

TALENT AT THE INTERSECTION OF CONSUMER AND LIFE SCIENCES

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The healthcare industry is on the precipice of enormous change that will play out in the months and years to come. The Merck-Schering Plough and Pfizer-Wyeth deals stand as examples of the latest round of life sciences industry consolidation. But an important and relatively unexamined subtext to these macro-industry trends is the future role of consumer businesses in the context of Big Pharma.

Historically, the consumer divisions of “Big Pharma” have been relegated to mere footnotes in company earnings announcements or press releases, especially when compared to the “star” status afforded to the much larger and highly profitable prescription drug businesses.

However, as blockbuster drugs go off patent, regulatory processes grow more complicated and pharmaceutical companies seek external partners to rebuild their pipelines, the perception of consumer health divisions has changed. Many Big Pharma companies now see their consumer businesses — ranging from over-the-counter drugs, nutritionals and supplements, oral healthcare and dermatological products — as valuable and consistent sources of cash flow and profit, offsetting the peaks and valleys of the Rx business. While they may not enjoy the profit margins of prescription drugs, the consumer businesses don't require nearly the same lead time or upfront investment in research and development. And, in fact, the aggregate net sales of consumer divisions within the world's top 15 Big Pharma companies now exceeds a very meaningful \$40 billion (see chart on page 2).

To further explore the evolution of the consumer healthcare business and the industry's talent needs, consultants in Spencer Stuart's Consumer Goods & Services and Life Sciences practices interviewed senior industry executives to explore the changing landscape and define how these changes impact the leadership profile. We spoke with the following executives:

- > Larry Allgaier, global head of Novartis' OTC Business Unit
- > Gary Balkema, worldwide president of the consumer care division for Bayer HealthCare
- > Ashley McEvoy, former president of McNeil Consumer Healthcare and current worldwide president of Ethicon Products
- > Christian Neu, CEO of Danone Baby and Medical Nutrition B.V.
- > Debra Sandler, worldwide president of McNeil Nutritionals at Johnson & Johnson
- > Brent Saunders, president of global consumer healthcare for Schering-Plough Corporation
- > Peter Shotter, president of Merck Consumer Health Care for Merck KGaA
- > Tim Wright, president of GlaxoSmithKline Consumer Healthcare's Future Group

Building a portfolio for growth

Shortly after taking over as CEO of GlaxoSmithKline, Andrew Witty made it clear to the company and its investors that a strong and growing consumer healthcare business would be a core element of GSK's strategy. Although it represents just 15 percent of the company's overall revenue, the consumer business had built a track record of double-digit growth. In addition to providing a steady stream of revenue and profits, the consumer business serves as a platform for growth in emerging markets.

"While the pharmaceutical business is an extremely good one, there is a real opportunity to be more diversified in terms of where we source our earnings," said Tim Wright, who leads GSK's Future Group, which

oversees the innovation and marketing efforts for the company's seven global consumer healthcare brands.

GSK is not alone among Big Pharma companies in elevating their consumer health businesses, which are becoming more global and more strategic to their parent companies. And as these businesses play a more important role, companies have increased their investment in people and infrastructure to support them, building more sophisticated teams and, in many cases, restructuring to create autonomous, stand-alone consumer organizations.

These new business units require different leaders than the consumer healthcare leaders of the past. Traditionally, consumer talent was spread across global

Company	Annual Corporate Revenues*	Annual Consumer Healthcare Revenues*	Business
Johnson & Johnson	\$63.7B	\$16.0B	Various consumer businesses
Pfizer	\$48.2B	—	Pfizer/Wyeth deal pending
GlaxoSmithKline	\$44.6B	\$7.2B	OTC, Nutrition, Oral Care
Novartis	\$42.5B	\$5.8B	OTC, Ciba Vision
Roche Holding	\$42.1B	—	—
Sanofi-Aventis	\$42.1B	\$1.9B	OTC/OTX (combined OTC and Rx drugs)
AstraZeneca	\$31.6B	—	—
Abbott Laboratories	\$29.5B	\$4.9B	Nutrition
Merck & Co.	\$23.8B	—	Merck/Schering deal pending
Wyeth	\$22.8B	\$2.7B	OTC, Nutrition, Pfizer/Wyeth deal pending
Bayer HealthCare	\$21.2B	\$3.8B	OTC
Bristol-Myers Squibb	\$20.5B	\$2.8B	Nutrition, Majority owner of Mead Johnson Nutritional
Eli Lilly and Company	\$20.3B	—	—
Schering-Plough Corporation	\$18.5B	\$1.2B	OTC, Sun Care, Foot Care, Merck/Schering deal pending
Boehringer Ingelheim	\$15.9B	\$1.6B	OTC
Amgen	\$15.0B	—	—

Source: Company web sites, Hoovers and OneSource.

