

19th Annual Global CEO Survey: Pharmaceuticals and life sciences industry key findings
Growing in complicated times / Addressing greater expectations / Transforming: technology, innovation and talent / Measuring and communicating success

Redefining business success in a changing world

Pharmaceuticals and life sciences industry key findings



87

*pharmaceuticals
and life sciences
executives
interviewed
in 35 countries*



About the 19th Annual Global CEO Survey

In this year's survey, global business leaders voice fresh concerns about economic and business growth. At the same time, they see a more divergent and multi-polar world where technology is transforming the expectations of customers and other stakeholders. In *Redefining business success in a changing world*, we explore how CEOs are addressing these challenges. We surveyed 1,409 CEOs in 83 countries and a range of industries in the last quarter of 2015, and conducted face-to-face interviews with 33 CEOs.

Today's business leaders have a tough job finding growth and delivering results year in, year out. But they know an even tougher task lies ahead: to prepare their organisations for a more complex future where customers and other stakeholders increasingly expect them to do more to tackle society's important problems.

To equip themselves for this challenge – and to build trust and ensure long-term success – CEOs are focusing on three core capabilities. Firstly, they're focusing even more strongly on customer needs as well as drawing on their organisational purpose – what their companies stand for – to define a more comprehensive view of how their business operates within society. Secondly, they're harnessing technology, innovation and talent to execute strategies that meet greater expectations. And finally they're developing better ways to measure and communicate business success.

About the Pharmaceuticals and life sciences industry key findings

This report looks in more detail at the views of 87 pharmaceutical CEOs in 35 countries, as well as drawing on in-depth interviews with:



Michael Daniell

Managing Director and CEO, Fisher & Paykel Healthcare Corporation Ltd., New Zealand



Timothy P. Walbert

Chairman, President and Chief Executive Officer Horizon Pharma plc, Ireland



Gary Pruden

Worldwide Chairman, Johnson & Johnson Medical Devices Johnson & Johnson, US



Dr. Leonard S. Schleifer

Founder, President and Chief Executive Officer, Regeneron Pharmaceuticals Inc., US

19th Annual Global CEO Survey: Pharmaceuticals and life sciences industry key findings



Pharmaceuticals and life sciences CEOs are optimistic about a future which will see continuing growth through innovative products and partnerships, but they recognise the challenge of realising their ambitions in a world where expectations are growing all the time. New technologies will help both to deliver life-saving innovation and to enrich engagement with stakeholders.

Growing in complicated times

Pharmaceuticals and life sciences CEOs are optimistic about future prospects.

While economic prospects globally are complex and difficult to predict, the trajectory for healthcare demand looks more straightforward. It's rising, thanks to ageing populations in major markets and expanding affluence in emerging ones, and that's translating into high levels of optimism. Nearly half of pharmaceuticals and life sciences (pharma) CEOs (48%) are very confident of revenue growth over the next 12 months, significantly more than across the overall sample (35%) and up slightly from last year. Looking forward three years, nearly every CEO is confident or very confident of revenue growth, making the sector one of the most optimistic we survey.

The most promising geographical market over the next 12 months is the US, by a wide margin (52% of pharma CEOs rank it in their top three in terms of growth prospects, compared to 39% of CEOs overall). Other markets with a strong rating are Germany (32%) and China (34%).

And they're planning more partnerships.

Nearly two-thirds of pharma CEOs (62%) expect to enter into a new strategic alliance or joint venture over the next twelve months – notably more than in most other sectors or across the sample overall where just under half the respondents expressed this intention. At a time of intense deal activity for the industry, 31% of respondents expect to complete a domestic merger or acquisition, with the same percentage planning a cross-border transaction.

For many companies, these transactions represent opportunities to enter new markets or expand their portfolio. More than two-thirds of pharma CEOs (69%) say there are more growth opportunities for their business today than there were three years ago. Again, that's up from last year, and higher than the 60% we saw across the survey population as a whole.

There has been a lot of consolidation over the past 24 months or so. At the industry level, we've seen some large players and mid-cap players come together. We've also seen consolidation in the customer groups, with healthcare payers and physicians coming together.

Gary Pruden
Worldwide Chairman, Johnson & Johnson Medical Devices, Johnson & Johnson, US

But there are still some clouds on the horizon.

