

Featured News

The Changing Landscape of Life Sciences

Tim Connolly of A La Carte Life Sciences interviews Christopher Burrows, Russell Reynolds Associates, on the changing landscape of life sciences.

Tim: What are your views on how the life sciences industry has changed since the economic downturn and how has that affected the life sciences search industry and Russell Reynolds in particular?

Christopher: Let me start with big pharma and how that's changed. I think we're all conscious of the fact that big pharma has been through a massive transition period.

I don't think it started with the economic downturn prompted by the collapse of Lehmans. It was long before then, when it started to become clear that there were really two dynamics - one push and one pull.

The R&D pipeline that traditionally had made pharma so successful needed to be singularly more differentiated which leads to the pull factor; so that both from a regulatory perspective and perhaps more importantly from a buyer's perspective, the payer has been insisting on there being considerably greater differentiation from the output of big pharma than the industry has traditionally been used to if it is going to get funding from the public purse. Obviously, in the UK that is the NHS but in other countries they will do it by other mechanisms.

The big change therefore is that no longer has big pharma been able to rely entirely on its own R&D and a relatively non-discriminating payer, as the regulator has become tougher for all the right reasons to ensure patients' safety and efficacy of the drugs is very sound.

What has happened is that in many respects, whilst those businesses which have been dependent on big pharma have been through some quite tough times, a lot of them have I think a very exciting future and a real opportunity there.

I am referring to the world of biotech and I'll use the UK definition of biotech, as the smaller companies which may be start ups or certainly non revenue generating and tend to be a series of R&D projects. There's been a huge disadvantage to those companies caused by the fact that the world's stock markets have become much more risk averse and particularly the European stock markets when it comes to biotech, so there are not the IPOs as a form of exit which used to be a great reason for funding because you could see an exit as a VC.

Now what you are seeing is that it's taking longer but there are some exits; they just tend to be private transactions generally where one of the co-development partners, who tend to be the big pharma companies and who formed a partnership agreement with a biotech, have got to know the organization and have developed their projects to such a stage that it's now worth buying the company.

So biotech is still an attractive place to work, it's just there seems to be more of a singular exit route. Big pharma has needed to supplement its R&D pipeline which again has ensured its survival and the continued funding of the biotech industry.

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The other key result of the changing landscape is something we're all very aware of, which is a much greater focus on reimbursement by the payer. Therefore, as far as big pharma is concerned, it is all about market access and health outcomes, and really understanding that your market audience as a big pharma company is not solely the physician any longer. Physicians are still an important constituent and stakeholder but they are not the sole audience that needs to be satisfied. You need to convince the National Institute for Health and Clinical Excellence (NICE) in the case of the UK when looking at the value of new treatments.

Clearly the other key thing here is that, with all the change in regulation, direct sales forces are no longer as effective as they used to be. I remember talking to the head of commercial operations for one big pharma company, and it was repeated by several others, all of whom used to say that there was a clear and simple direct correlation between adding more sales focusing on the GP surgeries with an increase in sales. So, the channels to market have changed dramatically.

We've all seen how that has affected sales forces being dramatically decreased but there have also been other big changes that we've seen for the first time, and I think Astrazeneca led the way here, where they have been prepared to accept that R&D, their sacred cow, their holy grail, which they never used to be prepared to scrutinize in as much detail, they're going to cut people from. We've all seen the changes that are being made; so there's a much greater focus now on cost in a way that there never used to be. So there's been a rise in tension and a spotlight on some of the other disciplines that can contribute in a way that they never used to. So, for example, manufacturing and supply have now suddenly got more attention than they used to.

The fact that the pharma industry operates to something like 25% of global capacity is a staggering number that you don't want to repeat too many times. However, finally, pharma companies are addressing it. In the past, the cost of goods, the cost of manufacturing was such a small percentage of the overall equation that they didn't need to.

Every pharma organization is suddenly cutting back on excess capacity and reducing its cost base, which by and large hits the headlines and also has the greatest effect in the reduction of numbers of people. So, if you were looking at the healthcare and pharma industry for the first time, you could be forgiven for thinking it is in long term decline.

I actually think that what it's having is a very welcome and to some extent long overdue wake up call; it needs to be as efficient as most other mature industries. You take as an example the automotive sector, which went through this probably two decades ago and as a result has been much more focused on genuine innovation and genuine efficiency, which is what everybody wants the pharma industry to become. The food industry has been through the same and I'm sure there are many others.

