# MANAGING **ORGANISATIONAL COMPLEXITY** IN BIG PHARMA

Organisational complexity and scale are two sides of the same coin. In a quest for scale, Big Pharma companies have built large, diverse portfolios that span multiple therapeutic areas and technologies. This portfolio diversity comes with an inevitable organisational complexity, requiring leaders to think more proactively about decision-making effectiveness, capability-building, and role clarity. Leaders need to be clear on how their teams create value for their organisation and work to mitigate duplication of effort.

In this paper we explore how organisational complexity is driven by scale and portfolio diversity, and illustrate the need for operational excellence when pursuing sustainable growth.

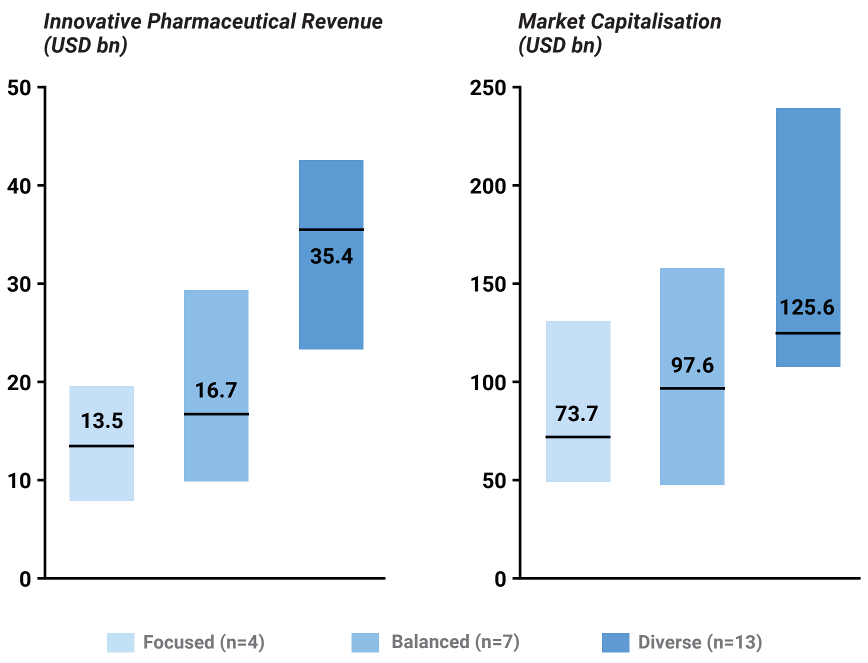
## PORTFOLIO DIVERSITY DRIVES BOTH FINANCIAL PERFORMANCE AND ORGANISATIONAL COMPLEXITY

Big Pharma companies fall into three portfolio archetypes based on how many therapeutic areas contribute ~80% of their innovative pharmaceutical revenue:

**Focused :** 1 **Balanced :** 2 - 3 **Diverse :** 4+

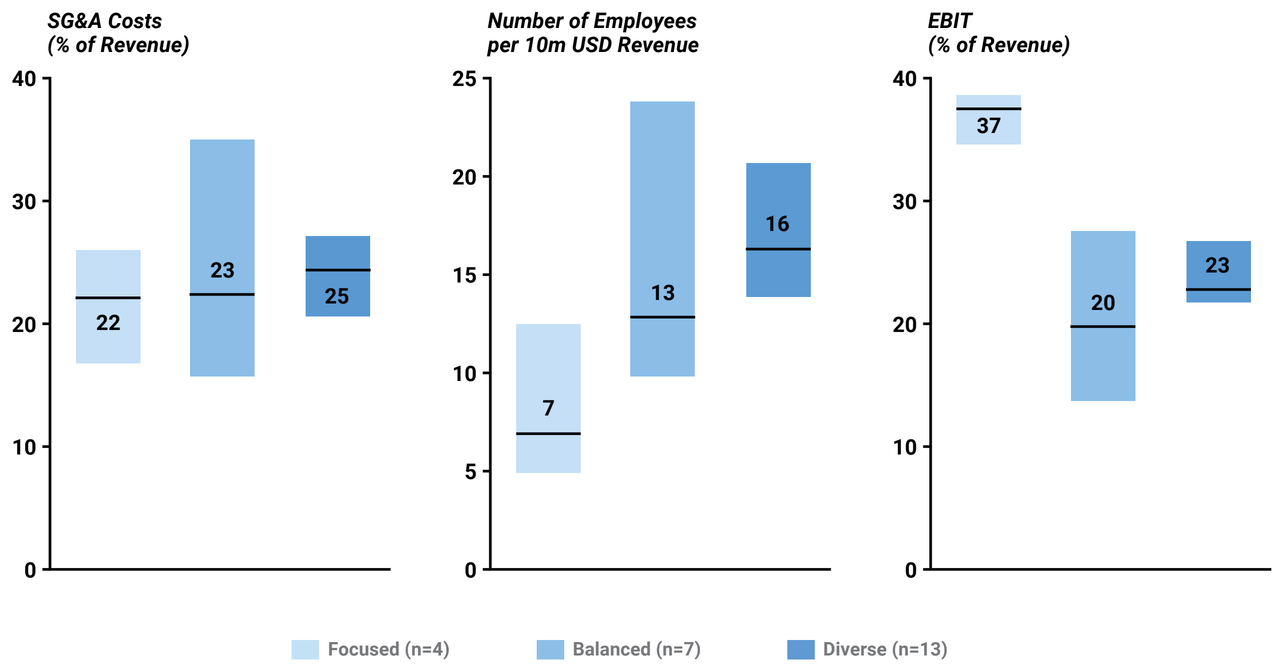
Having a diverse portfolio enables Big Pharma companies to scale revenue and create greater value (*see Figure 1*).

