

BCG

Why Business Model Innovation (BMI)?

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Why BMI, now?

Industry facing serious TSR issue

Economic, technical and political trends will only exacerbate this

Traditional levers insufficient to plug TSR gap

Always possible to substantially outperform an unattractive sector!

Returns to BMI higher than product or process innovation alone

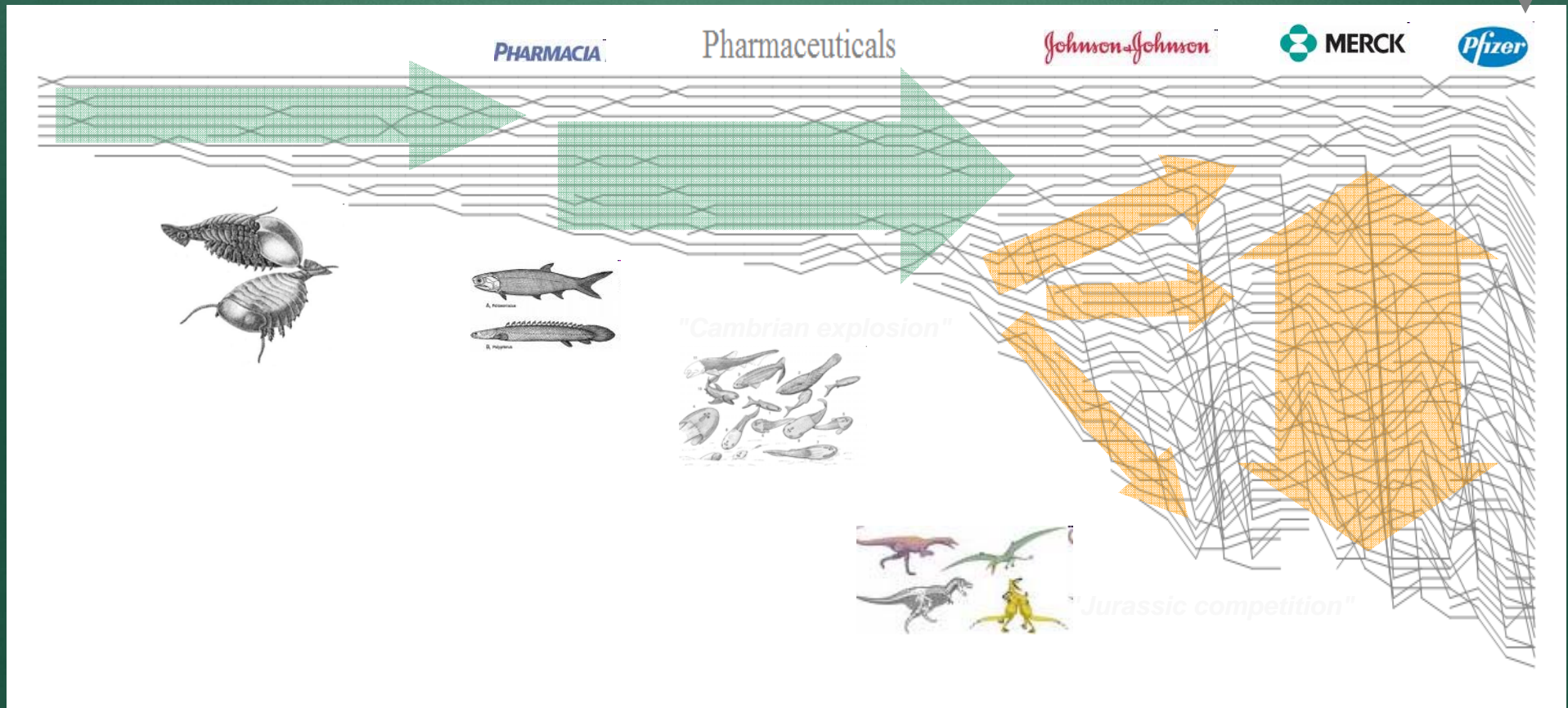
Business model innovation is a very specific capability and discipline

Pharma not strong in this capability and opportunity space wide open

Need to start now given lead time to conceive, test, scale and evolve new model

Eras of pharmaceutical competition

Pre-cambrian 50 years ago Paleozoic era 25 years ago Mesozoic era 10 years ago Cenozoic era Now ↓



PHARMACIA

Schering-Plough

Wyeth

MERCK

MYLAN

Bristol-Myers Squibb

alza

Johnson & Johnson

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Innovation = getting paid for novelty!

