

Inside the Mind of the CEO

It's a New Day —and a New Script

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(GETTY IMAGES / EVGENY TERETEV)

Like any industry, transition and change in biopharmaceuticals is driven by the collective will of individuals. The CEO is the embodiment of that basic human element, with the mandate to command significant resources in pursuit of what—at least in the past—has been a relatively consistent objective: to maintain the company's basic "license to operate" while delivering superior returns to shareholders. Today, however, CEOs must connect the dots around an open canvas with a lot of white space. There is no playbook to score success. Added to the mix are a huge number of intangibles, ranging from deep confusion around defining the customer base; proliferating alternative sources of information; restive employees; and expectations to respond to a widening social agenda that extends beyond generating profits, under the standard business model.

The best way to gauge the climate for business leadership in this era of change is to start with a newcomer to the top of the "C-suite"—and not simply in terms of the position of the office but in the size and heft of the organization that person represents. Steve Collis, CEO of AmerisourceBergen, fills both slots, having assumed his post on July 1 at the top of a company that delivers a fifth of all the pharmaceuticals consumed in the US, with revenues of more than \$78 billion—bigger than the biggest of Big Pharma. Editor-in-Chief William Looney sat down with Collis at company headquarters last month to review his philosophy on leadership and where he plans to bring the company in the year ahead.

William Looney: As a newcomer to the top of the C-suite, how has your background helped you prepare for the CEO role? Did you plan it as the ultimate destination in your career path, or has luck and circumstance played more of a role in your transition?

Steve Collis: I believe that personal background does shape your professional prospects. The connection is inescapable. I am South African by birth and an American citizen by choice. In South Africa, where I spent my formative years, I had the advantage of a good education, training as a chartered accountant, and the opportunity to apply these skills early as a military service conscript, where I filled a gap and specialized in ethics and governance work designed to root out fraudulent use of public funds. Among other tasks, I investigated Air Force military personnel engaged in Ponzi schemes or loan sharking activities against other recruits. I did not plan for that. The experience taught me the importance of transparency in managing complex information flows along with the impact of integrity, honesty, and fairness in projecting your "personal brand" to others; once you lose those good character attributes you never get them back. This is a critical lesson I have carried forward to guide my career here in the US.



STEVE COLLIS

WL: Was your designation as CEO the most transformative passage in your career?

SC: No. I'd say categorically the key transformative event was the day the specialty product business I launched after great struggle for our predecessor company hit \$1 million a month in revenue and turned its first profit. It was a true startup operation, where I started literally with nothing—few staff and only a very modest financial commitment—and gradually built it to what it is today: a \$16 billion business. Another thing I am proud of is becoming a US citizen. This country has been open and welcoming to an immigrant like me; it is a land of opportunity. I came to AmerisourceBergen as a South African with an accent and no credentials from the best

schools, yet I could succeed nonetheless. Despite its current problems, the US has a key advantage globally because it is an open society where success is largely based on merit. People with strong skills and a work ethic still want to come here.

WL: You now lead an organization that is the true pivot point in US healthcare, with responsibility for getting more than 20 percent of all pharmaceuticals sold in this country to their destination in a safe and timely manner. AmerisourceBergen is also less well known than other key players in the healthcare industry, even though your revenues—\$78 billion last year—exceed those of even the biggest of Big Pharma. How do you as CEO intend to respond to this very interesting dynamic: a stealth leader with a size triple-X footprint?

SC: As a 17-year veteran of the business, I am acutely aware of our responsibilities as a healthcare provider. Don't look at AmerisourceBergen as just a "pick, pack, and ship" business; not only is what we do far more complicated than that—our guarantee of safety and quality in supply is non-negotiable—but we operate distinct, leading-edge businesses in specialty medicine services, consulting, and packaging. Our mission depends on consistent performance, every day of the week, to a diverse customer base whose expectations are high and often in flux; yes, we are big, racking up \$300 million in sales every day, but we also have to be prepared to literally "turn on a dime" when our stakeholders call for it. This is why we have opted for a high degree of decentralization in our operations because it's a structure that optimizes the customer experience.

