life Sciences CEOs report limited or no success managing change within their organizations.

**Implications:** With leading product patents expiring and R&D pipelines struggling to sustain required sales growth, the Life Sciences industry is ripe for major transformation. To accomplish their change agendas, Life Sciences CEOs may need to seed their organizations with visionary challengers from other industries that have already undergone similar change. Leaders must convince their organizations of the necessity of change and cultivate an organizational willingness to pursue it. To improve their change management track records, CEOs should not only measure the results of their change projects, but also systematically incorporate learnings into future projects.



.....  
“We know we need to change faster, but are we adaptive enough? There is a lot of skepticism internally with regard to our change capabilities.”

*CEO, Major pharmaceutical company, North America*

.....

.....

“Patients will be more involved because they’re better informed.”

CEO, Major pharmaceutical company, Europe

.....

 **INNOVATIVE BEYOND CUSTOMER IMAGINATION**

Life Sciences CEOs are bullish about rising consumer purchasing power. They are already investing well above average in this area – and plan to raise that investment by 43 percent over the next three years. To serve increasingly informed consumers however, they are planning a much more modest 25 percent investment increase. These findings suggest a critical dilemma: Could the industry’s hot pursuit of new markets cause it to neglect the needs of more informed consumers? And will new market growth be sustainable if companies fail to keep pace with more sophisticated demands?

**Implications:** Patients are more knowledgeable than ever and are becoming more demanding as they bear greater financial responsibility for their healthcare. Because legislation often keeps drug companies one step removed from consumers, CEOs must collaborate across an extended network of partners – healthcare providers, academia, patient interest groups and more – to combine knowledge, understand patients’ needs and ultimately develop offerings that truly break new ground.

.....

“We are establishing direct operations in emerging regions, which means there’s increased risk, an increased need to understand the culture and increased demand for qualified resources.”

CEO, Medical device company, North America

.....

 **GLOBALLY INTEGRATED**

More Life Sciences CEOs are pursuing global business designs (71 percent versus 64 percent in the full sample), and 90 percent are actively entering new markets. The main barriers to global integration, however, are quite different for this industry. Legislative regulation is the top inhibitor – and intellectual property concerns are three times as prevalent. Like their counterparts, Life Sciences CEOs report insufficient talent as a major global integration obstacle.

**Implications:** To achieve the full benefit of global integration, Life Sciences companies must be able to perform work where the best capabilities reside without fear of intellectual property loss. Continued progress on legislative reform is paramount. Recruiting and retaining the sufficient quantity and quality of skills will also be critical. This talent infusion must bring not only expertise related to developing markets, but also the capability of working across the converging healthcare and pharmaceutical industries. This requires collaborative individuals who understand how to develop and manage a complete targeted treatment solution: the diagnostics, drugs, devices and supporting services for patients with a specific disease pathology.

## ● DISRUPTIVE BY NATURE

Two-thirds of our global sample is pursuing extensive business model innovation over the next three years – in Life Sciences, the percentage is even higher: three out of four CEOs. More than half of these leaders are focused on Enterprise Model Innovation, specializing and delivering greater value by reconfiguring what is done in-house and through partners. Despite the escalating need to replace Pharma’s declining blockbuster model, only 17 percent are currently focused on Industry Model Innovation.

**Implications:** As Life Sciences moves toward targeted treatment solutions, pharma, healthcare, medical device and diagnostic companies will begin to merge capabilities, and a new industry model will emerge, supported by new types of revenue models and enterprise models. These models will be predicated on a high degree of collaboration and interoperability.

## ● GENUINE, NOT JUST GENEROUS

It’s not too surprising that 62 percent of Life Sciences CEOs view increasing expectations of corporate social responsibility (CSR) as a positive trend. This industry has long been sensitive to the environmental impacts of its manufacturing waste, and more recently has stepped up its fight against curable diseases that are still devastating the poorest parts of our world. The more perplexing fact is that 24 percent of Life Sciences CEOs believe rising CSR expectations will have absolutely no impact on their businesses. Could this be because Life Sciences companies are already operating more responsibly than their counterparts in other industries? Or might it be that new dimensions of CSR are not yet on their strategic agendas?