*Revenues reflect the most recent full-year revenue data available.

operations and was deeply embedded in regional teams, which primarily focused on the Rx business. Local consumer executives were commercial leaders whose main role was to manage relationships with distributors and partners. Ideas were imported from corporate headquarters and the goal was to execute these ideas well in the field. Much smaller than the Rx business in any single region, the consumer business often didn't receive the management focus and support it needed to grow.

Many companies we interviewed have evolved to a new model in which regional or country general managers run the consumer business as a stand-alone unit within their respective geographies and report to a global consumer leader. Even at the country business unit level, these leaders oversee full cross-functional teams, including sales, marketing, finance, human resources and supply chain. Beyond supporting ideas and programs generated from headquarters, regional and country leaders are expected to generate their own new product and business development ideas — and share them globally.

Emerging profile: Characteristics of the new consumer health leader

In light of their higher profile in the organization and the increased demands they face, consumer health leaders today must possess a broad set of high-level skills and capabilities, including the following:

A strategic mindset

Consumer healthcare leaders face new expectations because of their businesses' aggressive growth targets and global strategies. They are responsible for the key strategic decisions within their regions and contribute to discussions about which brands have the potential to be global and which are likely to remain regional or local.

To achieve its goal of becoming a top-10 player in the consumer healthcare space, Merck's consumer business plans on roughly doubling its current revenue, said Peter Shotter, president of Merck Consumer Health Care for Merck KGaA. "To do that, we need people who

are good at what they do and have the courage of their convictions. Of course, the sort of leadership team you have in a business like ours is going to be very results-driven. They're going to have good customer orientation and consumer orientation. They're going to have strong strategic skills in terms of where to take the business," he said.

Because they tend to have smaller organizations than the traditional Rx business and the products have a shorter time-to-market, leaders of consumer healthcare businesses must possess a sense of urgency and ownership. "Our top leaders own key issues. They roll up their sleeves and dig in. They're not people who ask for an analysis and wait two months. That sense of urgency and the ability to go deep is something we look for," said Larry Allgaier, global head of Novartis OTC.

Business development skills

Business development, including M&A, partnerships and joint ventures, has emerged as a core competency for consumer healthcare leaders at many companies.

"My expectation is that our country business unit managers will all be business development hunters in addition to running our business day-to-day," said Brent Saunders, president of Schering-Plough Consumer. "They should be looking for and proposing local business development. We may not do them all and they may not find anything worthwhile, but I expect them all to try."

Local knowledge and relationships

Consumer healthcare leaders also require an external orientation and knowledge about the local market and regulatory framework. "There is an ambassadorship, a consistent collaboration with regulatory authorities, with NGOs (nongovernmental organizations) and with the key opinion leaders," said Ashely McEvoy, formerly the president of J&J's McNeil Consumer division and now worldwide president of Ethicon Products. "In many of these countries, you can't do business by yourself — you have to enter into a partnership with a local company — so you need good business collaboration, leadership and

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influencing skills. Leaders also have to be able to build a team of highly entrepreneurial creative leaders because in many of these regions, they are not getting fed from centralized global resources.”

Schering-Plough’s country managers are expected to become “insiders” in their country, said Saunders. “That means they develop relationships with customers. That means they do local business development. That means they know the key regulatory people within their country or have access to ask questions to the appropriate regulatory officials to move things forward. They need to understand the marketing needs and requirements of their local system,” he said.

Ability to influence local consumers and professionals

A core skill for consumer healthcare leaders — like leaders of any consumer business — is the ability to understand consumer preferences and behaviors and apply consumer insights to the business, executives said. Leaders of consumer healthcare businesses also have to have strong commercial skills.