Three-fifths of pharma CEOs say there are more threats to growth than there were three years ago. Indeed, the industry’s biggest opportunity – rising healthcare demand – also contains a threat, as it means governments face mounting pressure to cut the cost of care. Accordingly, over-regulation is the threat pharma CEOs are most likely to believe will put the brakes on growth. It’s a perennial issue for the sector, which already faces strict review and approval processes and is increasingly subject to pricing regulation. Up significantly this year is attention to currency exchange rate volatility. That’s not surprising as the strength of the US dollar has seen the amount returned from European and Japanese sales plummet, with a 16% and 13% reduction respectively (based on comparing the first nine months of 2014 and 2015).¹

Pharma CEOs’ level of concern over the availability of key skills has been on an upward trend for the past several years. Nearly two-thirds of pharma CEOs say their companies plan to increase headcount this year, so it’s only natural that their ability to secure the right people with key skills is front of mind.

Pharma CEOs see more divergence ahead.

Pharma CEOs are in line with their peers across the sample seeing regional trading blocs taking precedence over a single global marketplace and multiple economic models triumphing over economic unions.

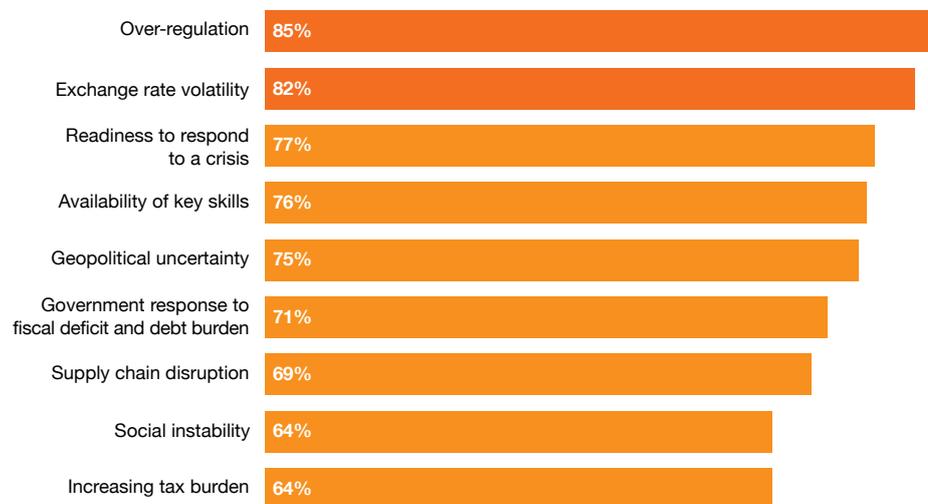
For pharma CEOs, one particular concern is divergence in regulatory regimes. In recent years, more individual countries have created their own specific requirements, especially regarding HTA (health technology assessment). The majority of pharma CEOs (59%) see unclear or inconsistent standards or regulations as a barrier to responding to stakeholder expectations. Gary Pruden, Worldwide Chairman, Johnson & Johnson Medical Devices, Johnson & Johnson, US, remarks that “As markets become more uncertain there are greater restrictions on healthcare products, on access to care, and more pressure on costs in some of the emerging markets. As a healthcare company dedicated to raising the standard of care around the world, that’s a considerable concern for us.”

60%
of pharma and life sciences CEOs see more threats to growth than there were three years ago

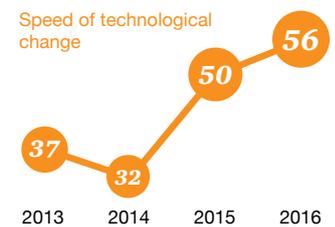
Figure 1: Over-regulation and exchange rate volatility are top of pharma CEOs’ list of threats to growth

Q: How concerned are you about the following potential economic, policy, social and environmental threats to your organisation’s growth prospects?

Key risks



Trending upwards



New market entrants



Base: All respondents (Pharmaceuticals and life sciences; 2016=87; 2015=101; 2014=119; 2013=90)
Source: PwC, Annual Global CEO Survey data

¹ <http://www.scripintelligence.com/home/Strong-Dollar-Weak-Performance-Big-Pharma-Is-An-Industry-Adrift-361604>

Addressing greater expectations

Pharma CEOs are proud of their contributions to improving the world's health.

When we asked CEOs to define, in their own words, what “purpose” means to them, many cited improving public health and/or the lives of individual patients. That reflects the two largest stakeholder groups whose expectations are influencing sector companies: customers/clients and the government/regulators.

More than half of pharma CEOs say that the expectations of governments and regulators have a very high impact on their organisation's strategies. That's not surprising. Not only does the industry face regulatory hurdles for new products, but in many countries the government is also the industry's single largest customer. And what governments expect from pharma companies is changing radically as they seek more value – including curing rather than managing conditions – for less cost. As expectations of value become greater, the challenge for pharma and life sciences will be to move to a new reward mechanism while the strain on healthcare economies continues to intensify. As Dr. Leonard S. Schleifer, Founder, President, and Chief Executive Officer of US-based Regeneron Pharmaceuticals Inc. puts it, “We have to make sure that innovation in healthcare gets an adequate reward for the risk.”

