Introduction of a Balanced Scorecard in the Pharmaceutical Industry

Vienna, June 18th 2003
A broad product range and promising pipeline is the key to our success

- 273 molecules
- 693 formulations
- 2690 stock-keeping units
- 215 projects in the pipeline
- 959 products under registration at present

255 million packs a year

- ca. 7 billion tablets
- 100 million suppositories
- 1,000 tons ointments
- 123 million ampoules
- 1,200 tons liquids
- 200,000 liters of suspension
ratiopharm developed from a strong Germany focussed company to a global enterprise

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>Foundation of the ratiopharm GmbH</td>
</tr>
<tr>
<td>1990</td>
<td>Foundation of a subsidiary in Spain</td>
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<tr>
<td>1998</td>
<td>Foundation of ratiopharm International GmbH</td>
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<tr>
<td>1998</td>
<td>Acquisition of a subsidiary in Finland</td>
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<tr>
<td>2000</td>
<td>Acquisition of Technilab Pharma, Canada’s third largest generic manufacturer renamed into ratiopharm Canada</td>
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<tr>
<td>2000</td>
<td>Conversion of all international Merckle subsidiaries into ratiopharm</td>
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<tr>
<td>2000</td>
<td>Change from joint-venture to own subsidiary in France</td>
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<tr>
<td>2001</td>
<td>Acquisition of 100% of Martec in USA</td>
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<tr>
<td>2002</td>
<td>Acquisition of ribosepharm (Oncology products) in Germany</td>
</tr>
<tr>
<td>2003</td>
<td>International presence in 23 Countries</td>
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<tr>
<td>2003</td>
<td>USA expansion and new possibilities with new entries: Brazil, Mexico, Argentina, Australia, South Africa</td>
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<tr>
<td>2006</td>
<td></td>
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</tbody>
</table>
Today, ratiopharm Group is Germany’s and Europe’s market leader in generics

Sales Germany 2002
(in millions €)

Sales Europe 2002
(in millions €)

<table>
<thead>
<tr>
<th>Company</th>
<th>Sales Germany 2002 (in millions €)</th>
<th>Sales Europe 2002 (in millions €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>rtp Group</td>
<td>800</td>
<td>1000</td>
</tr>
<tr>
<td>Hexal Group</td>
<td>600</td>
<td>800</td>
</tr>
<tr>
<td>Stada Group</td>
<td>400</td>
<td>600</td>
</tr>
<tr>
<td>Sandoz</td>
<td>300</td>
<td>500</td>
</tr>
<tr>
<td>Merck</td>
<td>200</td>
<td>400</td>
</tr>
<tr>
<td>Sanofi</td>
<td>100</td>
<td>300</td>
</tr>
<tr>
<td>Alpharma</td>
<td>50</td>
<td>200</td>
</tr>
</tbody>
</table>

Based on ex factory estimates (= IMS- avg. rebates)

1) exkl. API und VET
2) exkl. API
3) exkl. Copaxone
On a global scale ratiopharm ranks on 3rd position

Global Presence 2002
(in millions €)

- Teva
- Sandoz
- ratiopharm Group
- Merck KGA
- Mylan
- Hexal Group
- Alpharma
- IVAX
- Apotex
- Stada Group
- Watson

1) exkl. Copaxone
2) exkl. API
3) Mat 06/02
4) inkl. Paclitaxel, USA without brands
5) excl. API und VET
6) inkl. EON
7) without brands
Content

1. Company Profile
2. ratiopharm Balanced Scorecard (Structure/ Tool)
3. Implementation Process at ratiopharm
Our ambition

Translate strategy into action

Measuring ratiopharm’s performance from different perspectives that are important for the business

Increase buy-in for realizing the strategy

Create commitment to targets

Organize discussion on strategic objectives and their interdependencies

Increase transparency of the management control system
From a general mind-frame . . .

Today
- Projects don’t get implemented/no transparency
- Cause and effect relations are unclear
- Developments are recognized too late

"What gets measured - gets done!"

Tomorrow
- Projects lead to clear (better) results
- Cause and effect relations become obvious
- Developments can be anticipated

"What gets measured - gets done!"
... to a clear goal: supporting strategy implementation / extend performance measurement

Goal:

- Implementation of agreed & defined strategies
- Extension of existing Performance Measurement-Systems (include qualitative measures)
- Usage of „lead indicators“
- Improvement of existing SAP based Management Information Systems (MIS)
- Manage growth & complexity
We used the classical 4 perspectives - like 90% of companies using the BSC as management tool.

**Customer-Perspective**

“How do we position ourselves vis-à-vis our customers and how do we have to fulfill our customers’ needs to achieve our strategic targets?”

