



Competing Through 'Customer' Value: 5 concrete steps towards an exciting new era for life science

A PEN Partnership white paper for the life
science industry

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WAVESTONE

Foreword

'If there is now little room to manoeuvre with the cost component of the value equation that life science companies provide today's healthcare systems, they now also need to look to new methods of improving the returns they develop for their customers'

'Customer Value' is known to be the new competitive battleground for life science companies with good cause.

Unsustainable growth in healthcare costs along with development of expensive new medicines, increasingly for use in specialist and rare diseases, means life science companies need to develop a greater return for the significant investment healthcare makes in them.

The most common way of addressing this challenge is to optimise the price and positioning of product portfolios, but as healthcare budgets become progressively stretched more value will be required.

As healthcare systems are becoming defined by increased demand, increased expectations and increasingly expensive innovation, the value they most require is capacity; Capacity in systems, resources, and budgets to allow adequate focus on the management of their highest priorities.

As healthcare innovation is the one of the largest drivers of growth in healthcare costs, life science companies are reasonably required to reduce prices or accept a limited uptake of their medicines as health systems try to improve budget capacity. While this market access lever works to limit growth in costs to an extent, it can only be pulled so far before the symbiotic relationship between these sectors becomes irretrievably strained.

Concerning trends are appearing across the developed world where the price and patient access of medicines are suppressed to the extent that life science companies are unable to make the revenues and profits required for manufacturing and supply, leaving little choice but to withdraw medicines from use. In the longer term this reduction in revenues threatens the life science industry's ability to invest in development of the medicines of tomorrow. Change is needed to ensure patient experiences and outcomes are not negatively impacted.

If there is little room to manoeuvre with the cost component of the value life science companies provide healthcare systems, they also then need to look to the other side of this equation and improve the return developed for customers – which for the purposes of this paper is a term that covers Healthcare Professionals, Payers, and Patients.

This idea is not new. The concept of Value Based Health Care which procures value instead of volume was suggested in the early 2000's and still holds great promise, but progress here is still a long way from delivering meaningful impact at scale. Rather than waiting for a new value-based procurement method to become common place the industry can find ways to improve customer returns, especially those that improve healthcare capacity.

Actions can be taken now, without regret, that will help the industry deliver more value while also improving company performance. Taking them will also set foundations for future capabilities needed to compete in this space, over-time these will improve relationships with healthcare and societal perception of the industry too.

This white paper describes the dynamics of today's environment, the reasons why change is needed, as well as practical ways in which life science companies can evolve to be more effective in today's and tomorrow's markets.

It's intended to start a conversation in the industry that will deliver practical change towards a more sustainable relationship with healthcare. To build on this start, we hope interested parties will develop additional information and contribute to updated publications that continue to advance this conversation.

A strained but symbiotic relationship

'Unsustainable growth in healthcare costs are increasing the discomfort felt in the symbiotic relationship between healthcare and life science, perhaps to intolerable levels'

For too long a perceived tension between life science and healthcare has been left unaddressed. The value created by these sectors is often thought to have a small overlap, which ultimately creates some big problems.

Within many life science companies there is a belief that focussing 'too much' on creating customer or patient value will have a detrimental impact on business outcomes. Conversely, it is felt that the commercial success of life science companies does not always align with the success of people working in or using healthcare.

Let's be clear. This does not mean these sectors work against each other, far from it. Nor does it mean the industry as a whole undertakes unethical practices at the cost of healthcare or patients, albeit with a very small number of notable exceptions. But it does create impediment and friction in their symbiotic relationship which leads to inefficiency, unintended consequence and bad feeling that threatens their shared sustainability.

This tension has been tolerated in previous decades as the innovative products commercialised by life science companies solved some of the most pressing healthcare challenges of the time; So as life science companies made some of the highest profit margins of all industries² healthcare also realised remarkable gains in patient outcomes across the world³, and an awkward peace was maintained.

However, the unsustainable growth in healthcare costs is increasing the discomfort felt in this relationship. Healthcare providers in developed markets are facing growth in costs that in some places are rising twice as fast as GDP⁴, meaning healthcare will become unaffordable without reform⁵. Additional funding through increased taxation or patient co-pay is unlikely to bridge the gap, so draconian actions and significant reform are required to ensure equitable access is provided to a

system with sufficient capacity to maintain quality standards for the health of large populations.

As health systems become fiscally unsustainable their willingness to invest in expensive life science technology declines. Indeed, to create capacity for increasing demand within capped budgets, health systems often look to reduce expenditure on expensive medicines, tasking procurement teams with driving down budgetary spend as far as possible.

This often takes the form of increasing market access hurdles with more stringent parameters which reduce the speed and breadth of uptake of medicines. In some cases sealed bid tenders are applied to formulary listings, where the price of acquiring similar medicines is prioritised above their clinical profile. These tactics may develop short or even medium-term budget gain for healthcare systems, but they can also mean companies are forced into a race to the bottom on prices making them unable to develop profits required to commercialise certain products. More than ever before, companies are having to make incredibly difficult decisions to withdraw medicines or entire portfolios, which denies patients of what could be vital therapy.

The situation is magnified when so much upcoming life science innovation is in specialist and rare diseases⁶ that attract eye watering prices, in therapy areas not deemed to be core healthcare priorities. For example, Zokinvy is the first and only drug used to decrease the risk of mortality in Hutchinson-Gilford Progeria Syndrome (HGPS). HGPS is an extremely rare disorder which affects approximately one in 20 million individuals, a year's supply costs more than 1 million dollars per patient⁷

'Competing priorities mean the strategic objectives of the organisations in these sectors are often misaligned and their relationships are of simple purchaser and vendor - where cost is the central dynamic, not patients'

For clinical populations with no available alternatives, drugs such as this are cost effective, pending society's willingness to pay, and morally desirable for wider society. But such drugs are unlikely to reduce costs for the overall healthcare system⁸.

Investments in medicines like these carry opportunity costs and force healthcare providers to take stringent actions, as exemplified by the recent Inflation Reduction Act in the United States which aims to save \$287bn over 10 years by reducing the price of prescription medicines. Though the motives of this act are in everyone's interests and aim to improve sustainability, it has the potential to undermine industry's research and development based business model and prevent development of new medicines that will transform many more lives. Indeed, Eli Lilly stated in 2022 quarterly earnings report it recently discontinued research on an experimental small molecule cancer medicine partly because of the Inflation Reduction Act (IRA)⁹. As the stakes rise for both healthcare and life science a Mexican standoff arises - In response to the IRA the US pharma lobbying group 'PhRMA' has filed a lawsuit against the United States' Department of Health and Human Services, claiming the excise tax, imposed on any drugmaker that doesn't comply with Medicare's price-setting negotiations, violates the US constitution¹⁰.

This kind of confrontation causes significant challenges for those of us working in these sectors, but the fallout has the potential to be much more severe for the communities who rely on us for treatment and care.

Misaligned objectives make 'cost' the lowest common denominator.

Healthcare organisations are being forced to reform in the search for capacity and a greater bang for their buck, whereas life science companies need to recoup heavy investments in research and development. These competing priorities mean the strategic objectives of the organisations in these sectors are often misaligned and their resulting relationships are of simple purchaser and vendor - where cost is the central dynamic, not patients.

