Cracking the code:

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Consumer health now is a US$200+ billion global industry and is growing fast. Annual growth in the sector over the last few years has outpaced a number of major consumer goods markets, including packaged foods, beauty and personal care. It is estimated that the market will grow by 50% over the next five years.¹

This growth is being driven primarily in preventive health and wellness categories such as over-the-counter (OTC) medicines, vitamins, nutrition, weight management, and fortified foods and beverages, fuelled by demand from health-focused consumers, an ageing population and growing wealth in emerging markets. These trends are compounded by governments around the world increasing access to OTC drugs to allow consumers to self-medicate and reduce pressure on cash-strapped public health budgets.²

This paper examines the talent implications of this changing landscape.

**NEW COMPETITORS AND PLAYERS**

Given its attractive growth prospects, the consumer health space has seen a proliferation of active players looking to increase scale in the market. These players fall into two distinct categories: pharma-heritage companies (this refers to the consumer health divisions of big, traditional pharmaceutical organizations) on the one hand and major consumer packaged goods (CPG) players on the other.

Whereas previously the market has been dominated by pharma-heritage companies such as GlaxoSmithKline (GSK), Johnson & Johnson and Bayer, which continue to focus heavily on the consumer health space, there now is growing interest from non-traditional, science-based CPG players and food or ingredient producers such as Nestlé, Danone, Procter & Gamble (P&G), Reckitt Benckiser and Colgate-Palmolive, attracted by the higher consumer loyalty and superior margins of health brands.

This convergence of interests is expected not only to contribute to further sector growth in the future but also to increase frequent crossover between these two different types of businesses. This, in turn, is fundamentally changing the consumer health market and creating significant challenges for industry players in their search for senior talent.
PHARMACEUTICAL COMPANIES REFOCUS

For the major pharma-heritage companies, there usually is a direct correlation between share of group revenue derived from consumer health and overall rates of business growth. As their prescription-only businesses become more at risk, these companies are committing greater resources towards their consumer businesses, for example, dietary supplements and other natural OTC brands. They are increasingly joining forces with entities from outside the industry to achieve this.

German pharmaceutical company Bayer, for example, in 2014 acquired Merck’s consumer healthcare business, including leading sunscreen and antiallergy brands, making Bayer the biggest OTC drugmaker. GSK and Novartis have established a high-profile joint venture to create the largest consumer health operation worldwide with combined sales of US$9.5 billion in 2013.

However, the megadeals that reshaped the pharmaceutical industry in the 1990s and 2000s are expected to be relatively rare. In their place, midsized, bolt-on acquisitions and strategic brand acquisitions or in-licensing are becoming more popular to strengthen global portfolios. Bayer, for example, also has made several smaller acquisitions over the last few years, including the Topsun OTC cough and cold portfolio, SkinMedica’s Desonate brand and pharmacy-only herbal medicines from Steigerwald Arzneimittelwerk.

In addition, pharma-heritage companies are investing in fast-growing regions around the world to expand international product portfolios and boost sales in emerging markets. Bayer has made recent investments in Eastern Europe and Asia, including the acquisition of a consumer healthcare company in China, Dihon, to move the company into a leading position in China’s OTC market. Similarly, Sanofi, among the world’s largest consumer healthcare companies, has made a series of targeted acquisitions to diversify its brand portfolio and accelerate growth through regional development hubs in United States, Europe, Asia Pacific and Latin America.
CPG COMPANIES MOVING IN

A number of high-performing CPG companies are increasingly taking advantage of the shift in demand from the new health-oriented consumer, bringing their consumer insight and advanced marketing capabilities to challenge the traditional consumer health players.

These high performers are forging new partnerships and collaborations to capitalize on the expanding consumer health opportunity, growing more rapidly in the sector than the traditional OTC competitors. Reckitt Benckiser, for example, has placed consumer health firmly at the top of its corporate agenda. Its consumer health brands such as Gaviscon, Nurofen and Strepsils already represent nearly a third of net revenue, and the company’s strategy is focused heavily on the growth of its health and hygiene power brands. The company projects that health and hygiene will make up 75% of revenue by 2015. The organization has significantly strengthened its consumer health platform in Latin America through a collaboration with pharmaceutical company Bristol-Myers Squibb, bringing a number of leading OTC brands in cold and flu and pain relief into the portfolio. Reckitt Benckiser also acquired a leading traditional sore throat brand in China and extended the portfolio to the fast-growing vitamins, minerals and supplements category through the purchase of Schiff Nutrition.