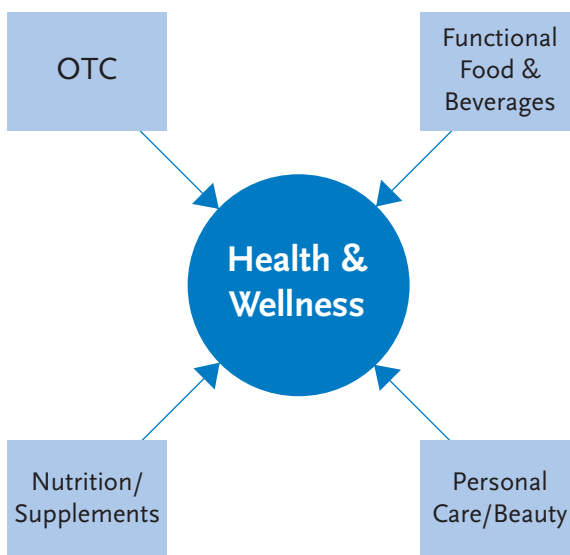
“You have to focus on the consumer marketing skills, of course, but also the trade marketing skills. Those are commercial skills, driving point-of-sale visibility. It’s the combination of those two areas that are the core,” said Shotter.

Strong consumer marketing skills are critical, said McEvoy. “I like to say that, if you open up the doors to the back office, we’re a mini pharmaceutical company. We’re regulated like a drug company, but our front end is very consumer-like. We show up in consumers’ medicine cabinets, so we have to think about things like what the packaging looks like. To be successful, you need the

marketing acumen of a consumer-driven company and the ability to inject consumer insight into R&D. General management must have a fine balance of both.”

Consumer experience wanted

The skill-set that has emerged for general managers in the consumer healthcare product arena suggests that, as companies continue to build their leadership teams, the consumer packaged goods (CPG) industry will provide a good source of talent. We believe that one of the key factors that should pave the path for talent transition between CPG and consumer health is the ongoing convergence of sectors such as OTC, functional food & beverages, personal care/beauty and nutrition/supplements — all of which are chasing the same consumer end benefit of “wellness.” This convergence has lowered some of the traditional hurdles that made it difficult for executives to change sectors, and made expertise in one category more transferable to another.



The executives we interviewed agreed that a strong consumer goods sales, marketing and general management background provides an excellent foundation for consumer healthcare leadership. It has long been held that CPG experience helps executives develop critical skills in strategic planning, P&L management, competitive analysis, the ability to understand and apply consumer insights to initiatives and strong advertising and brand building.

Debra Sandler, worldwide president of McNeil Nutritionals at Johnson & Johnson, said executives with consumer marketing training often have “the longest runway” as leaders. “What makes them the strongest? They are trained to communicate effectively. They are trained to analyze situations quickly and put together an effective plan. The really good marketers are able to do that in a cross-functional way. They understand the business from varying viewpoints and recognize that all of the functions have to move along in the same direction.”

And, in fact, entrepreneurial CPG executives are more likely than in the past to see consumer healthcare as an attractive career path because of the wellness trend and the increased prominence of consumer healthcare businesses. In some cases, consumer healthcare businesses offer a faster-track to senior positions, said Christian Neu, CEO of Danone Baby and Medical Nutrition B.V. “There is more flexibility here than in some CPG companies, and one can take on more responsibility earlier in their careers than at others.”

Avoiding the pitfalls

Classically trained consumer executives bring valuable business and marketing skills, but consumer healthcare businesses must recruit thoughtfully and carefully integrate CPG leaders. One of the biggest challenges for these leaders can be a lack of appreciation for the different regulatory aspects of the role compared with pure consumer businesses. Some former CPG executives can grow impatient by the longer product development and approval cycles for consumer healthcare products.

“A lot of times, consumer product people come into consumer health with great ideas about how they’re going to hit a home run, not recognizing that the regulatory scheme is incredibly complex compared to the standard CPG world and requires a lot of forward thinking,” said Saunders. “For example, if you have a great idea for a product in China, you may have to wait two, three or four years to get the regulatory approval to launch that product. So, you have to have much longer thought horizons. You have to build your pipeline strategically and you have to be patient. Once you get approval, it’s a very dynamic environment and, because you have to operate in a very complex regulatory scheme, good planning is critical to success.”