Life science companies try to compete on costs by looking for efficiencies in their operations. Historically, there has been plenty of 'fat' that can be trimmed away, but perennial budget and headcount cuts have now left many organisations operating with minimal overheads. So when the call now comes to shave yet more away from OpEx, spend in areas that have been relied upon to generate a commercial return are preserved and those perceived to be less essential to achieving commercial targets are sacrificed, concentrating their organisations around sales and marketing.

These forgone budgets are often those designed to support a relationship that improves healthcare experiences, outcomes and system capacity - such as patient services and support, healthcare professional education, healthcare partnerships, digital health, precision medicine and other more innovative initiatives designed to create more healthcare value.

These decisions reinforce the perception that life science focuses more on profits than patients and risk the commoditisation of their products as little value is added to healthcare, maintaining the relationship position of vendor.

This cost focus is an impediment to both sectors as it prevents the growth of their relationship towards being partners and it's in both sectors' interests to become better aligned.

'Rather than wait for a value-based health care procurement solution, the life science industry should redefine the challenge as their own and take steps to create more value for the monies invested in them.'

As is the nature of symbiotic relationships, the shared value needs to be well defined and prioritised if individually they are to thrive. Indeed, with adaptation, there is no better partner than life science to help healthcare to get the most value from medicines due to their expertise and technical capabilities. Also with adaptation, healthcare can better support a fast and wide adoption of innovation developed by life science companies within relevant patient populations.

Value based reformation

To prevent a race to the bottom with cost that will threaten the industry's capacity for innovation, a shift in focus is needed to better align the value created for both sectors.

Methods to address this challenge have been suggested by some of the most influential thinkers on this issue – such as Porter, Teisberg et al – through the concept of value-based healthcare¹¹ in the early-mid 2000s, the core idea being to have a greater emphasis on procuring patient outcomes.

Instead of the traditional volume-based model, where suppliers are reimbursed based on the quantity of services or products bought, value-based healthcare encourages payment based on their quality and effectiveness. This idea was originally greeted by healthcare and life science with great enthusiasm, sparking a number of value-based healthcare initiatives around the world, including partnerships between health systems and life science companies to explore innovative remuneration models. However, in the years since Porter and Teisberg's seminal book, *Redefining Healthcare*, was published, momentum for these partnerships has waned in the face of the substantial structural reform needed to realise their intended outcomes.

Value definition and measurement, real-world data collection and analysis, information technology infrastructure, complicated risk adjusted commercial deals, legal and regulatory barriers, not to mention the cultural change to overcome provider resistance all need to be established for healthcare value to be effectively procured.

While a number of these partnerships continue today, they are not expected to deliver meaningful impact on growing healthcare costs at scale, or substantially change the relationship between life science and healthcare within a required timespan. As such, the potential of value-based healthcare to transform the role of the life science industry identified around 20-years ago still feels a long way off, but the challenges it tries to address remain.

Time for life science to lead the value conversation

Porter et al emphasised the need to change healthcare procurement to remunerate value over volume, which would then influence structural change to healthcare and supporting industries as they become incentivised to deliver health experiences and outcomes.

Following the money in this way is logical, however creating a reliable infrastructure that facilitates value-based procurement will take further time, perhaps decades, to develop. During this time, the macro-economic pressures placed on both sectors will continue to increase the strain on their relationship.

Rather than wait for a healthcare procurement solution, the life science industry should redefine the challenge as their own and take steps to create more value for the money invested in them. This will help to prevent yet further pressure on pricing and market access within volume based reimbursement schemes and give precious time to develop the capabilities needed to compete successfully on value, which will become essential once new procurement schemes become commonplace.

'This essentially becomes the heart of the challenge – how can the life science industry invest substantially in practices that create new value for healthcare, when the definition in value and immediate business return is unclear?'

But, given the short-term commercial pressures many companies face, any action taken must also address today's essential business challenges if they are to genuinely develop traction. Indeed, without short-term consideration, life science executives tasked with delivering in-year commercial objectives are likely to default to tried-and-tested thinking, investments and management practices that prioritise business value first.

This essentially becomes the heart of the challenge – how can the life science industry invest substantially in practices that create new value for healthcare, when the definition of value and immediate business return is unclear?

Or to put it another way – how can the industry confidently quantify how customer value creates business value within the confines of a volume-based reimbursement model?

This should be easy, most prominent business textbooks establish an indisputable link between customer and business value – the more value a business provides to customers, the more successful the business will be. At a conceptual level this relationship is very clear and true, however at a practical level there's a substantial grey area in how this relationship is realised and effectively measured.

For example, if a life science company develops a new medicine that demonstrably improves health outcomes, this provides value to healthcare which the life science company should be remunerated for. However, medicines alone do not deliver positive health experiences or outcomes. Usually, a significant ecosystem of appropriate diagnosis, management, education, plus holistic care and support, often provided by specialists and dedicated professionals, are all required to develop value from them. These all place substantial and often additional requirements on health systems.

Scarcely available healthcare resources are often only able to address core requirements of medicine use, leaving many others ignored. Consequently, sub-optimal value from investment in medicines is delivered which also creates potential upside in their performance that could be realised with the right support.

A strategic choice is required

Life science companies have a choice about the value they can deliver – is it simply the development and supply of medicines or is it more than that? If they're aiming higher in pursuit of supporting sustainable relationships with healthcare they will need to seriously consider how to incorporate more within their commercial propositions to improve customer return on investment, especially value propositions that deliver healthcare capacity.

Of course, it's not just propositions that will need to change but also the organisational infrastructure required to deliver them. New commercial and operating models come in to view as well as new organisational capabilities that better align the value created for both sectors.

This requires a significant change to an industry that has not fundamentally changed for decades. A number of substantial challenges will need to be overcome if concrete progress is going to be made, but as there is no end in sight to the macro-economic pressure placed on these sectors it seems this nettle must be grasped.

This change seems daunting, but it does not require a daring risk filled strategy that could eventually end in ruin. There are a series of incremental and no-regret steps that can be taken to improve both business performance today and prepare for the future.

The following sections of this paper describe which steps to take and how to take them, outlining the organisational models and capabilities required to deliver the sustainable value we all need.

OVERVIEW

5 concrete steps towards competing on value

STEP 1 - Quantify the granular relationship between business and 'customer' value. (page 8)

This is a critical first step of overcoming the perceived competition between the value needed by these stakeholders. The relationship between them must be understood at a granular level for customer value to be prioritised, especially when medicines are being procured through volume based reimbursement.

STEP 2 - Identify and invest in areas that will develop shared value at scale. (page 11)

Delivering improved value to customers will not make business sense in all situations and the value required will also change depending on multiple criteria. Having clear direction regarding where and how to invest in value creation at scale is essential.

STEP 3 - Evolve commercial models in a controlled way. (page 13)

To prevent an unstructured and inefficient approach to change, organisations will need to think about what their ideal end-state should be. Based upon assumptions, it's possible to identify the main structural requirements of customer value-led organisations and evolve towards them.

STEP 4 - Embrace technology that improves value, while avoiding that does not (page 18)

Digital transformation has the potential to completely reshape the industry however technology should not lead the conversation; many shiny new tools exist that have the potential to distract or even undermine progress towards sustainable new models. Careful consideration is needed to align these expensive investments with a vision for the future of the organisation.

STEP 5 - Mature management capabilities to compete on value. (page 21)

Many of the organisation capabilities that delivered historical success will not be as relevant in new commercial models. Identifying those needed in future model archetypes will allow a planned maturation and develop competitive advantage.

