Market Effectiveness: The Key Competency for Pharmaceutical Growth

Optimizing information and collaboration will be the new key to winning or losing in Pharma

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As the Pharma industry matures, it faces a host of new challenges: the growth of generics, a slowdown in new blockbuster drugs, increased oversight from regulatory bodies worldwide. At the same time, the Pharmaceutical marketplace has become more complex and now includes Managed Care Organizations (MCOs), Government Agencies, Pharmacists, and RNs.

According to IMS Health, as the impact of established Pharmaceuticals losing patent protection accelerates, the industry will see an decline in its growth rate for the first time from a range of 6-7% in 2007 to 5-6% in 2008.

Broad changes like these force Pharma firms to identify more accurately their true target clients and the buying criteria these clients use. It also means figuring out the best ways to get messages out to more of these prospects. Traditional methods may not produce the needed results and executives require new tools to read the market correctly and develop the right responses to it. For many Pharma firms this may well constitute a “burning platform” issue for future success.

As a result, Marketing and Sales – and the technologies to improve effectiveness – have moved to the top of executive agendas as Pharma competitors race to capture market share and grow revenues.

THE CHANGING LANDSCAPE OF PHARMA COMPETITION

Today Pharma firms not only compete with each other, they do so on a playing field that is constantly changing. Competitive products, sweeping shifts in buying influence, and the multitude of legislated constraints all affect go-to-market strategies. These issues are more complex than they ever were before and they are simpler now than they will be in the future.

1. Price and market share pressure from generics
Generic drugs are expected to capture a great portion of the market share as several major drugs lose patent protection and market exclusivity. In 2008 generics are expected to grow 14 to 15% – far eclipsing the growth of the overall Pharma market. Industry experts forecast that more than two thirds of all United States prescriptions in 2008 will be for generic equivalents. Generics are growing faster than branded drugs and now represent 45% of the total market. The simple and compelling reason: generics are cheaper.

The availability of lower priced generic equivalents is attractive to all buyers, especially the big buyers: health plans and governments. These authorities carry mandates to reduce costs and bring a tremendous amount of clout to the bargaining table.

There is no question that generic drug manufacturers will continue to race to replace patented drugs with cheaper compounds as soon as the laws allow. As a result, market exclusivity periods for proprietary drugs are shrinking, narrowing the window of higher margin sales.

2. New stakeholders taking a stronger role.
Today health care payers, a group which includes health plan providers and governments, wield much more power. Their decisions on how to classify drugs, which they will pay for, and how much they will reimburse have an enormous effect on consumption. By playing a dual role as a healthcare provider as well as a payer, governments in many parts of Europe have attained an overall authority and influence on the functioning of the healthcare system.
The impact is not small: in some countries the government has emerged as the largest buyer of drugs. With this buying clout, many governments have initiated cost containment measures and tightened their grip on formularies. Various interventions are used to reduce the patients’ demand for drugs by either denying or limiting reimbursement of products. Governments can take additional measures as well, including product price controls, reference pricing, and even profit control. These controls threaten market share and require strong marketing to prevent replacement with generic equivalents.

In some markets there is a shift of decision making power to the consumer. In the United States, 42% of consumers believe advertising helps them make better health decisions and more than 70% of physicians are likely to write a prescription a patient requests.

3. A consolidating Pharmacy/provider industry –
A consolidating Pharmacy /provider industry is shifting power to new players in the value chain. Distributors, Pharmacy benefit managers, and retailers are now playing a disproportionate role in how the dynamics of the industry evolve.

The Boots acquisition of Allied Unichem is a case in point. The new company, Alliance Boots, projects annual saving of roughly £100m during its first three years. The company will achieve its financial goal by cutting redundant internal costs and, most important to Pharma companies, by using its combined purchasing power to achieve better pricing from suppliers. Since the consolidated company will control 17 per cent of the United Kingdom drug retail market and 40 per cent of the wholesale drug sector, it will be in a much stronger position in dealings with Pharma companies than either Boots or Allied Unichem were alone.

