



# TRANSFORMING DIGITAL STRATEGY

*How incremental advancements set the stage for a pharmaceutical revolution*

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## Summary

### PROBLEM

*A major pharmaceutical company wanted to understand how to succeed in a digitally connected world.*

### SOLUTION

*Together we identified the industry's four major digital disruption trends and their impact on the company's current business model. A strategy was created that utilized existing knowledge, resources, and technology to drive sustainable growth towards a new and ambitious business reality.*

### RESULTS

*The project transformed the company's digital strategy at both the brand and franchise level. The project's implications and recommendations have been infused into the company's overall strategic planning process.*

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A leading global pharmaceutical company needed to rethink how it approached the ongoing digital revolution. With over \$50 billion in annual sales and more than 100,000 employees, key decision makers knew that digital was transforming the way they interacted with patients, providers, and payers. However, many believed the company's current digital approach was reactive and not strategic.

Given the company's size, it had multiple ongoing digital initiatives, but uncertainty remained around which digital trends created the greatest threats and opportunities within their industry. Every day new tech-driven entrants joined the field—should the company partner or develop a competing solution? What about big data—after years of significant investment, how could they leverage its promise to generate consistent returns and shape the business model of the future? Would wearable technology change the nature of the pharmaceutical industry?

In early 2016 the company came to Clarkston Consulting for help creating a strategy that leveraged the ongoing digital revolution to create a sustained advantage in a new business reality.

## Digital isn't one size fits all

In some industries, like entertainment, the impact of the digital revolution is obvious. Consumers watched movies at industry-approved places (movie theaters), bought music after it passed through the industry's byzantine distribution system, and planned nights around their favorite television shows. Today, most entertainment is available digitally—wherever and whenever the consumer desires. Blockchain's distributed ledger (the glue behind Bitcoin) has the potential to allow payment systems without financial institutions. In other industries, the revolution is less obvious, but even more transformative. Digital technology allows oil and gas companies to efficiently analyze datasets composed of a variety of inputs (e.g., seismic reports, images, audio recordings...) to help determine the best and environmentally safest extraction points. Analysts estimate that the digital revolution could have a tremendous impact on the industry, improving production by eight percent.

Digital's impacts are diverse and sometimes unseen to the casual eye, but the change is almost always radical.

FINANCING



DISTRIBUTION



DEVELOPMENT



## Digital's two macro trends

Digital's specific impact varies across industries—from altering distribution channels to improving drilling production. While it may be impossible to perfectly categorize all of digital's effects, we've found that its impacts typically fall within two broad trends—each feeding into the other and culminating in a business revolution.

### DECENTRALIZATION

The affordability and scale of digital solutions decentralized the value chain. That means nearly every input is up for grabs. Organizations are now collaborating with customers and vendors on the financing, development, and distribution of products and services. Kickstarter circumvents traditional funding mechanisms, Starbucks solicits ideas directly from consumers, and Netflix delivers content without a middleman.

## BuzzFeed

*BuzzFeed uses collection and analysis techniques honed in UI and software development to create media content. One of the world's most popular websites, BuzzFeed is worth \$1.5 billion.*

### UNLIKELY ALLIES & COMPETITORS

After perfecting data modeling skills for oil and gas drillers, data scientists founded Enlitic, a healthcare machine learning company. They used similar techniques, but instead of identifying resource extraction points, their program now suggests possible health diagnoses. Fitbit started as a glorified pedometer and has now emerged as a legitimate tracking tool for a healthy lifestyle. This reinforces the increasingly common act of third parties transforming and conquering disparate industries by applying their digital expertise in unpredictable ways.



*GM and Lyft have invested \$500 million to develop an on-demand self-driving taxi network. Automobiles could become a service, not a product.*



*Climate Corporation created software that superimposed climate data on every farm field in America. Entire fields can now be planted at their optimal state—each seed at a customized depth and location. Monsanto purchased the company for \$930 million in 2013.*

## Digital's Opportunity

Exact opportunities will vary by industry, but each winner will be defined by their ability to merge decentralized inputs and outside expertise with their core assets.

