

PROCESSES AND TOOLS OF PORTFOLIO MANAGEMENT: A BAXTER CASE STUDY



Phil Beccue, White Deer Partners
Jerry Ruhland, Baxter Healthcare

Decision Analysis Affinity Group
Chicago, Illinois
May 10, 2012

Agenda

- Evolution of portfolio methods
- Asset-level Projects/Training
- Current status
- Future aspirations

Baxter International is a global, diversified health care provider



Baxter primary goal's is to save and sustain lives worldwide.

Every day, Baxter products and services help treat thousands of people around the world with some of the most complex conditions — from hemophilia to immune disorders to kidney disease.



Baxter's business portfolio consists of two divisions

- Balanced, global portfolio with strong franchise depth and expertise in medical devices, pharmaceuticals and biotechnology
- Well-recognized global brand that drives market leadership
- Focus on essential therapies for life-threatening conditions
- Core competencies across businesses to provide high quality, cost-effective products and services

Medical Products

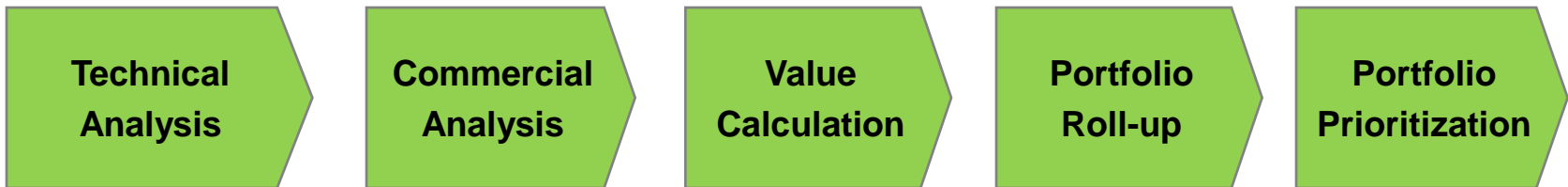


BioScience



Baxter's R&D prioritization process involves several steps

1. Technical analyses
2. Commercial analyses
3. Value calculation
4. Portfolio roll-up
5. Portfolio prioritization



For each asset in the portfolio, Baxter builds a complete business case by capturing cost, risk and value

The business case is represented by a 20-yr cash flow analysis

Prior to SPRINT, R&D investment dollars were allocated inconsistently

Prior portfolio process:

- Inconsistent, piecemeal, non-standardized
- Financial models with variations, errors

Lacked organizational buy-in

- Squeaky wheel syndrome
- Biased forecasts
- Perception that process did not support decision-making

No commercial ranges

- Deterministic forecasts did not reflect reality
- Assumptions not trusted

Excessive time requirement from teams



SPRINT is an integrated system with tools for managing project information and performing portfolio analysis

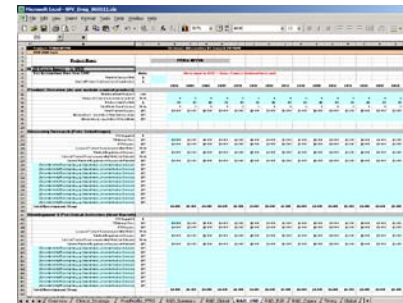
SPRINT Data Flow and Applications



Intranet Application in Web Browser

Request is sent from the web with project information and user information

Project information is loaded into the project template and downloaded to the user's computer



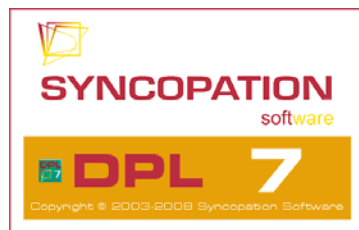
Excel-based Template Model

After data is entered, template is uploaded and the data is loaded into the database