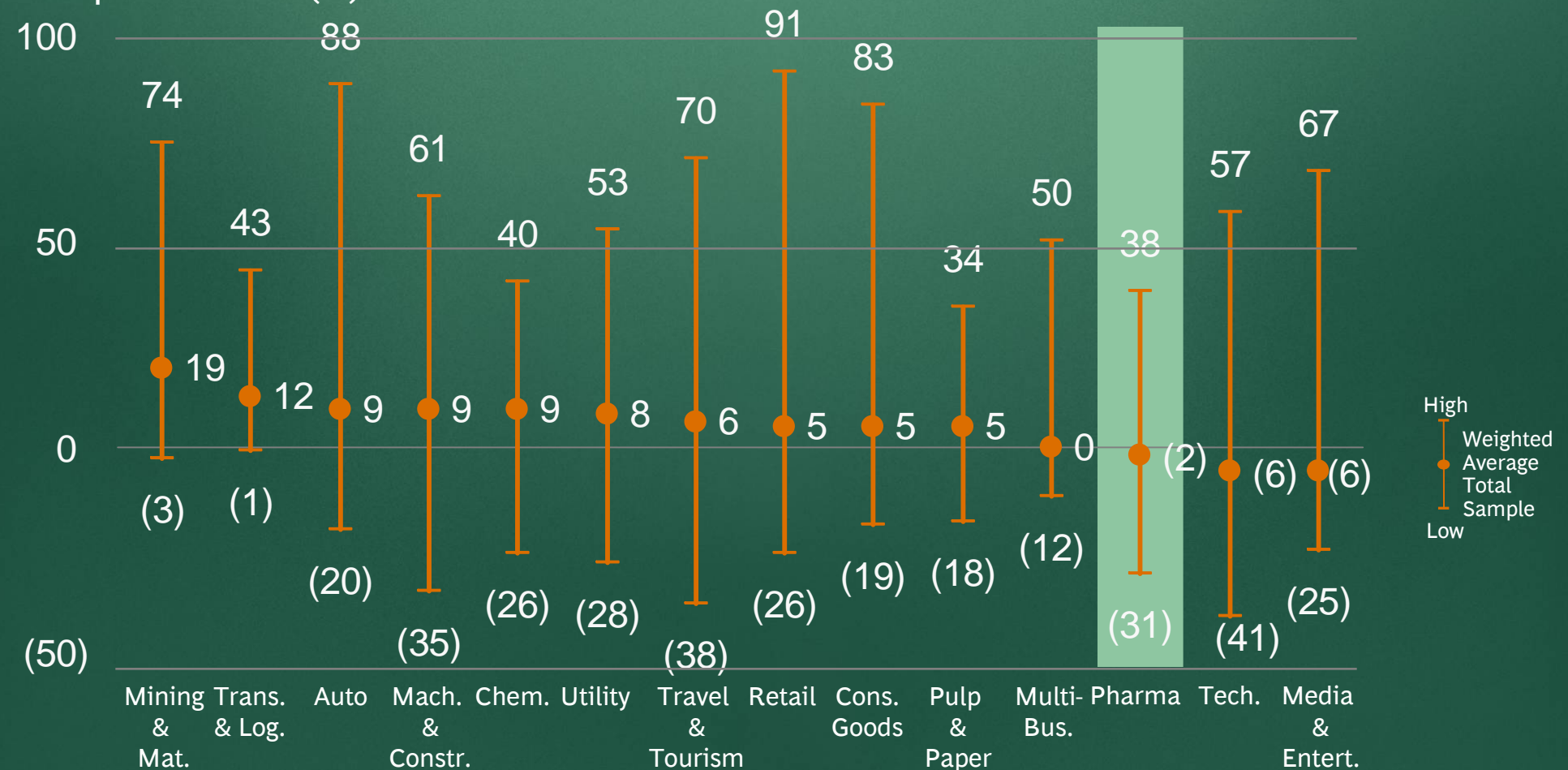


Note: Market cap weighted
Source: Compustat; BCG analysis

No such thing as a bad industry!

