Rapid Restructuring in pharma to navigate turbulent times

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The ongoing economic turbulence and the challenges many governments face in paying down their debt will have fundamental impact on many countries, particularly within Europe. Historically, pharma has been relatively insulated from recessionary shock waves. However, in this 'new normal', pharma is already facing significant challenges (e.g., in Italy, Turkey, Spain, etc.) and increased uncertainty as the broader context intensifies a number of long-standing industry challenges:

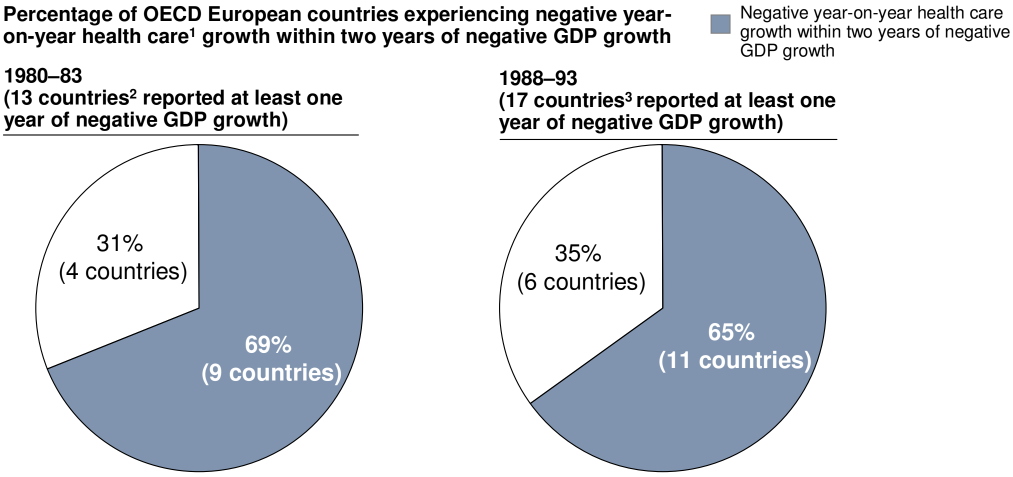
- The increasing pace of healthcare reform and intensifying (sometimes abrupt) cost containment efforts, with knock-on effects across connected reference price systems, are likely to force more radical surgery to business models
- There is increasing urgency to address the long-term decline in innovation
- Business footprints are becoming ever more complex (with the increasing importance of emerging markets, more sophisticated partnering and outsourcing arrangements, the 'coming of age' of new technologies, etc.)
- As blockbuster patents expire, traditional approaches to cost cutting and productivity are running out of steam.

Although pharmacos have represented relatively 'safe havens' in the crisis because of their lower leverage, strong cash flows, and less cyclical demand, they are by no means immune to its effects. Our research shows the effects of economic downturns on healthcare spend tends to have a 'lag' of one or two years (Exhibit 1), placing pharmacos at particular risk in 2010-2012.

This downturn is proving to be particularly testing as healthcare represents a greater proportion of GDP than ever before and pharma spend as a proportion of healthcare is larger than in previous recessions. The economic challenges, coupled with industry and portfolio specific developments, mean that pharmacos will need to navigate significant uncertainties – requiring a clear definition of potential scenarios and their implications.

EXHIBIT 1: Healthcare has been (traditionally) less affected than other sectors but we have seen some 'lag' effects

Percentage of OECD European countries experiencing negative year-on-year health care[1] growth within two years of negative GDP growth



! In past downturns, majority of European countries have seen health-care spending decline within 1-2 years of a decline in GDP ('lag' effect)

1 Public and private
2 Austria, Belgium, Denmark, Germany, Iceland, Ireland, Luxembourg, Netherlands, Portugal, Spain, Sweden, Switzerland and UK
3 Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Norway, Poland, Portugal, Spain, Sweden, Switzerland, UK
SOURCE: OECD data, McKinsey analysis

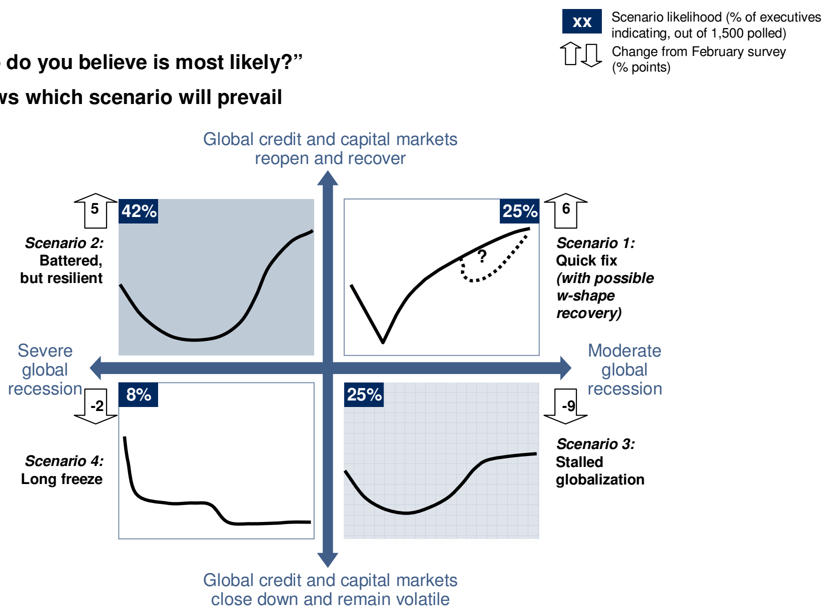
INHERENTLY UNCERTAIN FUTURE

The future is inherently unknowable – even as markets stabilize and economies emerge from the downturn, the impact on globalization and critical policy decisions around growth and deficit funding remains unclear (Exhibit 2).

