

J.P. Morgan Healthcare Conference: Five Trends We'll See in 2020 and Beyond

How much has changed in healthcare in a year? What does the next decade hold for the industry and its leaders? We explored these questions and others during our conversations with more than 350 leaders at the annual J.P. Morgan Healthcare Conference to uncover which trends will have the biggest impact on leadership and healthcare organizations.

Here's an overview of the trends coming out of last year's conference and an update on whether they came to pass.

Prediction

M&A activity will increase – as will the importance of cultural integration.

Shifts in funding will impact innovation and R&D, and also fuel divestments.

Reality

We saw a far more complex political and regulatory landscape in 2019 and the global M&A market across industries slowed compared with 2018. However, Dealogic reported increased activity was noted in North America. In pharma, drug manufacturers spent a record \$342 billion snapping up smaller companies to bolster their pipelines. Global private equity dry powder is estimated to be c.\$2.5 trillion and more money is being raised in new funds.

The industry's collective R&D pipeline in 2019 was larger than ever at more than 16,000 drugs, according to Pharmaprojects.

Prediction

Reality

Data is the next frontier.

We've seen an uptick in demand for digital and data leaders in healthcare in the past year as more organizations are trying to navigate the simultaneous opportunity and challenge of big data.

Increased need for talent means higher competition for key roles.

Competition for talent was high across the biopharma ecosystem for CEOs, chief scientific officers, chief business officers and chief medical officers and came from unexpected places. For example, we worked with an increasing number of companies from India and China that were looking to develop a global leadership presence.

Leadership profiles are changing as agility is a more desired skill.

Leadership agility and diversity of experience have never been more important. We saw the number of commercial C-level executives with non-traditional sales and marketing backgrounds (e.g., market access) increasing.

Here are the trends we discussed at this year's conference and what they mean for healthcare boards and leadership teams for 2020 and beyond.

1. More healthcare CEOs recognize the role of a culture and people strategy in driving performance and innovation.

Innovation-focused pharma companies desire to be seen as agile and decisive whilst retaining the caring and purpose-driven values that underpin their healthcare missions. Leadership agility and diversity of experience have never been more important, although organisations that can build inclusive cultures are likely to be better equipped to tackle the talent war.

Leadership implications:

- » Increasingly, leaders need the clarity and energy to motivate teams with a compelling and shared sense of purpose and create an inclusive culture where those teams can thrive. For example, harnessing the full potential of an R&D strategy will require the creation of ecosystems of innovation whereby research is driven by multi-disciplinary teams located within centres of excellence, e.g., SV Health's Dementia Discovery Fund, which brings together experienced investors, academics and industrial biologists to solve a specific problem.

- » A key theme was diversifying executive teams and boards, particularly in larger companies. The appetite for a diverse selection of individuals who bring their personal and professional experiences to bear in a constructive debate of competing views and opinions in the boardroom will only continue to grow. Institutional Shareholder Services (ISS) and Glass Lewis (GL) have both updated their proxy voting guidelines to include board gender diversity, director overboarding, virtual meetings, and environmental and social risks. The hope is that this will, over time, increase boardroom diversity at US public companies.
- » There is greater dialogue and receptiveness to a different profile of leader from those who progressed through the “traditional” pure sales and marketing route, with a premium on those with managed markets, market access, digital and global experience. We are already seeing the number of commercial C-level executives with non-traditional sales and marketing backgrounds (e.g., market access) increasing.
- » The competition for talent between large-cap pharma and smaller, innovation-driven companies is set to continue, given that most of the senior executives in “big pharma” are more interested in moving to C-level roles in small companies, particularly with so many moving toward commercialisation today. This cross-flow of talent will also drive diversity of thinking and approaches within businesses.

2. Companies continue to execute against the diversified or pure-play innovation strategies that have been set, ramping up demand for leaders with commercial experience and resilience.

Whilst we haven't heard much on the M&A front at this event, we expect to see activity in M&A and partnerships around platform technologies, “bolt-ons” and those that further specific therapeutic strategies and modalities, e.g., cell and gene therapy, bacteriophages and rare diseases, alongside internal R&D efforts. Global political volatility will likely mean more regional and local deals versus transformative mega deals. With regards to therapy area strategy, the industry is heavily pointing towards immuno-oncology but we expect to see interesting moves that go against the grain, e.g., Novartis' acquisition of The Medicines Company and its continued interest in cardiovascular medicine. Another hot area is atopic dermatitis — any asset with efficacy and promise to challenge DUPIXENT® or HUMIRA® in this space is set to skyrocket e.g., Eli Lilly's acquisition of Dermira for \$1.1 billion. The next few years will see significant product launches and a keen focus on market access in large-cap pharma.

Leadership implications:

- » In these volatile, uncertain, complex and ambiguous times, we see a growing need for leaders who demonstrate personal resilience and adaptability. Importantly, this leadership agility needs to translate across an executive committee to develop more robust team resilience and effectiveness. (Learn more about the attributes of resilient CEOs in our study in Harvard Business Review.)
- » C-suite commercial leaders with cross-functional, global and local market experience will be in significant demand. In particular, we see a desire to attract and develop commercial leaders who have experience of interfacing with development organizations. Global marketing and market access expertise will also be highly prized. Similarly, R&D leaders who can point to a track record of making difficult yet “correct” portfolio choices will be highly sought after.
- » As we see new therapeutic modalities (e.g., cell and gene therapy) applied to a broad range of autoimmune diseases, we expect to see a high demand for card-carrying immunologists with a breadth of experience. This demand will not simply be fulfilled by moving talent from immuno-oncology to autoimmune disease areas.
- » Interestingly, there was much dialogue around the industry’s responsibilities in the global health landscape. One topic of note was how antibiotic and vaccine development would continue to be funded as we see investment flowing primarily into more expensive therapies for orphan diseases, for example.