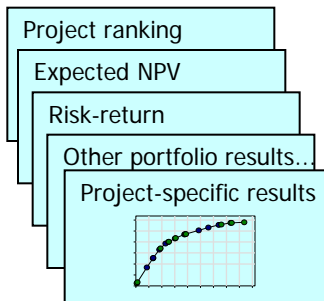


DPL-based Portfolio Analysis Console

SPRINT =
Strategic
Portfolio
Reporting and
INterpretation
Tool



PORTFOLIO



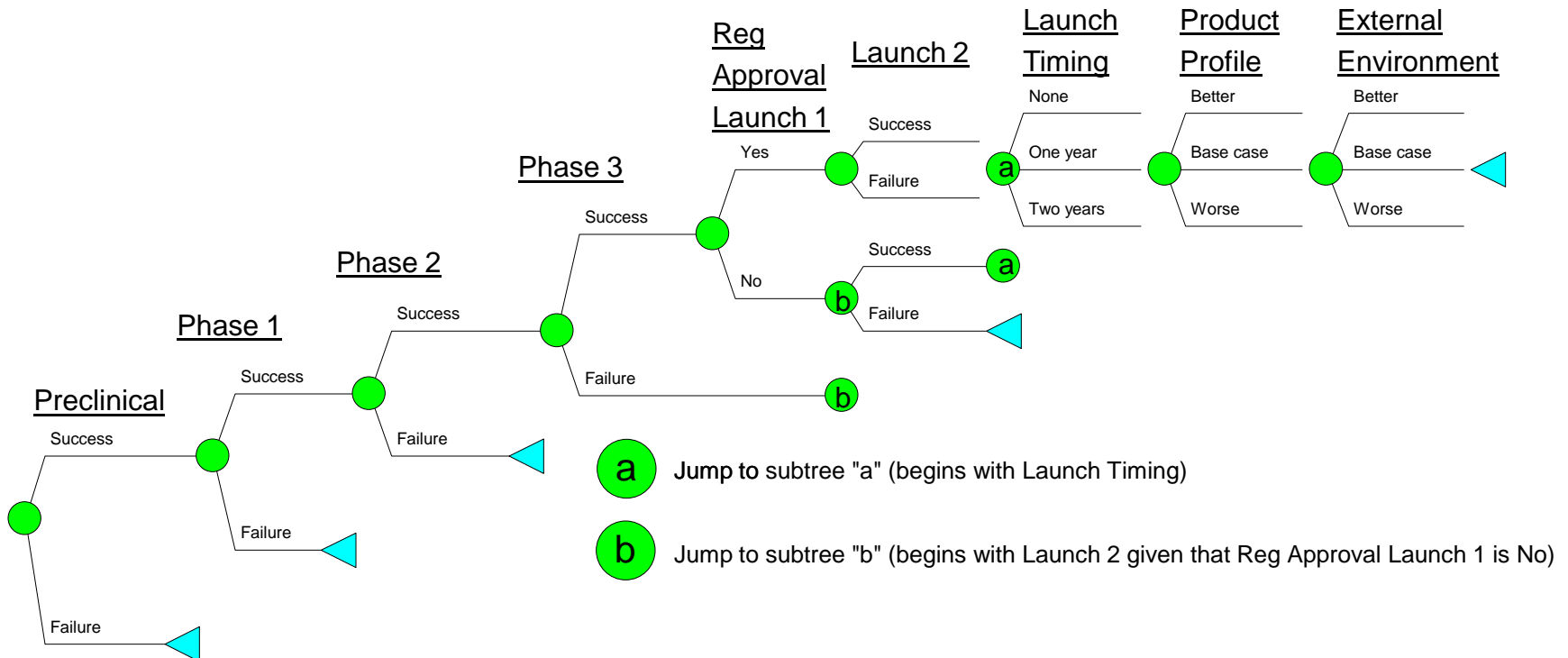
DPL software tools leverage the SPRINT database to provide Decision Analytic results for products across our portfolio

SPRINT allows for incorporation and use of analytics

- In addition to technical and regulatory risk, project valuation incorporates scenario analysis for product profile, launch timing, and external commercial environment.

