TAKING A VALUE-BASED APPROACH TO PORTFOLIO STRATEGY AND PLANNING

By Jim Hall and Steve Girling

Traditional strategic planning processes are often blindsided by changing market realities. Some of the more famous examples of conventional strategic planning include Porter's Five Forces Model of Competition or the Seven-S Model. Where these examples fail for biopharmaceutical companies, however, is in both understanding the market from a clinical, therapeutic point of view, and understanding the competencies of the pharmaceutical company in terms of what it does well and how it provides value.

It takes five to seven years for most pharmaceutical organizations to develop a product ready for launch. Regulatory approval, reimbursement issues and last but not least physician and patient acceptance create exceptional risk and complexity inherent in the commercialization process. In addition, the competitive environment makes strategic planning a veritable minefield. As a result, biopharmaceutical strategic planning must be conducted differently from other industries.

A value-based approach to strategic planning—which accepts and accommodates the fact that this is a complex, risk-laden, and dynamic environment and that properly considers the true impact of development timelines—should be used. This approach provides a more pragmatic baseline for decision making and for the consideration of strategic options. Value-based strategic planning identifies the threats to current commercialization efforts in addition to identifying where the real opportunities exist relative to prior assumptions.

The Value-Based Strategy Approach

The process begins with senior executives establishing revenue forecasts as a baseline for portfolio value. Assumptions for the business and the market in general need to be balanced against what is being invested in the portfolio to drive value.

Part of the portfolio strategy is understanding where you want to make your investments and also being flexible in order to accommodate change to support successful projects and to limit investments in areas where risk is increasing or returns are becoming less clear.

The approach includes the following steps:

- Develop the Market Assessment
- Define the Event Horizon
- Build and Pressure Test the Forecast
- Define Macro-Market Drivers
- Forecast Future Channel Performance
- Develop Gap-Filling Strategies
- Reset the Forecast

Develop the Market Assessment

Defining the market is heavily influenced by the core performance data for each

Case Study

A leading pharmaceutical manufacturer had completed a robust performance review and planning effort for its evolving metabolic, anti-infective, and immunology franchises. After completing the value-based strategy process, it became clear that the performance deficit was going to be significant and that major changes needed to be implemented.

By comparing the performance and investments between the three franchises, it was clear that the company was going short on new product launches and way too long on their sunset products. Due to tightening budgets within the anti-infectives franchise, a launch would be delayed, and for the immunology franchise development, funds would be stretched. It also became clear that to bridge the revenue gap in metabolics, co-promotion, licensing, or acquisition would be required to build and maintain a healthy business until the next launch.

Campbell Alliance's process reveals many opportunities to properly understand and therefore act to transform performance across the portfolio. It also highlights how forecasts and related expenditures need to be adjusted and how franchise efforts need to be refocused to address specific deficits. Thinking about the collection of assets in the context of how they will perform relative to other assets across franchises—as well as predicted performance in a constantly changing market—helps to build confidence and a clear decision path around the real strategic opportunities.

asset, product, franchise, and the overall portfolio in the context of established competitors and new entrants. To confirm the relative performance of a franchise to a competitor's, the company must combine reported revenue and franchise performance with competitive data relating to the overall sales force size and structural breakdown, promotional spend (including the number of details across channels, discrete marketing spend, and investments in therapeutic programs) and the investment emphasis (our freshness index) in building therapeutic leadership.

This will provide a useful performance baseline for subsequent assessments of investment and results relative to industry and competitor benchmarks.

Define the Event Horizon

Brand and franchise leaders should consider the competitive dynamics that will impact their markets. This leads to an aligned event horizon, defined as the elements that will influence the asset in its ongoing path to commercialization. A typical event horizon may net out to approximately 8 to 10 elements (market density, clinical differentiation, pricing, reimbursement, market entry order, etc.) that can be distilled down to high, medium, and low based on their likely impact over a 3, 5, and 7 year timeline.

The aligned event horizon allows for a clear definition of the roles and impact of key competitors while also accommodating alternate events that help to complete the picture of market options. The forecast team uses the highest probability outcomes to create the model.

Build and Pressure Test the Forecast

In forecasting, the expected impact on overall share of current products and new entrants should be compared with available New-to-Brand Prescriptions (NBrx) and Total Prescription (TRx) data. For new products and products to be launched, this can be incorporated into the discussion and consideration of appropriate analogs. Analogues are needed to model out expected uptake, peak sales, and revenue over time. Analogues should be focused on the definition of the asset role in therapy relative to overall launch sequence and competitive intensity. Analogue selection is key to understanding predicted performance, although as everyone knows, past performance is no indication of future success.