**Implications:** We believe it may be the latter. Although this industry is cognizant of its duty to do no harm, its scope of responsibility is expanding rapidly. Currently, academics – and increasingly the public at large – are debating whether drug companies should be held accountable for indirect environmental side effects caused by residual molecules left behind in patients’ sewage (for example, infertility among fish traced to oral contraceptives in the water).<sup>2</sup> As technology evolves and the industry moves to other types of delivery devices and biologically based formulations, the industry’s “footprint” on society could extend to areas never before imagined. Life Sciences CEOs must prepare their organizations for understanding and managing a much broader set of CSR expectations.

.....  
“Our future is in convergent technologies, where we combine different aspects of our business with technology, for example, combining a technological component with medication.”

*CEO, Major pharmaceutical company, Europe*  
.....

.....  
“We’re experiencing increased pressure related to environmental initiatives. Transparency is being driven by the government as well as consumers. There is great risk in not focusing on rising consumer expectations.”

*CEO, Medical services company, North America*  
.....



## BUILDING YOUR ENTERPRISE OF THE FUTURE

Thoughts and views on the future of business – or the Enterprise of the Future, as we call it – are evolving quickly. We look forward to learning more about where you think business is heading – and working with you, as you build your Enterprise of the Future.

For additional information about the Global CEO Study or to discuss these industry implications further, we invite you to e-mail one of the following contacts:

<b>Americas</b>	<b>Paul Papas</b>	<b>paul.papas@us.ibm.com</b>
<b>Asia Pacific (excluding Japan)</b>	<b>Tilman Binder</b>	<b>TJBINDER@jp.ibm.com</b>
<b>Japan</b>	<b>Eiki Momotani</b>	<b>MOMOTANI@jp.ibm.com</b>
<b>Northeast Europe</b>	<b>Chris Moore</b>	<b>CMOO@ch.ibm.com</b>
<b>Global and Southwest Europe</b>	<b>Guy Lefever</b>	<b>guy.lefever@be.ibm.com</b>
<b>IBM Institute for Business Value</b>	<b>Heather Fraser</b>	<b>hfraser@uk.ibm.com</b>

## ABOUT IBM GLOBAL BUSINESS SERVICES

With business experts in more than 170 countries, IBM Global Business Services provides clients with deep business process and industry expertise across 17 industries, using innovation to identify, create and deliver value faster. It offers one of the largest Strategy & Change practices in the world, with over 3,250 strategy professionals. The IBM Institute for Business Value, part of IBM Global Business Services, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues.

The IBM Life Sciences team has extensive industry knowledge and innovative solutions to assist clients with specific strategic and operational challenges facing the industry. Additionally, IBM Research continues to invest in new ways to apply technology and advanced methodologies to further our clients' progress with genomics, computational and systems biology, and medical informatics.

© Copyright IBM Corporation 2008

IBM Global Services  
Route 100  
Somers, NY 10589  
U.S.A.

Produced in the United States of America  
June 2008  
All Rights Reserved

IBM, the IBM logo and [ibm.com](http://ibm.com) are trademarks or registered trademarks of International Business Machines Corporation in the United States, other countries, or both. If these and other IBM trademarked terms are marked on their first occurrence in this information with a trademark symbol (® or ™), these symbols indicate U.S. registered or common law trademarks owned by IBM at the time this information was published. Such trademarks may also be registered or common law trademarks in other countries. A current list of IBM trademarks is available on the Web at "Copyright and trademark information" at [ibm.com/legal/copytrade.shtml](http://ibm.com/legal/copytrade.shtml)

Other company, product and service names may be trademarks or service marks of others.

References in this publication to IBM products and services do not imply that IBM intends to make them available in all countries in which IBM operates.

### NOTES AND SOURCES:

- 1 Of the 1,130 interviews conducted for the IBM CEO Study, 40 were from the Life Sciences industry. Of this subset, 34 percent were from Asia Pacific, 20 percent from the Americas and 46 percent from Europe, the Middle East and Africa.
- 2 Appel, Adrienne. "Household Chemicals Wreaking Havoc in Fish." Inter Press Service News Agency. February 26, 2008.