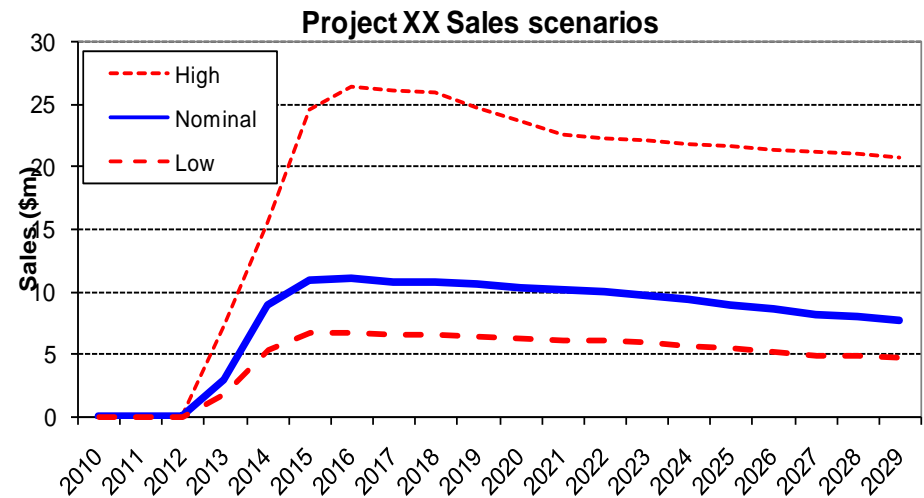
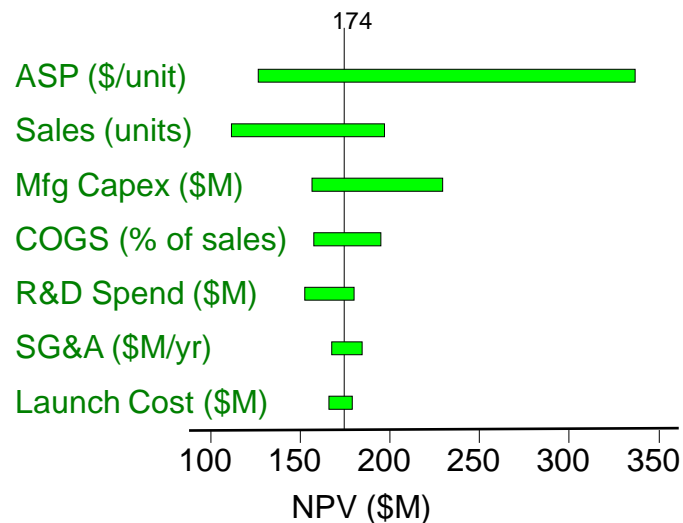
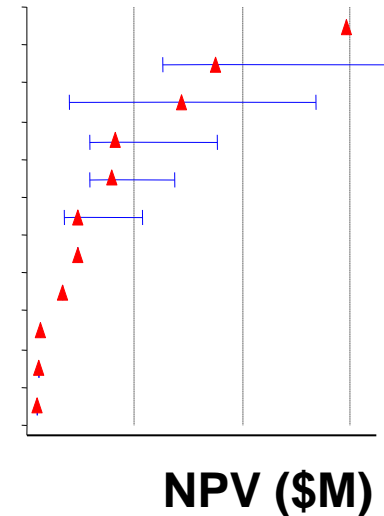
Technical and Regulatory risk assessment

Scenario analysis



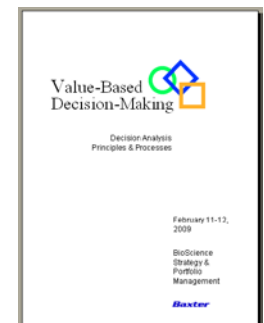
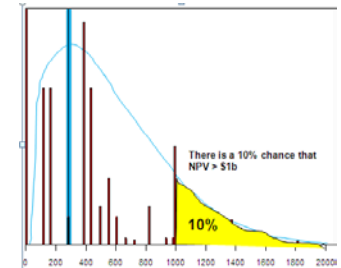
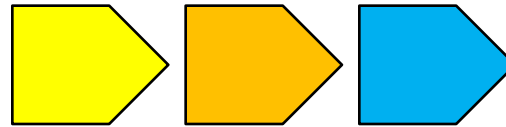
Analytical outputs address management questions efficiently