**Financial-Perspective**

“How do we position ourselves in the light of the owners to ensure the financial success of our strategy?”

**Process-Perspective**

“What business processes do we have to master in order to satisfy all the stakeholders’ needs and expectations identified in the strategy process?”

**Learning & Innovation-Perspective**

“How do we cope with the changing environment and how can we improve our change and growth potential to successfully implement our strategy?”
Our scope covers the entire ratiopharm Group - countries, subsidiaries as well as functional areas.
The chosen structure is straight-forward

<table>
<thead>
<tr>
<th>Structure/ Design</th>
<th>Scorecard Content</th>
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</thead>
<tbody>
<tr>
<td>Group Scorecard</td>
<td>4 Perspectives</td>
</tr>
<tr>
<td>Central Functions</td>
<td>Strategic Initiatives</td>
</tr>
<tr>
<td>Regions</td>
<td>Key Performance Indicators</td>
</tr>
<tr>
<td>Countries</td>
<td>Actual</td>
</tr>
<tr>
<td>Direct Reports</td>
<td></td>
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</tbody>
</table>

4 Perspectives

Strategic Initiatives

Key Performance Indicators
## Facts & Figures

### Statistics

- **74 Strategic Initiatives**
- **382 KPIs**
- **Departments involved**
- **People involved: 150 - 180**

### Examples

- **Time to Market**
- **Customer Relationship Management**
- **Forward Integration**
- **First Choice Employer**
- **Fluctuation Rate**
- **Number of new customers**
- **Customer satisfaction ratio**
- **Launch Performance**
- **Controlling (national/ international)**
  - ratiopharm country organizations
  - ratiopharm central functions
  - . . .
- **Sponsor**
  - General Manager countries/ Mgt Teams
  - Functional/ Departmental Heads
  - . . .
Example: Strategic Initiative „First Choice Employer“

**Mission element**

“... self confident employees - they are our source of value and energy”

**Strategic Initiative**

“First Choice Employer”

**Value Drivers**

- Employee Satisfaction
- Attractive work environment
- Seniority of Organization
- Clear/Described Career Paths
- Employee training/knowledge
Measurement: Classical Human Resource KPIs

**BSC Perspectives**
- Finance
- Customer
- Processes
- Learning & Innovation

**Strategic Initiatives**
- Profitable Growth
- First Choice Employer
- ...
- ...

**KPIs**
- Fluctuation-Rate
- Average time of engagement with ratiopharm
- Percentage of Sick Days
- Percentage of „open positions“
- Average time to fill open positions (HR Performance)
HR will measure and provide these figures

<table>
<thead>
<tr>
<th>KPI</th>
<th>Frequency</th>
<th>Measured in</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fluctuation-Rate</td>
<td>Half-yearly</td>
<td>All countries/functions</td>
<td>HR-Department</td>
</tr>
<tr>
<td>Average time of engagement within ratiopharm</td>
<td>Half-yearly</td>
<td>M&amp;S, BD, F&amp;A, S&amp;I</td>
<td>HR-Department</td>
</tr>
<tr>
<td>Sick Days</td>
<td></td>
<td>M&amp;S</td>
<td>HR-Department</td>
</tr>
<tr>
<td>Open Positions</td>
<td></td>
<td>M&amp;S, BD, F&amp;A</td>
<td>HR-Department</td>
</tr>
<tr>
<td>Average time to fill open positions (HR Performance)</td>
<td>quarterly</td>
<td>BD</td>
<td>HR-Department</td>
</tr>
</tbody>
</table>

= already existent
The SAS Tool has been chosen to support the implementation through web-based BSC technology.
The web based technology allows to decentralize data input into relevant areas (i.e. countries)

**Local Roles & Responsibilities**

- Obtain scorecard data from local colleagues (KPI Responsible) in time and quality
- Input the data into the BSC-tool (Web Data Entry) on the 10th of each month
- Be the key contact on a local/functional level for BSC questions
- Spread the provided BSC-knowledge throughout the organization
ratiopharm chose a top-down/ bottom-up process to implement the Balanced Scorecard

ratiopharm Strategy Project

- Definition of Corporate Vision and Mission
- Definition of Country- and Functional Strategies

07/2001 - 02/2002

Balanced Scorecard Implementation

- Building the BSC-Concept
- Creation of „Strategic Initiatives“ for Countries and Functions
- Identification of “Value drivers”
- Development of “Key Performance Indicators” to measure the value drivers

02/2002 - 07/2003

Technical level

Excel Version
SAS Tool
“Lessons learned” from our process

- Strategic clarity/ pathway
- Top-down/ bottom-up approach
- Big goal - smart targets
- Role clarity and accountability
- Relentless communication
- Informal networks
- Power of style and symbols
- Support and buy-in from top management