CPG giant Procter & Gamble concluded its biggest move in healthcare in decades through a major consumer health partnership with pharmaceutical company Teva, combining the two companies’ OTC businesses in all markets outside North America. P&G’s rationale for the agreement amply demonstrates the convergence of the CPG and pharmaceutical industries: combining its core strengths in brand building, consumer-led innovation and go-to-market retail capability with Teva’s capabilities in research and development (R&D), regulations and product supply.

Another CPG player, Mead Johnson Nutrition, is focused increasingly on high-growth categories such as infant and adult nutrition and has extended its footprint in emerging markets, where its premium infant formulas appeal to upscale consumers. Other notable examples of the shift towards consumer health of leading CPG players include Coca-Cola’s venture with Sanofi to produce nutritional beauty drinks and Nestlé’s acquisition of Pfizer’s nutritional supplements business in addition to the nutrition science joint venture with healthcare group Chi-Med.

ADDRESSING THE NEW TALENT CHALLENGE

Given the growth potential of the consumer health market and the expanding convergence of pharma-heritage and CPG players in the sector, the fight for talent within the consumer health space never has been more fierce. How these businesses recruit and retain the high-caliber leaders required to capitalize on market trends is a continuous challenge in the sector—and one that is likely to intensify.

However, no company, on either side of the divide, has yet cracked the talent code for senior executives with the right profile and competencies for success in the changing consumer health sector.

In order to succeed in this heightened competitive market, the new breed of consumer health company needs to draw on the best of the CPG and pharmaceutical worlds. This means combining the expertise of CPG companies in marketing strategies to develop strong brand portfolios that dominate categories, with the ability of pharma-heritage companies to deliver innovative products with proven efficacy and credibility while operating in highly complex regulatory environments.
KEY TALENT CAPABILITIES ACROSS THE CONSUMER HEALTH DIVIDE

Clearly then, a diverse set of skills, drawing from both sides of the divide, is the ideal formula for the senior consumer health executive of the future. The proposed key capabilities are summarized in the following diagram:

SALES AND MARKETING

As in most CPG industries, branding plays an important role in consumer health, especially in emerging markets. Brand development and advertising are key to success, particularly as compared with the CPG world—there are currently no recognized consumer health brands on a truly global basis.

Historically, marketing within consumer health has lacked the vision, ambition and creativity to achieve global brand status. However, with the advent of CPG players and their best-in-class marketing capabilities, this is likely to be achievable in the near future. In emerging markets, the sector needs to learn from CPG players that understand local context and consumer preferences. This requires deep customer insight through advanced predictive analytics integrated across the business. P&G, for example, has demonstrated an innovative approach to both brand development and production by promoting Vicks Cough Drops in India as a traditional medicine and by in-sourcing production to meet demand.

Online retailing of consumer health products also is taking share from traditional channels such as pharmacies. Greater self-diagnosis and consumer engagement in healthcare decisions are being fuelled, in large part, by the Internet and social media. Both pharma-heritage and CPG companies, therefore, need to evolve digitally enabled operating models to engage web-savvy consumers who expect a seamless experience across channels.

To meet these sales and marketing challenges and to outperform competitors, the new consumer health players need to be adept at using technology to enable one-on-one marketing and personalized communications at the consumer’s convenience through multiple digital and tangible touch points.
REGULATORY

Even as a relatively liberal market, consumer health is seeing a general shift towards more regulatory oversight. As such, industry leaders are likely to need greater investment in their regulatory compliance capabilities, particularly in relation to manufacturing, new product development and advertising.

After a lull in prescription-only to OTC switch activity following its heyday in the late 1990s to mid-2000s, the switch market is experiencing a renaissance. Driven by consumer demand for self-care options and pressure from national health systems to reduce costs, regulators around the world are looking to switches in entirely new therapeutic areas. However, many of the initial Rx-to-OTC switches were unsuccessful, and there is a clear need to upgrade capabilities among consumer health companies to ensure that such investments in the OTC market are realized effectively.

INNOVATION AND R&D

Pharma-heritage and CPG companies, in the past, have had very different approaches to innovation and R&D. Aligning these approaches is one of the consumer health sector’s biggest challenges. Innovation in the pharmaceutical industry traditionally has been product focused and science based. While this remains important to a company’s credibility, there also is a need to broaden the definition of innovation beyond product to include other areas such as customer engagement, packaging, distribution channels, product segmentation and manufacturing efficiency.