As CEO, I don't intend to stay running in place, but to build on the assets we have created to extend our value to the customer and the communities we serve. We must stay well ahead of market change. I expect in the next five years the pace of that change will be more intense than at any time in our history. From a strategy perspective, I must grapple with securing a better balance between our current devolved model of four largely independent businesses functioning around a central support service network and what our customers increasingly demand: an integrated, multichannel, solutions-oriented "suite" of offerings, delivered efficiently, on time, and at a lower cost. The fact that these solutions must be tailored to the distinct needs of each customer is a challenge, because doing that right tends to raise our fixed costs. Traditionally, we have operated as a high-volume, low-margin business, where differences in customer expectations were not that great. This is likely to change.

WL: What are the principal drivers of that market change? How specifically do you intend to respond?

SC: Overall, we are anticipating a marked increase in the sophistication and awareness of the customer base. The data and analytics they can marshal to compare our performance is daunting. Of course, we have to respond in kind, always raising the bar in terms of service and increasing the "stickiness factor" in keeping that customer close to us. In the distribution arena, our competitors are not structurally all that different from us, so it's a matter of creating a distinct culture of confidence focused on solutions and the quality of the overall relationship. I'd pose it as a question: Who do you feel exemplifies your own culture, has your back, and is willing to go the extra mile?

AmerisourceBergen is responding to the changing environment with more and better services, including support for launch activities in the specialty arena; offering a more comprehensive range of data-based consulting services, including economic modeling around cost-effectiveness, pricing support and patient compliance programs; and seeding the growth of community oncology practices that assist the drug makers in accessing physicians in ways that drive higher sales. We now have more than 70 PharmD staff working on ways to build the case for the value of a newer therapy versus older ones.

It's vital to remember that in the US the customer still has a choice. HDMA, our national trade association, is now down to about 30 members from more than 100 in the 1990s, but those remaining 30 are bigger and have the capacity to offer the solutions I emphasize as competitive differentiators. Consolidation is an area we must monitor in order to keep our edge.

Finally, in addition to the modifications in the organization structure I discussed earlier, we will over time be taking a closer look at global market opportunities. At present, 98 percent of our corporate revenues are posted

here in the US, with the remainder in Canada and the UK. The specialty drug business we launched in Canada is doing very well and there may be lessons for that elsewhere. The emerging country markets represent a potential area of opportunity, partly because growth projections are so high and the need for low-cost delivery of medicines is obvious. However, I would not want to make the claim that AmerisourceBergen is moving away from its overriding focus on the US. That commitment is immutable.

WL: So is there reason to be optimistic about the survival of your business model?

SC: Definitely. AmerisourceBergen is riding the wave of the generics boom; [generics] now account for more than 70 percent of all prescriptions in the US and are available through us to patients for as little as a few dollars copay. A recent study done for HDMA documents that if our industry's high-volume, low-cost distribution model did not exist, spending in the US healthcare system would rise by about \$30 billion a year. The demographics of aging alone are favorable; the average senior in the US takes about seven prescription drugs. There is also the trend toward a growing middle class in high-population emerging countries with the incomes to spend on medicines. I also note that politicians, as represented in the US Congress, cannot—try as they might—legislate good health. Hence, there will always be a role for the private sector in the development and delivery of drugs useful to the patient.

However, there is one issue that worries me: the ability of the drug industry to continue innovating around the science. Without innovation, we will have no generics. As a leading drug distributor, our future depends on a continuous cycle of new products for us to move to the clinician and the patient. It's very important for us to have a vibrant and productive environment on the manufacturers' side. Appropriate public support for innovation is crucial to maintaining this dynamic, which is very fragile.

WL: Are you taking this position forward in Washington policy circles?

SC: AmerisourceBergen has significantly upgraded its federal policy activities in recent years. I intend to expand our commitment even further, with the basic objective of ensuring our customers can carry on in serving the patient at an economically viable reimbursement rate. Frankly, we weren't active enough when the Medicare Modernization Act gave seniors a public drug benefit in 2004 and as a result the fees we earned from manufacturers were not included in the Act's basic reimbursement formula. That omission negatively impacted our customers.

WL: In contemplating your agenda as AmerisourceBergen's new CEO, what learnings do you take from your reputation as champion "internal entrepreneur" in launching the company's successful specialty business?

