Big Pharma's Mixed Modes of Growth

By Laurence Capron and Will Mitchell

Historically, big pharma firms made their own drugs. They might make a targeted acquisition here or there, form an alliance now and again, or license in some specialized technology, but by and large they made their own drugs, supporting big, fully staffed research labs, which they would then market themselves.

Over the past decade, though, big pharma has slowly but surely made a break with this tradition as companies moved away from the old self-contained integrated model into far more open and flexible networked models. Their reliance on alliances and licenses has increased in both product development and marketing and they have become aggressive acquirers.

So far have they moved, in fact, that they sometimes sound as if they have altogether abandoned their commitment to internal development. In March 2012, for example, Chris Viehbacher, CEO of Sanofi-Aventis, told an audience at the CED Life Sciences Conference that "the best people who have great ideas in science don't want to work for a big company … if you want to work with the best people, you're going to have go outside your own company". In at least one company, we have heard insiders refer to internal R&D efforts as "Replication and Duplication", useful primarily for checking on breakthroughs that occurred somewhere else.

Of course, this kind of talk is hardly encouraging to the scientists working for big pharma labs, and executive participants in our programs also shared with us their concerns that their best R&D talents are being depreciated and demotivated.

As yet, the facts don't seem to substantiate the fears. Although many analysts and even executives have stated that established pharmaceutical firms are cutting their R&D budgets, the fact is that ongoing R&D expenditures on internal projects remain just as high in 2011 and 2012 as they have for the past decade — and those levels are historical highs. Members of the PhRMA spent almost $50 billion on R&D in 2011, maintaining a peak that they reached in 2008. What's more, Big Pharma isn't under any financial pressure: average profitability was as high in 2011 as it has been in any year since at least the 1970s.

To be sure, many life sciences companies are shifting the focus of their internal efforts into new programs and technologies, as well as opening labs in new countries while deemphasizing efforts in some of their traditional locations — and many are engaged in substantial reorganizations of their internal labs as a result — but such change and reconfiguration is a sign of a healthy response to a dynamic technical and market environment.

All in all, our research suggests that the pharma industry is today pretty well balanced in terms of its ability to mix and match different modes of growth, and that bodes well for the industry: companies that mix their modes of growth — be it internal development, acquisition, alliance-building, or licensing — tend to outperform companies that use only one mode.

Nonetheless we counsel CEOs to mind the rhetoric. Companies that discourage good research talent from joining their R&D divisions lose a critical capability that they'll really struggle to recover. They'll become themselves less attractive as partners and licensees and over time they'll gradually become less able to finance acquisitions. We understand the need for a better focus, but the refocusing does not have to include disrespect for a core capability.

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