

Roche Diagnostics

Roche, a global leading healthcare company whose “aim is to discover, develop and market innovative solutions that bring clear medical benefit in disease areas with high unmet medical need”^[1], seeks to improve health outcomes by leveraging capabilities from its Pharmaceuticals and Diagnostics Divisions. Founded in 1896 in Switzerland and present in approximately 150 countries^[1], Roche combines science and innovation to deliver In Vitro Diagnostics (IVD) tests and systems and therapies to treat diseases and improve patient’s lives. Operating in an industry where continuous innovation is key, Roche has launched novel and differentiated solutions that address key stakeholders expectations.

The Diagnostics division is broken down into four business areas—Professional Diagnostics, Diabetes Care, Molecular Diagnostics and Tissue Diagnostics.

- Professional Diagnostics – supplies solutions, instruments, tests, software and services to laboratories and point-of-care products to doctors’ offices, emergency rooms and primary and specialty care settings
- Diabetes Care – develops and commercializes blood glucose monitoring and insulin delivery systems
- Molecular Diagnostics – develops and commercializes diagnostics and blood screening systems and tests to blood banks and laboratories
- Tissue Diagnostics – offers cancer diagnostic systems to pathology laboratories and research centers

A market leader in the IVD market, Roche competitively positions itself as “doing now what patients need next...transforming patients’ lives...commit[ted]...to scientific rigor, unassailable ethics, and access to medical innovations for all...to build a better tomorrow...”^[2] Roche remains focused and continues to follow a consistent strategy that leverages its internal capabilities, including its pharmaceutical division, as well as their global installed base developing, launching new products and entering new markets and pursuing new technologies with M&A and partnership activities. As such, Roche Diagnostics continues to deliver outstanding results year over year. In 2015, Roche Diagnostics reported sales of CHF 10.8 billion, +6% over 2014 at constant exchange rate^[3], outpacing the IVD market which is projected to grow 4% annually to USD 65.0 billion by 2019^[4].

The IVD market segment is highly complex and as such, the Business Model Canvas will be used to focus on key topics and provide a clear picture of Roche Diagnostics strategy. The table is adapted from Strategyzer AG^[5].

KEY PARTNERS <ul style="list-style-type: none"> • Employees • Roche Pharma • Patients • Suppliers • Government agencies 	KEY ACTIVITIES <ul style="list-style-type: none"> • Offer complete solutions focusing on unmet needs • Access/ create IP 	VALUE PROPOSITION <ul style="list-style-type: none"> • Differentiation through innovation in testing efficiency and medical value...covering the full healthcare spectrum— screening, diagnosis, prognosis, monitoring 	CUSTOMER RELATIONSHIPS <ul style="list-style-type: none"> • Sales and marketing interfaces/ touchpoints • Congresses 	CUSTOMER SEGMENTS <ul style="list-style-type: none"> • All major diagnostic segments <ul style="list-style-type: none"> • Clinical chemistry & immunoassays • Hematology & hemostasis • Urinalysis • Molecular diagnostics • Tissue diagnostics • Point of care diagnostics
	KEY RESOURCES <ul style="list-style-type: none"> • Employees • Product portfolio • IP • Roche Pharma 		CHANNELS <ul style="list-style-type: none"> • Commercial & hospital labs • Hospital point of care • Hospitals • ER/ ICU • Doctor's Office • Patients • Academia & pharma research 	
COST STRUCTURE <ul style="list-style-type: none"> • R&D • Manufacturing • Overhead (sales, marketing, G&A) 			REVENUE STREAM <ul style="list-style-type: none"> • Instrument placements to generate recurring revenues through reagent sales (razor – razorblades) 	

The hypothesis is providing complete solutions will expand the installed base which will then drive additional revenue. The hypothesis assumes the following:

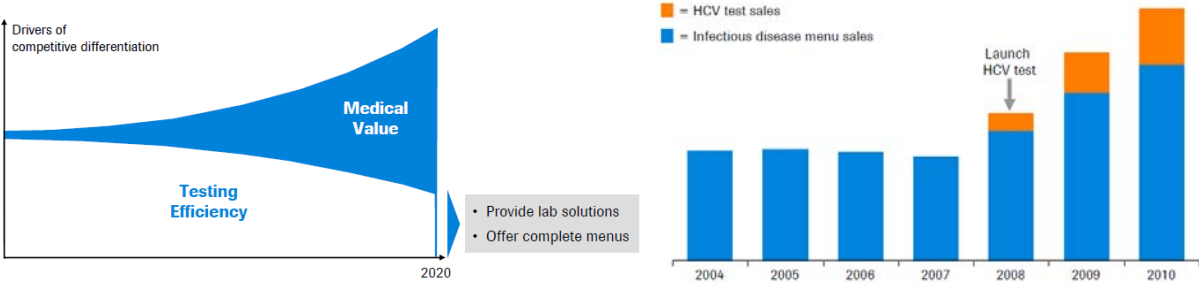
- Growth opportunities exist within the IVD market
- The organization has capabilities to deliver complete solutions
- Complete solution will provide product differentiation and competitive advantage
- Customers are willing to pay for improved efficiencies