EXHIBIT 2: Despite 'green shoots' in some industries, most organizations continue to expect uncertain times

"Which scenario do you believe is most likely?"

Still no one knows which scenario will prevail



SOURCE: McKinsey Center for Managing Uncertainty (based on McKinsey Quarterly Global Executive Survey result, April 2010)

Recent research from McKinsey's Center for Managing Ambiguity shows sentiment among business leaders reflects this continuing uncertainty, as their expectations about the relative probability of each of the four scenarios[1] outlined in Exhibit 2 demonstrate. Senior executives continue to inch back from expecting the worst, represented by Scenario 4, and the share of optimists expecting Scenario 1 has increased. Nevertheless, 42 percent of executives still view the more difficult 'battered, but resilient' path depicted in Scenario 2 as most likely, while 25 percent expect the "slow growth" of Scenario 3.

Organizations across sectors must plan for uncertainty and manage risks. This plan should focus not only on short-term actions but also on long-term imperatives to develop the flexibility and resilience needed. Irrespective of how the global economy develops, many pharmacos will need to manage greater uncertainty than in the past, to improve productivity and to challenge their organisation design.

COMPELLING NEED FOR IMPROVED PRODUCTIVITY

It is difficult to keep a disciplined focus on cost and efficiency during growth. Driving excellence in cost containment and productivity has not been part of the core pharma 'DNA' until relatively recently, compared with other industries. We recognize that the pace is shifting and that companies have made significant moves (Exhibit 3) – either organic or through M&A – to achieve lower cost structures. However, we argue that yet more substantial moves, both on cost and productivity, must lie ahead.

[1] The four scenarios were created by the McKinsey Global Institute (MGI) in March 2009 and tracked quarterly since.

EXHIBIT 3: Pharma companies have announced significant moves to capture savings

The industry reacted with cost structure changes and revised projections upwards as the downturn progressed

EXAMPLES

	Announcement period	Financial impact
Pfizer	Q1 2007 Q1 2009 Q1 2010	• Annual \$1.5 - 2.0 bn from 2008 • Reduction in adjusted total costs of \$3 bn by the end of 2011* • \$4 - 5 bn in cost savings by the end of 2012
AstraZeneca	Q1 2007 Q1 2009 Q1 2010	• \$900 mn from 2010 • Estimated to reach \$2.5 bn in savings per year (up from 1.4 bn) with \$2.1 bn before 2010, and the balance by 2013 • Announcement of reducing its workforce by another 10,400 jobs over the next four years, target annual saving of \$1.9 bn
Johnson & Johnson	Q3 2007 Q4 2009	• Annual pre-tax cost savings of \$1.3 - 1.6 bn • Annual pre-tax cost savings of \$1.4 - 1.7 bn when fully implemented in 2011, with \$800-900 mn expected in 2010
MERCK	Q4 2008 Q1 2010	• Cumulative pretax savings of \$3.8 - 4.2 bn from 2008 to 2013 • \$3.5 bn synergy from SP acquisition by end of 2012
Bristol-Myers Squibb	Q1 2009	• \$2.5 bn in annual productivity cost savings and cost avoidance by 2012
gsk GlaxoSmithKline	Q4 2007 Q1 2009 Q1 2010	•Annual pre-tax cost savings of \$1.4 bn by 2010 •Annual savings of \$2.7 bn (£1.7 bn) by 2011 •Cumulative savings of £2.2 bn by 2012, £1.5 bn by end of 2010

* includes Wyeth acquisition
SOURCE: Companies' Annual Reports and websites, press releases, McKinsey analysis

MAKING FUTURE BETS NOW

Pharmacos must show discipline in reducing cost in a world of accelerating and uncertain cost containment. However, we believe that this is also the time to build for the longer term. Down cycles typically create new industry leaders. In previous recessions, dynamic challengers who seized the initiative have triumphed over incumbents. For example, in the 1998–2002 downturn, more than 40 per cent of previous leaders (across industries[2]) were replaced and the newcomers went on to maintain their new positions over time.

The current uncertainty is therefore an opportunity for pharma companies to go beyond headcount reductions to make more radical changes to their ways of working. Some pharmacos are already hitting the challenges head on, taking a robust and fundamental look at their operating model and ways of doing business. They are energizing their people around the transformation. Others risk taking an incremental approach that will make it hard, if not impossible, to drive the needed improvements and avoid 'death by 1000 cuts'.

[2] Pre-down cycle ranking based on 1998 and 1999, post-down cycle ranking on 2001 and 2002; evaluated change in position of 1,024 US industrial companies across 27 industries on basis of ROIC and market to book value.

Swift, thoughtful, and sustained actions will set the new leaders apart. The situation calls for leadership that can both navigate the near term, and seize the opportunity to set the course for long-term success. Companies that choose to embrace the uncertainty will be the ones best positioned to win.

