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Taking a fresh look
The progression of the pharmaceutical marketing and sales model

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Introduction

The global pharmaceutical industry, like other industries, is experiencing difficult times. Global growth projections are flat for 2009, with projections for the largest market, the United States, expected to fall. Coupled with this, there is less-than-expected demand for recently introduced products.[1] In 2008, 28,000 jobs were cut by some of the largest pharmaceutical companies,[2] with GlaxoSmithKline (GSK), announcing just this February that it will cut around 6,000 jobs—about 6 percent of its 100,000 employee workforce.[3]

Despite the current economic climate, however, the decline in pharmaceutical fortunes can be attributed in many ways to structural issues within the industry that have been brewing for several years. As such, large multinational pharmaceutical companies have been at the forefront of rethinking their business models globally to achieve higher productivity and profitability. For instance, in July 2007, GSK set out a strategic initiative to simplify its business model and generate substantial working capital savings. Similarly, AstraZeneca's CEO review in its 2007 annual report stated a goal of becoming lean and agile and to reshape its cost base.

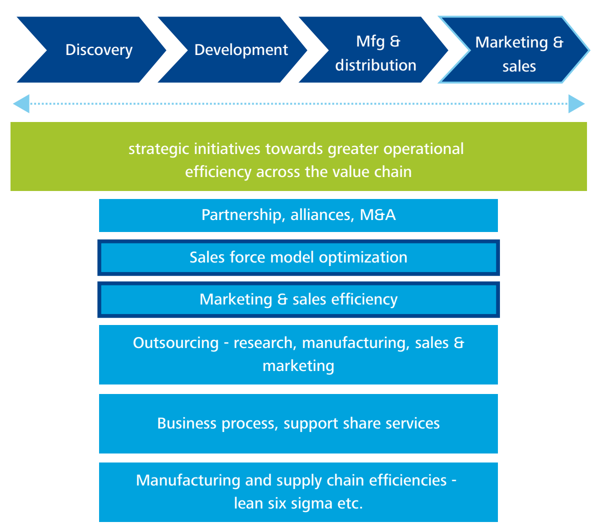
The pace of restructuring only continues as companies announce their Q4 2008 results, with further transformation and consolidation expected. Just in the first two months of 2009, news of merger and acquisition activities included:

- Pfizer's merger agreement with Wyeth
- GSK's purchase of UCB products in emerging markets and acquisition of BMS Pakistan
- Roche's hostile bid for Genetech
- Reports of Sanofi Aventis seeking acquisitions
- Merck's potential acquisition of a large pharmaceutical company

This acceleration of strategic initiatives is a direct industry response to fundamental changes in the business environment. Pharmaceutical companies around the globe must seek to re-organize and restructure business processes and models to improve the operational efficiencies across their entire value chain.

This also holds true for the pharmaceutical industry in Asia, despite the fact that this region continues to enjoy strong performance. Given the current global downturn, it is important for Asian companies to review and improve their operating models as they contemplate the multiple issues constraining the pharmaceutical industry around the world and in their region. And as pharmaceutical organizations in the Asian markets tend to be largely marketing or sales organizations, these companies may achieve substantial improvement by optimizing their marketing and sales models.

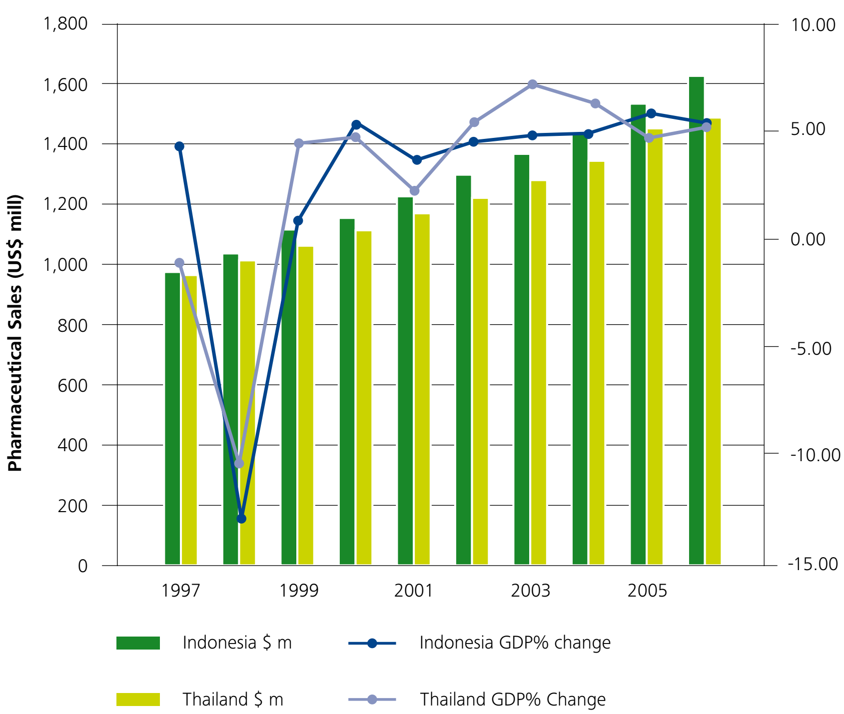
Figure 1: Possible initiatives across pharmaceutical value chain