Step 1

Quantify the granular relationship between business and 'customer' value

'This understanding establishes a specific relationship between the customer touchpoints and the value they have for customers. This can then be correlated with and their resulting perception and behaviour. Cause and effect.'

Truly quantifying the relationship between healthcare and business value within volume- based reimbursement models is a crucial first step.

Many life science organisations have tried to establish this relationship before, often by identifying correlations in product sales and customer perception of their company. However, most have failed to successfully quantify this correlation clearly enough to warrant substantial investment in customer focused change. Historically there have been too many variables, inconsistencies and unknowns created by the granularity of data available or type of analysis used at that time.

Another approach is needed. One which links granular customer feedback to isolated organisational resources, which are then attributed to meaningful business outcomes that are responsive within relatively short time frames - ruling out most product sales data. Using this method allows close analysis and responsive management of organisational resources by identifying and improving areas that provide the highest value to customers, while also allowing correlation to improvements in business outcomes.

Implementing versions of mechanisms and practices been honed and perfected in some of the most customer-centric organisations will provide a turnkey capability that illuminates the relationship between customer and business value in life science.

Many life science organisations are starting to take their first steps with voice of the customer technology that are essential for achieving this. Qualtrics, Medallia, InMoment, Forsta and others are all now commonly part of their technology infrastructure, but they are often not used appropriately or to their full potential as application of

legacy product focussed mindsets and processes mean these tools are often used to supplement or replace ATU reports.

Instead, a more customer-centric approach is required where the platforms are used to understand customer perceptions of their interaction: how well it helped them, what value has it provided, how likely they are to interact again, or even advocate brands and organisations to colleagues.

This understanding establishes a specific relationship between the customer touchpoints and the value they have for customers, which can then be correlated with their resulting perception and behaviour. Cause and effect. This data can then be correlated with business outcomes that can be isolated and monitored to establish impact within reasonable time periods.

As product sales data often does not meet the required criteria for this kind of analysis, it's essential to identify alternate but equally valuable data that demonstrates business performance. The core areas in which we have delivered this analysis are described below and brought to life with a selection of case studies.

Life Science Organisational Efficiency

- Being able to demonstrate how investments that create customer value generate greater internal efficiency for the life science company compared to those investments intended solely to develop business value. This establishes the notion that spending more time and energy in places that customers want is more efficient than doing so in areas they don't.

'It's even possible to put a financial value on changes in customer feedback, effectively identifying a currency for each point of customer feedback lost or gained'

Customer Preference – Data that shows how customers prefer interactions, brands and organisations that consistently deliver them value over those that prioritise business value. Analysis can demonstrate how this effects the quality of relationships and resulting effectiveness and competitiveness of engagement models.

This is relatively well understood in life science through data that demonstrates how improved customer experience drives customer preference. In a study by McKinsey, customers were shown to be 2.7x more likely to prefer an organisation and prescribe their medications if they had a valuable experience, compared to if they had not¹².

Customer Loyalty – The value of customer loyalty can be demonstrated when customers' repeated interaction and engagement with an organisation is delivered with a lower 'cost to serve' as a result of value-added engagements. This can be achieved through both B2B and B2C type relationships depending on the market dynamics applied

Customer Advocacy – Defined as a customer's willingness to recommend an organisation's support and products. It demonstrates how the value created for customers can reciprocate low-cost acquisition of new customers, compared to customer acquisition activities that prioritise business value.

New methods will unlock new understanding

Over time this data can be combined with other data sets to establish a tight correlation between sales data and other important financial metrics to define how improving customer feedback links to improving some of the most important business outcomes. In some organisations it's even possible to put a financial value on changes in customer feedback, effectively identifying a currency for each point of customer feedback lost or gained.

Furthermore, where healthcare data exists, these analyses could potentially establish how life science business operations correlate with health experiences and outcomes to have a very important role in establishing a new and exciting relationship between these two sectors where a 'red line' can be traced between the value adding resources provided by life science companies and resulting improvements in patient care.

Resources are needed to adopt new voice of the customer mechanisms in a confident way, but budgets to adopt and licence them can often be found by making savings from market research and once practices are established within business as usual the return on investment can be profound.

Case Study 1**Quantifying
The Value
Of A Non-
Promotional
Team¹³**

A European affiliate of a top five global pharmaceutical company had established a dedicated team to deliver non-promotional and value-added services within the therapy areas they operated, but not linked directly to their product portfolio. Their objective was to deliver more value to healthcare as they intuitively believed it was the right thing to do, and the commercial gain would ultimately follow.

Through a restructure, a new executive leadership for the affiliate was established. It was tasked with improving organisational profitability and reducing expenditure to achieve required margins. Their review of the organisational cost base identified this team as at risk of redundancy because they could not attribute a financial rationale for them, nor an impact on product sales.

Using retrospective and prospective analysis of organisational data, combined with the creation of new transactional customer and employee feedback data, we compared selected business outcomes in sub-geographies where value-added services had been delivered versus areas where they had not.

Through this analysis we were able to demonstrate a clear correlation between improvements in organisational efficacy where the value initiatives had been implemented compared to where they had not. This was demonstrated by +89 swing in net effort score (NES) reported by customers who received these value added resources, along with 55% increase in the status of partnership in their relationships (as defined by a number of parameters, including collaboration, sharing of data, shared resources and ease of access).

This data then strongly correlated to significant gains in broader customer access and strength of relationship across these sub-geographies with a much lower reliance on expensive field-based salespeople. These were established through bespoke customer metrics that demonstrated cost to access, cost to engage and cost to convert. Analysis was also used to demonstrate the internal value created by this team and how, in concert with other organisational resources, they could drive overall efficiency of customer facing investments, ultimately saving this team from redundancy.

Case Study 2**Competing
For Market
Preference
With Added
Value¹⁴**

A medium-sized pharma company was launching a new compound into a very satisfied specialist dermatology market. Their clinical data only marginally differentiated their asset from well established competitors, so they needed to use additional levers to carve a meaningful market share.

The company developed a global strategy to deliver an improved patient experience of care and identified some significant pain points on their journey. This included the need to have regular hospital visits to monitor disease progression, some also experienced a form of post-traumatic stress disorder (PTSD) caused by the severity of their condition which prevented them from engaging in work or social activities.

We supported the organisation to design a set of services that integrated adherence initiatives along with further value-added resources. These included a mobile dermatoscope that

connects to a smartphone to create real world evidence about disease progression. This allows physicians to monitor disease progression remotely, removing the need for patients to come into the hospital as frequently, as well as an automated and proven Cognitive Behavioural Therapy (CBT) programme to address some of the mental health challenges caused by the disease.

Payers and physicians that took part in the design of these programmes reported the value they delivered was important in addressing unmet needs in the market. This led to the development of innovative contracting solutions with health systems, where these services would be used to support the delivery of improved patient outcomes within risk share deals. As a result, health systems now encourage the uptake of medicines in this crowded and satisfied market as well as the enrolment of patients to these services.

Step 2

Identify and invest in areas that will develop shared value at scale

'Carefully choosing the areas where known business challenges can be addressed through a value-led approach will play an important role in developing initial experiences that can be scaled.'

Despite the ability of the life science industry to move faster than healthcare, change will not come overnight, nor should wholesale change happen quickly. Carefully choosing the areas where known business challenges can be addressed through a value-led approach will play an important role in developing initial experiences that can be scaled.