Potential conflicts also arise because of the difference between the way traditional CPG companies approach “health” and the process consumer healthcare companies undertake to demonstrate a health claim, said Sandler. “CPG companies do not have the same hard-core clinical and regulatory framework. Food companies may use GRAS (generally recognized as safe) ingredients. Our scientists and lawyers use those as examples of what not to do. They’re concerned when food marketers walk in the door because they feel strongly that they don’t understand how it’s done in real healthcare.”

How can companies avoid the pitfalls when recruiting executives with a traditional consumer background?

Consumer healthcare executives shared best practices for recruiting and assimilating consumer executives into their organizations.

Clearly communicate the differences between a classic consumer company and a consumer healthcare business.

During the interview, emphasize the impact of the regulatory framework on the product development process, including the longer development time frames and stricter marketing requirements. Convey the importance of respecting the scientific and regulatory processes.

“Consumer-trained executives sometimes become frustrated when they join a more regulated market because those fast-to-market initiatives are more limited in over-the-counter, particularly in countries outside the U.S., where regulatory approvals almost approach a drug approval in length. So, we have to be careful when we hire people from the consumer world to make sure they understand that,” said Gary Balkema, worldwide president of the consumer care division for Bayer HealthCare.

Thoroughly vet candidates for their cultural fit and orientation

In general, CPG executives who transition successfully recognize the different challenges they could face in learning to work within the regulatory framework, but also have a performance-focused, roll-up-your-sleeves orientation and a mindset open to learning. It’s important to make sure candidates represent a good fit with that culture.

“One of the things that I try to probe for during the interview process and reference checks is whether the candidate is a self-starter — whether the person can stand on his or her own two feet and can take ownership for a business or grow a business without a lot of hand-holding and one-on-one interaction with headquarters,” said Saunders.

Successful executives often demonstrate these capabilities in overseas assignments, where they typically do not have the same level of support as in headquarters. “I really like to see success on the ground in an international market far away from headquarters. How did the person overcome obstacles or build capabilities without all the functional help that is available at headquarters? I peel into those examples where people had to get creative and solve problems without a lot of money,” said Allgaier. Beyond that, Allgaier looks for what he calls “the Novartis edge.” “It’s more performance-oriented. It’s higher agility, the ability to instigate and lead and manage change to overcome barriers.”

Look for appropriate transition roles

When recruiting an executive from a pure consumer background, brands and businesses with a lower regulatory threshold may provide a smoother and more gradual transition into the consumer healthcare business.

“Our product line spans dietary supplements and analgesics, right through to products that might be Rx in some markets and over-the-counter in others, such as CardioAspirin. The easiest transition is into the more traditional over-the-counter medications and nutritional supplements businesses, compared to joining an Rx/OTC switch project, where you would want someone who has more seasoning in and understanding of the very complex regulatory side of the business,” said Balkema.

Set the right tone from the start

Once an executive has joined the company, it’s important that he or she quickly learns the internal and regulatory processes. Bayer instills this orientation immediately by emphasizing that the medical, regulatory and marketing people are a team. “None of the three can be successful unless they work together. If they are not all in sync, nothing happens,” said Balkema.

Setting the tone can happen through training or through mentoring relationships. At Danone, newcomers spend at least two to three weeks at headquarters to meet people and learn about the company. “I think most people adopt quite readily when they have this perspective. They understand that there are some things they can’t change,” said Neu, adding, “You can drive 200 kilometers an hour on the highway, but you have to stay on the road. Regulations have to be seen as fixed.”

New marketing and general management executives can help build collaborative relationships with R&D and regulatory teams by showing an interest in the science and regulatory aspects of the product development.

“There often is a perception that executives from consumer companies are going to want to cut corners and they’re not interested in true science. But the minute you do a little bit of homework and read the clinical, you show you’re interested in their point of view,” said Sandler.

Conclusion

Life sciences companies, especially Big Pharma, have begun to focus more energy and attention on their consumer health businesses. As the broadly defined healthcare sector continues to evolve and consolidate, we believe consumer health businesses represent an exciting career opportunity for top talent from a variety of consumer backgrounds. By paying close attention to cultural fit and ensuring new executives receive appropriate training and mentoring, companies can ease their transition to the more highly regulated business.

About the authors

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