Total Shareholder Return Ranges Per Industry

TSR p.a. '01 – '05 (%)

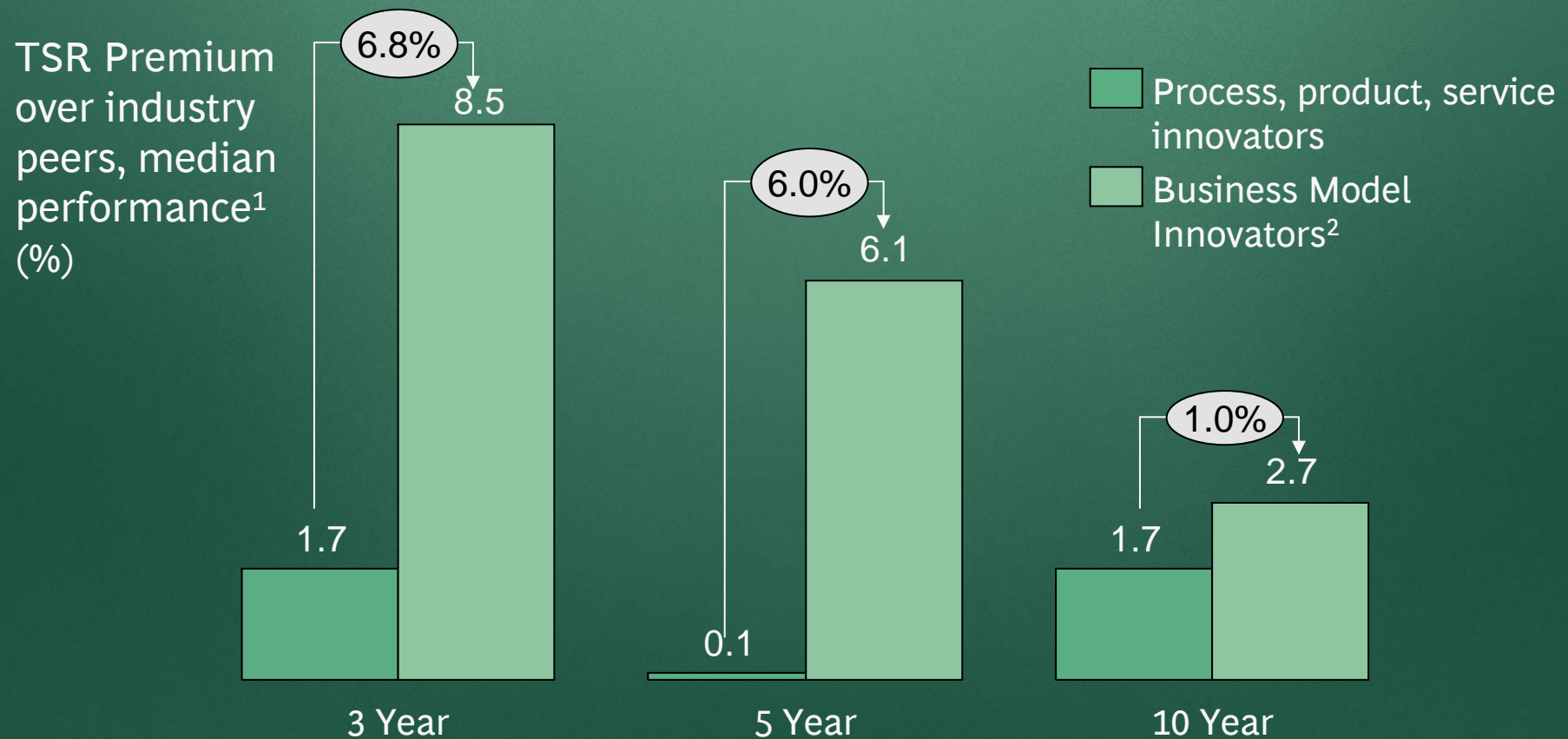


Source: Thomson Financial Datastream; BCG analysis

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ROI (BMI) > ROI (product, process)