This paper addresses the three steps companies can take to adapt to and make the best use of today's economic realities by restructuring, leaning out, and building muscle in their organizations.

PURSUE THE MOST POWERFUL LEVERS OF RESTRUCTURING

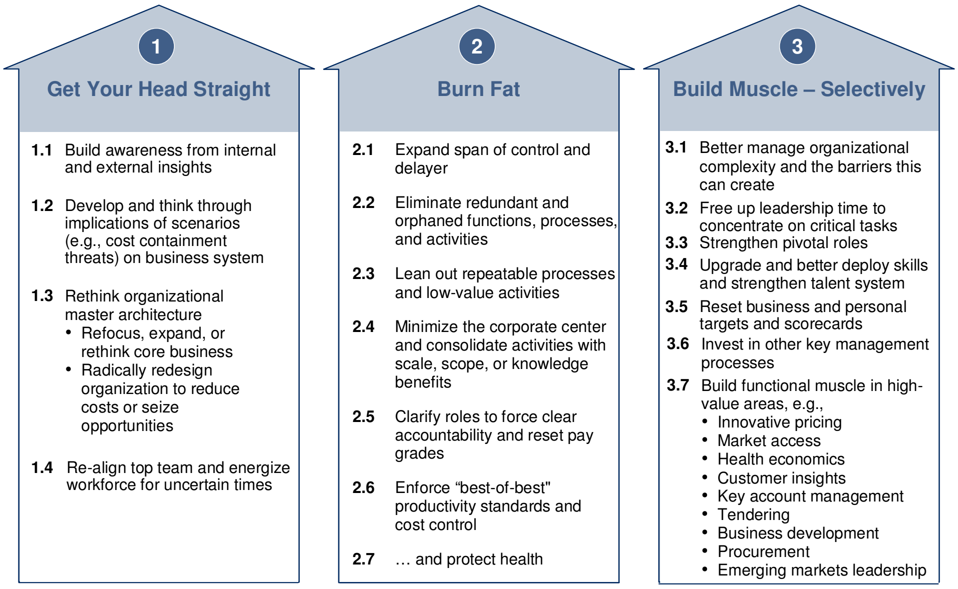
Understandably, many pharmacos are pursuing cost measures (particularly those with weaker pipelines or a looming patent cliff). But, however tempting, quick headcount reductions come at a price. They may be counterproductive for achieving more enduring business system changes (e.g., creating a technology-enabled multi-channel commercial model vs. simply cutting the sales force; centralizing/outsourcing shared services vs. 'tightening the belt' in the current model). They may also overlook the potentially powerful near-term impact of selectively building muscle (e.g., accessing new discovery platforms, building up capabilities in pricing, key account and medical management and shaping new partnership opportunities) even while making cuts in other parts of the organization.

Our experience suggests it is critical to consider three primary levers of restructuring value (Exhibit 4):

- **Get your head straight.** A critical first step for a pharma CEO is to take an objective look at the outlook for their company, identifying both upsides and risks. Frequently, companies consider too narrow a range of outcomes, which limits both their resilience in shocks and the potential to capture upsides. Given the current uncertainty, this is a particularly relevant risk. We suggest framing five questions for the team:
  - Have you formalized scenario-based-planning, mapping likely scenarios across key geographies and therapy areas - do you have a 'plan B' and even a worst case 'plan C'?
  - What risks could you have neglected/missed (the 'known unknowns')?
  - Have you planned for contingencies if risks materialize (e.g., price cuts, more aggressive reference price systems, more aggressive Gx substitution) or opportunities emerge (e.g., resilience in emerging markets)?
  - Is there an opportunity to restructure the business to take advantage of the environment?

– Can you accelerate agility and 'just-in-time' decision-making?

EXHIBIT 4: Potential actions to restructure fast and effectively



SOURCE: McKinsey Pharma Rapid Restructuring team

- **Burn fat.** Lean out the organization. We recognize that programmes are ongoing across the industry and that companies may feel they have addressed all the usual suspects. However, we have seen savings of up to 20–30 percent or more in rapid SG&A savings. These steps can also improve the health of the company while improving efficiency – if taken thoughtfully and in a coordinated fashion.
- **Build muscle.** The most overlooked opportunity in the heat of cost-cutting is investing for the longer term – and seizing competitive advantage. This might imply intensifying partnering efforts with attractive but less robust early stage companies, making big investments in emerging markets or building specific capabilities to address the changing stakeholder environment. The levers will differ by company but we are strong believers in counter-cyclical thinking. Evidence from previous downturns[3] shows that those who maintained investment in innovation and marketing emerged the strongest.

[3] Successful leaders spent 22% more on R&D and 14% more on SG&A, on a relative basis, than the industry average during the 1990-1 recession. For more information see The McKinsey Quarterly 2002 Special edition on risk and resilience: 'Learning to love recessions' by Richard F. Dobbs, Tomas Karakolev, and Francis Malige.

