Competing by Saving Lives:

How Pharmaceutical and Medical Device Companies Create **Shared Value** in Global Health

Executive Summary

Foreword by Michael E. Porter

Foreword

Shared value is inherent in health technology companies.

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Pharmaceutical and medical device companies, the focus of this report, create both economic and societal value when they provide products that tackle important health problems. Not all fields have clear opportunities to create competitive advantage while simultaneously advancing such a vital societal goal as better health. However, the opportunity for these industries to create shared value is far greater.

Capitalism faces a watershed moment.

Now is the time for the private sector to demonstrate its potential for both economic growth and societal purpose. As companies create shared value by meeting social needs, the capabilities and scalability of business is unleashed on societal challenges such as the rising burden of non-communicable diseases in the developing world. Government, local health systems, and the nonprofit sector will play leadership roles in prevention and treatment. But capitalism, guided by the pursuit of shared value, will take on a greater role in addressing the global burden of disease.

CREATING SHARED VALUE

"Companies create shared value by creating economic value and societal value simultaneously. There are three distinct ways to do this: by reconceiving products and markets, redefining productivity in the value chain, and building supportive industry clusters at the company's locations."

Michael E. Porter and Mark R. Kramer, "Creating Shared Value," *Harvard Business Review*

Historically, pharmaceutical and medical device companies built their businesses by serving affluent markets in North America, Europe, and Japan. In the process, they have overlooked the unmet health needs of billions of underserved patients, and with it, huge opportunities for innovation and growth.

Fortunately, there are promising signs of change. Some pharmaceutical and medical device companies are prioritizing previously underserved patients and markets. Rather than seeing efforts in assisting lower income customers as corporate social responsibility and philanthropy, companies are transforming their products, pricing, manufacturing, distribution, and marketing to profitably meet previously unmet needs. There are encouraging signs that serving these new markets can be profitable, and multiply the size of the available market.

This report follows the January 2011 release of the article "Creating Shared Value" in *Harvard Business Review*. It represents the first of a series of studies that will focus on shared value within particular sectors.[1] The report seeks to inform and inspire companies in the pharmaceutical and medical device industries, while providing insights that can assist companies in other fields create and implement shared value. We hope that this study spurs leaders from the private sector, civil society, investors, and government in new approaches to addressing health problems through new management thinking, innovations in business models, and cross-sector collaboration.

Executive Summary

A new dynamic is changing the basis of competition in the pharmaceutical and medical device industries.

Increasingly, companies are seeing opportunities to meet the needs of underserved populations in low- and middle-income countries, where they once saw little commercial interest. This report highlights how pharmaceutical and medical device companies are **creating shared value in global health** by enhancing their competitiveness while simultaneously addressing the global burden of disease — often working in partnership with governments, funders, and nonprofit organizations.

Background

- In return for investing in risky R&D to develop revolutionary, life-saving technologies, society provides pharmaceutical and medical device firms with intellectual property protections that reward success. While this social contract has worked well for the world's richest nations, until recently, the underserved in Asia, Africa, and Latin America have generally been an afterthought. Global health advocates have called for better adapted products and lower prices, to which companies have responded. But until recently, efforts have largely been philanthropic or reputation-driven.
- In the last decade, this picture has begun to change. Developed markets are coming under pressure as traditional health systems are scrutinizing costs as never before. At the same time, R&D productivity has fallen, particularly for pharmaceutical firms. This is forcing companies to reconsider opportunities in low- and middle-income countries they may previously have overlooked. In parallel, newly recognized market opportunities are emerging around the enormous unaddressed health needs in these countries. Emerging markets could account for nearly half of worldwide revenues for pharmaceutical companies by 2012,[2] and these areas are expected to account for 75 percent of industry growth over the coming decade.[3]

The Shared Value Opportunity

- Companies create shared value in global health when they compete on the basis of improving health outcomes for the underserved. Rather than competing for market share among well-funded payers and wealthy patients, companies view their success in terms of their ability to improve health outcomes by building and serving new markets. To achieve that success, companies need to systematically and relentlessly uncover new, unmet needs, and find new and better ways to address them at scale.
- Low- and middle-income countries have vast unmet needs. The top five non-injury causes of death in 2008 claimed nearly 29 million lives in low- and middle-income countries, compared with just 6.6 million in high-income countries. Southeast Asian and African countries, in particular, face a double burden of infectious diseases and non-communicable diseases (NCDs), such as cardiovascular disease, diabetes, and cancer.
- Meeting these needs is challenging, even for sophisticated corporations. Missing skills and knowledge, limited market information, ineffective regulation, inadequate health systems, and limited funding or inability of patients to pay present firms with huge barriers to entry. To overcome these barriers, companies are investing in three levels of shared value (see Figure 1).
- Efforts to create shared value across the three levels are mutually reinforcing. Productive and lower-cost value chains are essential to introducing redesigned product portfolios to underserved

Figure 1: Levels of Shared Value Creation for Pharmaceutical and Medical Device Companies

1 Reconceiving Products and Markets	2 Redefining Productivity in the Value Chain	3 Enabling Local Cluster Development
• R&D for drugs, vaccines, and devices that fill unmet health needs • Adaptation of existing products to reduce complexity and cost • Tailored product offerings to meet local market conditions	• Collaborative and homegrown R&D to reduce cost and risk • Efficient, local supply chains and manufacturing to reduce production costs • Locally-adapted sales and distribution to penetrate new markets and better meet patient needs	• Behavior-change campaigns to increase the sophistication of demand for health care • Health system strengthening to enable delivery of needed products and services • Advocacy and capacity building to strengthen policy and the regulatory environment

markets. Strong clusters can enable firms to serve population segments that were previously out of reach, and can open up new, lower-cost manufacturing and distribution options. Leading firms are beginning to design multi-level approaches to harness this multiplier effect, though the right combination will be unique to a particular company and market.

