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The CFO Program

CFO Perspectives

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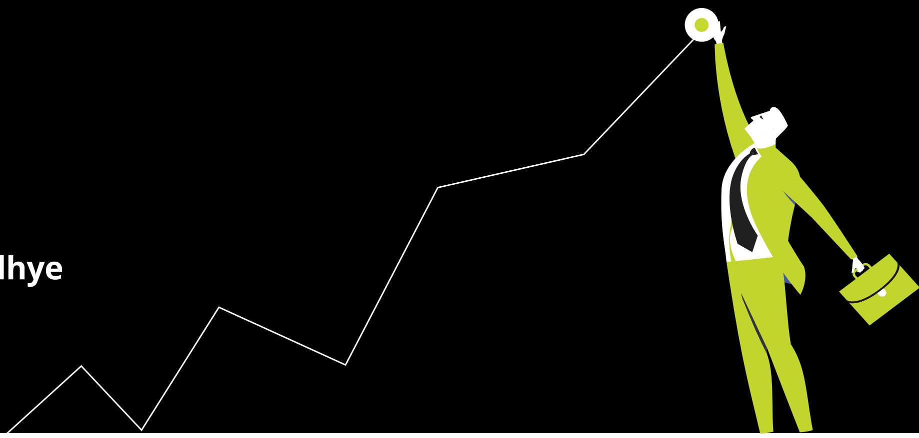
CFO Speaks



Mr. Kedar Upadhye
Global CFO
Cipla Ltd.

1. Indian healthcare is one of the fastest growing sectors, with increase in the size of middle class households coupled with the improvement in medical infrastructure and increasing penetration of health insurance in the country. What are the opportunities you foresee for the industry?

The Pharmaceutical industry has grown rapidly over the last decade and has been instrumental in driving generics penetration globally. Over the last 15 years, Indian companies have done well in the generic business and India remains an attractive destination for generic R&D and manufacturing of pharmaceuticals owing to its strong capabilities across the value chain.

While pharmaceutical industry has been impacted by several challenges like patents issues, significant price erosion, increasing competition and increased regulatory scrutiny in global markets. However, we believe that Indian pharma industry owing to its strong fundamentals, can overcome these challenges and can turn to the trajectory of strong growth.

As an organization, we have a positive outlook on domestic markets. The profile of diseases is changing in India from communicable diseases like malaria, diarrhoea to lifestyle diseases like heart diseases, diabetes and metabolic disorder problems. There are lot of opportunities for pharma companies in this newer space where the growth will be promising and margins will be better. But affordability would still remain as the key theme for India market. The pharma companies need to be cognizant of the cost and would need to focus on cost optimization to grow margins.

2. What would be your key drivers for growth in the next three years?

Our key drivers for growth in the next three years would be:

- **Expanding domestic markets and specialty products:** Our company has been focusing on expanding its reach and recall in respiratory diseases. The company engages directly with patients, addresses social stigma and environmental concerns to expand the brand footprint in respiratory diseases. As part of our growth plan, we plan to increase our investments in this high margin segment. Efforts are aligned on improving profitability driven by greater share of high margin SKUs and country rationalization.
- **Focus on US markets:** The Company has started to focus on the US markets to grow revenues and improve overall margins. The Company has launched multiple new products and has a cumulative annualized sales run-rate of about $400M. In the coming quarters, the company will continue to build on these launches and introduce new products with a focus on differentiated products.
- **Exploring the alternative channels:** Our Company has started to partner with the innovative companies

like MEDRx for various categories under specialty products in US. In addition, for domestic market, we are also collaborating with companies like Novartis and Roche to build a product portfolio and at the same time leverage existing opportunities available in the market.

3. The company has increasingly been making investments in the US markets—will this be a refocus on strategy from domestic to international business? Do you expect an improvement in margins as a result of effective execution of your US strategy?