Brand teams are often more comfortable with a patient-based (patient-up) discussion, whereas forecasters naturally prefer to focus on the prescription data to define performance in the forecast window. The most successful strategies are based upon a realistic forecast that is characterized by an early alignment between the brand perspective (on the patient-based growth assumptions) and the market perspective (the ultimate forecast of NBrx and TRx activity and future market performance).

Define Macro-Market Drivers

Brand and franchise leaders tend to focus on the drivers within their specific markets when participating in strategic planning, and the larger picture of the pharmaceutical marketplace is oftentimes overlooked. A robust understanding of macro-market drivers and how they impact all assets in the portfolio is critical. The objective is to consider the future influences of key market developments on franchises, such as evolving sales models, changing provider engagement needs, converging delivery networks, and healthcare reform.

Macro trends provide trustworthy indicators of changing tides within specific markets. When used properly, the inclusion of these macro trends in the analysis provides timely insight into potential strategic considerations for each franchise and the portfolio overall. Recognition of these trends and determination of their impact can give franchises a head start in course correction.

> The results of this process can be used to determine the new baseline and where gaps may be present.

Forecast Future Channel Performance

Often companies are in denial regarding the sheer magnitude of reduction that managed markets factors account for when forecasting down to net sales. Given today's managed markets environment, rebates and other fees required simply to participate in the marketplace serve as a substantial driver of net sales. Pharmaceutical companies need to understand the current rebate and discount rates and how they will evolve based on channel behavior and competitive pressures.

In addition to determining net forecasts for each asset, it is important to define how portfolio assets within a franchise will perform relative to each other at this stage. This is more straightforward for assets that already have performance data.

Early consideration and collaboration with brand teams is a great benefit. This part of the process gains elevated importance when a franchise has more than one upcoming launch on the planning horizon.

As with every step of the portfolio planning approach, early, transparent, and cross-functional discussion is necessary for successful incorporation of managed markets influences on strategic planning.

Develop Gap-Filling Strategies

Finally, the results of this process can be used to determine the new portfolio baseline and where gaps may be present. An opportunity exists to discuss strategic options around addressing potential portfolio performance gaps. Filling the gap could mean exploring new markets or assets by acquiring, licensing, or co-promoting, or by accelerating what already exists in the pipeline.

For example, an asset may be coming to market later than originally anticipated. As a result, senior leaders will need to think about the risk of not being first in a potentially competitive launch window. They will need to consider whether another asset may be needed to fill the pipeline so that it aligns to the company's commercialization capability.

In another example, the analysis may show that the asset will not play the assumed first-line role in the market and instead be viewed as second or third line therapy. When this is the case, the demand for that asset may be lower and the forecast will go down, so resources will need to be adjusted accordingly.

Reset the Forecast

Most pharmaceutical companies index budgets from year to year as opposed to doing a zero-based budget because the market dynamics are such that they cannot assume past performance is an indicator of future performance. However, a cascade effect can occur when going from one year to the next, causing invisible budget pools to grow and compromising investment discipline relating to the actual needs of the franchise.

The forecast should be annually reset, assumptions reviewed, and performance determined based on the current environment. Once that has been accomplished, a gap analysis can be determined. By properly defining the gap through internal and external benchmarks, companies can reassess the portfolio to define where and how to optimize spend and support growth.

Conclusion

Value-based portfolio strategy is unique in its application of a bottoms-up asset, franchise, and portfolio level forecast to determine risk-adjusted portfolio performance, associated portfolio scenarios, and the clear definition of strategic opportunities. This approach delivers exceptional insights into short, medium, and long-term franchise performance and the opportunities to enhance, accelerate, or reconsider critical strategic decisions.

The value-based approach quickly delivers a clear understanding of portfolio performance risks, potential gaps, and discrete franchise opportunities. Armed with this insight, senior executives can make more informed calls on the relative investment leverage and potential returns from discrete portfolio investments.

A derivative of this value-based approach is the definition and optimization of planned promotional expenditures across the forecast horizon and the determination of the options that leaders may have to flex those investments relative to post launch, peak, and post-peak strategies. This applies to all aspects of personal and non-personal promotion.

Follow-on opportunities are realized in assessments of how to optimize cost and what the relative promotional benchmarks and guardrails need to be for assets in each stage of their competitive life-cycle.

Case Study Conclusion

As a result of the value-based strategy process, several changes were made across the portfolio. Two mature products (one in immunology and one in metabolic) were overspending promotional dollars relative to market and relative to the whole portfolio. Reallocating those investment dollars to three newly launched assets has resulted in a 12% positive increase in overall revenue for the company with no loss of margin.

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