

# Re-engineering Roche

Roche is overhauling its cost structure to produce a leaner organisation better equipped to focus on pharmaceutical innovation. It is also investing heavily in China, turning its Shanghai operations into a centre for everything from commercial manufacturing and research to partnering, licensing and strategic planning. **Pascal Soriot**, COO of Roche Pharmaceuticals, speaks to **Pete Chan**

One of the best ways for a pharmaceutical industry rookie to learn the ropes is to take on a customer-facing role selling medicines in a small country. This is the advice of Pascal Soriot, a pharma executive who cut his teeth in the sector by doing just that.

Aged 28, Mr Soriot, a trained veterinary surgeon, accepted a job offer as district sales manager for what was then Roussel New Zealand. The Frenchman leapt at the chance, expecting to quickly learn the nuts and bolts of the industry, better understand the needs of physicians and gain valuable experience managing people.

More than two decades on, Mr Soriot fondly describes the career move as his "best decision", adding: "I think that most of what I know now I learnt then."

Perhaps Mr Soriot is downplaying the significance of the long list of other jobs on his résumé, mainly leadership positions in sales and marketing, as well as general management, at several of the legacy firms that became Sanofi-Aventis. In 2006 he joined Roche, where he serves today as chief operating officer of the Swiss multinational's pharmaceuticals division. (Recalling 2009, Mr Soriot says he had a "life-transforming" time in the sunny climes of California, leading Genentech in the months following the biotech giant's acquisition by Roche.)

Most recently, the chief has been focused squarely on a major task of corporate re-engineering. Much of 2010 was spent crafting an overhaul of Roche's cost base, deciding where it would make clear trade-offs in its allocation of resources, better leverage different geographies, streamline its manufacturing network, maximise procurement savings and outsource non-core functions. The result of Roche's 'Operational Excellence' programme will be a leaner and more productive organisation, better equipped to focus on the core business of pharmaceutical innovation and developing differentiated medicines (see Box 1).



Pascal Soriot

## ROCHE KPIS, 2009

SCRIP 100 RANKING:	5
PHARMACEUTICAL SALES:	\$36.02 BILLION
PHARMACEUTICAL OPERATING PROFIT:	\$10.55 BILLION
R&D SPEND:	\$8.22 BILLION
R&D SPEND AS % OF PHARMA SALES:	22.8%
ACTIVE R&D PROJECTS:	178

Source: Scrip Market Data

Speaking to *Scrip 100* in November, the week after he and CEO Dr Severin Schwan outlined the details of the Operational Excellence initiative to investors, Mr Soriot stressed that it was "not a one-off cost-saving programme, but the kick-off of an effort to re-engineer ourselves".

Alluding to possible exciting new approaches to innovation, the executive says Roche has "identified a number of initiatives that we'll be working on next year to look at new and disruptive ways of how you develop a drug".

Roche was not alone in announcing major restructuring in 2010. But, says Mr Soriot, there is a difference between Roche's position and that of many of its peers: Operational Excellence was launched "from a position of strength, reflected by a low exposure to generics and what we believe is a very strong new product portfolio". US patents for Roche's key biological products start to expire in 2018-19. In 2011, the chief expects Roche to have up to 14 NMEs in late-stage development.

Mr Soriot states that the programme is about "making strategic decisions that will shape the future of the organisation, and where we focus our investments, both from a product portfolio perspective and also from a geographical perspective".

Much of that investment will now be geared towards building Roche's business in emerging markets. The Swiss company has traditionally been less vocal on this subject than some of its peers, but Mr Soriot takes the opportunity to put that right, stating that the emerging markets "are of substantial importance" to Roche, and are expected to generate 50-60% of its overall sales growth over the next two to three years.

Roche's business strategy has predominantly focused on building specialty-care franchises and generating profits by charging high prices for them. Some argue that this model makes Roche's products too expensive for emerging markets. The likes of Bayer are recognised as successful early movers in emerging markets, in part because they first went to market with cheaper primary-care products. But Mr Soriot is convinced that the rapid growth of some emerging economies will change the picture, "opening new horizons for products like ours".

One product that is ripe for growth is Herceptin (trastuzumab). Roche sells the HER2-targeted anticancer across the E7 emerging markets (the BRICs plus Mexico, South Korea and Turkey) at prices comparable to those charged in the West (at 95% of the US, UK, French, German and Japanese average). Even so, the product is growing rapidly across the E7, accounting for 22% of Herceptin franchise sales in 2009.

Mr Soriot puts this down to Roche being able to demonstrate the strong clinical value of Herceptin. Furthermore, the product has a relatively low penetration across the E7 markets as a breast cancer therapy today, underlining its potential for growth in these regions.

### tapping China

The number-one priority emerging market is of course China, which alone will drive \$40 billion in pharma growth through to 2013, according to IMS Health.

