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Using Workforce Analytics to Solve Broader Business Challenges in the Life Sciences Sector

HR leaders can use workforce analytics to become trusted advisors on growth strategies. Our article explores how several companies are applying workforce insights to gain an edge.

The life sciences sector is undergoing tremendous change. Biopharmaceuticals face increased competition from biosimilars, M&A and tax inversion deals are increasingly prevalent, and outrage over rising drug costs is now a mainstream media and political issue in the United States (US). Together, these developments force human resources, compensation and benefits professionals to consider a wide range of workforce planning questions

As the entire industry positions itself to deal with a flood of new competitors and potential regulatory changes, these workforce questions include:

- Do we have the right people in our organization and at the right levels?
- In what areas of our business are we losing talent, and where is it getting harder to hire new talent?
- Is our HR strategy supporting our business strategy?
- Where do we typically find new people, and how do we compensate them, to fill an influx of new positions needed to drive innovation? And what should our organization look like in two years' time?

Answers to many of these questions can be found using the **Radford Workforce Analytics** platform. To get started, the first step is to determine your biggest business challenges are their relative priority. Below, we outline a few business challenges we commonly help our clients solve, and how workforce analytics and investments in compensation planning can be used to generate meaningful solutions in each case.

Business Challenge #1

Managing Headcount Distribution on the Road to Commercial Operations

Let's consider the example of a biotech company that just received government approval for its first drug and is now gearing up for commercial production. As the company begins manufacturing operations, they need to build out their existing teams and create entirely new functions like sales, marketing and operations— all while ensuring they continue to focus on R&D efforts to maintain a pipeline of new drugs and new applications.

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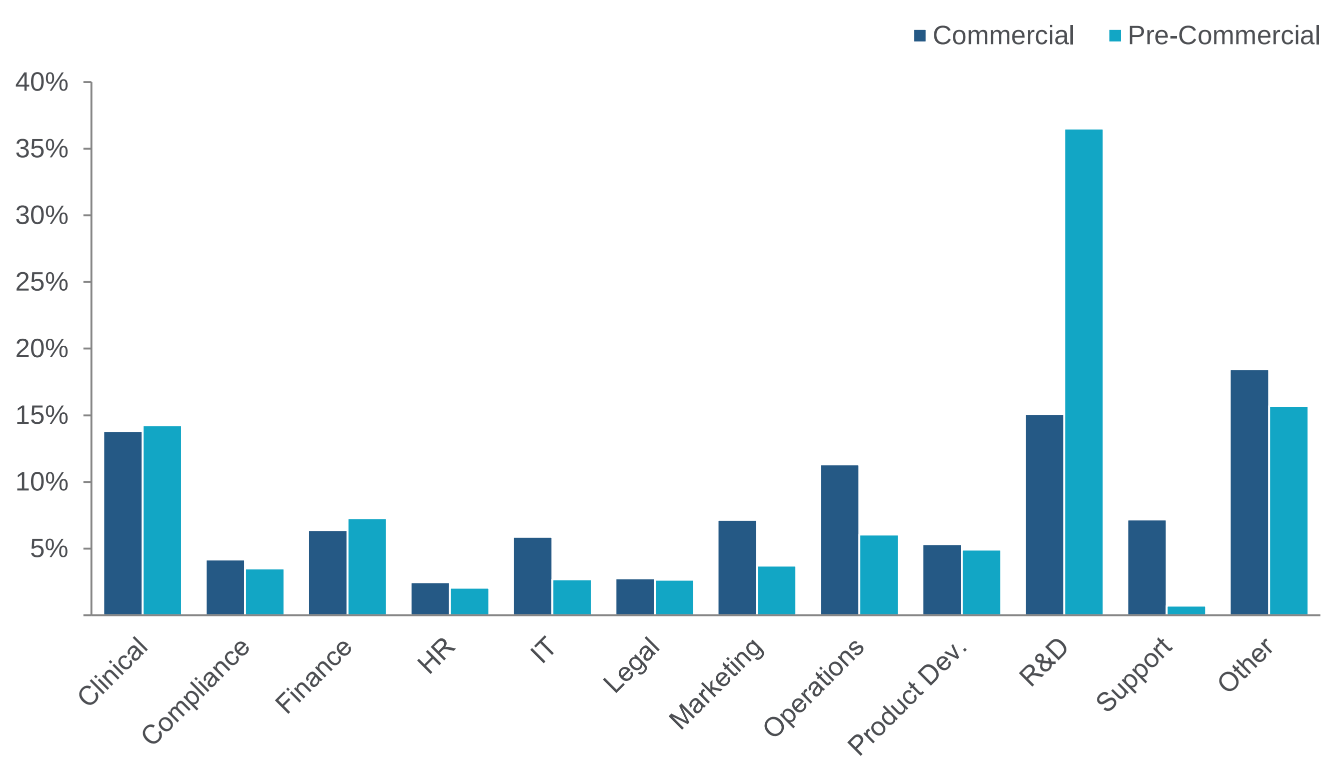
From a workforce planning perspective, one of the first questions business leaders might ask is how job functions, job levels and the distribution of employee headcount should change on the march from a pre-commercial to commercial organization.