There is no shift of focus from domestic to international markets. Instead of a shift in focus, the investments in US markets are part of our overall global strategy.

Cipla is utilizing selective licensing opportunities for driving sales, in addition to its own pipeline, while our domestic and other key markets, such as Africa continue to grow at a healthy pace. Given our small scale in the US market currently, US is offering the biggest opportunity for us, despite pricing pressures and regulatory compliance. In the longer run, our efforts on specialty products like respiratory, CNS (neurology) and oncology drugs should also yield good results. Currently, our pipeline is strong and evolving and would remain in focus. In terms of margins, domestic market India and South Africa are at peak margins whereas the US markets have not yet started generating margins post R&D and manufacturing costs. Unlocking value in US markets will help improve our margins. We are careful in evaluating our investments, markets and portfolio to drive efficiency and reduce complexity. We are looking at all these investments with a clear focus on high margin, high return expectations.

4. Given the volatility and uncertainty (especially w.r.t, the US policies) how would you, as a CFO, balance growth expectations and margins?

Business is always run in an uncertain environment which stems sometime from external environment and other times from internal environment. As a modern day CFO, there are three key things I focus on to support growth of our businesses:

- **Always have a clear governance agenda:** Governance principles serve as our safeguards against the uncertainty in the environment. The CFO, besides acting as a strategic partner to the CEO, plays a vital role in presenting the public face of the company to investors, regulators and policy makers. The CFO plays the lead role in keeping the stakeholders well informed about the company. He should ensure that the company maintains an open and transparent communication with its stakeholders in order to build and enhance confidence.

- **Reinventing the Finance function:** While the changes are inevitable with the emerging trends in businesses, as a CFO, I feel it is equally or more important for the finance function to be radical. Not just the access to information but speed of information along with the analytics would be key for the business to make the right decisions at the right time. Reinventing the finance function from a support function to a business partnering function would be the key.

- **Partnering for growth:** As a CFO, I feel it is important to own growth. CFOs are becoming increasingly involved in business strategy, and need to fully understand company's operations. It is critical for a CFO to work with business to deliver growth and improve our margins. CFOs should help business to use leveraging data and provide insights to make more knowledgeable business decisions and increase the bottom line.

Expert Views

Deloitte's sixth annual **Human Capital Trends report titled 'The rise of social enterprise'** was released in April 2018. More than 11,000 HR and business leaders across 124 countries weighing in, this year's Global Human Capital Trends report makes it the largest longitudinal survey of its kind.

This year's Deloitte Global Human Capital Trends report showcases a profound shift facing business leaders worldwide: the rapid rise of what we call the social enterprise. This shift reflects the growing importance of social capital in shaping an organization's purpose, guiding its relationships with stakeholders, and influencing its ultimate success or failure.

Three factors catalysing the rise of social enterprise:

- **Growing power of millennials**
  Millennials comprise a majority of the workforce in many countries, and their power is growing over time. Millennials are actively questioning the core premises of corporate behaviour and the economic and social principles that guide it. Social capital plays an outsized role in where they work and what they buy, and 86% of millennials think that business success should be measured in terms of more than just its financial performance.

- **Widening leadership vacuum in society**
  Across the globe, people trust business more than the government. Citizens are looking to business to fill the void on critical issues such as income inequality, health care, diversity, and cyber-security to help make the world more equal or fair. This expectation is placing immense pressure on companies, but it is also creating opportunities. Organizations that engage with people and demonstrate that they are worthy of trust are burnishing their reputation, winning allies, and influencing or supplanting traditional public policy mechanisms.

- **Changing technological landscape**
  Advances in artificial intelligence and new communications technologies are fundamentally changing how work gets done, who does it, and how it influences society. People increasingly realize that rapid technological change, while holding out the promise of valuable opportunities, also creates unforeseen impacts that can undermine social cohesion. However, at the same time, technological advances will open up new opportunities for businesses to have a positive impact on society.