- Stakeholders and shareholders are warming to shared value. Global health stakeholders desire a move away from charity to more sustainable and scalable ways to provide drugs, vaccines, and medical devices to patients in underserved markets. And these stakeholders want to partner — in a recent survey, 79 percent of nonprofit organizations reported that pharmaceutical and medical device companies are essential partners in the effort to achieve their missions.[4] Mainstream investors are adopting a wait-and-see attitude to company engagement in low- and middle-income countries. More socially-minded investors and analysts are paying increasing attention to companies reaching the underserved.

- Shared value cannot address all global health needs. Systemic market failures exist in health technology, notably around neglected diseases, where needed products and services are not being developed or delivered on a commercial basis due to the inability of patients to pay. A shared value frontier defines the boundary of such failures.

- However, companies are innovating to serve patients at the shared value frontier, where health systems are notably deficient or patients lack the ability to pay. As local complexities increase, companies are employing sophisticated combinations of shared value approaches. In the longer term, there is good evidence to believe that some companies will expand the shared value frontier further into poorer populations.

- Corporate philanthropy and external funders, such as governments and foundations, can also bridge the shared value frontier. Corporate philanthropy can accelerate existing shared value initiatives — often through strengthening health systems — or incubate new projects in locations where companies do not have commercial operations. Governments and private funders also offer incentives that reduce risk for investments in R&D efforts or establish commitments for future drug or vaccine purchases.

Implementing Shared Value for Global Health

Common success factors are emerging among companies as they implement shared value. Leading companies are following five principles:

- **Focused and determined leadership at the CEO and country levels.** Companies that excel at shared value have CEOs and country-level managers who bring a compelling vision and personal involvement to expansion efforts in low- and middle-income markets. Without leadership, pharmaceutical and medical device companies stumble and resort to more traditional, charity-led engagement with patients in low- and middle-income countries.
- **A culture of innovation and learning reflected in structures and incentives.** Cross-functional teams can help to coalesce, prioritize, and coordinate shared value approaches that straddle R&D, government affairs, and marketing. Companies have also created separate social innovation units that directly manage shared value initiatives.
- **New approaches to measurement that track the link between business value and improved patient lives.** Such metrics offer companies a way to understand what works to create shared value, and allows them to assess the potential of new investments, to allocate resources, and to set relevant incentives. While few companies have developed robust systems to measure shared value, early adopters are starting to use such information to make key management decisions, and are seeing improved performance as a result.
- **New skills in identifying and acting on unmet health needs.** To penetrate new markets, companies require employees with on-the-ground knowledge of health needs among underserved patients, an ability to translate needs into business strategy, and strong stakeholder-engagement capabilities.
- **New partnerships for shared value insights and implementation.** Companies are looking to a new set of partners to help with shared value strategy-setting and specific competencies in adapting products, improving productivity and cost effectiveness, and strengthening the competitive context. Many of these partners are nonprofits, which marks a shift from prior roles as corporate philanthropic grantees.

Catalyzing Greater Shared Value for Global Health

The following recommendations for companies and stakeholders can catalyze greater experimentation in shared value for the benefit of companies, patients, and health systems.

Recommendations for Companies

- *Shift from defensive to affirmative engagement with patients in low- and middle-income countries.*
  Companies should be transparent with global stakeholders about their ambitions in low- and middle-income countries. Specific shared value approaches, motivated by profit, can be articulated for the benefit of the global health field. Where shared value approaches are not presently feasible, companies can explain the role of their philanthropic contributions and the intentions of partnerships with government and private funders.

- *Innovate and capture knowledge on health product delivery.*
  As companies learn more about how to market drugs, vaccines, and medical devices to the hard-to-reach and poorly-served populations, lessons should be shared, within the limits of competitive confidentiality. Promising multi-sector models for sharing best practices on health product distribution and disease awareness-building are emerging.

- *Experiment with shared value measurement to spur learning and innovation.*
  Pharmaceutical and medical device companies should be in a position to lead other industries on measuring shared value, due to the inherent alignment between the increased sales of their life-enhancing products and meeting patient health needs. Companies should set, specific, forward-looking targets for populations, behavior changes, health system strengthening and disease indicators, and should measure progress towards them.

- *Invest early to gain first-mover advantage.*
  Companies that invest ahead of their rivals, such as GlaxoSmithKline in India and Novo Nordisk in China, find themselves with a sizable competitive advantage as new markets develop and mature.

Recommendations for Global Health Stakeholders

- Context-setting institutions, such as governments and civil society, can monitor the results of shared value initiatives, including patient outcomes and health system improvements. Specifically, advocacy-oriented organizations have a role to play in ensuring that health technology companies develop strategies to expand access to poorer patients at the frontier of shared value in Africa and Asia. Organizations that provide information and insight on unmet health needs can stimulate more immediate shared value opportunities through patient research, value chain analysis, and health system auditing. Organizations that partner with companies to implement shared value strategies can be more proactive in offering their services. Lastly, funders can incentivize the private sector to scale-up delivery of health products to patients in remote locations or where health systems are particularly deficient.

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