

Belgium - Life Sciences  
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# Life Sciences Insights



Welcome to the fifth Belgian newsletter for the Life Sciences industry, published by Deloitte! We publish this newsletter every 2 months and we hope this will be an enjoyable and productive reading – please [contact us](#) if you have any questions or wish to discuss any of the topics further.

## 1. TOPICS

### 1.1. How prepared is your organization to continue business through a pandemic such as the Mexican flu?

On June 11, 2009, the World Health Organization (WHO) raised the alert level to phase 6 'pandemic'. Evidence from multiple outbreak sites demonstrates that the H1N1 pandemic virus has rapidly spread and is now the dominant influenza strain in most parts of the world. The H1N1 pandemic will persist in the coming months as the virus continues to move through susceptible populations. History has demonstrated that the threat of a pandemic is real. In the 20th century, there were three pandemics. The 1918 pandemic led to at least 50 million deaths worldwide

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### 1.2. Business Partners in the Life Sciences Sector: Greater Value with Greater Transparency?

Some observations and findings from compliance reviews performed on business partner contracts.

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### 1.3. Destination 2025?

Focus on the future of the Biologic and Biopharmaceutical Industry

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### 1.4. Managing talent in a turbulent economy – Clearing the hurdles to recovery

This is the 3rd piece of our survey among global top executives, and a special focus on life sciences executives.

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### 1.5. Did you know? Some insights, surprises ...

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## 2. MEXICAN FLU & PANDEMIC PLANNING FOR BUSINESSES AND PUBLIC ORGANIZATIONS

### **The need for preparations**

Should the current pandemic aggravate, it will disrupt supply chains, dramatically reduce labour pools, and diminish businesses' ability to meet scheduled obligations. All levels of government, businesses, and individuals will be impacted and will be responsible for pandemic preparedness and response.

Responding to the threat of a pandemic is not something effectively done in isolation. Rather, it should be viewed in a larger assessment of potential business impacts and alongside the development of appropriate risk management plans. Companies that take steps to improve their shock resilience before an event takes place clearly have an easier and faster recovery and also a competitive advantage in the marketplace.

### **The continuity of human capital, products and customers**

The Business Continuity Management team of Deloitte Enterprise Risk Services has helped many organizations plan, prepare and exercise their business continuity and pandemic preparations in recent years and is currently advising several large organizations. Deloitte has developed a framework to assist its Consultants in advising organizations in preparing for a pandemic (see Figure 1).

A pandemic impacts an organization's ability to mobilize its work force to provide products and serve its customers. All three of these aspects of planning and preparedness, product continuity, human capital continuity, and customer continuity, must be addressed:

**Human Capital Continuity:** Preventive measures such as a hand washing policy should be implemented. Nonetheless, each organization should also plan for extreme staffing shortages (health specialists warn up to 30% of staff members may be unavailable), which will seriously impact on organization's operations. Businesses must also protect their employee's families in order to reduce revenue lost due to leave taken to care for a sick family member and insurance costs for self-insured employers.

**Product and Service Continuity:** Businesses must preserve their revenue streams. Organizations need to understand the impacts of the pandemic on their ability to deliver the services and goods.

**Customer and Strategic Partner Continuity:** This involves determining how a pandemic might impact customers and partners, and minimizing this impact. Strategic partners might include suppliers, manufacturers, distributors and regulators. There may be an overwhelming demand for certain services, such as Health care and telecommunications. Organizations need to understand how the supply chain might be impacted. Organizations may experience reduced reliability in communications, power, water, fuel availability, transportation service.



**Figure 1. Deloitte's Framework for Pandemic Preparedness (© Deloitte 2009)**

### **Planning, preparedness, response and vigilance**

Keeping abreast of the latest news and recommendations from the WHO and other government organizations will help you adjust your response as appropriate for current circumstances. Proportional responses will help prevent panic from taking over and also help determine appropriate risk management measures. Proactive planning should consider a variety of potential future developments ranging from benign to catastrophic, so that the appropriate plans can be executed as needed with minimal improvisation.

Deloitte defines pandemic preparation as a continuous process to help a business Plan, Prepare, Respond and Monitor their activities before, during, and after an outbreak:

**Planning:** The current state of preparedness should be reviewed and business impacts should be analyzed. Organizations must determine in what order to recover business processes.

**Preparedness:** Formal strategies for addressing continuity should be prepared. Such strategies might include the loss of office space and work areas: in case offices are closed to prevent further infection of employees, it is important to have advanced planning which allows your employees to be as productive as possible while working virtually during a pandemic outbreak. Organization should also prepare management succession – from who will make decisions, to when should ill workers be allowed to return to work.

**Response:** Train, test, acquire resources and infrastructure, and execute the plan in the face of a pandemic.

**Vigilance:** Monitor and evaluate the response and update the plan based on reactions. Regular maintenance, review and testing of plans is not an option but a necessity.