3. Science and technology is maturing at a rate that is allowing for unbelievable advancements in functional genomics — driving more partnerships and the need to rethink organisational culture and leadership development.

The industry is now able to generate 20,000 by 20,000 gene knockouts in mammalian cells to better understand cellular function and disease pathways. This “Genetics 2.0” approach will require new advances in AI and machine learning algorithms to “spot” patterns in these higher order data sets. Digitalisation, combined with new manufacturing processes, automation, and therapeutics and personalised medicine have the potential to transform the pharmaceutical and biotechnology industries in new and exciting ways. Many of the biopharma C-suite leaders we spoke to commented on enterprise-wide digital transformation having the potential for impact beyond R&D, as companies look to improve their operational performance, productivity, efficiency and cost-effectiveness across the entire biopharma value chain, including business models, development of new products and services, how companies engage with healthcare professionals, patients and other customers. However, a few CEOs cautioned against investments in digital transformation without clear ROI.

With data being the most valuable currency in the life sciences industry today, biopharma companies are rapidly trying to secure access to as much data as possible to provide competitive advantage. Potentially synergistic partnerships between big tech companies and pharma are on the rise which is not surprising given both parties are seeking new areas of growth but neither currently has the full end-to-end capability to compete effectively alone. For example, the Google and Sanofi Innovation Lab intends to combine Google's technology and analytics expertise with Sanofi's health-care data to transform how future medicines and health services are developed and delivered. Microsoft has embarked on a partnership with leading gene and cell therapy group Oxford Biomedica to improve the next generation of cell and gene delivery technology leveraging cloud and machine learning. Another key area where we see tech and pharma partnering is in the context of optimising clinical trials. Recruitment for clinical trials is one of the most pressing challenges and technology is delivering innovative ways to directly target the most suitable patients. Verily has recently announced strategic partnerships with Novartis, Sanofi, Otsuka and Pfizer to help reach potential clinical trial patients in different ways and to make patient enrollment into studies more effective.

Leadership implications:

- » We expect these new tech/pharma partnerships to result in more cross-flow of talent, yielding a new generation of talent who will be better equipped to drive continued technology and digital transformation in biopharma. In R&D, the expectation is the convergence of talent in data sciences and biology will become critical to interrogate and better interpret complex data sets.
- » Some biopharma companies have appointed chief information officers (CIOs) to lead their digital transformation efforts, while others, such as Novartis, have attracted chief digital officers (CDOs), often from other industries, or chief digital information officers (CDIOs), who combine many of the skills from a CIO and CDO. However, whilst many companies have viewed digital transformation as being technology-driven, the reality is that traditional thinking and deeply entrenched organisational cultures may now hold the industry back, and there is a growing realisation that cultural transformation is critical for digital transformation to be embedded across the business. The culture, alignment and tone set by the executive committee and board will be critical for these teams to succeed.
- » Artificial intelligence (AI) technologies and digital transformation will require biopharma companies to employ and retain a more diverse workforce and transform their approach to leadership development. The race for talent will be run across industries as biopharma competes with digital health and other consumer technology players amongst others for data and analytical talent.

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4. There is a growing need for rapid, high-quality and repeatable manufacturing platforms to be scaled in new therapeutic modalities such as cell/gene therapy and radio-ligands — and a dearth of talent to lead these efforts.

Fitting these new modality strategies into existing large-cap pharma models will be a challenge, given they require different levels of investment and present different risks. Smaller biotech players relying on contract manufacturing organisations to produce the required viral vectors to move towards commercialisation are often faced with the challenge of long wait times to start cell/gene therapy projects.

Leadership implications:

- » Large-cap pharma and biotech will need to invest in developing a talent pool to enable a scale-up in manufacturing, and retention of this talent will be key to building depth of expertise.
- » At a macro level, we expect to see movement of talent between pharma, biotech and contract manufacturers to drive innovation to new heights in this arena.

5. The rise of China as the second largest market for many pharma companies in the next five years will require local expertise.

China's pharmaceutical market is the second largest worldwide, after that of the United States, reaching \$137 billion in sales in 2018, doubling in just six years. Large-cap pharma players have ever-increasing exposure to and investment in the China market across Rx, Gx, life sciences, agriculture and materials businesses. Whilst historically, we observed leading Chinese pharma companies focused largely on generics, local Chinese companies are building their R&D and innovation muscles and this is yielding rapid growth of new drugs in the pipeline, e.g., the number of applications of drugs entering clinical trials in China has grown from 21 in 2011 to 88 in 2016, a compound annual growth rate of 33 percent. We are seeing innovation being driven increasingly from biotech startups established by the alumni of multinational companies. While there is an appetite to leverage knowledge and expertise globally to serve patient needs in China, these innovative biotech companies in China founded over the past five years are now keen to enter the global market.

Leadership implications:

- » Managing the potential growth opportunity in China will require talent schooled in the local market but who are able to develop significant bridges with global teams. Retention and development of executive leaders in the China market remains a key theme.
- » We are seeing a growing desire among local companies to appoint board directors with US/European experience. This injection of experienced pharmaceutical leaders into Chinese biopharma players could help elevate their capabilities as they enter the global stage.
- » The confluence of science, technology and medicine in our industry is clearly driving a supercharged rate of progress in the development of new modalities and medicines. This rapid technological advancement, combined with geopolitical uncertainty, new entrants into healthcare and a significant generational shift mean boards and CEOs will be under incredible pressure to both find the right leadership and establish an organisational culture to help translate this volatility into opportunity.

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