Asian pharmaceutical industry at a glance

In recent years, the pharmaceutical industry in emerging territories continued to expand its share of overall global growth amidst a slow-down in the developed countries. This growth is mainly driven by the expansion of healthcare access and economic development in these countries. Even Indonesia and Thailand, the two worst-hit countries during the Asian financial crisis in 1998, still managed to deliver growth in total pharmaceutical sales over the past 10 years. And sustained double-digit growth is expected in 2009 for such emerging countries as China and South Korea.[4]

Figure 2: Pharmaceutical sales in Indonesia and Thailand compared to GDP% growth



Note: Pharmaceutical sales refers to pharmaceuticals sales at consumer prices, and includes prescription only and OTC products.

However, the Asian pharmaceutical industry is still grappling with the same intrinsic industry challenges facing the entire industry, including:

- Changing buyer behavior and increasing consumer activism
- Heightened pressure from payers, constraining drug formularies, and reimbursement policies
- Increasing cost containment measures, including pricing controls by governments, especially in the face of the current economic crisis
- Tighter regulatory controls over advertising and product approvals
- Negative public image of pharmaceutical companies arising from high-profile reports about adverse events and product safety issues, including the withdrawal of blockbuster drugs
- Reduced research and development productivity and output versus rising spend
- Fewer new product launches
- Increased number of product patent expirations in the coming years
- Tightened marketing and sales practice codes with compliance enforced by respective pharmaceutical industry associations, for example, IFPMA.

In addition, the pharmaceutical industry in Asia also faces challenges inherent to the region. There has been an upswing in immature and often ambiguous legislation regarding intellectual property protection and its implementation and enforcement. The availability of experienced marketing and sales professionals, especially in pharmaceutical marketing, remains uncertain. And, more recently, a resurgence of protectionist government policies in some countries, which may intensify in the current economic downturn as governments seek to aid domestic companies.

Optimizing the marketing and sales model

There are several reasons Asian companies should review and adjust their current marketing and sales models. Although there is growth in the Asian markets, they are not immune to the challenges facing the industry at large—especially with the current economic downturn, which will only exacerbate these challenges. The downturn is also fueling already intensified market competition in the region as multinational companies look toward Asia for opportunities to compensate for slowing growth in the West. And with buying processes becoming more and more complicated—due to the increased number of stakeholders influencing prescriber drug choice—revisiting marketing and sales models becomes more critical than ever.

In the past, pharmaceutical efficiency projects have concentrated mainly on manufacturing, support services, and research and development. Companies have employed a variety of methodologies and tools, including "lean" and "six-sigma" approaches. The concept of lean is to continually improve speed as well as efficiency and drive sustainable reductions in waste and unnecessary cost, while six-sigma strives to continually improve quality towards zero defect. The combination of these—lean sigma—has been successfully used in the manufacturing environment and is now used in distribution and logistics to drive productivity while maintaining high quality and customer focus. The same methodology has also been deployed in sales and marketing to produce similar results, concentrating on customers and growth.

To gain the benefits of the lean sigma approach in a sales and marketing setting—that is, driving more productive and quality stakeholder relationships while eliminating waste and unnecessary cost—pharmaceutical companies need to rethink their use of the most-common marketing channels:

- **Direct-to-consumer (DTC)**
  DTC marketing is common among U.S. pharmaceutical companies, especially for lifestyle products. It contributes to brand recognition and is typically accompanied by visits to physicians. However, even in the United States, it appears that more regulation may be introduced regarding the use of DTC marketing. In Asia, DTC advertising is heavily regulated and direct-brand advertising is often not allowed. Companies instead rely on disease awareness programs to build a corporate brand. To further capitalize on this avenue, companies should consider how to collaborate with regulators on such programs, building trust as well as avoiding future restrictive legislation or a potential backlash. This channel can promote earlier detection of diseases and offer the opportunity to foster relationships with patients, who are now taking an increasingly active approach to their health.