To achieve scale, consideration must be given to the healthcare environment in which shared value will be developed. For example, this could be in one or more of the following situations –

- When a product adds significant value compared to the standard of care but is also more expensive,
- When there is significant market competition among innovative therapies,
- When payors are balancing medical versus pharmacy spend. Or,
- When there is uncertainty around the value of the product.

The good news is there are plenty of opportunities.

Some of the most significant challenges faced by life science companies today can be addressed, at least in part, through strategies and investments that prioritise the creation of healthcare value in these situations. Applying the analysis described earlier in this paper will develop new insight and understanding about the role of customer-value-led initiatives on business performance.

Three potential life science commercial challenges that could be addressed in this way are described below:

Reimbursement and uptake of high-cost medicines

R&D innovation is bringing new and exciting medical technologies forward that could transform outcomes for patients – yet the price tags for many of them are expected to be incredibly high. Cell and gene therapies have the potential to eradicate some diseases forever, as such they could demand some of the highest prices of all. CAR-T therapies have shown a remarkable ability to eradicate very advanced leukemias and lymphoma and keep these cancers at bay for many years, but they attract high prices because of their unique mechanism of action alongside the cost of personalised collection and manufacturing processes.

With technologies such as these, rather than focusing commercial resources only around 'point of sale' activities that improve awareness and uptake, life science companies can instead direct some of these resources to areas that support healthcare systems to get the most from their investment in these medicines. Many pain points exist across the care pathway and / or patient journey that can be addressed to help maximise their performance and outcome. CAR-T is a particularly good example – the quality of patient outcome achieved has a direct link to the successful management of the processes for getting the therapy to patients. This involves collecting individual patient T-cells, making their personalised CAR-T cells in sufficient quantities with the right specificity, and then infusing them back into the patient in sequence with a broader treatment plan. These new therapies bring a high level of complexity for health systems to manage which introduce multiple points of potential failure, life science companies can play a critical role across these processes to support health systems achieve the shared goal of maximising patient outcomes.

'Change will not necessarily be fast, but step by step, people in both industries can develop confidence in new ways of working that will foster greater trust between them and contribute to improved health experiences and outcomes'

As these high-cost new therapies are often reimbursed through novel deals that share risk between the manufacturer and health system, the relationship between added healthcare value, patient outcome and revenue will be closer than in more traditional reimbursement situations. Furthermore, by monitoring and managing value adding resources through the kind of analysis described earlier in this document, life science companies can better manage the performance of their assets in real world settings to mitigate financial risks in these deals.

Declining customer access and engagement

During the Covid 19 pandemic many customers focused on their most pressing priorities, deprioritising interactions with pharmaceutical companies as a result. Despite the end of that health crisis, total customer engagement has not consistently returned to pre-pandemic levels.

Furthermore, as the product portfolio of life science companies moves towards specialist and rare diseases, the engagement models that were effective in common and chronic conditions become ineffective. To engage customers competitively, the reach and frequency of marketing messages becomes less important in lieu of high-quality interactions that provide customers with more value.

Through the digital transformation of the customer engagement model companies can now easily compare how different interactions perform. Simple A/B testing can compare how well value-led approaches develop customer access and engagement to traditional interactions intended solely to sell products, either through single digital channels or as part of an omnichannel mix. The relationship between the cost of the activities undertaken, their impact on customer feedback and their ability to access and engage customers can be quantified and compared in areas where value-led initiatives are used and those where they are not.

ROI Of Non-Promotional Resources,

Many organisations are increasing investment in medical affairs and similar non-promotional customer touchpoints where customers value them more than traditional sales and marketing. But as margins become squeezed these investments are under increasing pressure to demonstrate return on investment.

Analysis can be used to establish comparative ROI with commercially led touchpoints based upon their ability to create customer value with the use of transactional customer feedback.

Collecting customer feedback data from non-promotional and promotional touchpoints then comparing the cost applied to develop value provides the basis for more insightful board room conversations about where to invest their resources. In situations where a financial value can be attributed to changes in customer feedback this analysis has been critical to evolution in customer engagement models.

Step by step, progress can be made

There are clear opportunities to establish how life science companies can work differently to achieve their commercial objectives while also delivering more value to healthcare.

Focussing here will develop the experience and understanding needed to confidently scale learning more broadly across organisations in a way that will deliver meaningful change to the relationship between them and their healthcare counterparts.

Change will not necessarily be fast, but step by step, people in both industries can develop confidence in new ways of working that will foster greater trust between them and contribute to improved health experiences and outcomes.

Step 3

Evolve commercial models in a controlled way

'Carefully choosing the areas where known business challenges can be addressed through a value-led approach will play an important role in developing initial experiences that can be scaled.'

Structural change at a healthcare system level may be slow in coming but momentum for Value-Based Health Care (VBHC) is growing into an unstoppable force. As value led procurement eventually becomes commonplace, delivering value will become the main field of competition for life science.

3 distinct types of value based contracts are becoming established

1. Clinical Construct:

Ties the cost of medication to effectiveness in real-world use. Discounts are provided based on measurable factors such as clinical outcomes, patient adherence, abandonment rates, side effects, or reaching a certain dosage threshold.

2. Financial Construct:

Enhances financial predictability for payers using various methods such as subscription models, prevalence adjustments, or pay-over-time construct.

3. Patient-centric Construct:

Incorporates the patient's own report of their symptoms, functionality, and overall well-being. The use of patient-reported outcomes in VBCs allows for a more holistic assessment of the treatment's effectiveness and patient experience.

Lessons learned and successes gained from VBHC lighthouse projects will be shared across the globe as they demonstrate impact by organisations such as the World Health Organisation. A number of these initiatives show real promise through changing the way healthcare is delivered within large and globally representative markets, suggesting that value-based healthcare can and will be realised.

Examples of VBHC initiatives from around the world are described in appendix 1

Components of change to commercial models

Change is likely to happen at different speeds in different areas, so global life science companies will need to be flexible in their resulting commercial objectives and resulting models. Evolving portfolios, fields of competition and prevalence of new remuneration models will drive many of these strategic decisions, which for large companies could result in a broad spectrum of commercialisation methods compared to the cookie cutter 'reach and frequency' approach used extensively in the past.

The main areas of expected change to these models are described below:

Remuneration Models: Life Science remuneration will move from volume-based reimbursement towards innovative contracting deals that incentivise companies to improve experiences and outcomes. As these fiscal incentives change for life science companies they are likely to drive the most impactful change to their resulting organisational structures and practices.

Strategic Objectives: Strategy will continue to be led by the portfolios and resulting market dynamics of individual companies, but as health systems start to consistently procure value in a robust way life science corporate objectives will move from securing early and broad use of medicine to become more aligned to delivering the value healthcare needs.

Value Propositions: These will progressively compete based on value delivered into healthcare and will almost always be centred around products, but they will also combine other solutions and services that optimise healthcare's return on investment in them - eventually to the point of taking a stake in delivery of health outcomes and experiences.

Customer Engagement Models: The customer interface will do less product 'pushing' by integrating more channels and mechanisms that acquire and retain customer accounts as a result of the value and customer return they provide. As healthcare systems get better at ensuring appropriate access and uptake of innovation, e.g. InClisiran in the UK ([link](#)), customer engagement models will not need traditional sales and marketing, facilitating the move from being sales to

service led.

Operating Models: Organisational structures will be increasingly aligning to care pathways and customer journeys to create greater alignment and efficiency in delivering healthcare value. They are already becoming more agile and responsive to change, as this trend continues they will be able to more closely integrate resources within the fabric of the healthcare ecosystem, blurring the traditional lines between healthcare and life science companies.