Preparing for a pandemic, regardless of whether the current H1N1 flu continues to escalate is a wise investment in the protection of your most critical assets, your people. It is recommended to develop a comprehensive Business Continuity Management program to protect all of your critical assets from a disaster event, whether pandemic driven or caused by a natural disaster or a man-made event, organizations must have adequate response plans and protection. Examining your organization for the most critical business processes, by way of a threat/risk assessment and business impact analysis will identify the most risky, time-sensitive, and impactful activities your organization undertakes on a daily basis.

### **Conclusion**

Proper preparation for a pandemic is key to protect the most important asset of the organization – its people, to minimize impact to business operations, to continue to deliver products and services to customers, to enhance brand image for reliability and to minimize financial losses from pandemic. But the value of pandemic preparedness goes beyond these benefits; it also ensures better preparedness for other types of business disruptions by achieving cross-training of key responsibilities, understanding critical processes, their resource

requirements, and internal and external dependencies and building resilience into the organization to minimize future disaster impacts. To be successful, pandemic planning must take into account the continuity of the products or services, human capital continuity, and customer and strategic partners. And it needs to be incorporated into the Business Continuity Management process. The point is not to sound alarmist but a good prep

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### 3. BUSINESS PARTNERS IN THE LIFE SCIENCES SECTOR: GREATER VALUE WITH GREATER TRANSPARENCY?

Life sciences companies increasingly rely on business partners to help with the efficient research and development, manufacturing, marketing and distribution throughout the value chain. Organisations can derive significant benefit from these relationships. However, the financial and other risks associated with these alliances must be carefully managed in order to maximize benefits.

Contracts that underpin arrangements with business partners often rely on the business partner to self-report net sales, expenses or other figures.

**Moreover, contract clauses are sometimes vague, and frequently misinterpreted.** In order to get more transparency on the accuracy and completeness of revenue streams from and to business partners, life sciences companies can perform inspections to verify business partner compliance with contractual terms and conditions. Is it worth going the extra mile? Please find below two examples giving trends and inspection findings for licensees and Contract Research Organizations (CROs).



#### 1. Licensees

**Context:** Each year, millions of dollars are exchanged through in-licensing and out-licensing agreements. These figures are rising and royalty revenue is anticipated to exceed 25% of sales revenue in 2019.

**Findings:** Based on audits performed by Deloitte, it was found that there were underpaid royalties in 90% of cases with underpayment of up to 50%. The most important reasons for these underpayments were incorrect deductions from gross sales, misreporting in general and incorrect foreign exchange rates. In addition to these underpayments, it was also noted that there were sales outside of the contractually defined territory. It is often unclear which data source(s) should be used for royalties based on generic penetration rates, e.g. how is market share measured? Finally, the processes and controls at licensors are sometimes not robust enough to identify reporting issues.

#### 2. Contract Research Organizations

- Context:** In 2006, pharmaceutical companies spent approximately \$60 billion for research and development. 25% of that went to the CRO industry. That number is expected to double in five years' time.
- Findings:** On several occasions, we found that expenses for shared development contracts are overstated, which meant the life sciences company overpaid the CRO. Main reasons for overstatement of expenses were :
- Involvement of numerous third party suppliers in the clinical trial process leading to a complex expense, rebate and discount structure;
  - Currency exchange rate errors because of trials over multiple geographies leading to expenses in multiple foreign currencies.

Sources:

*"Why CROs Are the Safest Way to Profit From Drug Discovery"* Stansberry & Associates Investment Research

If you are interested in finding out more about this topic, don't hesitate to [contact us](#).

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#### 4. FOCUS ON THE FUTURE OF THE BIOLOGIC AND BIOPHARMACEUTICAL INDUSTRY

Deloitte Consulting LLP and The BioBusiness Alliance of Minnesota (BBAM) have developed a white paper on the future of the Biologic and Biopharmaceutical industry. "Destination 2025: Focus on the Future of the Biologic and Biopharmaceutical Industry" is one of six industry papers that explore the future of six markets of the global biosciences industry. The other five markets include: Medical Devices; Animal Health; Food; Renewable Energy; and Renewable Materials.

This paper aims to inform decision makers in Academia, Government and Industry of a range of potential opportunities likely to emerge in the biologic and biopharmaceutical industry, and to identify technologies, products, and knowledge clusters critical to taking advantage of these opportunities.

We have identified potential growth opportunities in the biologic and biopharmaceutical industry based on a broad view of emerging and future industry trends and technologies. The technology and product opportunities are then matched against a range of future scenarios. The result is a portfolio of technologies, products, and knowledge clusters, which can be a starting point for discussion about opportunities for the regional industry. Decision makers can begin with those opportunities to develop a vision for the region. Similarly, individual entities can formulate strategies based on their constraints and objectives to manage the uncertain future.

##### 1. Emerging and future trends

The following trends have been identified as those expected to influence the industry in the next 20 years:

- Significant demographic trends are likely to expand the demand for biologic and biopharmaceutical
- Globalization is changing industry dynamics and is expected to continue
- The shift toward prevention over cure is expected to be fueled by development in such areas as pharmacogenetics and biomedical engineering
- Convergence across health care products and industry segments is expected to transform the biopharmaceuticals, biologics, and medical device industries
- Managing the talent gap is key to industry growth and innovation

##### 2. Emerging and future technologies and products

Product innovation is expected to refine existing products or accelerate new product development, and technological breakthroughs are expected to bring new classes of products into the market, through technologies such as Genomics, Proteomics, Bioinformatics, Pharmacogenomics and pharmacogenetics, RNAi, DNA

sequencing and synthesis technology, Gene therapy, New vaccines, Stem cell therapy, Biomarkers, Regenerative medicine, Genetic testing, Nanomedicine, Systems biology/synthetic biology, High-throughput screening, Pharmacokinetics and pharmacodynamics, Xenotransplantation and Toxicogenomics.