- Product Decisions
 - Formulation choices
 - Indication choices
 - Timing, technical, competitive risks
- Better discussions around sub-portfolios
- Sensitivity analysis on key drivers
 - Tornado charts



SPRINT, along with Ad-hoc DA and formal training, is bringing Baxter up the DQ curve

- Mandated by the corporation for all significant R&D projects
 - New product development
 - Life cycle management
 - Product support
- Results are linked to other business processes
 - Annual budget
 - Sales forecasts
 - Investor relations
- Strategic Decision Analyses based on SPRINT framework
 - Clinical strategies (broad/narrow indication, parallel/sequential development, etc.)
 - BD/M&A projects
- 2-day intensive DA Training on Principles/Processes/Tools
 - 400 participants in 8 yrs
 - Most recently, VP Finance coaches trained as mentors
 - SDG/Stanford Consulting Workshop



SPRINT evolved from the bottom up

- Initially began in BioScience
- Word spread that it worked
- It was never mandated from above
- After success, adopted as company standard for all significant R&D projects

Groups using SPRINT

	BioScience	Renal	Medication Delivery	Corporate Portfolio	No. of Projects	No. of Users
2006	Rolled Out				25	75
2007	Refined				50	100
2008	Ongoing	Rolled Out		Rolled Out	100	150
2009	Ongoing	Refined	Rolled Out	Refined	125	250
2010	"Evergreen" process					

What has changed since 2010?

- Restructuring/consolidation of the corporation into two divisions
 - BioScience
 - Combined Renal and MedDevices into Medical Products
- CFO assumes Leadership of MP
- New President of BioScience with a mandate for change in direction
- Restructuring of BioScience into a 5 Franchises organized around key therapeutic areas

New leadership for each of the Franchises

Relocation of Global Sales and Marketing from WLW to Deerfield

Consolidation of Sales Forecasting into Commercial Analytics

SPM Group moved to GPM

GPPM moved from R&D to report directly to President

Power-up initiative

- Power-up initiative – stated goal to “streamline” key processes
 - Re-engineer SPM to eliminate “rework”
 - Shorten process schedule
 - Align SPM with Budget process/Operating Plan
 - ⌘ 2012 alignment with LRP
 - Role out SPRINT and the SPM Prioritization Process across both divisions
 - ⌘ Division have distinct program profiles
 - ⌘ Infrastructure to support R&D
 - ⌘ Strong support for SPM and SPRINT within BioScience

Implications/lessons learned

- = Strong commitment to SPRINT at the Division and Corporate levels
- = Increased involvement of the President at all levels of the SPM process
- = Increased reliance on PRC – active participation of President
 - X-Franchise budget tradeoffs
 - Strict enforcement of Evergreen process
- = Strong support within R&D teams for SPRINT

Phillip C. Beccue

Phil Beccue is an independent consultant specializing in the application of decision analysis, financial modeling, portfolio optimization, and risk analysis to strategic business problems. For over twenty years, Phil has helped companies develop corporate and asset strategies and improve portfolio management and business operations. For the past seven years, his pioneering work in the development of tools and processes has directed top executives in allocating an annual R&D investment of \$500 million at a life sciences company that viewed innovation as a strategic growth driver. His leadership ensured a timely, disciplined, and consistent process to manage uncertainty across diverse businesses where it was necessary to balance near-term and long-term impacts of a dynamic business environment. He has trained over 700 managers and senior executives on the principles and processes of strategic decision-making. He is a frequent speaker in executive decision programs, won an industry award for real-world applications, and is a contributing author of *Advances in Decision Analysis* (Cambridge University Press, 2007). Phil is a fellow of the Society of Decision Professionals, serves as Associate Editor for the *Decision Analysis Journal*, and received degrees from both Westmont College and Stanford University.

phil@whitedeerpartners.com

US: 805-390-5166