Pharma not strong in BMI

1. Apple	 	14. Starbucks	 
2. Google	 	15. Target	 
3. Toyota Motor	 	16. BMW	 
4. General Electric	 	17. Samsung Electronics	 
5. Microsoft	 	18. Virgin Group	
6. P&G	  	19. Intel	
7. 3M		20. Amazon	 
8. Walt Disney		21. Boeing	 
9. IBM	  	22. Dell	 
10. Sony		23. Genentech	 
11. Wal-Mart		24. eBay	
12. Honda Motor		25. Cisco Systems	
13. Nokia	  		

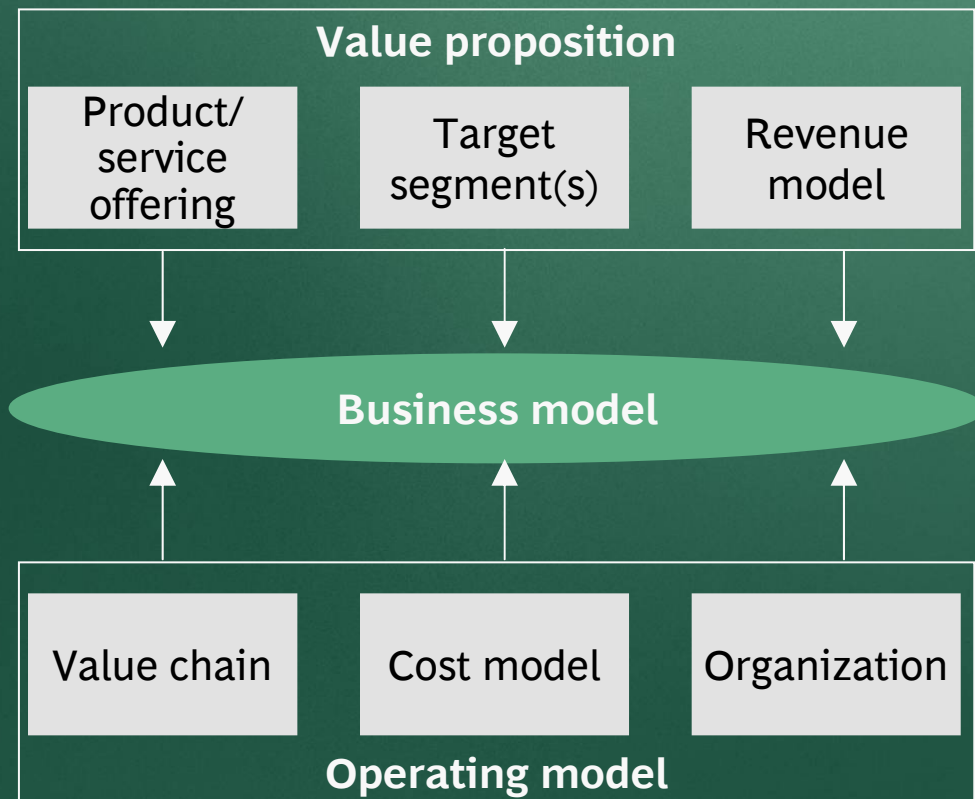
Note: Breakdown in different types of innovation done based on 2006 figures
Source: Business Week "This Way To Innovation" survey among 2,468 senior executives, 14 May 2007

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 Product innovation
 Process innovation
 Business model innovation
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What is Business model innovation?