In the United States, retail giant Wal-Mart set a baseline for hundreds of drugs when it introduced its $4.00 generic pricing model. Not to be outdone, Pharmacy chain CVS acquired Caremark in 2006 to create another giant in the industry with its 6,200 retail pharmacy stores; pharmacy benefit management, mail order and specialty pharmacy division. For the Pharma marketer, the power is shifting to new players that hold a tremendous amount of clout.

### World Pharma Market by Region in 2006

<table>
<thead>
<tr>
<th>Region</th>
<th>2006 Revenue (in billions)</th>
<th>% Growth</th>
<th>% Share</th>
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<tbody>
<tr>
<td>1. U.S.</td>
<td>$263.7</td>
<td>+ 9%</td>
<td>44%</td>
</tr>
<tr>
<td>2. Europe</td>
<td>$171.1</td>
<td>+6%</td>
<td>28%</td>
</tr>
<tr>
<td>3. Japan</td>
<td>$57.7</td>
<td>&lt;3%</td>
<td>10%</td>
</tr>
<tr>
<td>4. Asia Pacific</td>
<td>$43.0</td>
<td>+14%</td>
<td>7%</td>
</tr>
<tr>
<td>5. Latin America</td>
<td>$29.3</td>
<td>+21%</td>
<td>5%</td>
</tr>
<tr>
<td>6. Middle East/Africa</td>
<td>$20.8</td>
<td>+13%</td>
<td>3%</td>
</tr>
<tr>
<td>7. Canada</td>
<td>$15.3</td>
<td>+19%</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$604.5</strong></td>
<td>+8%</td>
<td>100%</td>
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</tbody>
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4. Regulatory compliance of product messaging and sales tactics. As the industry undergoes increasing scrutiny by regulatory bodies, watchdog groups, and litigators, medical, regulatory, and legal review assumes much greater importance. The job of ensuring marketing messages are accurate and conform to all applicable standards, in every market, has become more complex. The number of Black Box label warnings has increased sharply and the number and nature of drug recalls have put all Pharma companies on the defensive. As researchers try to find new uses their drugs and sales teams seek expanded markets, the risk of stepping over boundaries increases.

Indeed, Eli Lilly, for example, agreed to pay up to $1.2 billion to settle lawsuits filed by consumers who took the anti-psychotic drug Zyprexa and experienced serious complications and more importantly another settlement is in discussion over consumers’ claims that the drug was wrongly marketed for uses not approved by the FDA.

5. Demographic trends – There is a significant shift in market growth dynamics. Although overall growth will decline to a 5-6% range in 2008 from 6-7% the year before, the market is still enormous and should top $745B USD. These high level statistics, however, mask some of the primary marketing challenges Pharma companies face.

In the United States and the five largest European markets, 2008 sales are expected to grow only 4-5%. Pharma sales in seven emerging markets, China, Brazil, Mexico, South Korea, India, Turkey, and Russia, are expected to grow at 12-13% rate. Taken together, these seven countries represent an impressive 25% of worldwide growth. In comparison, the largest seven markets will produce 50%. Clearly, Pharma companies must maintain market share in large markets, but if they don’t get a foothold in emerging markets, they risk being shut out.

![Figure 5: Issue having the most impact on application investments in 2008–by country](image-url)
SHIFTING MARKET DYNAMICS PUT MARKETING EXECUTIVES ON THE FRONT LINES

Marketing and sales executives are squarely in the headlights now. Getting better at the same tricks just isn’t good enough as Pharma CEOs demand better accountability and ROI from their marketing investments.

