



Enterprise Performance Management in the Pharmaceutical Industry

kpmg.co.uk





Are your performance management processes, metrics and tools prepared for tomorrow's strategic challenges in pharmaceuticals?

Contents

Key issues facing the pharmaceutical industry

3

Enabling insight to address industry issues/challenges

5

What does EPM aim to deliver?

9

Who we have helped

10

“

“Annual growth in global healthcare spending was around \$70 billion in 2014 up from \$26 billion in 2012. This dramatic increase in spending is forcing governments to reassess healthcare costs and apply pressure to bring these costs down.” *Source: IMS Health Study*

“

“We’re going to have to get smarter about services around the pill...and move into some areas that are different from just discovery of the drug.”
Source: Joe Jimenez, CEO, Novartis, 10 July 2015

“

“It is becoming increasingly difficult for European countries to afford rising, sky-high drug costs. Sharing experience may fill gaps in medicine pricing.” *Source: The World Health Organisation*

Key issues facing the pharmaceutical industry

Based on analysis of industry trends and using our pharmaceutical sector experience, we have identified a number of common threads and issues that are a call to action for the industry and where strengthened enterprise performance management capabilities are key to gaining a competitive advantage. Addressing these issues requires insightful forecasts on which to base strategic investment decisions, robust and reliable management information to follow up on performance and rapid, on-demand data guiding corrective action.

Declining R&D productivity

The ratio of approved molecules to regulatory submissions has steadily dropped, while the cost of getting a new compound to market has ballooned. Placing the right bets on future revenue from a molecule in development has become both more difficult and more critical.

- Are key R&D decisions based on robust data and objectively reviewed by the right people?
- Do you use Project, Portfolio and Earned Value management techniques to maximise first-to-market advantages?
- Are you using the best modelling tools and scenario planning to support such key investment decisions?
- Do you incorporate the analysis of regulatory risk and reimbursement uncertainty in your forecasts and reports?
- Have your Business Partners earned a seat at the right decision forums by demonstrating these Enterprise Performance Management (EPM) capabilities?

'Beyond the pill' strategies

Even if you are already driving objectivity and robustness of investment decisions such as R&D gateway reviews or licensing decisions, your team now needs to do the same for even more complex and uncertain investment bets being placed on "beyond-the-pill" strategies, on a highly competitive arena with emergent rules and new players.

- Are you equipped to bring the same authority to investment decision discussions in these new areas as in traditional areas?
- Do your EPM practitioners understand real world evidence, treatment pathways and patient outcomes?
- Do you overlay risk analysis in your forecasting and reporting to monitor the effectiveness of these strategies?
- Are your EPM processes ready to support and challenge the commercial and R&D teams as they increasingly base investment decisions on these new approaches?

Digital Health

One strategic area of focus for the industry is Digital Health. While promising opportunities for pharmaceutical companies to extend their offering beyond the traditional, it requires companies to place significant bets on new, unfamiliar areas. It also requires partnerships with players from completely different industries - and significantly raises the uncertainty of ROI.

- Are your forecasting teams strengthening capabilities and building new approaches to guide the investment decisions as the organisation ventures into new, unfamiliar product and capability areas?
- Have you defined the performance measurement approach to help navigate new waters with higher uncertainty of ROI?

Higher hurdles for reimbursement

Companies need to further improve their ability to demonstrate the health-economic value of their offering. This will require strengthened capabilities in health care system economics, analysis and management of large data sets.¹

- Does your Finance team have the insight, capabilities and tools to work in close partnership with the Market Access Team?
- Are you confident your teams who interface with payers and key decision makers are backed up by the most appropriate modelling tools?
- Are you proactively offering to extend the provision of financial modelling support to payers and other external decision makers to help them make more informed decisions?

Partnership and franchise performance

Deal-making as a response to market pressures and therapeutic area repositioning, as well as entrance into new areas such as digital health, is increasing the number of partners involved in the value chain of brands, franchises and corporations.