There Mr Soriot sees an abundance of companies turning tidy profits by selling undifferentiated products at reasonably high prices. For him, this means there is "enormous potential to save money", especially as Chinese healthcare reform initiatives take hold.

"I think that as the government keeps increasing its investment in healthcare and pharmaceuticals, it will be looking to drive more value out of its investment," the executive explains. "It will be looking for price reductions in products that are not differentiated. I am absolutely convinced of this." Over time, therefore, Mr Soriot expects to see a redeployment of funds towards more innovative and differentiated products, to the benefit of companies such as his.

Roche employs a network of key account management teams across China, whose job it is to negotiate with local governments to get its products reimbursed. The company has started out by partnering with governments in China's wealthier regions

## Box 1: Excellent operations

Roche's Operational Excellence programme is designed to adapt the company's cost structure to the increasingly challenging market environment and to make Roche more productive so that it can continue investing in innovation. Key initiatives will be implemented between 2010-12, resulting in a fresh new look to the company's commercial, technical and development operations.

The company will downsize and restructure its primary-care sales force to compensate for setbacks with its diabetes drug *tasoglutide*, with the greatest impact on headcount in the US and Europe. Roche will channel its resources towards high-priority products and markets, for instance by scaling up its field force in China from 960 sales reps in 2009 to 1,300 in 2010. The majority of these, some 1,200 reps, will be responsible for selling Roche's specialty-care products to the Chinese market.

Roche will streamline its manufacturing network, resulting in 15 plants by 2014. The company will divest two US facilities (Boulder and Florence) and reduce its headcount in Vacaville, San Francisco and Oceanside. 1,350 jobs in technical operations will be cut by 2012.

The company will re-organise its geographical footprint so that global development leaders, commercial leaders and other staff with "strategic roles" – who shape strategy and therefore need to interact on a daily basis – will be located either in Basel (metabolism, CNS) or South San Francisco (oncology, inflammation, ophthalmology, virology). The result will be faster decision-making.

Explaining the rationale, Pascal Soriot, chief operating officer of Roche Pharmaceuticals, said: "On an oncology product team... you could have members based in Basel, Nutley and San Francisco. Working across time zones with teleconferences at odd hours is taking a toll on people. Co-locating the key decision-makers will enable us to improve their working lives and speed up decision-making."

Many other high-value added roles that are important but less strategic will be placed in the "operational role" category. These will be located in cost-effective sites such as Welwyn and Shanghai. Roles that are more "transactional" in nature will be outsourced to India. Roche will continue to invest in its Shanghai operations, reflecting its strategic focus on China.

Operational Excellence will result in 4,800 job cuts worldwide (6% of Roche's workforce), with the greatest reductions in the pharmaceuticals division in sales and marketing positions and in manufacturing. It will lead to cost-savings of CHF1.8 billion in 2011, rising to CHF2.4 billion annually from 2012 onwards.

CEO Dr Severin Schwan said: "The attitude of constantly improving our productivity has to be a way of life. It has to be part of how we operate in an increasingly challenging environment."

## Box 2: Branded generics not for Roche

Several big pharmaceutical companies have recognised the success of branded generics in emerging markets and made targeted acquisitions as a way of driving growth. GlaxoSmithKline's acquisition of Laboratorios Phoenix will propel the company into the number three spot in the Argentinean market, up from 14th position before the deal. Abbott is the leading pharma company in India, thanks to its acquisition of Piramal's domestic formulations business.

Pascal Soriot, chief operating officer of Roche Pharmaceuticals, understands the rationale behind such transactions, but makes it plain that this is not a business model for Roche.

"I personally don't believe in that strategy," he states. "Our strategy is very much focused on innovation, differentiated medicines, and leveraging pharma and diagnostics to come up with personalised healthcare strategies."

The chief continues: "It can be a very effective way of moving up the rankings in the short term. But you have to ask what we are here for as an industry. We're not here to become the biggest, we are here to innovate. If we don't innovate there is no place for us."

Moreover, Mr Soriot questions the extent to which an innovator pharmaceutical company, attempting to integrate a branded generics business, can recognise synergies in its promotional efforts. He thinks sales reps may simply end up giving mixed messages when they detail physicians.

"I think it will be hard for the same sales forces to sell both innovative and branded generic products. And doctors will also be a bit confused to see a company that is supposed to be focused on innovation trying to sell them branded generics."

where there is the necessary purchasing power to pay for pricier medicines, such as anticancers.

Xeloda (capecitabine), another of Roche's oncology drugs, is one of the furthest along the reimbursement path and may point to the way forward. On Roche's 18 March investor day, Mr Soriot presented data showing that as of Q3 2009, the company had secured at least 90% reimbursement

for the product in economically-advanced Shanghai, Zhejiang, Fujian, Hong Kong and Macao; and 80-90% reimbursement in Beijing and provinces such as Hubei, Sichuan and Yunnan.