Tim: Why do you think it's taken so long for the pharma industry to go through that process?

Christopher: By and large, two reasons: health is a particularly emotive issue for everybody but particularly in political life. Therefore, if as a political leader you suggest that there should be cutbacks in health spending, it's not a vote winner. However, now that there's a bit of momentum towards increasing the efficiency of health spending, there's considerably greater subscription to that.

So I would say that previous political leaders have not seen it as expedient to tackle the industry but it's clearly got to such a level now that the western world in particular can no longer afford to pay for every extra cost in healthcare provision.

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The other reason is I believe a technical smokescreen that the industry used to put up. It was this belief that you could only really understand and work in the industry if you had the technical knowhow and the only way you could have the technical knowhow was to work within the industry.

So there was an automatic rejection of people who came in from the outside and tried to change some of the norms - to put it simply, people were blinded with science. But like any industry, you need to have agents of change who bring a perspective from other industries and who look at things in a very honest way. So it was self serving that the industry to some extent wasn't keen to change because all the pharma companies had been extremely profitable, all the shareholders had enjoyed great returns so it would have felt like turkeys for voting for Christmas I suppose.

Tim: How's that affected the search industry do you think? Are there any changes you've consequently noticed in the way you and your company do business in terms of focus or internal resource?

Christopher: I think for the forward thinking search companies and ones who really want to add value, it's been a huge breath of fresh air and somewhat overdue. I believe that where we as an industry add the greatest value and really earn our fees is by being creative, being innovative and introducing people who are going to challenge and who are well equipped to challenge, who understand where the industry has come from and are also equipped to help take the industry to where it needs to go.

By and large that is going to be people coming from more efficient sectors. So, to some extent, where we add the greatest value is to introduce to our clients people who they don't already know but who are really going to add value. That's when we as Russell Reynolds feel most fulfilled because otherwise there isn't much of a need for a search industry if all you are doing is circulating people who are well known to the client base anyway.

So to that extent it's great, we've been able to use the expertise from our teams who have other relevant sector knowledge, such as consumer and aerospace, both of which have had many similar demands put on them. They are R&D focused, highly regulated and the quality in everything they do has to be of the highest standard.

From a functional perspective, we have very much focused on those areas which we see as the areas of change for the future, such as market access and health outcomes and again to some extent drawing on people who come with an industry management background but who also may have some consulting experience which enables them to know how to challenge respectfully and who have seen how other industries do things and what's world class.

Manufacturing and supply has been great because that's an area that's been more open to people coming in from outside the industry. R&D I think to some extent still plays that technical exclusion card and says that unless you understand the pharma industry you can't survive in this world, so I think it's still quite closed in R&D. There are very few senior people in R&D who don't have a pharma background.

Other areas of change, if we're just talking about pharmaceuticals: the other obvious growth area is specialty pharma, particularly the emerging, fast-growth companies, generally US or European based, like Gilead and Allergan. It's been really exciting because they've been much more open to change and innovation in terms of how they recruit and who they recruit, and they like people who challenge the status quo because that's what they are doing within the industry.

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One area which I think has also changed for us all is that big pharma, in order to try to be more efficient, has introduced its own in house search capability, even at the most senior level. In some cases I think that has been very positive because you do still hear of big pharma companies spending literally millions of dollars and getting poor results from their search providers, which I still find staggering when I look at our track record and client feedback ratings in that context.

What I would say is that whilst to some extent it can be very valuable, we have found that the weakness in having an in-house team is that they don't have the same overall market perspective that we have because we don't just specialize in pharmaceuticals and we have other sector capability and knowledge which enables us to look beyond that.

I also think that sadly quite a lot of the people they employ in in-house recruitment teams tend to be less experienced, more junior people who are not accustomed to dealing with the individuals at some of the senior levels for which they are recruiting. I'm talking here about the same level of candidates whom we work with, which is the most senior level.

And I do know of a couple of examples where some of our clients have used their in-house team, who have managed the whole search process, got really excited about who they have found, but they have not actually been capable of doing the necessary due diligence to ensure they have got the right people nor an informal market view on the individual. As a result they have filled a slot with people who look great on paper but who don't last very long.