### 3. Exploring possible futures and identifying opportunities

We also provide a framework through which opportunities can be identified and pursued. By laying out a range of possible future scenarios, and matching the relevant technologies and products to each, we have identified a portfolio of technologies and products relevant across a range of scenarios, such as:

- a) Rapid technological innovation dominates
- b) Maslow vs. Malthus — Meeting growing basic needs of a growing population
- c) Boom — Rapid economic growth
- d) Slippage — Below-average global economic growth
- e) One world — System of connected sub-systems
- f) East meets West — Increasing westernization of emerging economies
- g) Consumer's World — Consumer preferences dominate

Are any of the scenarios of interest? Please click on the link to access the full

paper: <http://www.deloitte.com/us/d2025>

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## 5. MANAGING TALENT IN A TURBULENT ECONOMY - CLEARING THE HURDLES TO RECOVERY

Although companies are still grappling with the historic meltdown of global capital markets and the worldwide economic downturn, many Corporate Executives believe for the first time this year in an economic recovery in the near future. According to the 3<sup>rd</sup> wave of the longitudinal Deloitte/Forbes study, the number of business leaders believing that “the worst is yet to come” is declining, while the group believing in a brighter future has doubled since March (16% in May to 8% in March) although they recognize that the economic conditions remain challenging.

This means that organizations are cautiously preparing for an economic recovery. This reflects in their strategic priorities. Cutting and managing are still on top of the priority list of the surveyed executives (56%), but these severe measures are becoming less important compared to the March results where 63% of the surveyed participants ranked this as a top strategic issue. The 2<sup>nd</sup> and 3<sup>rd</sup> priority are acquiring, serving and retaining customers (43%) and managing the human capital within the organization (33%). These remain a consistent strategic priority for business leaders especially within the Life Science & Health Care industry. These overall strategic priorities reflect as well in a renewed vision on Talent Management.

### Preparing for a better future

As cost cutting stays important, headcount reduction and layoffs are still prevalent. More than 60% of the participants to the survey reported layoffs in the last three months and 75% of them indicated they expect more layoffs in the months to come.

On the other hand the May survey revealed that executives also expect to shift their talent priorities in the next three months. They want to focus more on experience and leadership to ensure their organizations are ready for an economic upturn. This means they will focus on:

- Training and development by increasing their high –potential (46%) and leadership/management

development programs (42%) and their regulatory, security and risk training (especially within the Life Sciences / Health Care industry)

- Recruitment of critical talent (47%), hard-to-find leaders (41%) and experienced hires (38%)
- Retention of the most critical workforce

### Spotlight on Talent retention

Although layoffs remain widespread and recruiting is down, companies are preparing for a better future. Nearly 75% of the surveyed executives indicate that they are currently adjusting their workforce and retention plan or developing one.

Talent managers do realize that when the recession will come to an end, the risk of losing key employees will increase significantly. Nearly 65% of the executives are very anxious about losing their high-potential and critical employees to competitors after the economic recovery. Especially within the Life Sciences/Health Care industry 68% executives predict a drastically increase in voluntary turnover. The population which are expected to be on the mover or generation Y (under age 30) and X (ages 30-44).

### Top barriers to retain key employees

The three most important barriers to retain key talent reported in the survey were:

- Lack of compensation increases (44%)
- Excessive workload (30%)
- Lack of adequate bonus or other financial incentives (28%)

Executives in the Life Sciences/ Health Care industry are expecting to increase compensation rather than to decrease it in the next coming year to retain their workforce. Nearly 44% of them will focus on flexible work initiatives in the next 12 months.

Taking the right retention actions after the economic downturn will determine whether your key talents will become your future leaders or the leaders of your competitors.

If you are interested in reading the full report from Deloitte, please click [here](#).

[link to full report:](#)

[http://www.deloitte.com/dtt/cda/doc/content/us\\_talent\\_ManagingTalentinaTurbulentEconomyPart3%282%29.pdf](http://www.deloitte.com/dtt/cda/doc/content/us_talent_ManagingTalentinaTurbulentEconomyPart3%282%29.pdf)

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## 6. DID YOU KNOW?

- What is the common point between the pharmaceutical industry and the life insurance industry in the US? None at first sight. However, about 30 years ago already, the life insurance industry dumped their massive armies of captive agents and replaced them with independent brokers. Could this be the future of Pharma medical representatives? They will be pitching on drugs based on outcomes and price in the future. Please read the full Deloitte point of view on Deloitte's website.
- That the authorities in France are urging people to stop kissing because of a rise in new cases of swine flu? In some places, even the traditional kiss on the cheek greeting has been banned...

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