- Are you able to report on the full business in terms of costs and earnings?
- Do you have the capability to quickly and efficiently include data from new external parties in your EPM processes?
- Have you adapted your forecasting and budgeting processes to provide decision support across your partnership ecosystem?

Changing regulatory reporting

Governments and authorities demand more transparency regarding the relationships between industry and healthcare practitioners (HCP). Binding legislation already requires global HCP reporting and it would be wise to assume these requirements will become more demanding rather than less.

- Have you struggled to generate the global view of promotional spend per HCP?
- Are your current HCP reporting solutions fit for the future and uncomplicated to maintain?
- Have you built flexible EPM capabilities to respond quickly to new requirements as they emerge?

Getting the most out of M&A

The industry is currently going through a period of increased deal-making as strategies are revised and players jockey for position in therapeutic areas of promise. The need to differentiate the organisation against its peers in terms of M&A execution puts EPM teams and frameworks in sharp focus.

- Are you using state-of-the-art modelling tools and techniques to ensure the best M&A and business development decisions are made?
- Does your performance management framework ensure you provide excellent post-deal support for integration and synergy delivery?
- Can you integrate new data sources with flexibility and with speed?

KPMG point of view

Rising healthcare costs, ballooning R&D budgets, reimbursement pressures, shifting margin attractiveness between markets, varying growth rates and a multitude of potential scientific/technical opportunities from which to choose, often requiring partnerships, characterise today's pharmaceutical environment. This leaves pharmaceutical companies looking for timely, cutting edge, future-focused information to help them shape optimal asset portfolios and make the right decisions to drive shareholder value. This, in turn, highlights the importance of effective and flexible business decision support based on the right information.

We believe that Enterprise Performance Management is a key enabler in achieving a company's commercial and strategic goals and objectives, and organisations that are effective in this area have a competitive advantage over their rivals. This capability requires strong financial analysis integrated with leading technological advancements and insight to help the business make better decisions.

Only those companies where key decisions to invest, divest, partner, increase or stop spend are influenced by strong Business Partners using state-of-the-art EPM capabilities will thrive. This will be a key differentiator in meeting the many industry challenges the pharmaceutical industry faces in the years ahead.

Enabling insight to address industry issues/challenges

The value of a performance management framework

The industry faces significant challenges, but you are in a position to help your organisation manage them and EPM has a key role to play. A robust yet flexible information delivery platform that provides the right information and insights to the right people at the right time will allow your business to both make better decisions with confidence and measure their outcomes in order to learn.

KPMG has worked with many organisations to deploy performance management frameworks geared to the unique challenges they face. This delivers consistency, line of sight and control across the organisation coupled with the ability to adapt quickly to a changing business environment and requirements.

Our approach is structured around three key components:

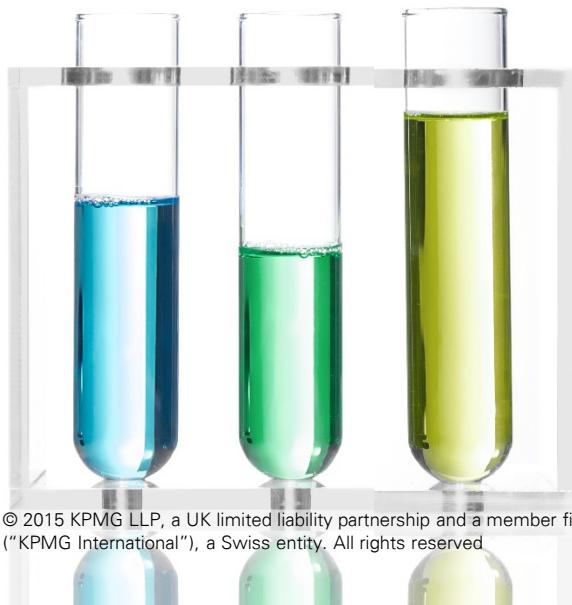
Planning, Budgeting and Forecasting: Translating **strategy** into **plans** that can be monitored and reviewed