Overview Of Commercial Model Archetypes

By first establishing an effective correlation between healthcare / customer and business value, (as outlined earlier in this paper), life science organisations will have the basis to accelerate change and move into the world of value-based healthcare. This will enable them to compete on value more confidently as organisational objectives change in response to their changing environments.

The maturity grid below describes how commercial model archetypes will evolve from an initial orientation around products to those orientated around health experiences and outcomes.

	Product focussed		'Customer' value focussed		
	LEGACY	LEGACY OPTIMISED	ADDED VALUE	ORCHESTRATED VALUE	INTEGRATED VALUE
Prevalent Remuneration Model	Volume Based Reimbursement	Volume Based Reimbursement	Volume Based Reimbursement	Optimised Risk Share	Health Experiences And Outcomes
Primary Strategic Objective	Secure Early And Broad Use Of Medicine	Secure Early And Broad Use Of Medicine	Secure Early And Broad Use Of Medicine	Health Outcome Improvement	Health Outcome And Experience Improvement
Primary Value Proposition	Medicines	Medicines	Medicines + Non-Drug Solutions	Medicines (Agnostic) + Non-Drug Solutions	Realisation Of Improved Health Experiences And Outcomes
Customer Engagement Model	Relationship Led, Field-Based, Product Push Sales Model	Omnichannel, Product Push Sales Model	Account Based Sales, Integration Of Service/ Solution Sales	Account Based, Product And Service Management	Customer Success Through Resource Optimisation
Operating Model	Sales Support	Optimised Sales Support	Aligned To Customer Journey	Co-Ordinating & Enhancing Customer Value	Resources Integrated Within Fabric Of Healthcare

Description of Archetypes

Legacy

Historically, life science companies were successful using commercial models that promoted medicines for prevalent, chronic conditions managed mainly by primary care. Scalable and repeatable field-based sales models which covered high numbers of generalist customers became optimised and efficient over many years, developing a strong correlation between reach and frequency of sales message and product uptake. As a result, sales functions had significant influence over the entire commercial model with other organisational functions aligning to support the success of the field-based sales teams in creating relationships with customers, who had broad freedoms around what they could prescribe.

Legacy Optimised

The market environment has changed due to numerous factors including stringent market access controls, product portfolios orientating to specialist and rare diseases, and customer expectations shifting due to their experiences in other sectors. In response life science companies have reshaped their go-to-market models to retain their relevance and competitiveness.

These models integrate digital customer engagement technologies, more powerful market access functions and account management techniques. These initially apply resources to secure market access and then drive uptake through targeted promotional activities. In comparison with the past, it's a more efficient and targeted model that still focuses on securing a fast and broad uptake of products.

With investment in technology and new commercial methodologies, the powerbase within life science companies is shifting away from sales towards IT, commercial operations, and digital marketing.

Added Value

As life science organisations progressively compete based on the value they create, their commercial models are changing to introduce non-drug solutions or around-the-pill resources within their value propositions. These added value models are successful at developing customer preference, loyalty and advocacy within volume-based reimbursement deals while still navigating regulatory requirements designed for legacy models.

Operating models are adapting to become better aligned to the patient or customer journey, dedicating resources to manage some of their major pain points and adopting management practices that allow faster and more precise changes to their customer interactions.

This phase is a critical stage of evolution as it acts as a bridge between legacy, product focused models and future value-based models. It is an awkward and adolescent period in which organisations are eager to change but their knowledge and capabilities are still maturing. The lessons learned here will have a significant impact in shaping the future roles and responsibilities that life science organisations are able to take on.

Orchestrated Value

When healthcare successfully procures health experiences and outcomes from providers, the commercial model of life science companies will have to prioritise these over the volume of medicines sold. This would need careful application of the learnings developed through disease management models that companies experimented with in the 2000's.

This has the potential to make companies more agnostic towards the choice of medicines used to deliver outcomes and instead increase focus on resources that secure the highest possible return on investment for healthcare. These would support prioritised pain points across the care pathway and /or patient journey since companies have more skin in the game.

Engagement models shift most significantly in this phase, from promotion of products towards customer success models seen frequently in other industries where real world data is used to demonstrate performance and optimise application of resources to deliver shared goals.

This stage of maturity can only be achieved in areas where health care systems can capture data that is interoperable with pharma companies. New data sharing agreements, IT systems need to be put in place that ensure patient and provider trust along with an aligned definition of what value means and how to optimize it.

In this phase the relationship between healthcare and life science changes so that traditional lines start to blur as resources are shared to improve patient outcomes, creating efficiencies across both sectors.

This is likely to involve coordination of multiple providers to provide a seamlessly managed set of services, from diagnosis, through to appropriate treatment and ongoing management. Life science companies will need to develop the capability to govern or work within managed service agreements across multiple parties, since building and delivering proprietary interventions with sufficient quality across the entire patient

journey will be unfeasible in most cases.

The trust developed in earlier phases of the relationship will build confidence that life science companies are a credible partner in delivering patient care. Trust needs to be earned, so a gradual increase in accountability with robust governance and staging posts for progression, will be adopted to qualify which providers can be counted upon. Those who perform well will be chosen as preferred long-term partners within lucrative healthcare ecosystems.

Integrated Value

The growing trust in life science's ability to meet healthcare demand, allied to the increasing financial pressures on healthcare, will lead to a blurring of lines between them so that from a patient's or carer's perspective it will be hard to see where one sector stops and another begins. This of course will have significant legal and compliance related consequences as companies start to take more accountability for patient care.

Specialist and ethically important tasks will always remain in the control of clinical professionals, but many secondary or tertiary interventions on the patient journey can be supported by life science companies incentivised to improve healthcare experiences and outcomes. This will improve system capacity by simultaneously increasing the performance of healthcare's investment in medicines and directly managing patient demand in a regulatory compliant and ethically responsible way to reduce burden on healthcare resources.

This integrated approach has the potential to address the major challenges faced by healthcare. It promises to sustainably improve the balance of equity, access and innovation, while preserving the critical role the life science industry has in enhancing the lives of people across the world through innovation.

Step 4

Embrace technology that improves value (while avoiding technology that does not)

'Very significant investments have been made across to enhance existing commercial models, however many of these investments have not yet reached their full potential.'

Digital transformation has the potential to completely reshape the industry. However the adoption of technology should not lead this conversation.

Many examples exist of technology being acquired through a need to keep pace with the market or an excitement around its capability, rather than a methodological progression towards a strategic vision or to solve a specific business objective – this can lead to unnecessarily sophisticated and expensive 'tech-stacks', of which the full potential cannot be realised.

For example – There's no doubt in the need for digital customer engagement and major improvements have been made to digital / omnichannel capabilities in life science companies, however the application of these technologies is often suboptimal as few purchased features are used to their full capacity¹⁶.

Furthermore, significant investments have been made in content creation and publication, yet legacy mindsets and behaviours mean that large volumes of content sit unused on central servers, or has had to be adapted at additional cost by individual countries / marketers. Additionally, many shiny new tools that exist have naturally caught the attention and investment of companies but their practical use is limited and resulting value is unclear.

We need technology that establishes interoperable systems, addresses privacy and safety considerations, allows new governance models for sharing data, and develops informed consent from patients to have their data shared with commercial pharma companies.