  A proactive approach is also critical as patients continue to bear a greater share of the cost of healthcare. As a result, they are becoming more price-sensitive, require better information, and are increasingly influencing prescription patterns. Going forward, pharmaceutical organizations will need to be more effective in patient relationship management. This includes a continued respect for the role of the healthcare provider while concurrently instituting a customer management infrastructure that incorporates better and continuous linkages to the end customer. DTC strategies must have a deep understanding of patient segments, focus on patient education, and account for the way consumers use information in making decisions. This means also that there is room for large pharma to fill the role of patient advocate in this rapidly changing landscape.[5]

- **B-to-B marketing**
  Internet and search engine marketing are used as tools for brand promotion to physicians and for disseminating information on disease and treatments. However, pharmaceutical companies do not appear to be very successful in leveraging the full potential of these channels as a way of engaging consumers or physicians. New social communities are forming based on shared diagnoses, giving rise to bio-citizens who want to have a say in how their conditions are defined and treated, and increasingly physicians are using the Internet as a

source of information. Companies that can positively engage existing virtual communities and support the growth of emerging communities have the opportunity to boost their public image and brand recognition.

Pharmaceutical companies could learn and adapt strategies used by other industries to build a more comprehensive marketing strategy leveraging electronic media that engages the physician community, as well as other groups. For example, consumer products companies leverage the internet using social media forum such as RSS feeds to engage and build brand affiliation. And as a way to engage consumers, in the summer of 2006, Pepsi China issued a challenge for consumers to write screen plays for the Pepsi spokesman and post their submissions online. The response from Chinese internet users was tremendously positive, with about 27,000 user-submitted entries and many blogging about how they enjoy being part of the campaign. These kinds of virtual communities, as well as other channels offered by the internet, can help develop brand affiliation stickiness within physician communities.

- **Physician marketing**
  It is estimated that pharmaceutical companies spend almost US$14 billion annually on marketing to doctors. These efforts mainly serve the purpose of promoting brands or winning market share. But there have been a number of adverse media reports about pharmaceutical companies lavishing too many perks on hospitals and physicians to unduly influence their prescribing behavior. As a result, more stringent guidelines have been introduced to limit the type and amount of marketing and promotional activities directed at physicians. As physician marketing constitutes the largest marketing spend within pharmaceutical companies, this is one area that will require significant attention for increased efficiency, better measures of return on investment (ROI), as well as adherence to industry-adopted marketing ethics There is potential to leverage sophisticated consumer marketing techniques used in other industries and adapt them for the pharma industry to a level where analytical techniques can show cause and effect. The link to patients is also very important in understanding physican needs.

Innovation of the commercial model

Sales and marketing capabilities have largely been the basis of large pharma's value proposition to the market. As the "commercial engine" of the industry, large pharma can add value by serving as the conduit between diverse patient segments and the growing number of targeted therapies. To this end, large pharma needs to redefine sales and marketing functions so that they own patient relationships and engage prescribers and other stakeholders effectively.

As the business model and portfolio changes, more companies are adopting small specialty teams instead of the traditional, large General Practice (GP) teams. In fact, a few pharmaceutical organizations in Australia have disbanded their GP teams altogether. Instead, some pharmaceutical companies are adopting the business unit concept, combining marketing and sales as operations that strive for commercial excellence. Pfizer has taken its overall business unit strategy a step further by having the global business unit structure focus on customers, with the overall business unit spanning both clinical and commercial development.[7]

Marketing model progression

Marketing has always been considered an art, whereas an alternative approach would be to treat it more as a mix of art and science. Executed with business oversight, marketing campaigns should have clear ROI measurements and other metrics. However, it is important to understand that marketing ROI should not be defined a just a financial measure - it should include measures that offer visibility of the collaboration and interaction among sales, service, and other company functions. Marketing ROI should also provide a vehicle to help close the loop between campaign execution, measurement, and overall strategy and planning to help drive continuous improvement. Measurements and budgets can then be set based on customer value, retention goals, and other value metrics.