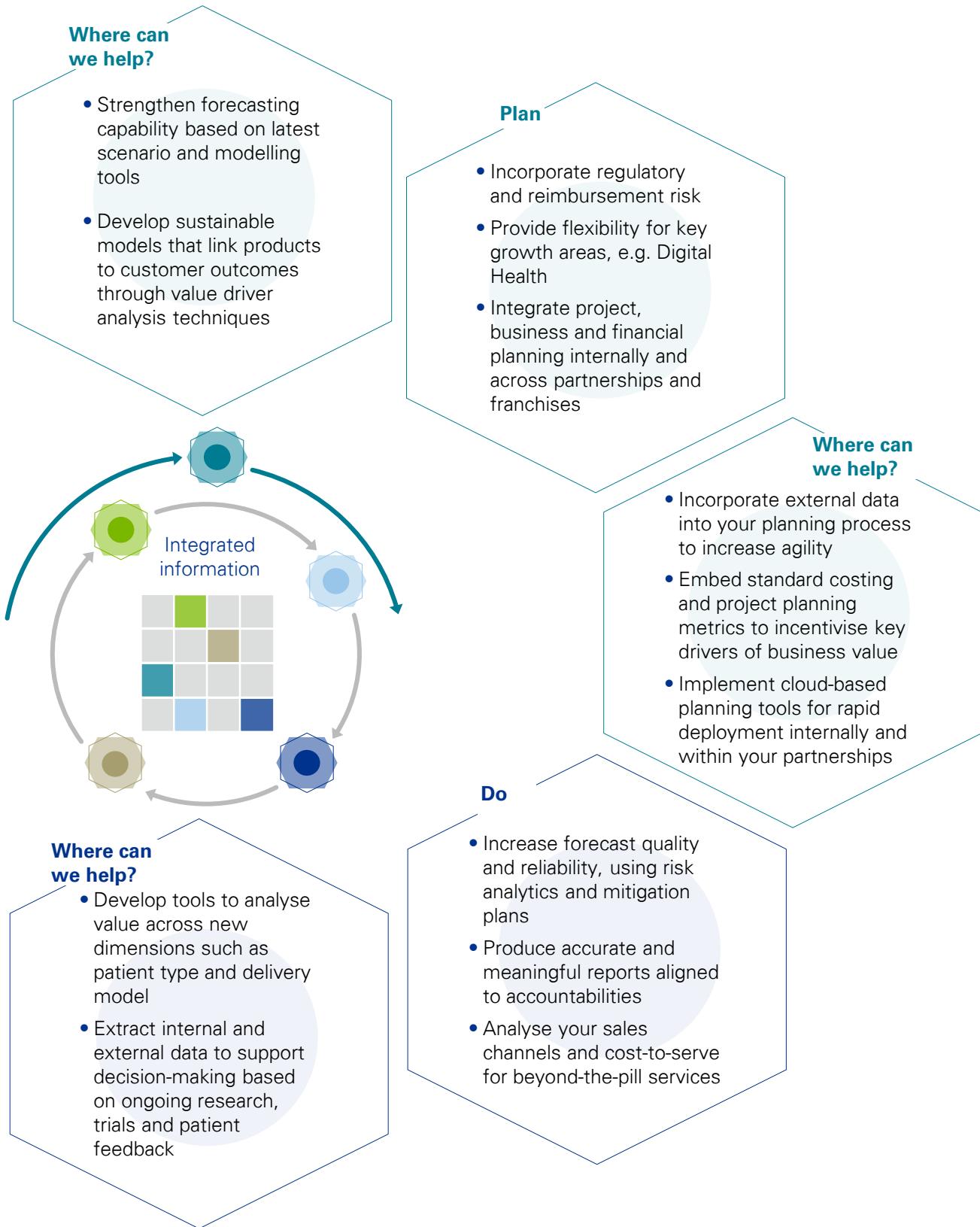
Performance Reporting: **Monitoring and reviewing** performance against your plans

Dimensional Profitability/Cost insight: **Doing** cost analysis and highlight opportunities to maximise shareholder value.

