REGULATORY COMPLIANCE ASSOCIATES® INC
Wellness for Business®

Portfolio Risk Management for the Life Sciences Industry

Client

Middle-market private equity

Target

Pre-revenue portfolio company

Industry

Pharmaceutical

Business Challenge

Conducting a new product development assessment for a portfolio company

Project Timeline

Pre-launch research & target product profile development – 6 months

Internal implementation of portfolio risk matrix – 3 months

Commercial pipeline analysis – Ongoing

Client Challenge

A global private equity firm based in the United States approached RCA to conduct a new product development assessment for a portfolio company. The client needed industry expertise based on preclinical commercial opportunities in the pipeline and category metrics from the internal product management team. The client also had a need for a voice-of-business research study to be conducted to understand employee attitudes about the key drivers set in place by the commercialization team. Finally, the middle market PE firm needed data to set a longer-term acquisition strategy based on channel potential and potential acquisition targets that made the most sense for the portfolio.

RCA Approach

Qualitative information was used to create a multifactor risk assessment to determine each target product profile and the perception of risk. The assessment included the following key requirements:

- Business strength factors were ranked by employees who compared key attributes across intended product profiles (e.g. product differentiation, brand equity, etc.)
- Market attractiveness factors were ranked by employees who compared key attributes across intended product profiles (e.g. market size, competitive forces, etc.)

Voice-of-business research was then conducted to populate the risk assessment. Data was collected through employee responses based on perspective of product profiles, business strength and market attractiveness factors.

Results

Perception mapping and matrix-style results were presented to the client team after all team members completed their voice-of-business survey. Results were weighted across all factors based on team inputs, importance of strategic factor in relation to other factors, and employee expertise of their specific product category.

RCA discovered many unique datapoints for consideration by the portfolio company and private equity firm from the risk assessment:

- The business strength of the preclinical product alternatives were ranked higher than previously anticipated.
- Market growth rate was perceived to make a greater impact on future sales than current market size.
- Competitive rivalry in the channel was the greatest unknown factor by the portfolio leadership team. This included a lack of awareness of disruption potential in the channel or the threat of new category competition.
- Government regulatory environment was consistent across the model due to the compliance-based nature of the life sciences industry. However, power of existing channel partners showed in the data analysis as a differentiator when it came to who could influence the regulatory speed-to-market.

The client team developed talking points for the Board of Directors based on this analysis:

- Opportunities that were previously considered a secondary priority (e.g. smaller profit margin potential in large sales channel) were to be reassessed based on the sales channel potential.
- When the cost of capital to develop a preclinical product was held constant across the model, technology and innovation costs quickly escalated as more critical to business success than previously anticipated.
- One of the preclinical products achieved a higher score based on the strategic partner in place who could assist commercialization and market sales.
- Macro-environment change and potential for channel disruption were determined to be decisive gaps for both the private equity firm and portfolio company.

Client Takeaways

- An internal strategy council was established by the Board of Directors to consider how unknown channel disruption may impact their business unit or future new product introductions.
- Business strength factors signaled the anticipation of success as a pre-approval product portfolio. This was important to the PE firm and portfolio company as a positive indicator even though commercialization lagged behind the existing entrants and competitors.
- The market growth rate analysis helped the PE firm to recalibrate leadership guidance that pursuing slower CAGR markets larger in size remained just as important as faster growing channels.
- Portfolio company leadership added additional product management headcount to address the lack of understanding of disruption potential and new category competition.
- The emerging importance of technology and innovation from the assessment results led to a new project where the portfolio company began examining leveraging manufacturing automation and big data.
- Recognizing the importance of channel partner strength led the PE firm to reconsider their portfolio bolt-on strategy with existing channel partnerships as a higher priority in targets being considered.