

Novartis is Expanding Healthcare to the World's Poorest Citizens through For-Profit Programmes

"Goal 3: Ensure healthy lives and promote well-being for all at all ages" is one of the UN's 17 Sustainable Development Goals. Global healthcare company Novartis International produces more than 1,000 pharmaceutical products that contribute to the world's health and wellness.

For Novartis, then, the priority challenge of sustainable development is this: How can the company expand access to its medicines to even more people, especially people who live in poverty or are otherwise deprived of healthcare?

Top of the List: Access to Healthcare

Novartis International AG is the world's largest pharmaceutical company, with annual sales of about \$58 billion (U.S.) in 2014. The company, headquartered in Basel, Switzerland, has more than 130,000 employees worldwide.

Novartis has a multitude of programmes that promote sustainable development -- from carbon sink projects in Argentina and China to its Living Wage Initiative to women's empowerment (40% of company managers are women). However, providing greater access to healthcare is at the top of Novartis's sustainable development list.

"When we talk to people outside the company," said Charlie Hough, the company's Vice President and Global Head of Corporate Responsibility Strategy and Stakeholder Engagement, "they tell us, 'It's great that you are reducing your carbon footprint and greenhouse gas emissions. But that's not your big issue."

You're not a big polluter and not a huge user of resources. Your big issue is expanding access to medicine.'"

Novartis also has major corporate philanthropy efforts underway. Working with the World Health Organization, the company has delivered 700 million malaria treatments without profit since 2001 and 5 million multidrug therapy treatments to leprosy patients for free. Due to such efforts by Novartis and other companies, malaria deaths have been cut in half in this century and



Charlie Hough, is Vice President and Global Head of Strategy, Corporate Responsibility at Novartis. He has been with Novartis since 1999 and is based in New York.

HOUGH: "One billion patients. That's good, but there are another 6 billion people in the world, many of whom are still in desperate need of greater access to medicines and healthcare."

Novartis Timeline

2000

Novartis became a founding signatory of the UN Global Compact.

2006

Business thought leader C.K. Prahalad challenged Novartis executives to rethink their perspective on "the bottom of the pyramid."

2007

Social Business Group launched with Arogya Parivar ("Healthy Family") in India.

2012

The Healthy Family model was replicated in Kenya and Vietnam.

2014

Novartis establishes its Access to Medicine Committee.

2014

Healthy Family programme begun in Indonesia.

leprosy has been statistically eradicated (less than 1 case per 10,000 people).

Novartis manufactures products to address each of the world's top 20 diseases, and its products have reached about 1 billion people in 2014.

Philanthropy Alone Won't Meet the Need

The beneficence of Novartis and other responsible corporations has led to remarkable success in the fight against malaria and leprosy, but philanthropy alone is not enough to address the world's greatest problems.

HOUGH: "There has been a long history of caring about sustainability at Novartis, much of which has been core to our business strategy."

In 2014, Novartis established its Access to Medicine Committee with the mandate to develop strategies to reach more of the world's underserved people. The Committee is chaired by CEO Joseph Jimenez and has members representing each of the company's three divisions.

Even before formation of the committee, Novartis was identifying new ways to expand access through profit-generating programmes that are therefore financially sustainable. For-profit programmes have the potential to expand rapidly and thus reach millions of people who are not being reached through corporate philanthropy.

Novartis calls these for-profit programmes "social ventures." Many sustainability experts describe such programmes as "creating shared value."

An example of a for-profit programme that Novartis launched is called "Arogya Parivar", which means "Healthy Family" in Hindi, in India in 2007. The goal of the award-winning programme is to reach impoverished people in isolated rural areas who do not have access to and/or cannot afford healthcare.

