

LIFE SCIENCES LEADERSHIP IN ASIA PACIFIC

Many observers predict nothing short of a dramatic shift in the center of gravity of the global pharmaceutical and medical technology sectors to Asia Pacific. With two of the world's most developed healthcare markets already — Japan and Australia — Asia Pacific's future growth will be driven by the rapid expansion of the middle class in countries such as China and India, which have very large and growing population bases.

For many life sciences companies, it would be difficult to overstate the importance of Asia Pacific to their strategy. "Asia Pacific is a growth driver of the company. Sixty-five percent of our international growth comes from the region," said the president of international for one medical technology company. A pharmaceutical company leader said simply: "In terms of growth, Asia Pacific is our engine."

An overarching challenge for companies doing business in the region is Asia Pacific's vast diversity of cultures, languages, and economic and governance models, defying any monolithic approach. Some organizations approach the region, which often is defined as China, India, Japan and the Pacific Rim, from a base in Japan or Singapore, where many companies have significant research capabilities; others place their main focus on the fast-growing markets of China and India. Still others view markets through the lens of their state of development; hence, organizations basing their approach on market maturity may have an "emerging market" strategy that encompasses emerging Asian markets and other emerging economies, for example in Latin America, but not the mature markets of Japan and Australia.

"One of the primary characteristics of the Asia Pacific region is its diversity. It is even more diverse than Europe, where there are 27 different countries but there is a common regulatory framework in the European Union. There is not a common, harmonized regulatory framework in Asia Pacific," said Tim Oldham, corporate vice president and president of Asia Pacific for Hospira.

It also is a highly dynamic region that continues to change quickly. "The challenge for life sciences companies operating in Asia Pacific is to learn quickly, be adaptable

and be flexible. The current economic situation further highlights the necessity of these characteristics,” said Gerald Lema, president of Asia Pacific for Baxter International.

Because of the growing importance of Asia to the industry, Spencer Stuart’s Life Sciences Practice decided to explore the business and talent issues facing multinational companies as they expand their businesses in the diverse markets of Asia Pacific. Consultants spoke with the senior regional leaders of global pharmaceutical and medical technology companies in Australia, China, India and Japan, two of the region’s most mature markets and two of its fastest-growing markets. These leaders talked about the state of the industry within their countries, the strategies their companies are pursuing, the emerging talent requirements as well as companies’ approaches for finding and developing the leaders needed for the future. What follows is a summary highlighting the market landscape, competitive pressures, challenges and talent issues for life sciences organizations in each of these countries.

China

The Chinese market is large and fast-growing. An estimated 100 million Chinese are potential customers of modern imported medicine, a population that may soon double, according to some estimates. The market for pharmaceuticals is projected to grow by 143.5 percent between 2008 and 2013, to reach a value of more than \$50 billion. The Chinese healthcare system is quite different from that of Western nations. This is particularly true for medical care in rural areas, where 700 million Chinese — more than half the population — live great distances from the modern hospitals of major urban areas.

The market’s rapid growth and the sheer size of China’s population make it a key strategic market for multinational pharmaceutical and medical device companies. Life sciences organizations are increasing their investments there, in some cases moving global research and development capabilities to China and building manufacturing plants.

While both foreign multinationals and local Chinese companies compete in China’s pharmaceutical and medical technology markets today, many executives argued that local players may well pose the larger threat in the future. As these local players become more sophisticated, multinational companies are focusing on marketing and improving their ability to differentiate their products in the marketplace through innovation and, as much as possible, avoid competing on price.

“The local players have been recruiting talent from multinational companies and bringing in professional management systems. They have become stronger. We need to be serious about the competition from these companies,” said one executive.

Executives agreed on the primary challenges for pharmaceutical and medical technology companies competing in China. One challenge is the country’s regulatory frameworks and the lengthy process required to get a product registered and added to the national reimbursement list. Many companies are working with the government to try to improve the process and expand the list.

Attracting and retaining top talent is another primary concern. On one hand, recruiting talent has become more challenging as multinational companies have become increasingly protective of their people. At the same time, the dramatic growth of the marketplace means that there are always opportunities for the best employees to consider. The relative youth of the market and the persistent job hopping means that executives in China tend to be younger and less experienced than executives in other markets.