India was the third largest contributor to this year's Human Capital Trends report. The statistics below throw light on some of the key similarities and differences between the global trends and India:

Filling Society's Leadership Vacuum

Increased transparency and heightened political awareness have drawn widespread attention to business' role in society as a driver of change. Organizations find they are increasingly expected to exercise their ability to do social good, both externally for customers, communities and society, as well as internally for their employees.

Globally, only 18% of respondents say social responsibility is a top priority in corporate strategy, while the percentage in India goes to 33%.

Also, as constituencies look to how companies treat their own employees, tackling the alternative workforce takes center stage for socially-conscious organizations.

- 57% of the organizations globally use non- traditional employees either in an ad hoc or systematic manner while the percentage in India goes up to 68%;
- While 39% of the organizations globally do not have mechanisms of managing the performance of non-traditional employees, the percentage in India is lower at 26%.

The power of the individual requires a holistic approach to jobs and careers

In the past year, organizations have become laser-focused on how automation induced job shifts will impact individuals. The Deloitte research shows that more than 4 in 10 companies believe automation will have a major impact on jobs, and 61% are now actively redesigning jobs around AI and robotics. Against this backdrop, companies and individuals realize the traditional career model is becoming defunct. 62% of those surveyed consider building new career models and skills as very important, making it the most important Human Capital trend for India.

In India, although nearly 63% of respondents indicate that career paths in their organization are not based on a traditional organizational hierarchy, more than half still base their development program on the skills needed for these defined paths.

In addition to investing in employees' professional development, organizations must also rethink how they invest in their employees on a personal level. According to Bersin research, only 3% of companies think their reward offerings are very effective at motivating talent.

- 52% of companies in India rated rewards as very important, yet only, 27% were ready to deal with this challenge;
- Aligned to the global trend, in India, 44% of those surveyed say well-being reinforces their organization's mission, 60% say it improves productivity and bottom-line results and 55% say it improves employee retention.

The symphonic C-suite - teams leading teams

Behaving as a social enterprise and managing the external environment's macro trends effectively demands an unprecedented level of cross-functional vision, connectivity, and collaboration from C-suite leaders wherein organization's top executives play together as a team while also leading their own functional teams, all in harmony.

- Globally, a striking 73% said their C-suite leaders rarely, if ever, work together on projects and strategic initiatives;
- Despite being a top five human capital issue in India this year, over half of respondents say their companies are not ready, or only somewhat ready, for the level of collaboration needed.

Leveraging Technology for Sustainable Growth

Contrary to popular belief, rather than eliminating jobs, cognitive technologies will serve to create new jobs that are service-oriented, interpretive, social, and use essential human skills.

- While 83% of companies surveyed in India see Artificial Intelligence, robotics, and automation as important, only 37% feel ready to navigate changes;
- As technology proliferates, executives are placing a higher premium on essential human skills such as complex problem solving, cognitive abilities, and social skills - but 33% of the respondents from India say they do not have a plan to cultivate them.

Also, as technology permeates the workplace, people analytics is at the top of executives' minds, with 90% of respondents in India rating it as important or very important, while only 13% of respondents feel very ready to deal with this challenge.

In this new era, human capital is inextricably tied to social capital. This reality demands a fundamental pivot in how organizations do business today, and how they prepare for the human capital challenges of the future.

Access the "2018 Deloitte Global Human Capital Trends" report and gain further insights into the data via Deloitte's digital-first trends research progressive web app.

About Deloitte's CFO Program

The CFO Program brings together a multidisciplinary team of Deloitte leaders and subject matter specialists to help CFOs stay ahead in the face of growing challenges and demands. The Program harnesses our organization's broad capabilities to deliver forward thinking and fresh insights for every stage of a CFO's career – helping CFOs manage the complexities of their roles, tackle their company's most compelling challenges, and adapt to strategic shifts in the market.

For more information feedback or suggestions, please write to us: incfo@deloitte.com