A positive industry reputation is important to pharma and life sciences companies.

It helps attract capital: pharma CEOs are more likely to believe that their investors are seeking ethical investments, both now and in five years, as opposed to focusing on income and capital growth. The only sector where CEOs are more likely to agree on this point is the healthcare industry.

And positive reputations will help attract talent, too: 43% of pharma CEOs are changing their talent strategy around their reputation as ethical and socially responsible employers. They believe this reputation has a great impact on attracting, retaining and engaging the employees they need to remain relevant and competitive (compared to 29% of CEOs overall). Sixty-three percent of pharma CEOs believe that top talent prefers to work for organisations with social values which are aligned to their own today – and 76% believe they will do so in five years' time.

But a positive reputation has to be earned. Fifty-seven percent of pharma CEOs worry that lack of trust in business could negatively impact growth prospects. In recent years, the industry has faced criticism and concern over how it interacts with healthcare professionals, leading to new regulation in some markets. Drug pricing has been the subject of recent intense scrutiny and public debate. With increasing numbers of undoubtedly effective but highly costly specialty drugs, new models of reward are being tested, with the pharmaceutical company's reimbursement contingent on meeting certain outcomes.

Our biggest challenge is helping to articulate to regulators, to politicians, to consumers just what is driving the increase in costs and how do we influence that and how do we improve it? Because right now, someone will look at the cost of a cancer medicine, for instance, and assume that because it might be \$90,000 or \$100,000 a year, that it is adding significant cost. Yet, if you can avoid three or four rounds of chemotherapy or extend a patient's life, what is the downstream cost? In other words, how much could the medicine save you overall, and how do we even measure that amount? So the big challenge is how do we capture – and announce – the real value versus the headline cost?

Timothy P. Walbert
Chairman, President and Chief Executive Officer,
Horizon Pharma plc, Ireland

Figure 2: Pharma CEOs shape their strategies with customers and governments in mind

Q: What impact do the following wider stakeholder groups have on your organisation's strategy?



Note: Respondents who stated 'high impact' or 'very high impact'
Base: All respondents (Pharmaceuticals and life sciences, 87)
Source: PwC, 19th Annual Global CEO Survey

Transforming: technology, innovation and talent

Pharma CEOs are already changing their businesses in response to changing stakeholder expectations.

Just where are CEOs making changes? At the top of their list is how they manage their brand, marketing and communications – 59% of CEOs say their companies will make significant changes in this area, compared to 48% across the sample overall.

Defining and managing risks is another area where nearly every pharma and life sciences company is planning to make some changes, as is measuring success and improving accountability and workforce rights and wellbeing.

Pharma and life sciences is undergoing a digital revolution.

The sector is increasingly using a wide range of digital tools to support everything from drug discovery, development and testing to outcome tracking. That's reflected in CEOs' responses – 92% say they will use technology to assess and deliver on wider stakeholder expectations. Which technologies offer the greatest potential to increase engagement? At the top of the list are customer relationship management systems (71%). Two-thirds say that R&D and innovation generate the greatest return in terms of engagement with wider stakeholders (compared to 53% overall). In fact, that number is higher than most other industry sectors except the automotive industry with 69%.

Data and analytics also score highly with pharma CEOs.

Sixty-two percent believe that data and analytics can help improve stakeholder engagement. The opportunities are exciting. New monitoring technologies and the proliferation of apps for patient tracking are making it possible to generate huge quantities of data on how patients respond to different treatments. Pharma and life sciences companies can use this information to improve outreach to patients and healthcare and providers. They can also better document outcomes for governments and other payers. And reflecting the trend towards partnering, pharma CEOs aren't afraid to look outside of the organisation to capitalise on expertise elsewhere. As Gary Pruden, Johnson & Johnson Medical Devices, notes, "We have a partnership with IBM in orthopaedics, where we're looking at how to use big data to achieve better solutions. We have a partnership with Google in surgical robotics."