In general, pre-commercial companies are much smaller, and we see job levels skewed toward senior levels in R&D positions, with a greater spend per employee. The chart below illustrates this effect, and shows that as organizations progress into commercial status, R&D as a percentage of the workforce tends to shrink dramatically, while IT, marketing, operations and support functions expand significantly. Compliance, HR, legal and product development functions tend to stay fairly stable.

Using workforce data to model these shifts at various points in the pre-commercial to commercial transition not only allows leaders to properly asses material items like recruiting, IT and office space capacity, but also potential cultural shifts as functions grow or shrink in relative size. Human resources teams have a real opportunity to get ahead of these issues and raise important questions before others in the organization do so.

Of note, as is the case with benchmarking executive pay, companies should consider their size, relevant therapeutic areas and/or number of products in the market, relative stage of growth, and industry alignment when identifying peer groups for workforce comparisons. Simply looking at talent or geographic peers, as one might do for broad-based compensation benchmarking, is not sufficient.

Headcount Distribution by Job Function (Global Life Sciences Sector)



Source: Radford Global Workforce Analytics; Q2 2016

As biotech firms increasingly compete with emerging biosimilars and other new entrants, not only is there more competition on pricing today, but a premium is also placed on maintaining investments in future pipeline projects. Historically, as companies transitioned from the pre-commercial to commercial stage, they invested heavily in their sales and marketing efforts to create demand and awareness for their new products. While this type of investment remains very important, we observe a few of our clients also re-doubling down on their scientific talent and R&D infrastructure even after commencing initial commercial operations. This trend may be too nascent to appear in our data, but it is something that can be monitored with frequent use of workforce analytics datasets.

Business Challenge #2

Evolving Your Pay Structure to Meet Your Growth Stage

Like headcount distribution, compensation design also evolves as life sciences companies mature. We see a continuous shift in the types of equity vehicles used and the percentage of fixed vs. variable pay awarded throughout each stage of growth— from start-up, to high-growth, to clinic trials and on to full-scale commercial production. Knowing what is common at each stage of your business' journey will ensure you are benchmarking correctly and paying in line with what your employees expect.

Furthermore, given the rapid growth experienced by many biotech companies over the past several years, accelerated by the US Food and Drug Administration (FDA) approving a record number of new drugs last year, market-driven changes in compensation levels can quickly overwhelm even the most well-designed salary structures and thoughtfully planned pay budgets. Additionally, with equity being such a foundational component in life sciences rewards programs, knowing when to shift from options to RSUs, how quickly that evolution takes place, and at what levels of the organization, is an increasingly complex task. The following table illustrates how equity approaches not only shift across the pre-commercial vs. commercial divide, but also by level.