***Figure 1.*** **Innovative Pharmaceutical Revenue and Market Capitalisation (Median and Interquartile Range)**




The Big Pharma companies with a diverse portfolio have the highest SG&A costs and number of employees per $10 million of revenue (*see Figure 2*). Focused companies, therefore, outperform the more diverse companies in profitability. The scale required for delivering a diverse portfolio drives increased organisational complexity that needs to be carefully managed.

***Figure 2.*** **SG&A Costs, Employees per $10m Revenue and EBIT (Median and Interquartile Range)**




## HOW DO COMPANIES BOTH GROW AND MANAGE COMPLEXITY?

### Focused: Build Category Leadership and Pursue Focused Diversification

Novo Nordisk and Gilead demonstrate how companies with focused portfolios manage organisational complexity as they pursue growth in areas beyond their lead therapeutic area.

Gilead, a virology leader, is pursuing growth in oncology and over 70% of its late-stage clinical programs and in-licensing/acquisition deal spend are in oncology. Its lean resourcing model (5.3 employees per 10m USD revenue, the second lowest in our sample) demonstrates a focus on managing organisational complexity. Similarly, Novo Nordisk is expanding into therapeutic areas adjacent to its core diabetes portfolio, namely obesity and rare endocrinology. Both companies are diversifying and growing without sacrificing profitability (both have EBIT >35% of revenues, in the top three of our sample).

Whilst investing in a new therapeutic area comes with the challenge of adding new resources and capability, organisations can do this profitably if they have a clear focus.

*Leaders must manage the increased complexity by ensuring consistent ways of working, sharing best practices, and avoiding duplication.*

### Balanced: Focus Investment in Leading Therapeutic Area

AstraZeneca and Eli Lilly invest significantly in their leading therapeutic areas; they have over a third of their late-stage clinical programs and in-licensing/acquisition deals in those therapeutic areas (oncology for AZ and metabolism for Eli Lilly). They divest products in non-core therapeutic areas (e.g., established respiratory brands for AZ and animal health for Eli Lilly).

The advantage of scaling the existing lead therapeutic area is that it allows the company to strengthen and build on existing capabilities and avoid duplication across the organisation. Divesting non-core products helps to simplify decision-making and resource allocation by creating a clear focus for leaders to operate within.

*Leaders must support their teams to develop new capabilities and evolve their mindset to operate effectively in the priority therapeutic area.*

**Diverse:** **Retain a Strong Strategic Focus**

Companies with diverse portfolios face great challenges with organisational complexity. Focus remains an imperative and tightly prioritised resources are critical to drive the next phase of growth. Companies take different approaches to focus (*see table below*).

*Leaders must use organisational focus as a guiding light to allocate resources and build capabilities.*

| APPROACH TO ACHIEVE FOCUS | | EXAMPLE |
|---|---|---|
| **Focused investment in a new therapeutic area** | → | Merck KGaA's investment in oncology, which now accounts for >50% of its pipeline programs |
| **Focus on the therapeutic area that has driven past success** | → | Amgen's $27.8bn acquisition of Horizon Therapeutics in 2022 was a return to its 'roots' in immunology |
| **Deprioritise non-core therapeutic areas** | → | Johnson & Johnson's planned reduced commitment in infectious diseases in 2023 |
| **Creating an organisational focus on a geographic region** | → | Novartis' "US-first" strategy, which reorientates its organisation around overcoming barriers to success in the US, regardless of therapeutic area |

## IN CONCLUSION

Big Pharma companies must evolve their operating models to drive their long-term revenue and market capitalisation growth. All successful Big Pharma companies need to embed a mindset of focus. Focus provides leaders with a framework for improving their operating models, including decision-making, capability building and resource allocation.

Novasecta supports leaders in Big Pharma companies to embed operational excellence, which enables their teams to deliver on key priorities and create value for the organisation across a complex portfolio of products.

**Footnote** We analysed the therapeutic area diversity of the biggest pharmaceutical companies (by 2021 annual revenue, or nearest published business year, extracted from annual reports). To focus on comparable innovative pharmaceutical revenues, we removed revenue associated with generics, OTC/consumer care products, the COVID-19 pandemic and other business segments (e.g., devices, diagnostics, services). Our resultant sample of Big Pharma companies includes 24 global companies with annual innovative pharmaceutical revenue >$6.5bn USD.

2021 Market capitalisation, EBIT, SG&A spend, number of employees, acquisitions, and in-licensing deals (number and value, 2019-2023) were taken from Bio Century, Global Data, and other publicly available domains. All data reported in local currencies have been converted to USD at the exchange rate on 15 Dec 2022. Where normalised figures are presented, 2021 Total Revenue was used as the denominator. Pipeline analyses were based on asset count per indication (excluding partnered assets and those for COVID-19) sourced from Bio Century. Some deals did not have a disclosed value.