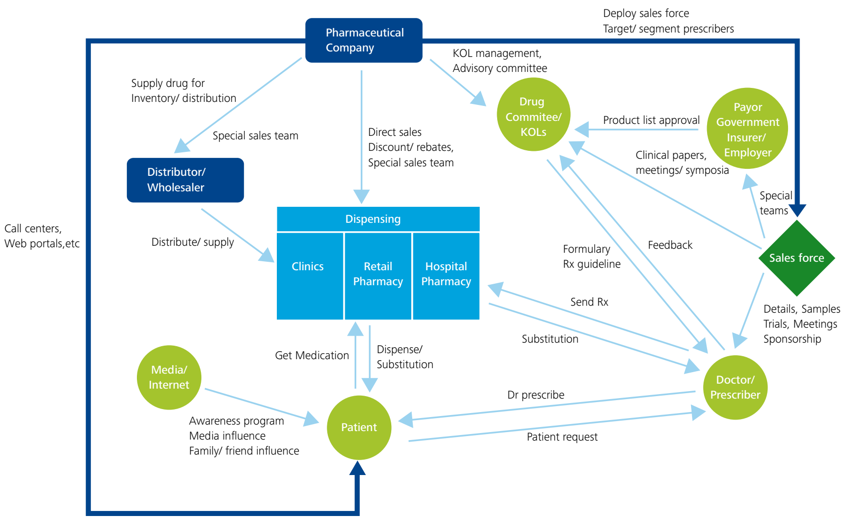
In general, good marketing ROI allows for:

- Measurement of direct and correlative metrics enabling fact-based assessment of marketing investment returns
- Creation of measurement indices that serve as a composite score of direct and correlative metrics
- Portfolio management of marketing spend providing for optimal allocation across therapy areas, products, customers, programs, and channels to achieve greater returns on marketing investment
- Closed-loop processes integrating assessment of campaign results into future portfolio planning that drive improvements in ROI
- Defined and relevant marketing campaign goals that enhance organizational accountability and recognition.

Companies should benchmark and map the maturity stage of their marketing practices—that is, compare current stages to future aspirations—which will allow an organization to prioritize marketing improvement initiatives. It will also help align management with marketing and sales personnel through a common understanding of the organization's objectives and goals.

Most importantly, especially in today's competitive environment, companies will need to pay more attention to the quality and delivery of the customer experience when considering their marketing strategy. Instead of being product focused, marketing campaigns should be aligned around customers. Customer-centric organizations treat customers differently based on their individual segment value and preferences—key drivers of sales and marketing efficiency and effectiveness. Pharmaceutical companies need to evolve from a simple reach-and-frequency approach with physicians to a more sophisticated model dependent on customer value and segmentation. A comprehensive approach to segmentation considers all stakeholders, their influence, and the product lifecycle in order to develop a targeted sales and marketing strategy. Just as important, patient needs have to be considered when establishing customer value. The strategy should focus on delivering consistent customer interactions across marketing, sales, and services, which will yield stronger relationships overall. Technologies and toolsets that mine customer data can assist in developing strategies based on customer segment and help build brand through integrated and targeted communication. Data collection needs an all encompassing strategy, looking at all aspects from better CRM application, to call centres to web portals and all customer interactions points.

Figure 4: Current pharmaceutical company go-to-market model



Sales force model progression

The traditional go-to-market strategy of deploying a sizeable sales force has served the industry well over the past few decades. But sales and marketing is estimated to consume almost one-third of total revenue.[8] And with exploding sales force numbers and intense competition for prescriber's limited time, there is a rapidly diminishing return on the sales call. It's not surprising, then, that a number of pharmaceutical companies' major layoffs have included cutting their sales force numbers, pointing to an end in the "arms race."

Yet, the restructuring of the sales force function is more of an evolutionary change rather than a revolution. The traditional sales rep-physician model still continues to drive sales in most companies and will remain a vital component, with drastic change deemed too risky in the short term.[9] Rather, the evolution seems to be dictated by the product portfolio strength of the pharmaceutical company. Pharmaceutical companies with expanding portfolios are taking a watch-and-wait approach while collecting information on sales representatives' value and productivity in the physician's office. At the same time, companies with declining portfolios are seeking faster change and are more willing to experiment with new approaches. This includes the use of contract sales organizations. Indeed, many companies are now taking advantage of outsourcing's greater flexibility as part of their sales force strategies. However, pharmaceutical companies need to develop clear frameworks and service level indicators to best manage this partnership rather than handling it in an ad-hoc manner.

The increasing number of stakeholders exerting influence on prescribing choice also necessitates a review of sales force strategy. The term "customer" now refers to a variety of stakeholders other than direct prescribers. Account and relationship management is therefore evolving and growing in importance as pharmaceutical companies recognize the relative influence of these stakeholders.