### MAKING THE IMPOSSIBLE POSSIBLE

The prior trends coalesce into allowing the previously unthinkable to become a reality—self-driving cars and green energy systems that manage themselves. Digital advancements allow the future to become the present.

## Pharma's Digital Revolution

A deeper analytical deconstruction of this paradigm reveals four trends and an opportunity specific to the pharmaceutical world. The first two major trends reveal the impact of a decentralized value chain on two of Pharma's main stakeholders: Healthcare Professionals (HCP) and Patients. The next two deal with the role outsiders will play. The final section portrays the opportunity of a revolutionary new healthcare system.

# 99%

of physicians use a mobile or smart device for professional purposes

Having great educational content is no longer enough. Pharma needs to start thinking in terms of reach. That means tailoring and refining content like a media company.

Although federal regulation slows down Pharma's ability to communicate with the outside world, operational strategies need to be developed to counter less informed actors—who are without those constraints.

DECENTRALIZATION	UNLIKELY ALLIES & COMPETITORS	MAKING THE IMPOSSIBLE POSSIBLE
HCP Engagement Patient Engagement	Data Mining and Analytics Third Party Disruption	Volume to Value

## Pharma's 4 Key Digital Trends

A pharmaceutical company looking to realize the largest digital business opportunities must lay a successful foundation—this means mastering the new decentralized landscape.

### ▶ HEALTHCARE PROVIDER ENGAGEMENT

*HCPs expect relevant, easily accessible, and on-demand product information to all be delivered via their preferred channels.*

Traditional HCP activities and channels have all become digitized, making it easier for HCPs to self-educate and interact with peers. Digital allows HCPs to maximize their efficiency and devote more time for patients and self-education. However, to keep up with the same activities they used to do, HCPs are forced to gain competencies in digital. Conversely, pharma companies can't choose the channels through which they want to digitally engage. They have to go where their audience is. Behaviors are the new markets.

#### IMPLICATIONS:

- Physician access will be dictated by the number and availability of digital channels.
- Digital creates an HCP expectation of a two-way dialogue, not the traditional push style of communication.
- Pharma is now competing for overall Physicians Share of Mind.

### ▶ PATIENT ENGAGEMENT

*Patients' embrace of digital health sources has led to them having a greater say in their own care and treatment.*

Eighty percent of Americans are engaged with some type of digital health. They consume health information from digital sources—both credible and non-credible. Blogs warning about the impact of “toxins” now have the same reach as the Mayo Clinic. The ease of digital publishing and low cost of delivery ensures that non-traditional health influencers now have the same share of voice as the establishment. Pharma companies must adapt to the new reality and deliver information across a variety of fragmented channels. A customer's journey defines where they look for information.

#### IMPLICATIONS:

- Brand management is now a complex combination of social listening and inserting messages at the right places at the right time.
- Specific digital patient journey must be identified.
- Fast is the new right.

With those digital competencies performing at a high level, firms can strive to create digital differentiation through the harnessing of Big Data and Analytics and the creation of Strategic Partnerships (or Acquisitions) of third parties who possess technologies with the potential to transform the existing pharma business model.

**\$300 - 450B**

The projected cost savings due to Big Data in Healthcare

*A strategic approach is required to drive actionable insights from the data. Without it, you are just searching for a needle in a haystack.*

*Third parties powered by digital technology are entering a variety of markets. A Robo-advisor is low cost software that automatically invests and rebalances retirement accounts according to a client's goals and risk tolerance. It threatens to eliminate traditional financial advisors and is estimated to become a \$2.2 trillion market by 2020.*

### ▶ DATA MINING & ANALYTICS

*The ability to leverage large, real-world datasets to drive better decision making is becoming a reality.*

Companies in diverse industries are developing **proven data techniques to drive product sale and increase ROI**. The relatively low cost of information ensures that data scientists are drawing from **increasingly expansive sources**. Pharmaceutical companies are fortunate to already own **huge datasets with latent value**. Now a key priority is not only developing a defined strategy to parse and coordinate the data between diverse actors with different systems, but defining a strategy to analyze the data in a way that maximizes insights.