SC: I find my progress depended on getting three things right: 1) communicating to win the confidence of not just the customer but key internal decision-makers who may have been skeptical about our intentions; 2) finding and building a top-class team, and keeping them motivated at the critical early stages of the enterprise; and 3) handling the complexities of executing around practices, technologies, and logistics we were not entirely familiar with. In the latter case, building a new skill set to facilitate physician contracting with the manufacturer around sophisticated oncology products was one challenge where we literally had to step up and help physician groups manage their practice—everything from cash flow controls to creating "just in time" supply chain vehicles. The human interface was another element, and being by nature a people person, I was usually good at the small things that count.

I recall at one early stage of the business we were confined to an office with 1,500 square feet for 30 people, which included our entire customer service team. I had hired a new person to launch a division and found there was no other choice but to put him to work in the office kitchen. I hired him and then said everyone had to go out to lunch so the poor guy could work—until we could get management to approve a lease for a larger space. Yes, it's true: My boss at the time refused the lease because he thought we were growing too quickly! These are the things that test your mettle and make life interesting. And I am pleased to say our "kitchen help" stayed with it and now is responsible for a \$4 billion business here.

WL: Specifically, how do you approach the role of CEO in a company now as big as AmerisourceBergen? What style of behavior will you adopt in driving the business forward?

SC: I go back to my early experience in the South African Air Force. There I learned the importance of keeping things on track; establishing a clear business and reputational mission and communicating that right down the ranks, through a simple set of messages—and that should be readily understood by all 10,000 colleagues who work here, no exceptions in terms of strata of engagement. In addition, I demonstrate enthusiasm and excitement about the company as a basic motivational tool. Finally, in terms of executing on strategy, I must make sure all colleagues have the resources to generate “win/win” solutions for our customers.

WL: Are you a believer in the idea that all companies have distinct “cultures” and the CEO’s task is to bolster that culture around a compelling vision?

SC: Absolutely. A vision is the best way as a CEO I can bridge all the diverse elements of a company that has depth everywhere from Dallas to Charlotte to Southern California. I am in the process of doing that now; the focus is on integrating our activities so that we become the preferred partner for the customer—and the easiest to do business with. Another is promoting a long-term performance metric for our business. I have told Wall Street that our goal is to maintain a 15 percent compound annual growth rate in earnings per share indefinitely. And that the stock price itself is immaterial to our benchmark for performance. I am saying I am accountable for performance. I am less accountable for what happens to our stock price, where the range of external variables is immense.

The other task for the CEO is to be outward-facing, in a way that exemplifies making a contribution to society beyond profit. To AmerisourceBergen, the relevant theme here is ethical standards—safety for the patient taking our pills. I admire how the Disney company has made safety part of the culture in giving each and every employee the right to shut down a theme park ride if he/she senses a fan is in danger. We must maintain that same impeccable commitment because any one mistake in the safety chain for drugs is going to be serious in terms of public health. I am aware we operate in a much more competitive environment. But that cannot be linked to a philosophy that says it’s ok to succeed at any cost.

WL: Is it possible for a CEO to thrive without being a good communicator?

SC: Perhaps. But the closed door is not going to work well against the accessibility of information and the change in generations toward a cohort of young people skeptical about command and control behavior. One thing that excites me is that CEOs like me now have access to new communications tools that can be individualized at levels unheard of only a few years ago. For example, there are fantastic opportunities to customize our contacts through the web. I am using this tool now with a new internal program I call “Starbucks with Steve.” We invite eight or nine colleagues from the ranks and just sit down with me and discuss what’s on their minds. The discussion usually comes down to what it takes to be a good manager, and how to adapt to the culture and be an effective leader. I listen first and talk later. That’s a skill often underrated in life.

The CEO has to avoid the tendency to be siloed out of reality by staffers dedicated to “uncomplicating” your work life. I deal with that by making a significant effort to keep in touch with our customers. I seek them out; I don’t wait for them to come to me. None of our big customers are at all complacent. Whether it’s Pfizer or the Cleveland Clinic or Humana, they all confront big challenges. They don’t care who you are—it’s an answer they want. I find it hard to be arrogant when I visit a customer. You can get bruised very quickly.

WL: Looking forward a few years, how will you define success?

SC: I am proceeding under a very simple construct; that is, to meet and preferably surpass all our performance benchmarks. Retooling the business to make it easier for the customer to work with us and to more precisely define our value to them and other stakeholders. Keeping our colleagues engaged and enthusiastic about our mission to society. And, finally, maintaining as we grow a no-compromise commitment to compliance around ethics and safety.