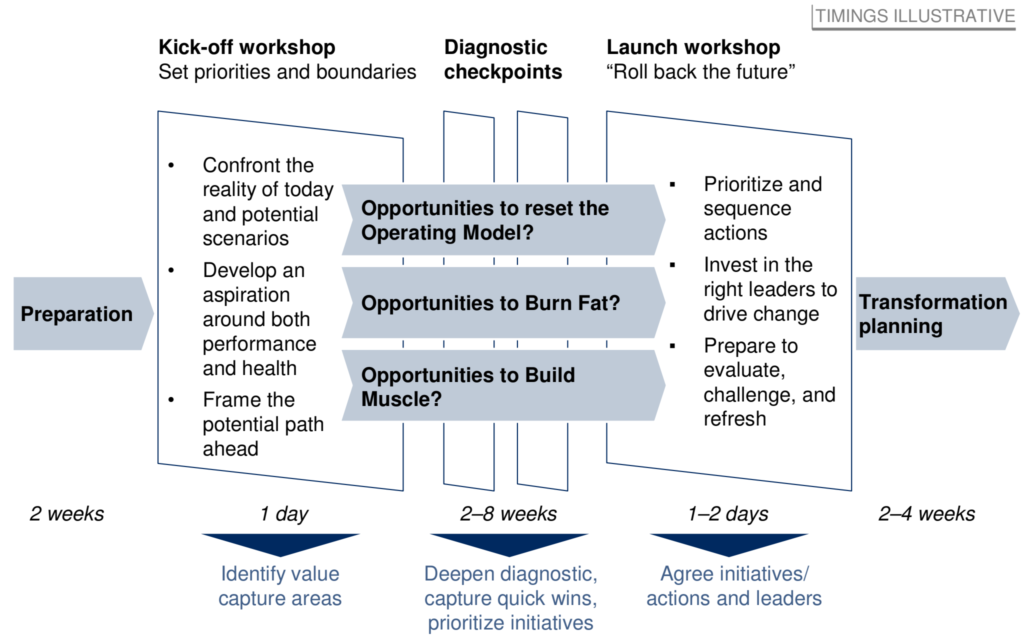
We believe that each of these levers is even more important in the context of the economic uncertainty and the likely intensification of cost containment. As we discuss later, each of the levers can be applied at speed by using a set of tried-and-tested tools, and learning from the defining characteristics of successful change programmes across industries.

ALIGN ON PRIORITIES AND BOUNDARIES

Within these three broad areas of potential improvement, the challenge is to determine the most appropriate mix for your situation. Most pharmacos have been looking to prepare for the new normal for a while and are keen to avoid initiative overload.

When taking a fresh look at priorities, we suggest using a three-step process that first quickly focuses the organization on the most valuable and most urgent opportunities, then launches diagnostic and value-capture initiatives, and finally executes a prioritized and sequenced set of actions (Exhibit 5). Given most pharmacos already have some plans and teams in place, the first step should be to take stock and clarify how your current efforts match up to external opportunities and threats. Here you should aim to accelerate relevant on-going projects, kill off low-priority ones and address gaps.

EXHIBIT 5: Take stock and re-align the top team on the nature of the challenges and potential opportunities



SOURCE: McKinsey Pharma Rapid Restructuring team

Kick off by taking stock and re-aligning the top team on potential scenarios, priorities and boundaries. Confront reality by getting the facts on the table and discussing their implications.

- **Financial situation.** What is the range of potential outcomes for the company's financial position when stress-tested under alternative scenarios? Can you meet investment needs (e.g., for new launches, to fund emerging markets growth)? Where do you see the biggest risks (e.g., cost containment in Europe, US health reform in the 3-5 year horizon)?
- **Likely sources of cost/revenue improvement.** Which areas does the team judge to be most promising and what are their boundaries? Are these the same as three months ago?
- **Efficiency targets**. How much do you need to generate and in what time frame? How much of the aspiration will be addressed by ongoing initiatives?
- **Resourcing.** Given the size of the challenge, are the right leaders in place to pursue the initiatives? Do they have the support do they need/what additional resources are required?
- **Flexibility.** Do you have appropriately stretch scenarios and contingency plans for more extreme potential outcomes?

This initial alignment aims to identify opportunities for re-calibration and to challenge existing aspirations, not to change course completely. Success requires ensuring the top team are aligned on the mandate for change, with absolutely clear responsibility and ownership for the agreed-upon focus areas.

This alignment should take from as little as a few days up to a few weeks, depending on the complexity of the situation. Many companies have found that a dedicated top team workshop applies productive pressure that quickly cuts through complacency ('we're doing all we can') and analysis paralysis ('we need to look deeper into the numbers'). Executed well, such workshops create engaged leadership, which in turn builds the organizational buy-in required.

In some instances, this might best be preceded by the scenario work to create the required transparency and call to action. Well prepared companies have a set of 3-4 company-specific scenarios that consider environmental uncertainty as well as industry-specific trends (e.g., price cuts). Together with the key 'signposts' that serve as early warning indicators that particular outcomes are becoming more/less likely, these scenarios frame alternative futures.

The value-capture or challenge teams then investigate potential opportunities in greater depth and assess both impact potential and implementation feasibility. This step typically takes six to eight weeks, but timing can vary greatly depending on the nature of the opportunity, starting point, progress to date and, frankly, the time available. The two case examples below illustrate the extremes of this spectrum.