Capturing and growing market share in the fast evolving $643B global business calls for re-inventing marketing and sales approaches. Unfortunately existing information systems often aren’t up to the task and don’t provide the necessary visibility and insight. Until just very recently, IT support for Pharma marketing efforts has been a patch work of point solutions and ad hoc analysis. If their companies are to prosper, executives will have to demand systems that help them:

• **Make the new market dynamics an advantage**
  Marketing executives must learn new ways to define and reach target audiences. Sifting through global opportunity and all the layers of complexity that accompany it will require detailed analysis of multiple channels and interacting factors. They must become nimble at anticipating change: if they can accurately reposition proprietary drugs for over the counter sales, it can mean the difference of losing some market share in some markets and just losing out. To make the most of the new market dynamics executives must:

• **Select lucrative targets**
  Marketing execs have important decisions to make about which market segments will produce the best ROI. One challenge: If they can strike the right balance of expanding into emerging regions and holding onto or growing market share in the largest geographic markets, they’ll have an important effect on the bottom line.

• **Recognize power players and influencers and send the right messages in the right ways**
  Governmental actions, acquisitions and mergers, cultural changes, and new health care paradigms all influence the Pharma market. Their combined interactions create a new operating environment. Recognizing the degree of influence each exerts and developing strategies to respond is a key skill successful companies will hone.

  Pharma companies will need new work methods and tools to help them pay diligent attention to evolving trends. They’ll have to sort through market events for the underlying meaning, such as untangling the implications of changing attitudes toward the individual’s role in health care.

• **Develop marketing channels and touch points**:
  For every drug there is a wide and diverse audience to address. This demands that Pharma marketing execs rationalize disparate factors such as:
  • Understanding investment in the Internet as a marketing tool and a trackable mass-marketing channel
  • Finding the right level of promotional investment across all channels
  • Targeting physicians better and increasing message effectiveness
  • Identifying stakeholders and their roles in each market
  • Assessing market size and penetration opportunities for new drugs that target smaller populations and finding the right marketing channels to reach them.
  • Maximizing ROI from expensive direct to consumer (DTC) advertising
  • Leveraging the trend where target audiences use the Internet more and more as a key component in making healthcare decisions.
• **Address Changing health views:**
Consumers are no longer thinking of themselves as patients, and instead of treating “diseases” or “ailments” they search for “wellness” and “healthy lifestyle” Pharma messages. Likewise the whole industry is shifting to personalized medicine and tailored therapeutics. Sensing this, payers are trying to understand the role of drugs in the overall cost of care and how medication can help to minimize costs both for treatment and prevention – this demands marketing execs make major shifts in message, vehicles and distribution.

The bottom line is that sophistication in all these factors and more will become a prerequisite for competitive advantage.

• **Execute flawlessly**
Converting strategy to profit will require flawless execution worldwide. The dynamics of international trade in the highly regulated Pharma market make effective information technology tools indispensible. Real time collaboration, information repositories, and automated business processes are becoming mandatory to carrying out business according to the plan and monitoring progress.

Solving execution problems requires more than monitoring time-tested KPI’s. One case to consider: The sales force, Pharma’s elite front line soldiers, has hit the wall and performance in the field isn’t keeping up with the cost structure. Sales force effectiveness and productivity are declining—an 11% annual increase in sales reps has led to a mere 2% increase in calls, according to a Scott-Levin study. Not surprisingly, the top 20% of representatives spend 222% more time selling to high-prescribers than the bottom 20%, despite both groups having similar sales skills—so a massive number of sales calls are wasted. If market share is the goal, Pharma firms must win more consistently and manage sales costs per visit – especially in highly dispersed and mobile sales forces

• **Close the loop**
Analytics inform major decisions, such as advertising spend and messaging, and sales initiatives. At the aggregate level, analytics provide insight into how the awareness, direct response, and relationship marketing programs are working. Pharma marketing executives need to:
  * Understand the true source of demand – requested by the patient, recommended by the doctor or determined by the Insurance providers
  * Correlate consumer advertising and product positioning
  * Cost per sale action and effectiveness of campaigns
  * Compensate the best performers, identify and retain talent

Higher campaign effectiveness and sales productivity will come from understanding the correlations between campaigns, sales tactics and effective detailing, and the characteristics of individual sales representatives.

THE IT TOOL KIT FOR THE NEW PHARMA INDUSTRY REALITIES.