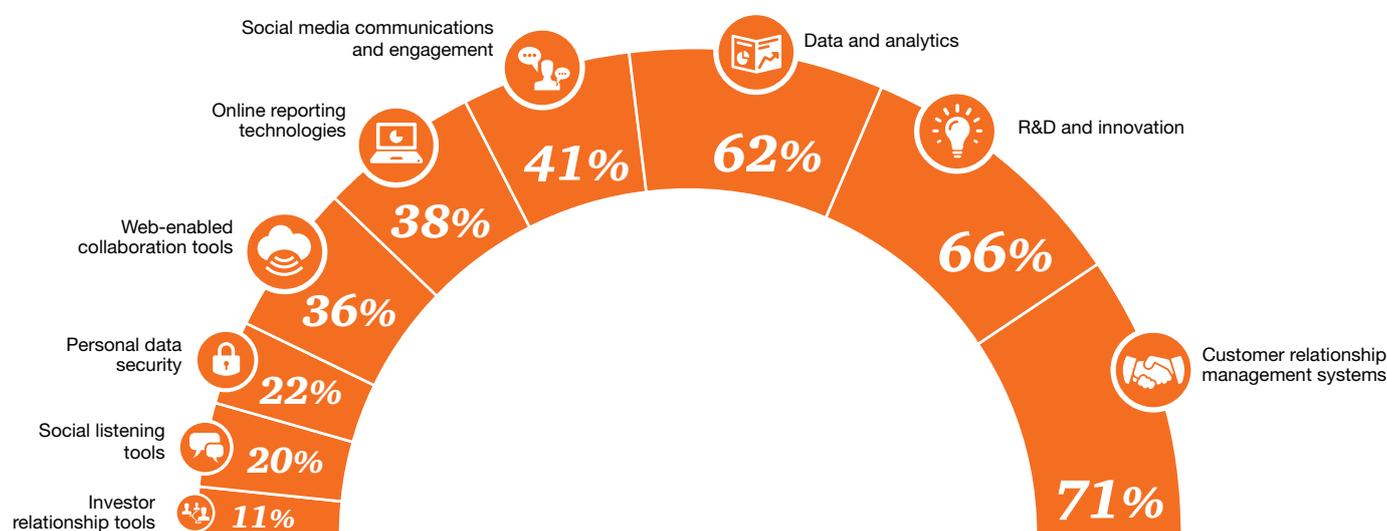
Surprisingly, pharma CEOs are somewhat less concerned about cyberthreats than CEOs overall. We think CEOs may need to take a fresh look at whether they've done enough to ensure their new digital channels are safe from threats.

97%

of pharma and life sciences CEOs plan to change how they define and manage risks, in response to changing stakeholder expectations

Figure 3: CRM and R&D technologies are viewed by pharma CEOs as key to increasing stakeholder engagement

Q: Please select the connecting technologies you think generate the greatest return in terms of engagement with wider stakeholders



Base: All respondents (Pharmaceuticals and life sciences, 87)
Source: PwC, 19th Annual Global CEO Survey

Measuring and communicating success

Innovation is the number one area where pharma CEOs (56%) think business could do more to measure the impact and value for wider stakeholders.

This is not surprising – innovation is the lifeblood of the industry, and the ability to communicate the value that its innovative products brings to patients, healthcare systems and society more widely is crucial to maintaining its relationships with a complex network of stakeholders. It’s one area where the imperative to measure is equalled by the desire to communicate.

This isn’t lost on our CEOs. Dr. Leonard S. Schleifer, Founder, President and Chief Executive Officer of US-based Regeneron Pharmaceuticals Inc. remarks, “We have to do a better job of explaining to people where drugs come from and how hard it is to develop them.”

Following on from innovation, the next areas that pharma CEOs see needing more attention from a measurement perspective are key risks (51%), and non-financial indicators such as brand (47%).