EXHIBIT 6: Global pharmaco

REDESIGNED THE CORPORATE CENTER, ALIGNED TOP TEAM AROUND CHANGE AND BUILT LAUNCH MUSCLE

Situation and approach

- Limited action to adapt to changing environment
  - Limited change in a number of years, driving need for revised 'fit for the future' organisational and governance model
  - Industry conditions, upcoming launches and patent expiries creating need for productivity and flexibility gains
- Comprehensive transformation starting from in-depth diagnostic
  - Extensive initial diagnostic done jointly with client 'core team', then design work performed in co-creation through weekly 1-day workshop sub team sessions
  - Value levers grouped in 3 workstreams:
    - Corporate governance and org design
    - Cost efficiency and productivity
    - Organisational development and change

Impact

- Radically redesigned corporate centre and eliminated redundant functions and processes
  - Reorganisation to reduce corporate head-count by more than half and create BU HQs
  - Extensive benchmarking translated in targets by department
- Aligned top team and direct reports
  - Buy in for shift to more functional organisation to drive standardization while increasing independent BU autonomy
  - Design of new country model reducing country heads responsibility and thus globalizing the governance
  - Overall productivity targets of 5-20% to enable reinvestment in key launches
- Build launch muscle
  - Parallel effort to improve launch readiness by putting structures and processes in place

Organisation expected to operate in new structure less than 6 months after decision

SOURCE: McKinsey Pharma Rapid Restructuring team

At one end of the spectrum, a global pharmaco facing a complex, comprehensive set of issues started the process with a clean sheet of paper, and initiated a restructuring staged over six months (Exhibit 6).

Another company pursued a much faster approach. An upcoming Board review prompted them to take a hard look at their financial situation and ask the tough question 'Are we as radical as we need to be in terms of size, scope, and speed?". It took their task-forces four weeks to propose re-prioritised workstreams with revised charters (Exhibit 7).

Clearly, no one-size-fits-all approach exists for restructuring efforts. Any approach should build on what has worked in your organisation and address any residual scepticism from previous frustrations or failed initiatives. The key difference this time may be **pace** – speed is more important than ever; **agility** – an increasingly important capability and **avoiding 'satisficing'** – the false democracy of setting identical targets across multiple areas.

EXHIBIT 7: Diversified healthcare company

REALIGNED TOP TEAM AND STRENGTHENED DELIVERY CAPACITY, CLARIFIED ROLES AND RESPONSIBILITIES, REDESIGNED AND DE-LAYERED REGIONAL ORGANISATION

Situation and approach	Impact
• Need for more aggressive cost cutting, lagging behind implementation timelines – Financial pressure leading to increased cost reduction targets in all areas – Regional operating model implementation patchy; model in need of fine-tuning • Rapid stock-take on current progress, led by dedicated task-forces and selective deep dives into key areas – Task force review of existing work-streams – Stock-take and challenge sessions – Top-down redesign for deep dive areas	• Realigned top team and strengthened delivery commitment – Revision of transformation program to reduce the number of workstreams – Renewed energy and leadership mandate – Agreed time frames and milestones, focus on implementation challenges in all areas and mitigation strategies • Redesign of leaner regional organisation in key area, to build for the longer term – Clarified roles and responsibilities at region vs. country level – Expanded spans of control and de-layered regional group – Headcount savings of 15-20% identified

SOURCE: McKinsey Pharma Rapid Restructuring team

LAUNCH VALUE-CAPTURE TEAMS

Typically, companies launch teams in three areas. In each area, there are proven tools to support systematic, objective analysis and decision-making on choices and tradeoffs.

- **Get Your Head Straight** – align on the target operating model (Exhibit 8). Often this implies restructuring. Your most thoughtful executives, including high potentials, should lead these efforts. They should address critical questions in determining the re-structuring agenda.
  - What are your sources of competitive advantage in the future especially compared to competitors (e.g., payor relationships, patient insights, etc.)?
  - How do you accelerate responses to internal and external insights? How do you institutionalize ways to gather market intelligence (e.g., from emerging Web 2.0 sources to rep interactions)?
  - Have you defined the 3 - 4 scenarios that are challenging, plausible, relevant, and divergent (from less unfavourable to the most extreme) on how volumes/prices might develop in the medium term?

– Have you mapped out what would be the required level of cost/workforce restructuring to maintain a safe financial performance and the specific interventions (i.e. your ‘plan B’ and worst case ‘plan C’)?

– What are the trigger points (‘signposts’) for potential moves that depend on economic conditions or specific scenarios?

– What is the master architecture of the organization under future scenarios? Are there any no-regrets restructuring moves? Are you striking the right balance between above-country integration and local presence? Are there geographic or therapy area-specific models you could be piloting now?

– Will your cost and productivity efforts be enough to close the gap – fast enough? Can a more fundamental shift in organization design enable further cost transformation?

– Is there a shared set of aspirations, and a common understanding of the opportunities, challenges and choices needed, across your leadership team?

