Commercial Models for a New Healthcare Ecosystem

BY PAUL DARLING

Companies must design local commercial models that enable them to deliver value stories tailored to the specific needs of organized customers and the characteristics of local ecosystems, writes Paul Darling.

Life sciences companies are learning to cope with the US healthcare ecosystem’s new normal: constant change, significant market heterogeneity, and extraordinary uncertainty. The headline events of 2015 helped to clarify the contours of the new normal by removing some uncertainty about the direction of change. Most notably, the key provisions of the Affordable Care Act survived another Supreme Court challenge, and the federal government announced that it plans to link 50% of Medicare reimbursements to risk-sharing models. In the private sector, large payers announced plans for further consolidation, which would give rise to organizations having unprecedented size and influence.

Although the direction of change has become clearer on the national level, the changes are not occurring uniformly across the country. In fact, considerable differences have arisen in the structures and characteristics of local ecosystems. In some localities, healthcare systems remain rooted in traditional delivery models and payment structures. But in other localities, strong payers, organized providers, or other organized customers, such as pathway organizations, exercise unprecedented influence over care decisions.

Life sciences companies must adapt to these changes so that they can continue delivering value and avoid losing relevance. To do so, many manufacturers will re-evaluate their long-term strategies for “where to play” by considering entirely new additions to their portfolios, including services, software, or even digital therapies. In the shorter term, however, executives face an immediate and pressing need to determine “how to win” with their current product mixes. The winning companies will design local commercial models that enable them to deliver value stories tailored to the specific needs of organized customers and the characteristics of local ecosystems.

What are the challenges to adapting?

As life sciences executives evaluate how to adapt their commercial models to address the ecosystem’s new normal, they face multiple challenges:

Deciding when to change: Life sciences executives have different opinions about the immediacy of the changes occurring in the healthcare ecosystem, according to a recent survey of nearly 70 pharma, biotech, and medical device executives. The survey found that executives who are more knowledgeable expect that changes within the ecosystem will occur within two years (see Figure 1). But executives who have less information think that the changes will occur as much as 1.7 years later, suggesting that they believe that they have more time to prepare.
before taking action. Follow-up discussions with survey respondents confirmed that greater familiarity with these changes and their details promotes a greater urgency among executives to respond proactively.

**Deciding what to change:** The survey found that most life sciences companies have implemented at least one program designed to adapt to these changes, but the nature of these programs varies significantly, suggesting that the industry is still in the early stages of changing its commercial model. For example, 76% of pharma respondents are conducting market research on emerging healthcare decision makers to develop their commercial strategies. However, only 36% are building the sales infrastructure to pull through such strategies via key account management (KAM) programs. The challenge of determining exactly what to change reflects the U.S. market’s heterogeneity. For instance, a company with a diverse portfolio of products will find that different types of stakeholders control decision making for different therapy areas and localities. To address these differences, companies will need to shift from a national mindset to a local mindset so that they can identify the right programs for adapting to change.

**Designing a structure to enable change:** The current organizational structure of many life sciences companies is still designed to target the physician as the central decision maker. Our survey found that, even when they believe that change is coming quickly, executives lack the organizational structure required to support their efforts to change the commercial model. The absence of a supporting structure manifests itself in two ways: First, there is no clear direction for action because the organization has not been able to promote the required cross-departmental coordination. Second, there is no single point of accountability to prepare the company’s strategy or build a consensus about how to adapt to change (see Figure 2).

**Overcoming the challenges requires focusing on three key trends**

To overcome these challenges, life sciences companies should reconsider their national commercial model in light of three important trends:

1) **The customer landscape is changing.** Historically, individual physicians were the primary decision makers for selecting medical products and services. The increase in consolidation and vertical integration of provider systems and the influence of payers have decreased physicians’ autonomy in many geographic areas. Moreover, other organized customers, such as pathway organizations, patient advocacy groups, more healthcare-literate consumers, and even media organizations, are increasingly involved in influencing the value and selection of medical products. Each type of organized customer has unique and increasingly complex decision-making processes and a different ability to influence physicians’ selection of medical products.