Idea



What it is and isn't

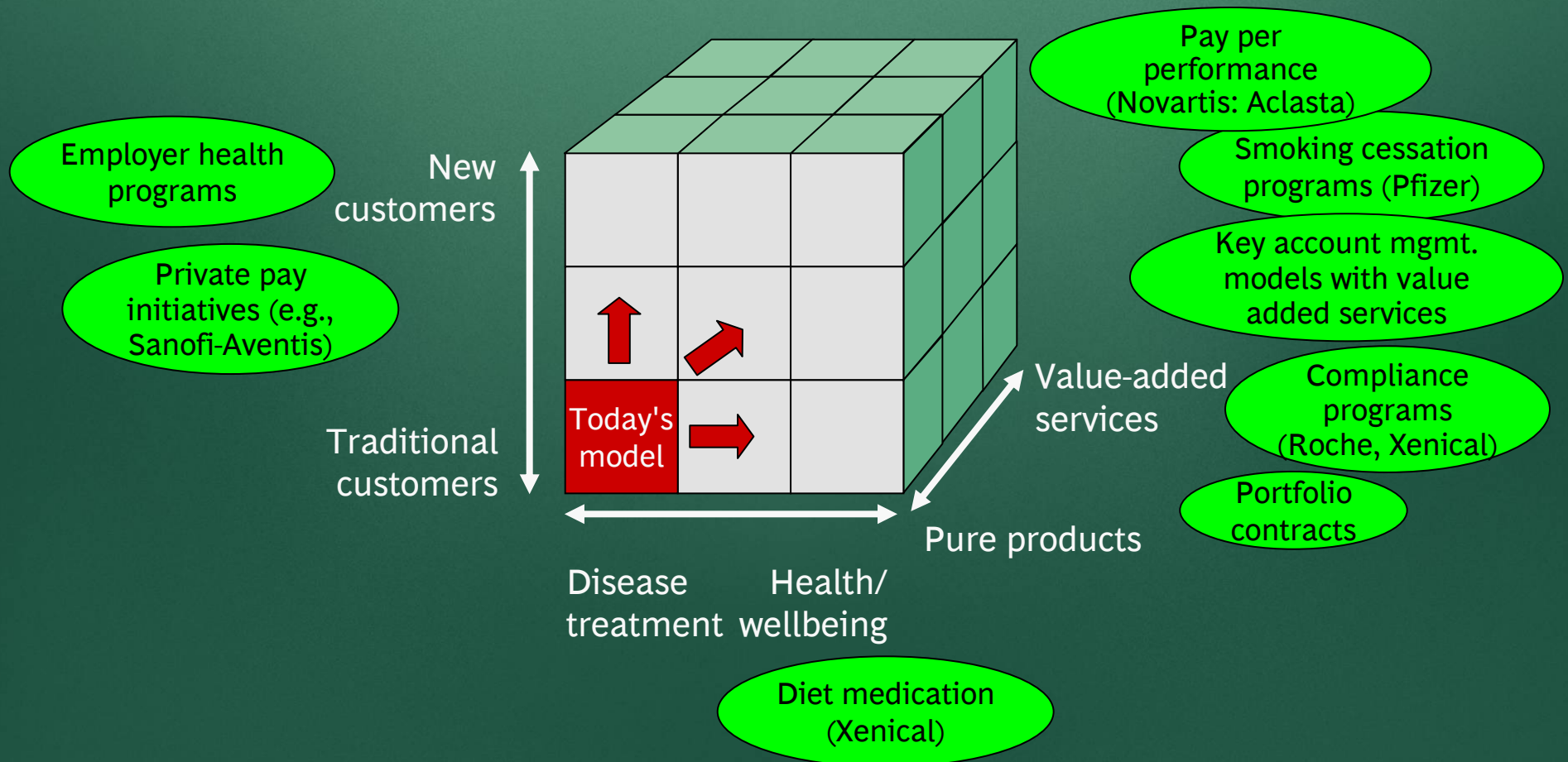
BMI is

- Change of two or more components....
-to redefine a company's basis for competition....
- leading to superior value creation

BMI is not:

- Single function's innovation
- Uncoordinated functional innovation
- Internal efficiency improvement
- Mere product, service or technological innovation

Opportunity space wide open



Imperatives for advantage

Higher intrinsic value and better value demonstration

Monetizing health and prevention

Developing model for self pay markets

Balance buying power of payers through industry consolidation

Lower cost to serve customers dramatically

De-averaged model to meet the needs of different business segments and customers

Greater focus on payers, employers and patients

Match and exceed information advantage vs payers

De-commoditize offering through customization and service value-add