Even the most mature healthcare systems in the US and Europe have historically struggled with interoperability – the ability of different health information systems to exchange, interpret, and use data

seamlessly. Several factors contribute to this –

1. Fragmented Landscape:

Many healthcare systems are highly fragmented, with various healthcare providers, hospitals, clinics, insurers, and electronic health record (EHR) vendors using different systems and standards for data storage and communication.

2. Diverse EHR Systems:

Healthcare providers use a variety of electronic health record (EHR) systems, often developed by different vendors. These systems may not communicate effectively with each other, making it challenging to share patient information.

3. Lack of Standardization:

A lack of standardized data formats, coding systems, and protocols for exchanging health information makes it difficult for different systems to understand and process data uniformly.

4. Privacy and Security Concerns:

Healthcare data is sensitive and subject to strict privacy regulations. For example, in the US the Health Insurance Portability and Accountability Act (HIPAA) regulations can sometimes hinder data sharing

5. Incentive Misalignment:

Some healthcare organizations and EHR vendors might have reservations about sharing data due to competitive reasons or concerns about losing patients to other providers.

6. Technical Challenges:

Integrating different systems with varying data structures and formats can be technically complex and costly. But in some markets efforts have been made to address these challenges - The United States' 21st Century Cures Act, passed in 2016, includes provisions to promote health information exchange and interoperability. It requires that healthcare providers, payers, and EHR vendors use standardized Application Programming Interfaces (APIs) to facilitate the secure exchange of health information.

Precision Medicine

Further to investment in technology that will improve the interoperability of health system data, many other opportunities exist to use technology that will directly improve patient experiences and outcomes - Precision medicine is one of the leading opportunities to do so.

This refers to tailoring medical treatments and interventions to individual patients based on their specific genetic, environmental, and lifestyle characteristics. It aims to deliver the right treatment to the right patient at the right time. Advances in technology provide the basis to deliver medicines and related services in a more precise way than ever before to maximise healthcare returns.

Examples include:

Companion diagnostics: These tests or devices identify patients who are most likely to respond to specific treatments. By developing and commercialising companion diagnostics alongside their therapeutic products, life science companies can enhance treatment efficacy, improve patient outcomes, and streamline the commercialisation process.

Patient Monitoring: Data collection devices and generate Real World Evidence (RWE) that allows healthcare systems to monitor patients in a real-world setting. This evidence can supplement traditional clinical trial data and provide insights into the effectiveness and safety of life science products. By incorporating this into the commercialisation process, companies can better understand the value proposition of their products, address payer requirements, and inform market access decisions.

Decision Making: Effective patient monitoring will generate large amounts of data that can be used to make better decisions for both healthcare and life science. Advanced analytics, machine learning, and artificial intelligence techniques can be used to analyse and interpret these data sets, allowing healthcare to apply stretched resources in areas that will have the biggest difference and provide valuable insights for commercialisation strategies.

Patient Engagement and Empowerment: Technology can create greater emphasis on patient engagement and their involvement in the decision-making process. As they become active participants in managing their own health, and have access to more information about treatment options, life science companies will need to develop digital tools and platforms that enhance patient satisfaction and commercial success.

Further technological advances

Further opportunities and risks to improving 'customer' value are realised through technological advances. Two of the highest priorities here are AI and Cyber-security.

AI: Precision medicine aims to personalize treatments based on an individual's unique genetic makeup, lifestyle, and environment and AI technologies can process and integrate vast amounts of diverse data, such as genomic, proteomic, and clinical information, more efficiently than traditional methods.

In precision medicine, AI excels at genomic analysis, identifying disease-related genetic variations, predicting disease risk, and recommending personalized treatment options based on a patient's genetic profile. Additionally, AI expedites drug discovery by analyzing biomedical data to identify potential drug candidates and predict drug interactions with patients' genetic makeup, enabling the development of targeted treatments.

Furthermore, it will play a crucial role in diagnostics and risk prediction. It leverages patient data, such as medical imaging, pathology slides, and genetic markers, to improve disease detection and predict risk more accurately. Timely and accurate diagnoses are critical for initiating appropriate interventions and improving patient outcomes.

Real-time decision support is another advantage. By offering insights and

recommendations at the point of care, AI assists healthcare providers in making informed decisions, resulting in improved clinical outcomes and patient safety. It can also support remote patient monitoring by continuously analysing data from wearable devices and remote sensors. This proactive approach enables early detection of potential health issues in patients with chronic diseases, leading to better disease management and reduced complications.

Step 5

Mature management capabilities to compete on value

'Continued investment in capability development will establish competitive advantage for organisations that choose to take the lead.'

As commercial models evolve towards new archetypes, organisational capabilities will need to change and mature if these models are to operate successfully. Many of the capabilities described below already have a foothold in some companies and provide a glimpse of their potential future impact. Continued investment and development will establish competitive advantage for organisations that choose to take the lead.

CX Management Capabilities

As business models become more focussed on the value they develop for external stakeholders, they will have a greater emphasis on delivering an exceptional customer experience across all touchpoints. This includes seamless interactions, personalised communication, user-friendly interfaces, and prompt customer support.

CX management is the capability needed to deliver value consistently and continuously to customers through design, measurement, analysis and improvement of the experience delivered. This management discipline needs to be established within organisational governance if it is to be a core driver of growth through improved customer perception, loyalty and advocacy. Reliance on this capability, and its maturation, will be developed as organisations adopt new model archetypes in response to market pressures.

Omnichannel Customer Engagement Capabilities

Customer expectations of digital engagement are continually rising, driven by technological advances. As organisations mature through commercial model archetypes they will need to advance from the simple digitisation of legacy sales and marketing touchpoints to acquire and retain customers in numerous ways, particularly as they adopt new value-based propositions with multiple components (e.g. medicines

and non-drug solutions).

Technology has led the transformation of customer engagement with many companies now having access to sophisticated tech stacks, providing opportunities for performance marketing. However, life science digital and omnichannel management capabilities are relatively young and hold significant potential to support successful value-led commercial models in future.

Patient Services and Support Capabilities

Patient support programmes have come a long way since they were originally developed; From simple printed literature informing patients of the need to improve medicine adherence and persistence, to comprehensive, omnichannel services that address multiple pain points across the patient journey.

The next generation of these services do more than just inform and motivate patients to take their meds, they deliver enhanced health experiences that improve health outcomes and create real world data that demonstrates impact. These include holistic interventions during significant moments for patients such as onboarding, home delivery and at near-patient infusion centres, as well as ancillary services that can often make a big difference such as CBT and wellbeing interventions.

As these services become more central to life science companies they will need to develop the capabilities to meet expected standards, either through in-house or outsourced resources. Building the skills to deliver high standards of healthcare will be an essential part of strengthening the trust required to become integrated into health ecosystems.

Data, Understanding, Insight, and Continuous Improvement Capabilities

Value-led business models require agility and adaptability to respond to changing customer needs and market dynamics. Companies will need to adjust strategies and offerings to stay aligned with customer preferences. To compete effectively here, developing capabilities relating to data creation and management, as well as development of actionable understanding and insight will be key.

By establishing closed loop data governance capabilities, organisations can create a data-driven culture, where insights from data are used to inform decision-making at all levels, leading to more effective operations, better customer experiences, and improved business performance.

Innovative Contracting Capabilities

Innovative contracting is the novel and flexible remuneration agreement between life science companies and healthcare stakeholders, such as payers or health systems, who want to align pricing and reimbursement with patient experiences and outcomes.