#### IMPLICATIONS:

- Must identify existing and external datasets with the greatest latent value.
- Efforts must focus on a specific challenge to deliver ROI.
- Big data creates an opportunity to build 'real' trust with key stakeholders.

### ▶ THIRD PARTY DISRUPTION

*Non-healthcare technology companies are extracting value across the existing healthcare value chain.*

In the early 1980s, a wave of physicists forecasted financial markets with the same mathematical methods used to predict black holes. Soon, the financial industry was completely upended, replaced by quantitative models. The same shift is occurring in healthcare. Companies from disparate fields have developed enormous competencies in digital—allowing them to apply their insights into healthcare. Under Armour entered the health space with “Connected Fitness” and brought their **established brand loyalty to the healthcare space. Low barriers to entry and less regulations than traditional** healthcare allowed them to attract over 150 million active users in under five years.

#### IMPLICATIONS:

- Pharma's place isn't assured in the new value chain.
- The pace of future pharma tech partners and competitors will accelerate.
- Meaningful healthcare engagement will occur via third party channels.
- Pharma must identify and shape the use of “non-pharma” technology or someone else will.

# 50%

of Medicare reimbursements will be tied to Quality or Value of Provider's Services

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## IMAGINE:

*Custom Pharmaceuticals delivering treatment regimens that are...*

- *Virtually Prescribed,*
  - *Digitally Tracked,*
  - *Data Backed*
- 

## New Opportunity

For 20 years industry insiders have talked about the impending shift from volume to value. Decentralized engagement, big data, and strategic third party partnerships will allow a customized outcome-based model to emerge.

### ► VOLUME TO VALUE

*Digital allows the “actual” realization of the shift from individual products/services to the overall value of healthcare.*

With healthcare spending projected to account for 20 percent of the United States' GDP by 2021, most agree that **the current healthcare model is unsustainable**. Once an aspirational goal, the nexus of greater HCP and patient engagement, data mining and third party technology **allows volume to value based healthcare to become a reality**. Title III of the Affordable Care Act (ACA) establishes **government standards and incentives for a digital transition**.

### IMPLICATIONS:

- Revenue will be non-product specific; value is now in the health ecosystem.
- HCP and patient expectations, shaped by their everyday digital life, will surpass current market offerings.
- Healthcare stakeholders will expect treatments that go “beyond the pill”.
- Treatment evaluations will be data driven, coordinated among stakeholders and fast.

## Completing the Transition

Orienting a company to both defend against and align towards the ongoing digital revolution are daunting tasks. Our experience teaches us that Pharma's biggest challenges will be 1) moving at the speed required, 2) learning and applying new digital skills, and 3) having the courage to leave behind some of Pharma's most sacred cows (i.e., existing HCP sales approach and conventional Payer/Provider engagement models). However, for those pharma companies that believe digital will have a major effect on their industry, there is time to develop the insights and skills required to shape digital drivers in their favor and create a digital strategy to help them create a sustainable competitive advantage.

## Questions to Consider

When trying to deconstruct your industry's digital landscape, we recommend asking yourself the tough questions about both your capabilities and environment.

- Have we fully assessed the pharma industry digital imperatives and are our people equipped to interpret and leverage them?
- Have you determined which specific strategic challenges to focus your organization's Big Data efforts on?
- Are our stakeholders (upstream and downstream) on the road of digital evolution and have you assessed innovative ways to partner with them? What non-traditional competitors can encroach on our value proposition and how can we create a sustainable way to incorporate them into our emerging business model?
- Do we have a proven approach to develop an innovative digital strategy?

## For More on Innovation Through Clarkston

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