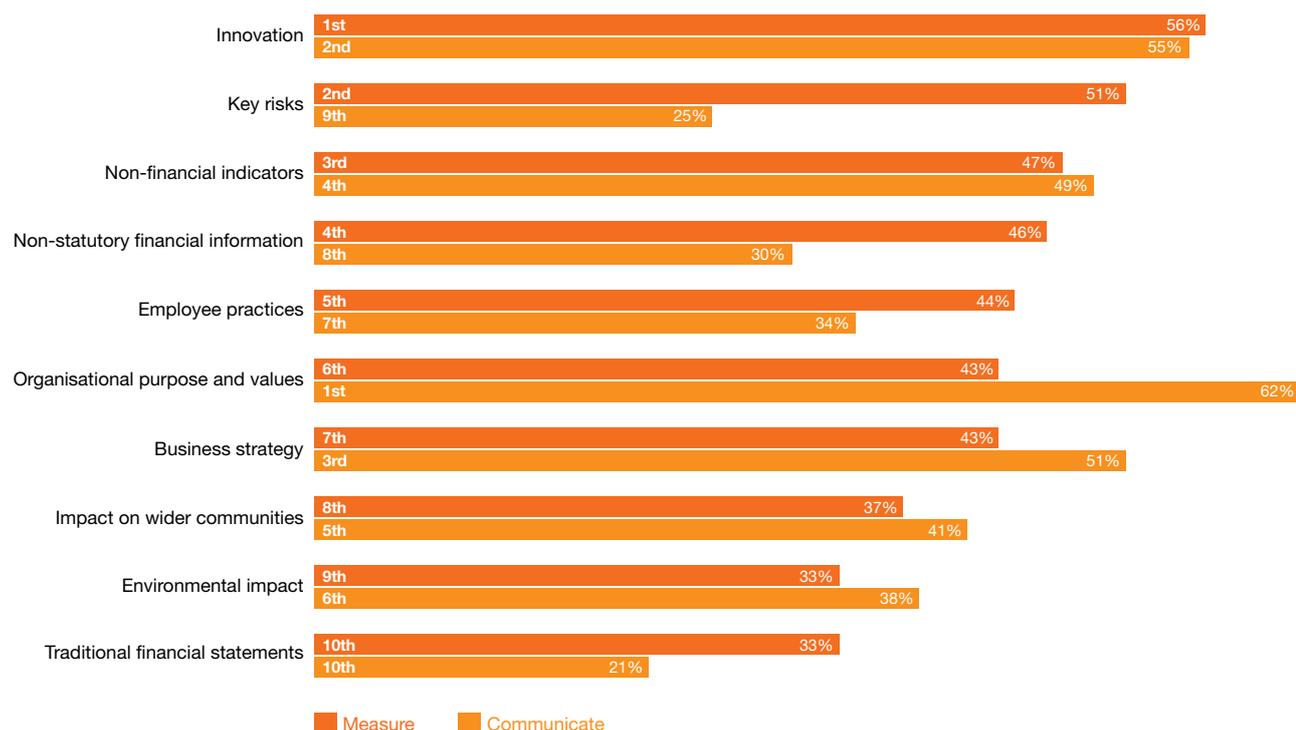
Moving to communicating to stakeholders, the number one area for pharma and life sciences is organisational purpose and value, with business strategy in third place behind innovation. These areas tie in with the need to maintain a positive industry reputation for ethically-motivated investors and also the imperative to emphasise the broader benefits that the industry brings to society. As Timothy P. Walbert, Chairman, President and Chief Executive Officer of Ireland-headquartered Horizon Pharma plc puts it, “It’s a balance of continuing to be transparent about our business results today but also communicating that we’ve got a high-risk business that is not just about generating today’s profits.”

Sustainability of the business is obviously very important. For a business to be sustainable it requires many factors: attracting people, retaining people, having the right business model and competitive advantage. To me it is the long-term picture that is important.

Michael Daniell
Managing Director and CEO,
Fisher & Paykel Healthcare
Corporation Ltd., New Zealand

Figure 4: Pharma CEOs see potential to communicate more effectively around innovation, organisational purpose and business strategy

Q: In which of the following areas do you think business should be doing more to measure/communicate impact and value for wider stakeholders?



Base: All respondents (Pharmaceuticals and life sciences, 87)
Source: PwC, 19th Annual Global CEO Survey

Contacts

Mike Swanick

Global Pharmaceuticals and Life Sciences leader

+1 267 330 6060

michael.f.swanick@pwc.com

Explore the data

See for yourself what else pharma CEOs told us about leading in complicated times.

www.pwc.com/ceosurveydata

And follow #ceosurvey on Twitter to learn what your colleagues are saying about it.



Acknowledgments

PwC gratefully acknowledges the contribution to *Redefining business success in a changing world: Pharmaceuticals and life sciences industry key findings* provided by the CEOs who participated in our in-depth interview programme, listed below. Watch the CEO video interviews for more great insights.

Michael Daniell

Managing Director and CEO,
Fisher & Paykel Healthcare
Corporation Ltd.,
New Zealand

Timothy P. Walbert

Chairman, President and
Chief Executive Officer,
Horizon Pharma plc, Ireland
[Watch the full interview](#)

Gary Pruden

Worldwide Chairman,
Johnson & Johnson Medical
Devices, Johnson & Johnson, US
[Watch the full interview](#)

Dr. Leonard S. Schleifer

Founder, President
and Chief Executive Officer,
Regeneron Pharmaceuticals Inc.,
US. [Watch the full interview](#)

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 208,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2016 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

Design Services 30015 (1/16).