EXHIBIT 8: Get your head straight – focusing on operating model, ‘master architecture’ and top team re-alignment

Actions to consider

1.1 Build awareness from internal and external insights

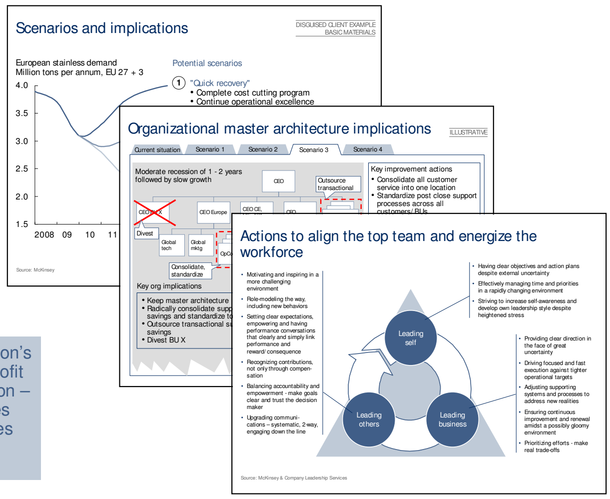
1.2 Think through implications of scenarios on business system

1.3 Rethink organizational master architecture
- Refocus, expand, or rethink core
- Radically redesign the organization to reduce costs or seize opportunities

1.4 Re-align top team and energize workforce for uncertain times

! Companies need to use their organization’s business system to manage risk and profit opportunities from the economic situation – going directly to organization cuts leaves opportunities unexploited and companies exposed to risk

End product examples



SOURCE: McKinsey Pharma Rapid Restructuring team

■ **Burn fat** – Lean out the organization (Exhibit 9). If you haven’t already done so, creating an accurate baseline in terms of costs, headcount and organizational structure is absolutely critical and the foundation for improvement actions. Frequently this is not trivial for many companies with substantial costs buried in ‘Other marketing’ or ‘Other SG&A. Ensure your team creates an Opportunity Matrix that summarizes potential cost savings against this baseline – planned and captured to date – and ask for detail by geography/BU or functional area and by source (e.g., delayering vs. centralization). Both internal benchmarking across geographies as well as external benchmarks per functional area (marketing, sales, medical, market access, support functions) should help get to rapid insights. For one pharmaco, internal benchmarking across geographies and BUs highlighted staffing and expense-level variations of 200-500%. Another pharmaco achieved a quick-win saving of more than $30m by consolidating their ad copy centre in one European location to drive both economies of scale and innovation.

With a full fact base, the team should create a "Cost Pareto" that prioritizes potential cost initiatives by value at stake and ease of capture.

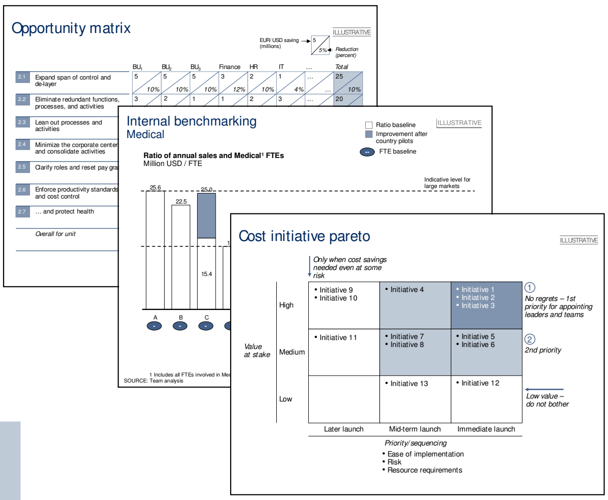
EXHIBIT 9: Burn fat – across the organization

Actions to consider

- 2.1 Expand span of control and de-layer
- 2.2 Eliminate redundant and orphaned functions, processes, and activities
- 2.3 Lean out repeatable processes and low-value activities
- 2.4 Minimize the corporate center and consolidate activities with scale, scope, or knowledge benefits
- 2.5 Clarify roles to force clear accountability and reset pay grades
- 2.6 Enforce "best-of-best" productivity standards and cost control
- 2.7 … and protect and improve organizational health

! Typical impact – 20–35% of addressed cost base

End product examples



SOURCE: McKinsey Pharma Rapid Restructuring team

The critical questions here are:

– Where can further efficiencies be created by de-layering the organization (removing redundant layers)?

– Do organizational structures in each function reflect business priorities? Does structure follow strategy or were positions created opportunistically to retain talent?

- How can you bring management closer to the customer, not only in typical customer oriented functions like sales and marketing, but also in medical, market access, regulatory, etc.?
- Are the support functions organized optimally? Can you benchmark performance internally and externally? To what extent would bolder moves to shared services unlock further productivity? Are your systems and processes aligned and standardized to reach optimal business support as well as a lean organization?
- Is the corporate centre as streamlined and effective as it could be? Is it delivering the support needed by the countries? Are there other possibilities (e.g., setting up BU Headquarters, stripping out regional layers) to be considered?
- How can structures and groups be simplified, consolidating activities to create scale, creating clear accountabilities and enabling cross-functional work? Are you avoiding double work? Are you fully leveraging the work done for the same brand across different geographies?
- What further efficiencies can be obtained in procurement and external spend, (e.g., in marketing, medical, etc.)? Are you using the most cost-efficient suppliers as opposed to the traditional ones (e.g., for API sourcing, etc.)
- What approach to performance management will ensure that near-term productivity gains are captured, with transparency on costs and performance? Are the incentives aligned with both near and longer-term strategic objectives?
- What actions are needed to ensure that productivity gains do not compromise the core capabilities and assets that are essential to long-term delivery? Are there specific areas, products or markets to ring-fence?