To enable successful innovative contracting, life science companies need to establish capabilities in data analytics and real-world evidence (RWE), outcome measurement and evaluation, financial modelling for risk sharing, regulatory and legal expertise, along with collaborative stakeholder engagement.

Where technology and other infrastructure support them, they can have a turnkey effect to realise value-based healthcare, enhance patient outcomes, and create more sustainable pricing and reimbursement models.

Healthcare Partnership Capabilities

As commercial models evolve to deliver more value into health systems, the solutions and interventions provided by life science companies will need to work in concert with healthcare resources if they are to be adopted.

As this integration is unlikely to happen overnight due to the unfortunate mistrust that has developed between these sectors, long-term partnerships will need to be implemented that help both sectors to work together and share resources in pursuit of joint goals. Through these experiences new ways of working can be developed over time that allow a closer and more trusting relationship to be secured.

Required capabilities for these partnerships include strong relationship management, collaborative problem solving, open book accounting of resources, clinical expertise, data and analytics sharing and of course strong project management and execution.

Innovation

A value-led business model will foster innovation and evolution based on customer insights. Companies will continuously explore new ways to meet customer needs to stay ahead of the competition. Established innovation processes and capabilities are needed to develop sustainable competitive advantage, adapt to changing market dynamics, and drive continuous growth through the development of innovative products, services or processes.

Processes and capabilities required will include areas such as creativity and idea generation, concept creation and testing, and moving to minimal viable products with relevant business cases. This will involve design thinking and user-centric methodologies alongside co-creation or open innovation to collaborate with external partners or customers. Agile and adaptive processes will be used to respond to new information or market dynamics while also managing risks and intellectual property.

Culture And Change Management

The required changes described in the paper have the potential to be monumental for Life Science industry and while many will be fundamental to ensure sustainability of this sector, the transformation will be difficult to deliver.

Success will require an equally monumental focus on transforming the culture of these organisations to the extent that it will need to be prioritised within corporate strategy to ensure appropriate focus. Furthermore, organisations will need to think differently about change and change management compared to the approaches used in the past.

Culture is notoriously hard to change. This is because culture lives in people's unconscious assumptions right across the organisation. Any cultural change therefore requires you to help large groups of people to understand what these unconscious assumptions are and then to reframe and align them to the desired culture.

The changes needed within the Life Science industry are particularly hard to deliver because they require competing or incompatible principles to be held alongside each other at the same time. For example, Life Science companies have traditionally valued precision, adherence with process, and operational efficiency; whereas the future organisations described in the paper will also need to value agility, empathy, and compromise.

Finding a way for these competing principles to thrive within organisational cultures is hard. Life science companies need to find ways to marry both trust & innovation within their organisation in a way that renews a social contract with employees, customers, and society.

But it can't be achieved through top-down mandate. It lives in the collective hearts and habits of people and their shared perception of "how things are done around here." Someone with authority can demand compliance, but they can't dictate optimism, trust, conviction, or creativity.

Purpose

A clear and emotionally compelling organisational purpose can underpin cultural change by providing a sense of belonging and direction for colleagues.

This is particularly effective for Life Science companies as many people work in them due to their proximity to improving patient health, the changes outlined in this paper describe how people working in these companies can do even more to improve it.

Occasionally, the purpose of a Life Science company is well articulated and known within by employees – Roche's 'doing now what patients need next' is an excellent example. However, many organisations have not articulated or communicated their purpose well enough, leaving their employees to interpret what they believe it is through the decisions and behaviours to experience on a day-to-day basis.

Embarking upon any substantial transformation will require colleagues to understand and believe in an underpinning purpose if their unconscious assumptions can be illuminated and challenged.

Leadership

As totem poles of organisational culture, leaders need to role model ideal cultural behaviours if large groups of employees are to adopt them – this much is well known. However, leaders also play a crucial role in building and sustaining psychological safety in organisational communities, allowing them to challenge the status quo without fear of negative social consequences.

Cultivating consultative and supportive leadership capabilities at all levels of an organisation will help to quickly create ideal climates, mindsets, and behaviours within psychologically secure teams – where team members value one another's contributions, care about one another's well-being, and have input into how the team carries out its work.

Principles & guardrails

Once a purpose and vision have been established, colleagues then need to understand what's expected of them individually and 'what good looks like'. Historically companies may have supported this by didactically documenting and sharing expectations in a chapter and verse manner, however this approach tends only to be effective with selected learning styles and can create a patriarchal cultural dynamic.

Instead, establishing guardrails and principles for change, providing appropriate training and support but then allowing colleagues to deliver agreed outcomes within a 'sandbox' can develop a more accountable and nimble community.

When considering the customer focussed change discussed in this paper, ideal guardrails should be a description for the experiences and outcomes you intend for the people your organisation serves. These are sometimes called 'customer promises' or 'customer principles' and can be used to identify what a user of your organisations products or services should consistently expect through adopting them. The application of these can and should be very broad – from designing individual touchpoints, through to creation of commercial strategy and even application of major investments.

Change Frameworks

There are very many frameworks available to guide how cultural change can be effectively delivered, some of which are very sophisticated and difficult to implement.

Keeping things simple and prioritising the most effective personal drivers of behaviour change will provide the highest chance of success.

Once your purpose and guardrails are in place, adopting a simple 2x3 box framework that considers six major components of behaviour change – Initially asking do colleagues have the motivation and ability to change, then addressing the personal, social and structural enablers that will help people to adopt new behaviours.

Using this framework allows an incredibly simple but effective of delivering change initiatives that target the main barriers of adoption.

Employee experience

A positive employee experience of change will not just help a smoother transition but will also help to develop internal advocates that will improve retention.

Experience management techniques can be used for your internal audience where experiences are designed, measured, analysed and improved through closed loop management processes, ensuring organisational focus is applied in the areas that make the biggest difference to employees.

Change Teams

Change teams are common in many other regulated sectors but they're surprisingly absent from most life science organisations. These dedicated resources can ensure organisational alignment and proactive change management within consistent standards and expectations and can save money compared to external vendors.

Summary

We are in challenging and uncertain times, which means today's landscape is likely to look very different in the years ahead for healthcare and life science.

Slow moving but inevitable healthcare reform will eventually trigger structural reform to life science – the companies recognised as leaders today may not be the leaders of tomorrow.

Rather than wait for procurement led value to arrive, there are opportunities to act now in ways that better align the creation of value for all stakeholders and simultaneously improve their competitive position for when it does.

Companies have a short to medium term choice to make – do they continue to double down on R&D in the hope that resource-poor health systems will somehow prioritise funds to acquire their expensive innovation? Or do they hedge their bets by also responding to broader healthcare needs and to ensure any investment in them delivers the highest possible return in patient experiences and outcomes?

The strategic and operational choices they make today, and in the future, will have a huge influence on the sustainability of the relationship between these vital sectors, and ultimately on the standards of care delivered to patients across the world.

There are a number of no-regret decisions that can be made immediately to explore and define the next-generation of life science companies that deliver more value. The people who act now will be the ones who are most likely to lead the industry in to an exciting new era.

APPENDIX 1 - Overview of value-based healthcare initiatives across the world

United States

Since the introduction of the Affordable Care Act (ACA) in 2010, the U.S. federal government has been transitioning its healthcare system from a fee-for-service model to a VBHC model. This involves the implementation of initiatives such as the Medicare Advantage and value-based programmes implemented by the U.S. Centers for Medicare & Medicaid Services (CMS). Collectively they are intended to incentivise high-quality healthcare and reduce costs by reforming payment models to be based on quality versus quantity of care ([link](#)), ([link](#)).