In the short term, the talent needs of life sciences companies in China will far exceed what’s available. Adding hundreds of jobs a year, companies are continually hiring. The need for talent runs across the organization. Global pharma and medtech executives said their organizations need sales and marketing managers with excellent leadership skills; experienced finance executives

who can help navigate myriad compliance issues; and strong human resources leaders who can help create a vibrant corporate culture and develop organizational competence. Finally, people with international experience are very much in demand. “As the company’s business has grown significantly, we now need talent with international exposure and the ability to work well with global headquarters,” one pharma executive told us.

Attracting these talented people requires a positive corporate reputation and a track record of success in the market, according to a 2008 IBM Global Human Capital Study. Meanwhile, the best retention strategies ensure that high performers continually receive new or challenging assignments and have clear career growth opportunities.

India

While the growth in India’s pharmaceutical and medical technology markets is not as dramatic as China’s for the time being, multinational pharmaceutical and medical technology companies see plenty of opportunity in the Indian market and are investing there for the long term. With an eye to the increasing household incomes and the ongoing liberalization in the country, companies want to “set up a tent” there now.

India also represents an important talent resource for life sciences companies, executives said. “This is no longer about cost arbitrage; it is now about value arbitrage and clearly for very strategic and competitive reasons,” said Ranjit Shahani, vice chairman and managing director of Novartis India Ltd.

Succeeding in India will require companies to have an intimate knowledge of the highly segmented healthcare market and to be able to effectively target their offerings specifically for those segments. There is opportunity at the bottom and the top of the market, and companies must be organized in a way that allows them to respond effectively to both.

In addition to the presence of large multinational players, the Indian pharmaceutical market includes

thousands of small, local companies. Branded generics represent the largest segment today, but multinational players are investing in launching patented products as well, as part of their long-term growth strategies. “We are likely to see a significant shake out and consolidation in the near future. While the current landscape is dominated by Indian companies today, over the next five years we are likely to see innovation play a much more significant role,” argued Dr. Hasit Joshipura, managing director of India and vice president of South Asia for GlaxoSmithKline Pharmaceuticals Ltd.

Looking ahead, life sciences executives see several challenges. First and foremost is the war for good talent. Life sciences leaders also are watching the government, given its role in funding and regulating healthcare services and deciding policy issues such as rules governing intellectual property protection.

The most important talent need, agreed life sciences leaders, is for creative thinkers who bring an entrepreneurial orientation to the business. “We need executives who are able to think against the grain and have the entrepreneurial skills to develop a vision and sustain the pursuit of that vision,” said Joshipura. “A particular challenge that confronts this pursuit of innovative, entrepreneurial agendas is the need to be able to ‘hang in there’ while building consensus and support and eventually demonstrating success.”

Japan

Japan has the most developed life sciences market in Asia Pacific, with the largest pharmaceutical and medical technology markets in the region and the second-largest in the world after the United States. Datamonitor projects modest growth for Japan’s pharmaceutical market through 2013, when it estimates the total value of the market will reach \$67 billion.

Japan is an important strategic market for many global pharmaceutical and medical technology companies because of its size, the sophistication of the healthcare sector, strong appetite for new drug

and medical technology, the traditional strength of the research and development talent base and its patent protection policies, which promote innovation. The Japanese market, especially for pharmaceuticals, was traditionally dominated by large to midsize Japanese companies, however the landscape has been changed by relaxed regulatory policy since the late '90s and robust new drug pipelines by multinational companies with a strong commitment to the market.

Ongoing innovation is a key strategy for companies competing in Japan, say pharmaceutical company executives. "In Japan, sales efforts have traditionally been directed toward relationship-building, but today we are more focused on adding more value to customers. It's everyone's responsibility, and we provide training, coaching and motivation to help individuals achieve this goal," said Dr. Thomas Heil, chairman and president of Nippon Boehringer Ingelheim Company. The challenge is to develop innovative products for the Japanese market, requiring the company to understand diseases in the context of the Japanese people and their environment, he said.