Equity Vehicle Use Shifts from Pre-Commercial to Commercial Status

	Prevalence of Employees Receiving Each Vehicle					
	Pre-Commercial			Commercial		
Position/ Level	Options Only	RSUs Only	Options + RSUs	Options Only	RSUs Only	Options + RSUs
CEO	75%	3%	22%	37%	10%	53%
SVP/Officer	71%	4%	26%	23%	18%	59%
VP	66%	6%	28%	12%	43%	45%
Management 5	65%	7%	28%	13%	39%	48%
Management 3	70%	9%	21%	8%	58%	35%
Professional 5	55%	13%	33%	9%	58%	33%
Professional 3	76%	10%	14%	11%	55%	34%

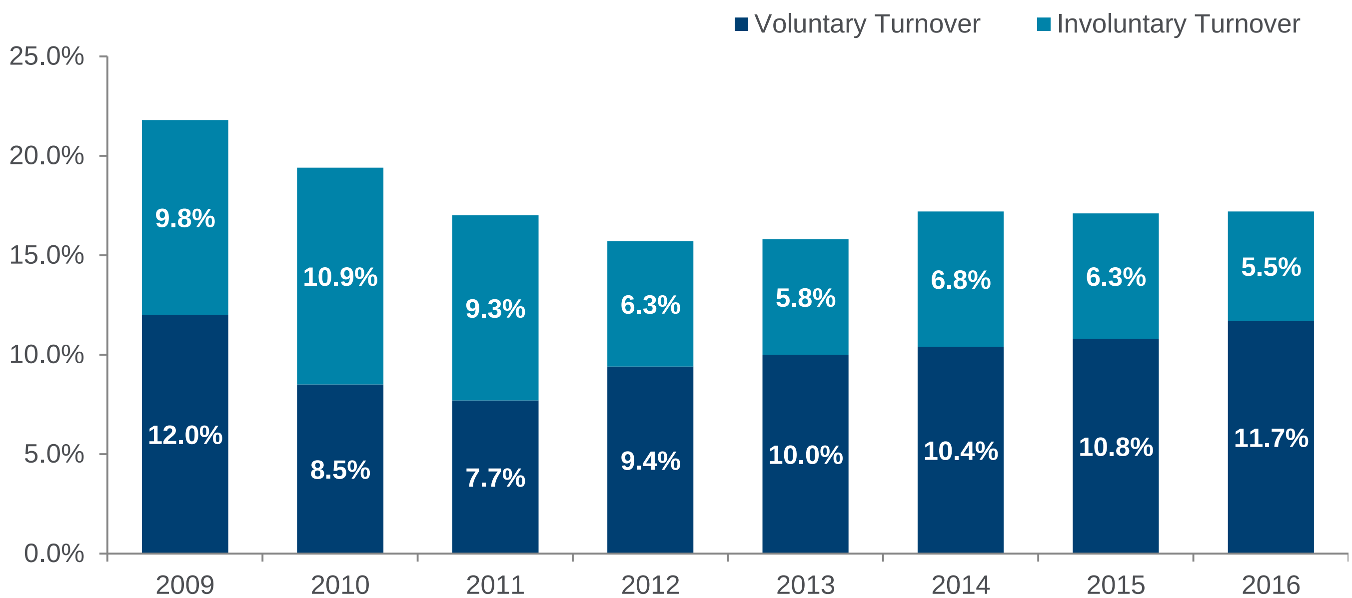
Source: Q2 2016 Radford Custom Global Long-Term Incentive Reports for the Global Life Sciences Sector

Business Challenge #3

Addressing High Employee Turnover in a Fast Moving Market

One of the biggest downsides of operating in a high-growth sector is the constant risk of losing employees to competitors. Before you take action to reduce turnover— such as giving out selective retention bonuses or supplemental equity awards— identify whether your firm's situation is truly unique, or just a situation of a rising turnover tide lifting all boats. And while doing so, make note of the fact that typical turnover rates can vary significantly depending on business stage and the location of your company. For your reference, the chart below isolates voluntary and involuntary employee turnover at US life sciences firms, including commercial and pre-commercial companies.

Historical Turnover in the US Life Sciences Sector



Source: Radford Global Life Sciences Survey, Workforce Trends Reports

As is evident from the chart above, we are the midst of a steady build up in voluntary turnover rates in the US over the past five years, which is an indicator of an aggressive labor market.