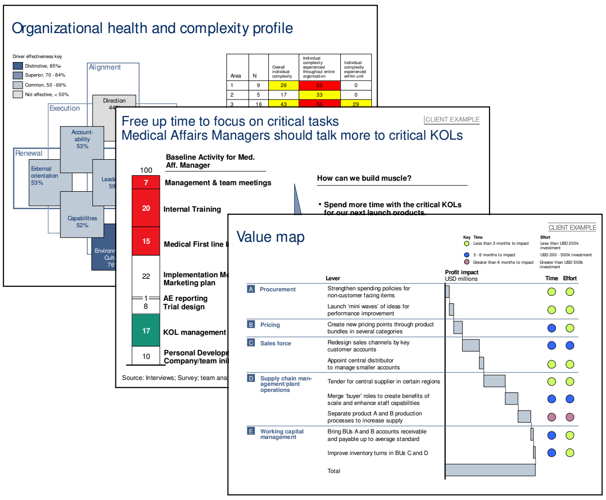
■ **Build Muscle – Selectively** (Exhibit 10). Looking forward, it will be critical to choose where you want to place your bets in terms of increased investment. This requires both an assessment of hard economic impact from improving key functions such as pricing and health economics and a more qualitative assessment of how debottlenecking can improve broader organizational effectiveness.

EXHIBIT 10: Build muscle – Selectively target areas to debottleneck and increase effectiveness

Actions to consider

- 3.1 Better manage organizational complexity and the barriers this can create
- 3.2 Free up leadership time to concentrate on critical tasks
- 3.3 Strengthen pivotal roles
- 3.4 Upgrade and better deploy skills and strengthen talent system
- 3.5 Reset business and personal scorecards
- 3.6 Invest in other key management processes
- 3.7 Build functional muscle in high-value areas, e.g.,
  - Innovative pricing
  - Market access
  - Health economics/ R&D link
  - Customer insights
  - Key account management
  - Tendering
  - Business development
  - Procurement
  - …

End product examples



SOURCE: McKinsey Pharma Rapid Restructuring team

Key questions include:

– Where can decision-making or delivery be enhanced by removing barriers due to unnecessarily complex groups or organisation/ governance? Can you clarify accountabilities and objectives to align roles at all levels?

– If you started with a clean sheet, how would you allocate leadership time against top priorities, i.e., those decisions or interventions that cannot be delegated? How does this compare to the current activity allocation?

  - Can the highest value-added activities (preparing upcoming launches, engaging with core KOLs, getting deep insights in payor needs, etc.) be prioritized?

  - Can you increase leanness by rethinking governance/committees (number, frequency and participation)? Can you reduce the burden of internal meetings to free up capacity and talent?

– What changes are needed to ensure that leaders in pivotal roles – whether in to commercial, medical, manufacturing or R&D – have the skills, decision rights and levers of influence they need?

– How do you ensure that you have the skills you need where you need them? Where do you want to invest to seize the initiative vs. competitors?

– Which targets – qualitative and quantitative – will ensure that your organizational priorities flow down to a unit and individual level? Which

KPIs are most important to the organization's near-term performance and long-term health?
  - How much are you investing in key capabilities needed in critical areas, e.g., innovative pricing, health economics, customer insights, KAM, tendering, etc.?

PRIORITIZE YOUR CHANGE INITIATIVES

Teams can frequently make a first-pass assessment of the areas above in about six to eight weeks and, in many cases, can kick-start or accelerate capturing significant value in that time. At the end of this period, the organization will be able to take some decisions, and have a comprehensive prioritized set of initiatives that maximizes near-term impact and optimizes the future state.

However, for this type of programme to be successful it will be important for the leadership team to be aligned around a series of challenging questions.

- How will we integrate new initiatives into existing change programmes, and which do we prioritize or stop?
- How will we reconcile competing demands for resources from various value capture or challenge teams?
- How will we sequence initiatives to both capture impact from quick no-regrets actions while preserving improvement from long-term structural changes?

In our experience, the best way forward is to convene your top team, along with the leaders who investigated each improvement lever, in a multi-day workshop to 'roll back the future' and address these issues (Exhibit 11). Such programmes usually only deliver what they are able to measure, so the output of this workshop should be a clear action plan with targets to be used as benchmarks.

EXHIBIT 11: A 'roll back the future' workshop re-aligns the top team on the actions and trade-offs necessary to unlock the three value levers

Roll back the future

1 Picture the future and implications, by scenario, for how you can best achieve your objectives

- How might the overall economy and the pharma industry evolve (scenarios)?
- What unique opportunities to rethink the business system (short and long term) might we have by scenario (e.g., M&A, radical outsourcing)?
- What risks must we guard against?
- What organizational 'master architecture' should we aim for?
- What are the implications for cost cutting – how much must we lean out and where? Where should we not make cuts?
- What are the implications for areas where we should invest to build muscle – what capabilities will be core to future success?

2 Understand opportunities and trade-offs to burn fat and build muscle

- What is the slate of opportunities to reduce cost in the organization (cost Pareto)?
  - Impact/risk?
  - Ease of implementation?
  - Timing/ sequencing requirements?
  - Fit with scenarios/ new organizational master architecture?
- Are there attractive opportunities to build muscle in the organization (value map)?
  - Impact/risk?
  - Ease of implementation?
  - Timing/ sequencing requirements?
  - Fit with scenarios/ new organizational master architecture?
- What is the master list of potential initiatives, eliminating overlapping / inconsistent initiatives?

