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# Out-Going GSK CEO Andrew Witty Tells Pharma To Evolve Or Die

by **Sten Stovall**

The veteran pharma executive Andrew Witty says time – if not already gone – is running out fast for those biopharma companies who have not yet begun their necessary structural transitions.

[GlaxoSmithKline PLC](#) CEO Andrew Witty wouldn't call himself a prophet – or even a prophet of profit – but his stark warnings at a recent industry conference on the need for far-reaching change sounded down right Delphic and a loud wake-up call to the Life Sciences industry.

Addressing this year's FT Global Pharmaceutical and Biotechnology Conference in London on Nov. 16, Witty, who is retiring as the head of Britain's largest drug maker in 2017, began his keynote address on transformational strategies by saying the sector "is a super long life cycle industry – and if you haven't already started to think about how to deal with some of the challenges we saw coming 10 years ago, then it's almost certainly too late."

Having set the tone, Witty added: "So if you continue to believe that R&D is a function of how much you spend rather than the efficiency or the cost per molecule of what you create then your time for fixing that strategy is diminishing rapidly."

## Old Strategies No Longer Viable

He said the old reliable fallbacks for inefficient pharma business strategies – price-oriented silo mentalities and selling expensive medicines into the once voracious US healthcare market – are no

## ***Shell Shocked Pharma Ponders Future Directions Amid Seismic Changes***

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Seeking advice and future direction, speakers and attendees at this year's FT biopharma conference in London were told little of substance other than to adapt to big change and that more is on the way.

longer viable. The world has radically changed and more is coming. Meanwhile the industry's productivity has plummeted.

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"That's why we have these very high costs per molecule. To address that, you need to make very fundamental changes in the way you think about how you generate innovation, and you need to make very fundamental changes in the way in which you think about how you create returns for your organization."

Witty said pharma in the past could mainly focus on a drug's launch price, but added "that's no longer the case. In fact, we shouldn't be looking at all at what the initial launch price is. We should be much more focused on what the returns are that that product can generate." In short, he said, the drug industry should move away from a fixation with price and orient its commercial strategies to focus on volume.

"It's inevitable that you have to move in that direction, because the driver of price-driven economics in this industry [the US market] is no longer capable of growing at the rate that it has historically grown," Witty stressed.

"You need to think of a very different approach. How do you create more [patent] time? How do you create more [drug] volume? And how do you find a way to ensure that your products come through at the lowest possible cost and the highest possible quality, because the trap of being too low on cost is that you lose quality and that loses [patent] time and so the whole mix of drivers of return are inextricably combined," Witty said.

Going forward, the industry will see a merging of many of the trends which have been emerging over the past decade but which have been broadly under the surface. They are now seen globally. These include increasingly aggressive stances towards healthcare provision from government, HTAs and payers, coinciding with increased focus on patient outcomes.

"They are reacting to an anxiety which is as deep in Detroit as in Mumbai about whether or not there will be access to medicine. And those trends, those tidal shifts are beginning to break through the surface," Witty said.

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"That's why it doesn't really matter too much who won the US election because the direction of travel is not determined by one stakeholder in the White House but by multiple stakeholders in public and private environments, and is already set: More control, more focus on lifetime cost, more aggressive willingness to intervene to control, and ultimately determine how health care evolves; more standardization, more protocol developed. We're already seeing that in Europe in different formats. And we'll start to see it in the rest of the world."

### **Risk Diversification And Volume Key**

Witty emphasized the importance of diversifying risk profiles from a group's primary drug development: in the case of GSK the group's vaccines and consumer goods businesses have different risk cycles to that of pharma. "For us this allows us to think long-term about the smoothing out of return curves for our investors. That makes sense provided you're investing in the sector for the cycle time for that particular sector ... as managers you have to develop a business so that it is in sync with its cycle time. And in the drug sector, you're talking decades for the life of a product, not years and certainly not months."

He said the challenge for the industry "is whether we're clever enough to reinvent our commercial business models, both from a pricing view, our cost structures, and our go-to-market models to ensure that we are able to effectively migrate from an industry which has been far too price orientated in its determinants to one that is much more volume orientated."

Witty said "volume is not a dirty word. Volume is a good thing to achieve in a business and I don't think we should care whether your returns are driven by a high price on a low volume or a lower price on a high volume if the return is the same."

Asked by the audience later about whether pharma needs to come to terms with a steadier development cycle where returns are more like those seen in consumer businesses, he replied yes, "that's exactly where the environment will try and push."

Witty added that whether or not companies are able to survive will be determined by their abilities to innovate because the intellectual property and conditions with those assets aren't going to change.

"So you're still going to have a risk that you haven't discovered the next generation before the previous one's patent stops. But you already see it in Europe the way governments are trying to smooth out and flatten the capacity, you see the deals across the world that are aimed at capping drug bills."

Consequently, the drug industry needs to get back to an equilibrium for aligning what the industry needs from a return point of view to drive its biology exploitation and what society needs from a cost point of view.

"These pressures are going to get more intense and more worldwide. So you need a strategy that allows you to exist in that world. We need to evolve our business models to be in step. We can no longer use the language from the 1990s of price and blockbusters." Instead, the concept of control mechanisms has become "a language" that the industry is now dealing with.

"What our industry needs to do – whether it's large, medium or small – is move with that. You want the conversation to change into a return / cost dialogue and that increases the solution space; there is more to negotiate in order to get into that conversation - and it creates a much more interesting set of options for your corporate strategy, and a greater solution space," Witty said.

### **Positives Noted**

All was not doom and gloom, however. Witty did flag positive trends for the sector, not least the continued growth of the world population, and the prospect of more than 6 billion people moving into healthcare consumption for the first time; 300 million new healthcare consumers a year; 150 million babies a year born worldwide, the vast majority of them in emerging markets. "And every year will see a rising propensity to purchase, a rising demand, a rising aspiration and an increasing government interest for that aspiration," he said.

So drug companies need to be capable of engaging with that volume, Witty concluded,

"That, at the very least, is necessary to take the strain off the US funder who I believe will find it increasingly difficult to support the innovation on the scale that it has historically done."

That's why tiered pricing is such an important concept in emerging markets, he added.

"It's obvious that if you're in India and charged an American price then you're not going to sell very much. But if you're able to figure out a way to build a business that include the economics that work in India, and you can price for volume in India, you can generate a substantial return locally and at the margin contribute to your overall group's capability."