The following section addresses assumptions within Roche Diagnostics' strategic initiative:

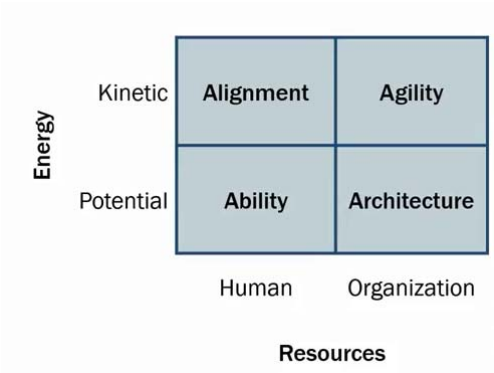
It is estimated that the IVD market will remain the highest growth segment of the Medical Technology delivering sales of \$67.3B by 2020, a +5% CAGR from 2014 – 2020^[6] largely driven by aging and growing populations, increasing incidences of chronic diseases, rising wealth in emerging countries and technology advances will spur growth. However, the continuing pressure to reduce healthcare costs while delivering innovative solutions requires a different approach to the delivery of healthcare. The healthcare industry is moving towards a disease-management approach to early diagnose, assess, accurately treat and monitor diseases. Roche Diagnostics' execution hinges on delivering differentiated and high valued products while leveraging their internal capabilities, including its pharmaceutical division, and that of their partners, as well as pursuing innovation through licensing and acquisitions. The following table summarizes Roche Diagnostics' strengths, weaknesses, opportunities and threats:

<p><u>Strengths</u>^[7]</p> <ul style="list-style-type: none"> • Access to a breadth of technologies and healthcare channels • Complete product offering/ portfolio • Global installed base and commercial presence 	<p><u>Weaknesses</u></p> <ul style="list-style-type: none"> • Declining sales in the Diabetes Care business area • Imitation of products
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> • Growing IVD market • Rapid advances in technology • Growth in developing countries • M&A activities to gain access to disruptive technologies, expand product portfolio and/ or geographic channel • Increasing demand for quality healthcare solutions 	<p><u>Threats</u></p> <ul style="list-style-type: none"> • Unsuccessful launch of new products • Regulatory environment becoming more stringent • Political instability and economic crisis in Europe & China • Competitor product launches

The following table illustrates how a complete solution will provide product differentiation and competitive advantage which in turn drives additional revenue^[8]:



Execution of Roche Diagnostics’ strategy is contingent on four key factors—alignment, ability, architecture, agility. The table below best illustrates the facets of these factors.



- **Alignment:** Present in over 150 countries^[1], it is important that Roche is working together towards a common goal and that the strategy is clearly understood. All levels of the organization should understand how their role affects the strategy. What value am I adding to the company with my day to day activities? What role do I play in executing the organization's strategy?
- **Ability:** In such a dynamic industry where innovation is key in all functions—R&D, Finance, Marketing, Sales—it is important that Roche retains, recruits the right talent to ensure successful execution of the strategy. Do we have the right talent? Are employees in the right role? How can we continue to develop our talent?
- **Architecture:** Operating in a global capacity in such a complex market, Roche Diagnostics needs to establish flexible, streamlined structure and processes and to provide access to information to facilitate decision making.
- **Agility:** In such a dynamic and innovative industry, Roche needs to ensure that the organization is equipped meet the unmet needs of its customers and key stakeholders in the present and the future. Does the organization encourage experiments? Are they averse to risks? Is there a forum established for employees to share information? What avenues do the employees have to collaborate with external parties?

Taking into consideration the potential challenges that they may encounter in executing their strategy, Roche Diagnostics' structure is set up to ensure that the organization is aligned and agile and has the ability and structure to execute its strategy.

Roche Diagnostics is a matrix organization of business areas/units, regions and global functions as illustrated below^[9]:



Business Areas/ Units are established based on their customer segments—professional diagnostics, molecular diagnostics, tissue diagnostics, diabetes care—and each business area/ unit are responsible for R&D, product portfolio management, global strategic direction and marketing in conjunction with business development in their field of expertise^[9].

To drive operational excellence, functions such as Global Operations, Global Quality and Regulatory, Global Platforms and Support and Global Business Development are centralized globally and support the business areas and regional organizations. Regional organizations are established to drive commercial excellence and are responsible for all areas of sales and marketing within the regions. Regions are broken down into four segment—EMEA and LatAm, North America, Asia-Pacific and Japan^[9].

In summary, Roche Diagnostics operates in a highly innovative, dynamic and growing market segment. The business model canvas clearly outlines their strategy identifying their key partners, activities, and resources, their value proposition, customer channels, segments and relations, as well as their cost structure and revenue stream. In a nutshell, it succinctly summarizes their strategy that can be easily understood and cascaded within the organization ensuring alignment—that the organization works towards a common goal. To further ensure successful execution of their strategy, Roche Diagnostics established a structure and processes that allows for flexibility and quick decision making to drive innovation, operational and commercial excellence.

References

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