Many people in rural India earn less than 2 dollars a day. Novartis developed a marketing strategy to offer its medicines to low-income people at lower prices and in smaller quantities. Differential pricing -- offering products at lower prices to the world's poorest citizens -- was not a new idea. However, Novartis's innovation extended to hiring and training indigenous people to teach their neighbors about disease prevention and treatment and to create the marketing and

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Novartis delivered:

700

million malaria treatments



Results:

Malaria deaths cut in half in this century

5

million multi-drug therapy treatments for leprosy patients



Leprosy has been statistically eradicated (less than 1 case per 10,000 people)

Working with the World Health Organization, the company has delivered 700 million malaria treatments without profit since 2001 and 5 million multidrug therapy treatments to leprosy patients for free. Due to such efforts by Novartis and other companies, malaria deaths have been cut in half in this century and leprosy has been statistically eradicated (less than 1 case per 10,000 people).

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distribution networks needed to make those products available.

Arogya Parivar became profitable in less than three years. The programme has reached tens of millions of people in rural India. Sales have grown by a factor of 25 since the initial year. The program has been replicated in Vietnam and Kenya in 2012 and Indonesia in 2014.

Rethinking the Bottom of the Pyramid

Hough said a turning point in Novartis's approach to expanding access to healthcare came in 2006, when business thought leader C.K. Prahalad spoke to the company's executive committee.

Prahalad, who was born in India and died in 2010, was Professor of Corporate Strategy at the University of Michigan's Ross School of Business. He wrote the 2005 book, *The Fortune of the Bottom of the Pyramid*, in which he characterized the world's poorest citizens as an untapped market for entrepreneurial initiatives that address problems in financially sustainable ways. The book's subtitle is, "Eradicating Poverty Through Profits."

Prahalad wrote that 4 billion people, the majority of the world's population, earn less than \$2 a day, and that that vast market is mostly unreached by the world's largest corporations.

"That was a pivotal moment," Hough said of Prahalad's visit with Novartis executives. "That inspired the CEO at the time, Daniel Vasella, to try to provide medicine and education in a for-profit way, not just through philanthropy."

Arogya Parivar was launched the next year. Several years after Prahalad's visit, when discussing Novartis's Social Business Group, Hough still describes the programme in terms of "reaching deeper into the income pyramid than a traditional pharmaceutical company would try to reach."

The programmes not only expand healthcare access but also provide jobs, both of which spur a region's development. For Novartis, there is also a long-term rationale for social business enterprises like the Healthy Family programmes.

"We are building relationships, building core businesses, having an impact, getting to know how the business operates," Hough said. "As the middle-income population continues to grow, we will have a great opportunity to expand our core business in those regions, because we will have already been operating



Novartis Corporate Headquarters in Basel, Switzerland

there for a long time."

The Differential Pricing Challenge

One challenge to social business ventures like the Healthy Family programmes is how stakeholders perceive differential pricing. Offering medicines to low-income people at prices they can afford (i.e., prices the market can bear) is an essential aspect of the social business approach and fundamentally different than providing healthcare philanthropically at low or no cost.

Differential pricing generates profits that pay the incomes of the indigenous workers who carry out the programmes' education, marketing and distribution. That makes the programme financially sustainable and expandable.

However, some developed countries use reference pricing (comparing what other countries are paying for the same products) to regulate or negotiate the prices their citizens pay for the same pharmaceuticals. Hough said Novartis stakeholders support differential pricing in theory, but also reference the differential to seek lower prices for themselves.

"Stakeholders want it both ways," Hough said.

The Future: More Access

More access to healthcare is Novartis's current and future goal. That means continuing to develop innovative ways to reach the majority around the world who are at the bottom of the pyramid.

It also means a greater emphasis on expanding access to Novartis products that treat noncommunicable diseases (NCDs), including cardiovascular diseases, cancers, respiratory diseases and diabetes. NCDs kill 38 million people a year, and the victims are disproportionately among low-income and middle-income countries.

Novartis will continue to pursue sustainable development in a broad variety of ways, from philanthropy to responsible hiring and compensation practices to cost savings through responsible use of resources. Novartis intends to continue exploring social business models like the Healthy Family programmes.

As Prahalad wrote: "What is needed is a better approach to help the poor, an approach that involves partnering with them to innovate and achieve sustainable win-win scenarios where the poor are actively engaged and, at the same time, the companies providing products and services to them are profitable."