3 Prioritize and sequence value capture initiatives

- Are there no-regrets steps that should be taken immediately?
- How should other potential initiatives be prioritized, e.g.,
  - Timing/magnitude of cost reduction (now vs. in 6 months vs. next year)?
  - Support of potential structural moves?
- What specific initiatives should be launched now vs. in 6 months vs. next year?
  - How should they be staffed? What performance targets will they achieve? By when?
  - How will these targets be built into the budget?
  - How should they be integrated into existing change programs and initiatives?
- What other current initiatives should be re-scoped to fund priority initiatives?

SOURCE: McKinsey Pharma Rapid Restructuring team

LEARN FROM EXPERIENCE

We have talked about a variety of ways to find opportunities in today's uncertain environment. But before launching any changes in their restructuring journey, pharma leaders should carefully reflect on lessons from their own experience and from others who have taken this path before. It is difficult to make such efforts succeed: many surveys, including our own, put the success rate at worse than 40 percent[4]. Our recent research on what makes transformation programmes succeed, however, underscores the fact successful outcomes are promoted by a set of specific tactics[5].

- **Be aspirational.** Programmes founded solely on fear rarely lead to long-term success. Motivate your employees with a clear, compelling view of the future (a North Star to guide the way), not just aggressive cost reduction and performance improvement targets (a 'burning platform'). Some 56% of transformations where well-defined stretch targets were established succeeded, as opposed to 21 % where they were not.

[4] For example, see "Organizing for successful change management: A McKinsey Global Survey," July 2006; and "Creating organizational transformations: McKinsey Global Survey Results," August 2008, both available on www.mckinseyquarterly.com.

[5] See "Voices on transformation – Insights from business leaders on how to manage successful change," March 2009. Research from 2008 McKinsey global survey on performance transformation comprising responses from 2,994 executives with recent transformation experience.

- **Assemble a winning team.** It is all too easy to delegate leadership of performance improvement teams to second-tier managers with the rationale that the most capable are needed to run the organization. This is a recipe for mediocre results.
- **Lead from the top**. Personal leadership sets the agenda as a priority for the organization and maintains momentum. Force objectivity by insisting on facts vs. opinions. Ask tough probing questions and maintain the pressure to deliver more: What are the benchmarks? What do staff and stakeholders say? What would happen if we were more ambitious in the depth or speed of change? What roadblocks need to be removed to get this done? Transformations with strong CEO involvement were more than twice as likely to succeed (a 49% success rate as opposed to 24% without).
- **Engage the front line**. Ensure that the changes are understood and owned throughout the organization or delivery chain – right down to the front line. Programmes which ensured frontline ownership of change were 71% more likely to succeed than those that did not.
- **Align mindsets and behaviours**. What kind of culture are you trying to build? Communicating this isn't enough. Make sure you reinforce with the right measures and incentives and get your management team to proactively role model and reward the behaviours you want.
- **Don't get lost in the short term**. Even if conditions demand a strong focus on near-term performance, find a way to emphasize investments to build new areas of capability, in order to provide the organization with a positive view of the future. Balancing positive and negative messages increased the chance of success by more than a third. Make sure senior management maintains long-term focus, rather than shifting to other initiatives.

Each of these factors is important on its own. In combination, they have the potential to radically improve the chances of success. Those change programmes that used all six identified change tactics were four times as likely to be successful as those that used only one (Exhibit 12).

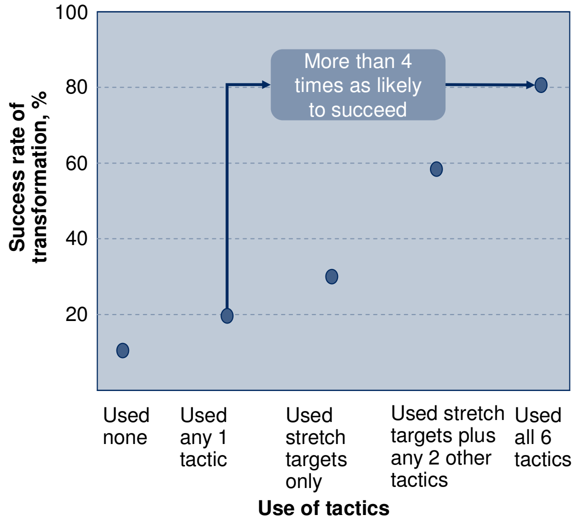
EXHIBIT 12: Using multiple tactics radically improves chance of success

Share of transformations described as extremely/ very successful, % of respondents, n = 2,994

Specific tactics can support successful transformation…

- Establishing well-defined stretch targets
- Assuring strong CEO involvement
- Organizing a clear structure for change
- Ensuring frontline ownership of change
- Implementing an equal mix of positive and negative messages
- Launching a large-scale, collaborative planning effort

… and using multiple tactics radically improves the chance of success



SOURCE: "*Voices on transformation – Insights from business leaders on how to manage successful change*," March 2009. Research from 2008 McKinsey global survey on performance transformation comprising responses from 2,994 executives with recent transformation experience.

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As the current economic situation plays out, different companies will take different approaches to grappling with the opportunities and challenges. Many pharma companies have launched restructuring efforts, some more tactical, others more fundamental. We would argue, given the turbulence ahead, that it will be critical not only to address cost but also to seize opportunities to explore new models, enhance flexibility and build specific capabilities (health economics, payor/ managed markets insights, etc.). Each has the chance to turn this crisis into an opportunity for leadership, winning through the turbulence.

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