One of the main forces that is likely to impact the competitive landscape in Japan is the expected growth in the use of generics in Japan. Traditionally, generics have not made the inroads they have in other developed healthcare markets, but that is widely expected to change in the coming years as the Japanese government looks for ways to reduce healthcare costs. For the past few years, Japan has seen several multinational generic players entering into the market from countries such as India and Israel. Large Japanese pharma companies are taking action, too. For instance, Daiichi Sankyo purchased Ranbaxy Laboratories, a large Indian generic player. Nevertheless, the potential impact on the pharmaceutical industry is hard to predict.

It will be important for pharmaceutical companies to develop a specific strategy to respond to market changes, including the growth in the generics business and industry consolidation.

Other issues facing pharmaceutical and medtech companies competing in Japan include price transparency, the need to continuously innovate and anticipate market shifts and the importance of working closely with the government to speed up the registration process.

As in other countries, recruiting the best talent is easier to do when the organization has a strong talent brand, a positive, collaborative culture and interesting, rewarding work to engage talented people, executives said. This includes having a clear strategic direction for talent acquisition and development and implementing it as a top management priority.

When hiring in Asia Pacific, it is very important to pay attention to the individual's cultural fit with the organization, said one executive. "When I recruit a new person, I particularly look at his or her personality and culture fit with our organization. I do not put the highest priority on technical skills, which I believe can be acquired after joining us as long as the person has the right mindset. We can teach technical things but we cannot teach 'talent,'" he explained. Furthermore, successful recruiting and talent development strategies depend on having a robust understanding of the local culture and values.

Australia

Australia is one of the most developed markets in Asia Pacific, and it is the second-largest market in the region for many companies. It has a strong patented drug market and is seeing a growing demand for expensive and innovative drugs and treatments. According to Business Monitor International, the Australian pharmaceutical market is valued at just over \$7 billion. While patented medicines still represent the large majority of pharmaceutical sales, the use of generics is increasing and being encouraged by government.

Because of its size and maturity, Australia is a competitive market for pharmaceutical and medtech companies, with well-established foreign multinationals and large local companies competing for

market share. The competitive landscape is likely to shift in the coming years because of the growth of the generics business, which is less mature than in the U.S. and some European markets.

“With the patents of a large number of products due to expire over the next few years, the growth of generic competitors will continue,” observed Jez Moulding, managing director of Sanofi-Aventis Australia/New Zealand. “The recent rise of biologic agents has also altered the research landscape and created a new field of competition in addition to traditional small-molecule research. Biotechnology and biopharmaceutical companies will represent additional sources of competition, but also opportunities for the future.”

Another challenge for pharmaceutical companies competing in Australia, as in other mature markets, is the upcoming expiration of patents for drugs developed in the 1980s and the need to replace those revenue streams, executives said.

Based on the opportunities and challenges ahead, how are talent needs changing? One of the most important needs going forward is to improve the ability of their organizations to innovate, executives said. That means bringing people with fresh perspectives and best-in-class ideas into the organization.

“We need people to think differently. This is one of the most regulated industries in the world. It’s very strict about what you can and can’t say and rightly so. As a result, people tended to not change practices, rather than look for new and innovative ways of doing things,” said Mike Daly, vice president and general manager for Bard Australia. “What we’re asking people to do now is look at the business in different ways. How can we have more disease awareness programs? How can we improve our compliance programs? We need to create leaner manufacturing and utilize the supply chain as a competitive advantage.”

Given the shifts occurring in the way pharmaceutical and healthcare products are being marketed and sold, players in these sectors also will need sales and marketing leaders with a broader set of skills.

Marketing leaders are going to have to focus on understanding the buying processes and the key points of influence that really make a difference with consumers. Meanwhile, sales will have to be more consultative. Executives also see a growing need for “soft skills” related to working well across the business and across borders.

Finally, the industry’s talent pool in Australia is shrinking, forcing companies to think about talent development and retention differently than in the past. Generation X and Generation Y have different expectations about the workplace than older generations and are less likely to work for one company for 20 years. That puts pressure on companies to come up with compelling answers to the question: Why should someone work here?

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