Does turnover at your company match the industry average? And how is it trending? Tackling high turnover requires addressing the issue from the front end by pulsing employees frequently on their level of engagement. Is compensation a leading factor in dissatisfaction or are there other contributing factors like career growth and advancement opportunities?

There are a number of actions to take to reduce high turnover; a common one being retention bonuses. In fact, retention bonuses are on the rise in the life sciences sector. (See our paper *Hot Topics Excerpt: Life Sciences Companies Turn to Retention Bonuses to Reduce Turnover* for more details.) While retention bonuses have a role in addressing high turnover, we caution against using short-term cash, which is usually paid out at once and not tied to performance metrics, as a bandage to cover up what could larger problems with employee engagement or a result of industry dynamics that your competitors are also dealing with.

Business Challenge #4

Finding and Paying Talent in Emerging Functions

Using workforce analytics across business sectors to model how non-traditional functions can be structured within the context of life sciences companies, along with finding novel talent sources, is a new, but increasingly common area of exploration. For some companies, there is a need to examine how service organizations (e.g., genetic counseling teams) are best deployed. And at many other life sciences organizations, building bioinformatics, data science, medical device engineering, machine learning or software development teams is a critical need.

Before biopharma companies jump headlong into recruiting new types of talent on a one-off basis, which usually results in expensive market-based pricing, HR leaders can leverage workforce analytics to model how new teams might be structured, both by looking at peer companies or analogous firms in the technology sector. Answers to questions on everything from span of control to incentive structures, can benefit from leveraging information across sectors. Plus, looking at the technology sector can also help to establish broader benchmarks for the purposes of defining pay levels.

These trends are born out in the **Radford Global Life Sciences Survey** and the **Radford Global Technology Survey**, where we observe a growing share of positions that overlap across our surveys as industries converge. This also explains why our workforce analytics platform includes both life sciences and technology companies in the same database. While it is still true that companies should consider traditional peers when benchmarking organizational design and performance, the same may no longer be true when it comes to identifying new talent sources, which increasingly span geographies and industries. Our workforce analytics dataset, applied at a macro level, is being used by many of our clients to find interesting pockets of specific talent profiles.

Similarly, rewards programs at life sciences and technology employees have always shared a number of common traits, most notably a heavier reliance on equity relative to all other industries. However, some important differences remain, like the ratio of stock options to restricted shares to performance shares used at technology vs. life sciences companies, as well as equity vesting schedules. As the talent pools for both sectors converge, HR leaders at biopharma companies will need to acquire a finer understanding of how pay packages, benefits programs and workplace cultures compare across both sectors, as potential job candidates might be receiving offers from increasingly diverse employeers.

Looking Ahead

In the fast-changing life sciences sector, there are a wide range of complex business challenges that companies face as they grow, compete and innovate. Many of these challenges might seem to fall on business managers to tackle, but HR and compensation leaders can play an increasingly forceful role. Workforce analytics and reliable, customized compensation data can help HR leaders navigate through various stages of growth as they hire and engage the talent they need to fuel near-term success while also keeping an eye on the future.

To learn more about the **Radford Global Life Sciences Survey**, **Radford Global Workforce Analytics** or to speak with a member of our compensation consulting group, please **contact our team**.

Author Contact Information

Meaghan Piscitelli
Director, Radford
Aon Hewitt | Talent, Rewards & Performance
+1.415.486.6987
meaghan.piscitelli@radford.com

Dan Weber
Director, Global Workforce Analytics, Radford
Aon Hewitt | Talent, Rewards & Performance
+1.408.321.2515
dweber@radford.com

About Radford

Radford delivers compensation data and advice to technology and life sciences companies. We empower the world's most innovative organizations, at every stage of development, to hire, engage and retain the top talent they need to do amazing things. Today, our surveys provide in-depth compensation insights in more than 80 countries to 3,000 participating organizations and our consultants work with hundreds of firms annually to design rewards programs for boards of directors, executives, employees and sales professionals. Radford is part of Aon Hewitt, a business unit of Aon plc (NYSE: AON). For more information on Radford, please visit radford.com.

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