No one today knows exactly how to respond to the realities of the Pharma market. However having the right information will become a competitive advantage. More importantly creating an environment that enables marketing and sales executives to easily convert data into actionable knowledge will be tantamount to success. Marketing and sales executives should consider the following attributes essential as they look to assemble and deploy agile information systems for the new realities:

• **Content driven** – Executives need systems that aren’t tied to old models. The information needs of a changing Pharma market must support an evolving mix of data and data sources – often varying by the drug and its target market; and likely will, from launch through mass marketing. Too many CRM efforts stall because of the difficulty of bringing together many data sources. This will become even more important in working through new customer segmentation ideas and opportunities. Ensure that the tools will support lifecycle of your data including:
  * Quick and easy access to corporate systems and databases
  * Incorporates standard data and unstructured content
  * Supports real time access and consolidation, and correlation
• **Collaborative** – Executives across the Pharma industry recognize the need for integration among sales, marketing, and managed markets. One of the key aspects promoting integration is coordination of cross-functional departments, particularly with regard to product launches. And opening up new markets. Yet many of the systems they use make it difficult to do just that. Ensure that any new system meets your needs in these fundamental areas of collaboration:
  - Search, business process management, and business intelligence and mobile support.
  - Interactive environments for project and sales team activities, on-line education, and consensus building activities.

• **Community-capable** – The needs of a changing dynamic especially with the now knowledgeable consumer and emerging power players in the value chain means that Pharma companies must be able to quickly and easily reach out to all stakeholders: consumers, payers, physicians, pharmacies, and value chain partners. Communities will be rich sources for understanding the consumer buying criteria. Ensure that all new systems are designed to allow customers and their partners to easily:
  - Build industry, process, and audience specific applications.
  - Access portals and customizable workspaces.

• **Automates critical processes** – Automating best practices significantly reduce risk, by making it easier to get things right, than not to and by flagging exceptions. Opportunities abound for process automation in Pharma go-to-market activities – campaign management and follow-up, Sales force automation, e-mail updates, collateral development and e-detailing development.

Also consider the not insignificant role this can play in managing Sales Force compliance. With stiff civil and criminal penalties and the subsequent damage to company’s reputation awaiting every misstep, companies simply can’t afford to be on the wrong side of compliance regulations. Use automated real-time reporting to identify safety risk signals earlier and detailing is done correctly. Ensure automation systems support:

• **Event driven, ad hoc, & dynamic processes**
• **Business Process Management dashboards to improve planning and management**

• **Provides Analytics for everyone** – The dramatic shift of market targets and increasingly knowledgeable consumer base increases the importance of high-quality segmentation and targeting. Executing these tasks well, presents two of the most important opportunities for increasing revenue and profitability. Employees throughout the organization need to manipulate data with ease, producing the information their decisions require. Analytics inform major decisions, such as advertising spend and messaging, and sales initiatives. Analytics should not be complicated tools for a select sophisticated audience. Ensure that the analytics tools can help:
  - Exploit new channels (e.g. e-Detailing, Direct-To-Consumer) and optimize channel mix
  - Include modeling and simulation to anticipate customer switches
  - Understand the relationship between efforts and results of campaigns and sales activities
  - Are usable by all levels of the organization.

Until just very recently, the IT support for Pharma marketing efforts has been a patch work of point solutions and ad hoc analysis. Most companies would point to challenges correlating data from multiple campaign touch points: advertising, channel and distribution sales, physician sales, and Managed Care Provider’s feedback and regulations. No one program or campaign is a standalone – understanding the interactions is essential to effective design, impact assessment, and remedial efforts.

At the same time, Pharma firms don’t have a long line of blockbusters to fuel an insatiable IT budget nor can they wait or attempt a wholesale replacement of legacy systems. They must find low cost evolutionary paths to integrating their marketing and sales efforts. No company should embark on building a custom CRM system for these needs, but all Pharma companies should invest in leveraging the tools and data available to them as quickly and as pragmatically as possible.
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