BAIN & COMPANY

R&D: The New Imperatives for Driving Superior Returns

Health Care Viewpoint

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As the year 2000 approaches, the health care industry is still turbulent. Customer requirements and competitive dynamics continue to evolve. The industry is seeing more deals, more alliances, more investment, and more experiments than ever before. It's not always clear whether a new approach is a fad or a real basis for leadership in the marketplace. Health care organizations are rethinking every element of their strategies, structures, and business practices to find the path to sustainable results.

Bain & Company helps health care companies navigate a course to outstanding results. We work closely with motivated management teams to create a clear map, a goal and direction for achieving not incremental improvements, but full potential returns.

Bain's global health care practice combines expertise, an industry network and years of experience accumulated across all parts of the health care industry. Bain helps health care companies, including product suppliers, distributors, providers, and payers worldwide, select a strategic course and create a practical migration path to the goal.

driving profitability through innovation

Globally, cost pressure is changing both the payoff from, and the requirements for, successful research and development.

Changing technological, regulatory, market and product development requirements are driving down the return on investment of traditional research and development efforts.

Despite reduced payoff for traditional research and development programs, differentiated new product introductions will likely continue to be the highest return segment in health care. Research and development efforts should be fundamentally restructured to continue to drive superior growth and returns in a global managed care environment.

The New R & D Paradigm:

Five Imperatives

1 Rigorously Review Portfolio

Given the lower returns of R&D today, the existing internal R&D portfolio should be aggressively reviewed. This assessment should objectively update each program's expected pay-off and evaluate each program's role in the total portfolio. Expected payoff should incorporate a Monte Carlo simulation and "option" evaluation of each program's potential, including market, technological, regulatory, patent, and competitive status. The program's strategic fit with the corporation's capability and customer/therapy targets should be analyzed and estimates made of financial investment, timing and risk. This objective assessment is likely to force rethinking of 15-50% of the current investment portfolio.

The goal is to increase investment in high potential core programs; spin-off good but low-fit programs; and cut funding for low potential programs.

2 Leverage Smaller Company Capabilities

In many industry segments, smaller emerging companies are frequently the source of new therapy approaches. A thorough re-evaluation of a company's internal portfolio must include an external screen for companies that have a complementary fit with your core strategic capabilities, target customers and therapeutic corridors. Although licensing has been the traditional lever to take advantage of external R&D, more opportunities now exist to develop stronger, equity-based partnerships that shift internal R&D dollars to external partnerships. These opportunities are most often present during down cycles in the valuations and capital sources of these start-ups (exactly when these companies are least popular).

3 Invest in Performance Data and Cost-Effective Delivery Systems

Superior system cost and outcomes vs. the best alternative product/therapy will be the ultimate test for profitable market penetration. A minimalist approach – just meeting the regulatory requirements for information and utilizing traditional delivery systems – is likely to be "penny-wise but pound-foolish." Aggressively investing to create documented system cost and outcome improvement data, as well as high-value delivery systems for new products, has high potential payoff. Investment should continue well past product launch.

4 Optimize Global Product Development

In the past, the United States has been the market focus for new product development and introduction. Increasingly, however, product development and introduction strategy need a global perspective to account for and take advantage of different regulatory environments, market requirements, penetration economics, and sources of innovation in technology and clinical practice.

5 Manage Time-to-Market

The full cost of new product introduction has been steadily rising. Being first to market has always had a high payoff. This payoff will increase, since the first new product to market will define the system cost and outcome standard and set price expectations. Continually upgrading the development process to increase cross-functional team work, eliminate unnecessary cost and time, and aggressively utilize go/no-go milestones, will have high payoff.

A New R&D Strategy:

Investment in R&D, whether internal or via alliances, should be evaluated and optimized against a full spectrum of other investment opportunities, including new business entry, market penetration, sales and distribution reinvention, and cost structure reengineering. Research and development, if restructured around these imperatives for driving superior returns, can continue to be the engine for growth and profitability.

Bain is one of the world's leading global business consulting firms. Its 2,400 professionals serve major multinationals and other organizations through an integrated network of 26 offices in 18 countries. Its fact-based, "outside-in" approach is unique, and its immense experience base, developed over 26 years, covers a complete range of critical business in every economic sector. Bain's entire approach is based on two guiding principles: 1) working in true collaboration with clients to craft and implement practical, customized strategies that yield significant, measurable, and sustainable results, and 2) developing processes that strengthen a client's organization and create lasting competitive advantage. The firm gauges its success solely by its clients' achievements.

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