Using this structure, we can help you define, develop and deliver an EPM capability that will make a real difference to your organisation's ability to deliver shareholder value.

The components of this framework, and their relevance to addressing your industry challenges, are outlined below.







Enabling insight to address industry issues/challenges (cont.)

The value of a performance management framework

The key elements and how we have helped pharmaceutical companies

Planning, Budgeting and Forecasting	Performance Reporting	Dimensional Profitability
<p>We have supported leading global pharmaceutical companies by:</p> <ul style="list-style-type: none"> • Creating an integrated planning framework that reduced budgeting cycle time from 6 to 2 months • Implementing an accelerated consensus forecasting process that also aligned S&OP with the financial forecast 	<p>We have supported leading global pharmaceutical companies by:</p> <ul style="list-style-type: none"> • Creating a global reporting and analysis Centre of Excellence, resulting in a 20% cost saving • Creating scorecards to provide insight on sales and marketing across multiple dimensions 	<p>We have supported leading global pharmaceutical companies by:</p> <ul style="list-style-type: none"> • Analysing sales and marketing activity against their drivers of value to identify non-value adding activity worth 19% of annual spend • Benchmarking their costing methodology against comparator organisations for both primary and secondary production • We completed a manufacturing costing project which resulted in a 28% reduction in cost of goods sold.



What does EPM aim to deliver?



Stronger investment decisions by using reliable information to conduct scenario modelling. Combining historic internal and external data sources with market predictions, risk analytics, planning and forecasting will provide management with dynamic reporting that will support a more holistic approach to capital investment.



Clear line of sight between investment and shareholder value, through an agreed set of performance KPIs based on strategic objectives and linked to value drivers that include key drivers of value such as first-to-market advantages and risk mitigation.



Time redirected to quality discussion and decisions rather than inefficient data collection and arguments over data accuracy, reliability or appropriateness, as the organisation adopts common and consistent metrics, KPIs and data definitions.



Greater confidence to place strategic bets as the risk is better understood and information is both more reliable and more relevant.



Reduced business risk as investment decisions are better understood, scenario planning drives higher quality discussion, flexible tools allow for new opportunities to be evaluated with higher quality and post-investment performance is followed up in a more structured and consistent way.



Commercial advantage and stronger customer relationships, as the organisation can provide its payers and institutional customers with a better appreciation of the real value contribution that your product/service offering can bring, through financial modelling based on real world data, patient outcomes and health economic insight.



Whole-business performance management that incorporates the activities of partners across the value chain and is flexible to allow the right cross-sectional reporting on e.g. a franchise.



Improved risk management as scenario planning, risk analytics and simulation tools allow stronger risk and contingency planning.



Effective and efficient planning and reporting as a common, robust and flexible data architecture supports business, project, financial, statutory and regulatory reporting needs.



Shorter cycle times encompassing a demand-led, bottom-up forecasting approach that is used to analyse an organisations' asset portfolio and the external environment, enabling on time investment decisions that are shaped by the current market conditions.



Enhanced trust in information internally and externally through clear ownership of KPI definitions, reports and underlying data. Effective governance of data quality and the flow through to 'kite marked' reporting.

Who have we helped?



Contact us

**Simon Osmer**

Partner

T: +44 (0) 7711 473241

E: simon.osmer@kpmg.co.uk

**Gavin Donaldson**

Partner

T: +44 (0) 7917 591587

E: gavin.donaldson@kpmg.co.uk

**John O'Mahony**

Director, Head of EPM

T: +44 (0)7768 542078

E: john.o'mahony@kpmg.co.uk

**Hayley Rocks**

Principal Advisor

T: +44 (0)7795 222062

E: hayley.rocks@kpmg.co.uk

**Paul Coffey**

Principal Advisor

T: +44 (0)7767 671416

E: paul.coffey@kpmg.co.uk

**Leif Romell**

Principal Advisor

T: +44 (0)7920 214473

E: leif.romell@kpmg.co.uk

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2015 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International

Produced by CREATE. | CRT048797