R&D in CPG companies is still predominantly perceived as incremental and is relatively easy to replicate. This needs to change towards a more science-based approach if the CPG-heritage consumer health players want to develop more sustainable product innovation strategies. Reckitt Benckiser, for example, is investing more than US$150 million in a new high-tech R&D facility to develop key products such as Nurofen and Strepsils, which it is hoped will attract scientific talent to the company. Johnson & Johnson recently appointed a chief design officer with a background in technology to a newly created role in a bid to accelerate innovation across the portfolio, including in health and wellness.

Success on a truly global scale will require consumer health companies to adapt to local preferences and improve speed to market. This, in turn, requires innovation to be applied at the local market level.

SUPPLY CHAIN

High-performing consumer health players require customer-driven, nimble supply chains giving consumers access to the brands they want anytime, anywhere. CPG companies historically have been considered leaders in this field. By learning from the CPG industry, pharma-heritage companies may have opportunities to cut production lead times and reduce obsolescence, while manufacturers, distributors, pharmacies and retailers could carry significantly lower inventories. Five specific capabilities relating to the supply chain can have a dramatic impact on performance and bottom lines:

- Segmentation of products, markets and customers
- Agility and flexibility to reduce costs
- Measurement and benchmarking
- Alignment with global standards
- Collaboration across the value chain.

TRACKING THE TALENT SHIFT

Russell Reynolds Associates’ analysis suggests that, overall, pharma-heritage players in the consumer health sector have adapted more quickly and appear to be closer to cracking the talent code than their CPG counterparts. Our research shows more diversity of talent among pharmaceutical than CPG companies: 54% of senior executives within pharma-heritage companies have both CPG and pharmaceutical industry experience; by contrast, our analysis of CPG-heritage consumer health executives shows that only 5% have both CPG and pharmaceutical industry experience.
Similarly, pharma-heritage companies appear to have a better understanding of the diversity of skills required by senior executives and are more willing to change hiring behavior, as measured by the origin of external hires. According to our analysis, 43% of hires were external and came from a variety of sources outside the industry. By comparison, CPG-heritage consumer health companies hired more than 90% of their executives from within.

**Diagram 1:** Industry Experience—Pharma-heritage Consumer Health Companies

- Executives with both CPG and pharmaceutical industry experience: 46%
- Executives with only pharma-heritage experience: 54%

**Diagram 2:** Industry Experience—CPG-heritage Consumer Health Companies

- Executives with only CPG-heritage experience: 90%

**Diagram 3:** Pharma-heritage Consumer Health Company Hiring

- Internal hire: 43%
- External hire: 57%

**Diagram 4:** CPG-heritage Consumer Health Company Hiring

- Internal hire: 91%
- External hire: 9%
CULTURAL DIFFERENCES ACROSS THE DIVIDE

To succeed in this fast-growing space, consumer health companies need to combine talent from both sides of the pharma-CPG divide. The sector’s future C-suite executives will need to come from a variety of backgrounds, from marketing to medical. But the corporate cultures of the two sides of this divide are very different, with the fast-paced and relatively aggressive culture of CPG companies contrasting markedly with the more conservative, cautious and bureaucratic culture typical in big pharma. Great care and cultural sensitivity, therefore, are needed to integrate these skill sets and reap the benefits. Consumer health companies must be mindful that any change in direction still must be aligned with their overall culture in order to be successful. Acceptance and inclusion will be key.

IN CONCLUSION—GETTING THE BEST OF BOTH WORLDS

The high-performing consumer health players are adapting their business models to changing consumer behavior. Companies looking to capitalize on the growing consumer health market will need to scrutinize their portfolios, strengthen consumer focus and refine operating models to harness the opportunities offered by evolving consumer needs.

The profile of leading consumer health executives thus is changing. However, consumer health companies have yet to crack this talent code successfully. To create competitive advantage, they need to combine talent with a broad skill set bridging both sides of the pharma-CPG divide:

- **Customer insight and influencing expertise:** Strong consumer marketing and brand building skills are a prerequisite, with particular expertise required in digital and media buying to capitalize on surging consumer health engagement online.
- **Medical and regulatory knowledge:** Understanding local market and regulatory frameworks is key, especially in emerging markets, with rising numbers of prescription-only to OTC switches.
- **Strategic mindset:** Given the greater autonomy of consumer health businesses, they now are responsible for key regional strategic decisions and face increasingly aggressive targets.
- **Collaborative approach:** The capability to maximize the benefits of mergers and acquisitions, partnerships and joint ventures, as well as stakeholder management of a wide variety of interest groups, has emerged as a core competency.
- **Understanding of consumer-led innovation:** The ability to drive innovation beyond product development to innovation in the broadest sense will be essential for speed to market.

In addition, it is important for consumer health companies to bear in mind the significant cultural differences in the search for talent across the pharma-CPG divide.
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