Sales of the product in China grew by 23.2% in 2009 (compared with 7% growth overall) to reach CHF99 million (\$99 million), making the country Xeloda's second-largest market after the US



**THE PLACE TO BE:** For aspiring Roche professionals in China

has a vested interest in seeing the Chinese biomedical sector prosper.

Frank Grams from Roche Partnering's Shanghai office has taken an innovative approach to stimulating Chinese science outside of Roche's walls. He teamed up with OrbiMed, a venture capital firm, and the consultancy McKinsey, spearheading a competition that would help Chinese scientists turn their work into commercial ventures.

The SEED competition, an acronym for Scientists to Entrepreneurs, Education and Development, offered prize money of RMB300,000 (\$45,000) and the chance to travel to the US for face time with investors and other entrepreneurs to the applicant presenting the most impressive business plan. In April, Magpie Pharmaceuticals was chosen as the winner, with Suzhou Natong Bionanotechnology and Pharminova Biotech as runners-up.

Big pharma is shedding thousands of jobs in response to the increasingly challenging operating environment, but Mr Soriot urges intelligent young people to shrug off concerns about starting careers in the sector. In his view, fresh new talent is needed to address two enormous unmet needs. One is scientific: the need to come up with innovation. The second is more commercial: "the need to partner with payers and governments to find solutions to enable patients to gain access to our medicines".

Mr Soriot tells *Scrip 100* that he is always on the lookout for a promising young future industry leader so that he can give them the chance to grow. That young leader could come from anywhere in Roche's global ranks. But those teams that are close to getting Herceptin or MabThera reimbursed by China's regional governments should take note. Their innovative pricing models might unlock much of Roche's future Chinese growth. Success might see them identified as potential future leaders for Roche in Asia.

And then, who knows? Over time, the stellar performers might find themselves in charge of global teams and taking frequent flights from Shanghai to Basel to talk pharma strategy with Dr Schwan and Mr Soriot. **SCRIP**



(CHF473 million) and ahead of third-placed France (CHF47 million). The majority of Xeloda's growth in China is being driven by its use to treat advanced stomach cancer.

Roche hopes that where Xeloda leads, other franchises will follow. Its regional teams are trying to replicate this success with other key products, including Herceptin, MabThera/Rituxan (rituximab) and Avastin (bevacizumab). Roche obtained Chinese approval for Avastin in February – it has been launched to treat metastatic colorectal cancer.

Explaining that Roche is "in heavy discussions with some of the regions to facilitate access", Mr Soriot cannot yet disclose more details, but he does say: "We've made good progress and are close to gaining funding in some of those regions, even for a product like Herceptin which is relatively expensive and has so far mostly been an out-of-pocket drug."

The executive gives a clear signal that the company will be flexible in its approach, taking into consideration tiered or other innovative pricing models. The goal is to "increase the ability of a broader group of patients to access our drugs, but also for the government to pay for them".

Another consideration is how Roche will sell its products to the Chinese market. As part of the Operational Excellence initiative, the company ramped up its sales force in China from 960 sales reps in 2009 to 1,300 in 2010. Of this figure, 1,200 reps are focused on selling specialty-care products. This means that the company has had to implement a rigorous recruitment process, selecting only those reps who understand scientific data and can therefore focus on "strong 'clinical selling' versus what you might often see in primary care". The chief envisages a multidisciplinary approach to marketing, with scientists, key account management and reimbursement teams all sharing information with sales reps to inform their approach.

Bright scientists and other pharmaceutical professionals who aspire to work for Roche

in China should now make a beeline for Shanghai. Roche first opened for business in China's commercial capital in 1926 and since 1995, continued investment has turned its operations in Shanghai into a centre for everything from commercial manufacturing and research to partnering, licensing and strategic planning.

Mr Soriot believes that China is a place from which Roche can source innovation, unlike some other emerging markets where "it's still a bit early" to do so. The company established a research centre in Shanghai in 2004; this has become a hub in the company's new streamlined pRED (Pharma Research and Early Development) network and will be scaled up over the next few years.

In addition, the company has appointed Kenneth Hillan, formerly of Genentech, to lead its Shanghai-based development activities. The intention is also to connect the centre to the company's gRED (Genentech Research and Early Development) unit in San Francisco and get China involved in development work at a much earlier stage.

Roche-fuelled air traffic between China, San Francisco and Basel will now take off. Within the next four to five years, Mr Soriot envisages a build-up of Shanghai as a strategic centre with staff based there working in global roles.

Roche already has some Chinese managers working for its global teams in Basel and San Francisco – the two strategic sites where, under Operational Excellence, such roles will be co-located. Some of these might be sent back to work in China. At the same time, Roche has a plan to identify and grow the company's future Asian leaders from its existing China-based talent pool. The most promising candidates will be sent off to work with Roche's global teams in different parts of the world to prepare them for equivalent roles when they return.

Moreover, Roche, a long-time believer that external innovation can be a rich source of compounds for its own pipeline,