2) **The perceived value of medical products is evolving.** In this context, the perceived value of medical products is shifting away from clinical attributes to economic and public health benefits. The rise of accountable-care organizations (ACOs) and alternative reimbursement models has increased the importance of a product’s public health benefits, emphasizing patient wellness over responding to individual episodes of care. At the same time, the definition of value has become more diverse. For example, despite having similar strategic goals, two academic medical centers may consider different aspects of a product to be more valuable. One medical center might value mild side-effect attributes that encourage patient adherence because these attributes support its population health initiatives; the other might value a product’s innovative mechanism of action because it receives favorable reim-

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**Figure 2. Department most responsible for preparing company strategy in response to market changes (rank 1 or 2).**

<table>
<thead>
<tr>
<th>Department</th>
<th>% Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior/Executive Management</td>
<td>53%</td>
</tr>
<tr>
<td>Commercial Operations</td>
<td>38%</td>
</tr>
<tr>
<td>Marketing</td>
<td>28%</td>
</tr>
<tr>
<td>Sales</td>
<td>28%</td>
</tr>
<tr>
<td>Commercial Strategy</td>
<td>24%</td>
</tr>
<tr>
<td>Human Resources</td>
<td>12%</td>
</tr>
<tr>
<td>Finance</td>
<td>9%</td>
</tr>
<tr>
<td>Procurement</td>
<td>7%</td>
</tr>
</tbody>
</table>

Data from the survey indicates that senior executives and commercial operations are the primary departments responsible for preparing company strategy in response to market changes.
bursery rates from private payers.

To respond effectively, life sciences companies must tailor a product’s value story for each type of decision maker and its needs. By becoming more deeply involved in account decision-making dynamics, manufacturers can gain insights that allow them to more effectively communicate value. To convey these new, tailored messages to a much broader array of organized customers, companies will need new marketing efforts and new sales roles.

3) Local markets have considerable variability. The evolution of the customer landscape and customers’ perception of value has not occurred uniformly throughout the country. In some local markets, traditional delivery models dominate, with individual physicians as the central decision makers. In others, such as Boston, provider organizations use treatment guidelines and incentive compensation to strongly influence treatment decisions. Payers dominate localities where they have significant market share, such as Birmingham, through the use of formulary tiers and step therapy. Even national payers and providers frequently have different policies and levels of influence across the country. For example, large national hospital systems, such as Hospital Corporation of America, give local facilities considerable operating freedom.

Despite this local market variability, many life sciences companies continue to employ a national sales model, resulting in ineffective customer engagement. Manufacturers are beginning to react to the market variability in small ways. For example, 69% of our survey respondents regularly integrate market access input and analytics into commercial decisions, but there is still a long way to go.

To systematically structure their sales and marketing efforts, life sciences companies should consider the interplay between stakeholders in the local market as a primary criterion when designing their commercial models.

**Designing the new commercial model**

To continue to thrive in this environment, life sciences companies must customize how they deliver value. Manufacturers will need to embrace a commercial model that serves the local environment using a customized mix of engagement roles that operate as a highly coordinated and dedicated team. Companies that do so will be equipped with a flexible and customized model that allows them to communicate value tailored to stakeholders in their specific environment. Headquarters marketing and operational support also will need to adapt to embrace the local mindset.

Life sciences companies that implement this new model will be better equipped to improve the customer experience and deliver value in the short term while they consider longer-term, strategic decisions about new valuable offerings. The recent clarity concerning the direction of change in the healthcare ecosystem means that companies can no longer delay taking action. The first companies to understand the emerging power structures in local ecosystems and respond with customized value stories and engagement models will capture significant advantages over their slower-moving competitors.

**About the Author**

Paul Darling is a Principal in ZS’s San Francisco office. He has experience in a vast array of strategy, marketing and sales services, and works with clients to develop their pipeline strategy in areas such as portfolio planning, clinical development, disease area, and business development and licensing. Paul assists pharmaceutical and biotechnology companies in evaluating new markets, mergers and acquisitions, and opportunities for in- and out-licensing. He has presented at several industry conferences on the topics of forecasting, asset valuation, and alliance structuring. Prior to joining ZS, Paul was a fellow at the Perelman School of Medicine at the University of Pennsylvania. He holds a B.S. in biochemistry from Boston College and a Ph.D. in Statistical Thermodynamics from Washington University.

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