So I think in-house recruitment can be very effective and clearly it can save them a lot of money but I think they should be more focused on search firms who do add the value and do produce the goods.

Tim: You mentioned that there are a few in-house pharma teams who do work at that senior level. Have you noticed that affecting business at all or do you think it will in the future?

Christopher: Yes it has to some extent, in that generally because there has been a greater and a welcome focus on cost, (I think welcome for shareholders in particular), pharma companies have involved procurement and I think we all know that procurement when used in the proper context can be extremely valuable.

Often the procurement professionals who get involved tend to look at all the recruiting levels in the same light and don't look at the value-add that a top level search firm can bring, in terms of the additional advisory dimension, i.e. challenging existing specs and structures, giving advice on what is happening in the market, competitor analysis etc as well as delivering the best candidates. This is because sadly they're used to a very inefficient recruitment industry that focuses on volume, and to coin a phrase, throws a lot of mud at the wall in the hope that some of it will stick, rather than the rifle shot approach which very much symbolizes the highest quality players in the search industry.

Tim: What changes have you noticed in a geographical focus?

Christopher: We are very much global and the obvious thing is there has been a considerable slowdown in the activity of external search work within the major established markets, i.e. the major five European markets and the US market. There's still been quite a lot of change but by and large, if they can, the big pharma companies will fill roles with their internal resource because it's very difficult for them to justify that they're laying off hundreds of thousands of people and then they have to recruit to replace from outside. However, from

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a longer-term moral and ethical standpoint, I would question the overall value of doing that, as they will therefore be making a sub-optimal appointment for expediency's sake.

Where we've seen the real growth and where I'm sure it will continue to be is in some of these more innovative areas like market access, manufacturing and supply, finance, IT and CEO's.

There will also be major growth in emerging markets. Every big pharma company has been focused on that for a little while now. So those would be Russia, Latin America, China and other parts of Southeast Asia. The challenge there is trying to find people with the right level of sophistication to work with all the corporate governance and regulation that goes with a big pharma company operating to western standards.

One of the interesting things that we've heard from clients is that now it's become more cost-effective to appoint western expats to run their emerging markets than it is to employ local senior nationals because the locals are in such demand, particularly in markets such as China and India, that they command higher pay than even an expat even with all the expat and tax-free benefits.

Tim: Have you noticed any change from the growth of LinkedIn and social media?

Christopher: To some extent yes - in our latest analysis, we have worked out that 95% of our successful candidates are already on LinkedIn. I'm not saying we've found them on LinkedIn but we have discovered that subsequently.

I think what has generally changed for the whole search industry, and it's not specific to healthcare and pharmaceuticals, is that it is no longer just about identifying people who tick the experience boxes. It's more about using our judgment to advise clients about who is going to be the best fit both culturally and from a competence and experience perspective, undertaking the due diligence and even acting on behalf of our clients, persuading the best people that the right opportunity is the one that our client has.

Clearly we don't want to falsely represent an opportunity but if the client is in a turnaround situation and the market perception is that they are in deep trouble, we need to act in their best interests to attract the best senior talent. If we genuinely believe that they show promise but that their reputation is a year or two behind the reality, then we are able to represent them in the most clear and honest light, that is an exciting opportunity if you're prepared to take a risk.

So LinkedIn has its purposes in terms of making peoples' profiles known in the market but there is a healthy proportion of the market which need us for our added judgment, market referencing and additional advice.

Tim: What other changes do you foresee in the life sciences industry and the life sciences search industry?

Christopher: I think there will continue to be a flight to quality because it's no longer an easy game to play being in search in this industry and only those who genuinely add value are likely to survive.

If you are talking about what are the changes that are going to happen in the pharma market itself, I think you will see a considerably greater amount of outsourcing of non core activities which were always seen as something that you tried to keep in house; we talked about

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manufacturing and supply for example and whole areas of clinical research and development could be easily be outsourced and other non core activities that are not focused precisely on both the market access and the R&D. Some are even outsourcing sales and marketing, though that may be a step too far in my judgment.

So I think you will see an emergence of a number of outsourced activity specialists. CROs have been around for a long time but CMOs and CDOs will continue to expand and I think we are expecting to see an emergence of those which will be most successful, particularly when they start to develop scale.

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