In January 2017, CMS launched a Value-Based Insurance Design (VIBD) model which was designed to test whether implementing specific flexibilities in coverage and payment for Medicare Advantage Organisations, would reduce Medicare programme expenditures, enhance the quality of care Medicare beneficiaries receive, and improve the coordination and efficiency of health care service delivery ([link](#)). Furthermore in April 2019, the U.S. Department of Health and Human Services and its CMS announced the CMS Primary Cares Initiative, a new set of voluntary payment models related to the delivery of advanced primary care, with the CMS Administrator stating: "Our Primary Cares Initiative is designed to give clinicians different options that advance our goal to deliver better care at a lower cost while allowing clinicians to focus on what they do best: treating patients." ([link](#)).

Europe

The Charter of Fundamental Rights of the European Union and the European Pillar of Social Rights states: "Everyone has the right to timely access to affordable, preventive and curative healthcare of good quality".

In 2020, the European Institute of Innovation & Technology (EIT) Health developed a handbook for practitioners, innovators and policy makers on how to implement value-based healthcare in Europe. Their implementation roadmap, the Matrix, is composed of five dimensions: partnering (with internal forces and external collaborators), improving (through a learning community), rewarding (through incentives and investments), comparing (using benchmarks) and recording (using a scorecard and a data platform). ([link](#))

Additionally, the European Commission demonstrated commitment to VBHC by hosting an expert panel in 2019 entitled Defining Value in Value-Based Healthcare. The panel made suggestions including: defining a long-term strategy to reallocate resources, creating a greater awareness of health as an essential investment and supporting the R&D of methodologies on appropriateness of care. ([link](#))

As healthcare systems across Europe grapple to bring VBHC to fruition, they each demonstrate their commitment and progress towards VBHC in various ways.

Netherlands

Hospitals and the government are focused on collecting outcomes, including patient-reported outcome measures (PROMs) and patient-reported experience measures (PREMs). Since 2022, the outcome data has been available for 50% of disease burden in specialty care. ([link](#))

A comprehensive governmental plan has been launched to support collaboration with providers. ([link](#)) Seven high performance Dutch hospitals have joined forces (under the name of Santeon) to increase the quality and efficiency of patient care. Their success is largely due to the implementation of a value-based healthcare approach. They did so through leveraging a multidisciplinary team to define metrics, internally share and learn, implement improvement cycles in member hospitals, validate and stabilise the process, share results externally, and engage with patients and payers for value-based contracting. ([link](#))

The Dutch government has also formulated a national IT strategy for VBHC, aiming to establish regulations promoting mandatory data exchange across various domains such as medication and imaging, while simultaneously reducing regulatory barriers that hinder the efficient flow of data. ([link](#))

APPENDIX 1 - continued

United Kingdom

The Department of Health and Social Care has developed the NHS Outcomes Framework (NHS OF), which comprises a collection of indicators aimed at monitoring the health outcomes of individuals in England. This framework serves as a comprehensive assessment tool for evaluating the performance of the National Health Service (NHS). ([link](#))

NHS Wales is undertaking a whole system approach to value based healthcare through a government funded program to establish world leading outcomes. Clinical teams are working with patients, industry and the third sector to use resources available to improve outcomes that are sustainable for the long term. ([link](#))

Sweden

A National Quality Registries programme and digital health records gives the healthcare system access to more than 20 years of data on healthcare delivery, making it a pioneer in this area.

Norway

The Norwegian Spine Registry established in 2006 by the government has made quality metrics such as infection and mortality rates available online. In an attempt to drive value-based reimbursement, in 2019, the Norwegian government introduced mandatory bundled payments contracts for dialysis and four high-cost treatment programmes on a national level.

Australasia

The Australian Centre for Value-Based Health Care is an initiative by the Australian Health Care & Hospitals Association. The Centre aims to increase knowledge and understanding of VBHC, develop the necessary skills to implement it and influence public policy to transition to the VBHC system. ([link](#))

Additionally, New South Wales (NSW) Health has implemented a large-scale value-based healthcare initiative to help achieve the Quadruple Aim: improving health outcomes, enhancing efficiency, and increasing patient and provider satisfaction. This initiative focuses on improving patient experience and population health, and prioritising the wellbeing of the healthcare workforce to prevent burnout and dissatisfaction, while also reducing costs. ([link](#)) ([link](#))

World Health Organisation

In April 2021, the World Health Organisation (WHO) released a policy brief working through three levers to improve value in the entire health system. The three levers are setting a health benefits package, strategic purchasing and integrated people-centred health services to advance universal health coverage objectives. ([link](#))

The Internal Consortium for Health Outcomes Measurement (ICHOM)

ICHOM is a professional network for the value-based healthcare community seeking to advance the adoption of universally standardised outcome measurement and foster global alignment in outcome measurement initiatives. In 2020, an internal working group composed of clinical heart failure experts recruited by ICHOM successfully created internal standards for clinical assessment and outcome measurement for heart failure. This measurement has 17 items, addressing selected functional, survival outcome, psychosocial and burden of care domains. This is one of many datasets created by ICHOM to capture, compare and improve care with feasibility and relevance for patients and clinicians worldwide. ([link](#)) ([link](#))

heard around the topic, the EFPIA has also provided a list of organisations involved in debates around sustainable VBHC, including ICHOM, the Innovative Medicines Initiative (IMI), Big Data for Better Outcomes (BD4BO) and Core Outcome Measures in Effectiveness Trials (COMET).

APPENDIX 1 - continued

The European Federation of Pharmaceutical Industries and Associations (EFPIA)

EFPIA demonstrates its commitment to sustainable health through consistent publications with the intention of educating the population holistically on the topic and exploring and stating their thoughts on how to reach sustainable healthcare. In a 2018 report, the EFPIA stated its belief that the industry can contribute to a more sustainable future by developing new pricing models, such as value-based contracts.

To build a holistic understanding of sustainable value-based models of healthcare, the EFPIA has developed detailed reports on the potential technical, structural, financial and political barriers to achieving sustainable VBHC, outlined case studies of best practices among European countries and provided a roadmap for key actions required to reach a sustainable VBHC approach. To ensure different perspectives and expertise are heard around the topic, the EFPIA has also provided a list of organisations involved in debates around sustainable VBHC, including ICHOM, the Innovative Medicines Initiative (IMI), Big Data for Better Outcomes (BD4BO) and Core Outcome Measures in Effectiveness Trials (COMET).

PhRMA

PhRMA has released several publications, reports and surveys related to VBHC, particularly around value-based contracts due to the increasing interest in these among payers and biopharmaceutical manufacturers. This has been sparked by the changing market dynamics associated with a shift to VBHC. For example, in 2017 the association conducted a survey among PhRMA members and payers to identify key regulatory and operational barriers to scaling and scoping different types of value-based contracts.

PhRMA has also released several publications outlining the taxonomy of value-based contracts, conceptual frameworks of their potential benefits, and statistics around the impact of such contracts on disease burden and cost savings. For example, in a 2018 report PhRMA outlined that new value-based contracts have the potential to reduce the burden of diabetes in the US by 5%, saving \$12 billion and preventing 365,000 emergency department visits, 390,000 hospital outpatient visits and 1.3 million hospital inpatient days annually. Alongside publications and reports, PhRMA has also stated it is working to ensure that value assessments are not misused by government health agencies to impose patient access barriers and delays in care. ([link](#))

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