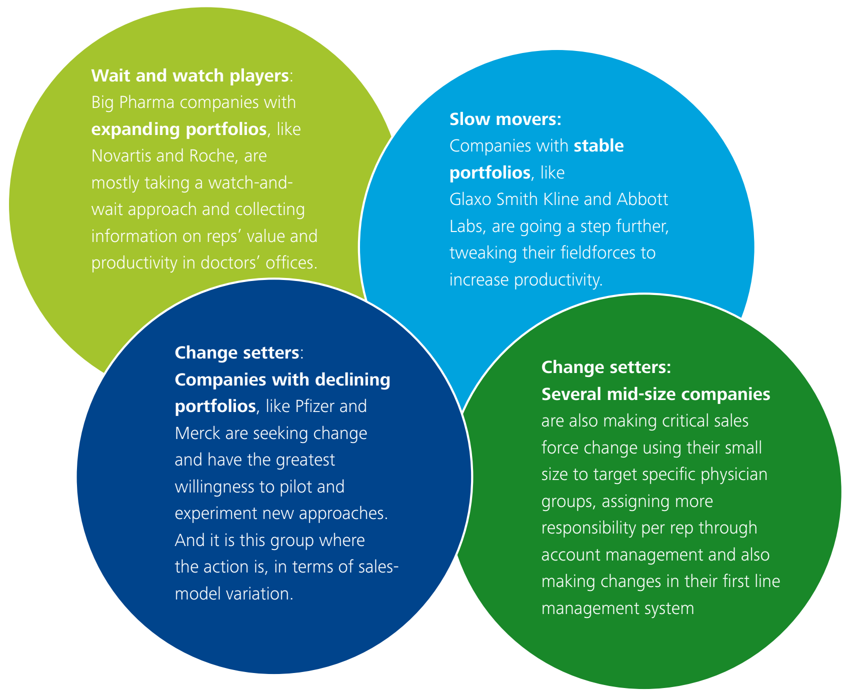
Additionally, pharmaceutical companies can look to the medical device industry for a useful example of what is called a consultative sales force. Medical device sales forces are often comprised highly-focused sales representatives who can engage meaningfully with specialists and can be shifted and adapted to current market needs. Pharma sales forces can be retrained to build a deeper therapeutic-area capability to engage specialists in a similarly consultative manner.[10]

The reasons to rethink the typical sales force model are compelling—and companies need to consider a range of parameters when developing sales force strategies and revising their business model, including:

- *Local market needs:* Companies need to take into consideration the healthcare infrastructure, maturity of the market, and the needs of the consumers and physicians in the local country.
- *Regulatory constraints:* Promotional and sales activities are locally governed through legislation and industry codes. The control and stringency vary by country; therefore sales activities need to be adjusted accordingly.
- *Product lifecycle and type of product:* Sales force strategies will need to be modified based on the product lifecycle—whether it is a new launch or a mature product, or a primary care versus a specialist product.
- *Stakeholders:* Stakeholder influence is increasing and companies need to identify and map these stakeholders, adapting sales force strategies to engage the different segments.

In Asia, companies are also investing in tools such as better CRM applications to enhance efficiency in sales territory management. Any consideration of such technology, however, should integrate the process as part of customer relationship management (CRM) to support the marketing and sales strategies.

Figure 5: Sales force restructuring and innovation: State of the industry



Case study: An innovative sales force model

In late 2006, Auriga launched an innovative and unique commission-only structure that allowed the company to expand its sales force in a plan designed to maximize revenues while minimizing fixed costs. While many pharmaceutical companies compensate sales employees with an estimated 70 percent salary and the remainder as a bonus, Auriga's innovative new structure was based on 100 percent commission with an additional performance incentive of stock-option grants.

The new sales force structure was developed following an internal audit that demonstrated that a small percentage of Auriga's sales force was producing a large percentage of the company's revenue. Auriga reduced its sales force to a core group of top performers, with additional commission-only representatives being added as necessary. The sales force could possibly reach the 100-representative mark over next few years. Auriga estimates that reaching this target of 100 sales representatives with a traditional compensation structure would have cost the company millions of dollars in ramp-up time, including training and field exploration.

Case study: A novel approach using technology deployment

In July 2007, Merck signed a pact with Aptilon Corporation to use the software company's innovative video detailing program that allows live sales representatives to reach physicians via the Web. The program makes the representative available to the physician whenever and wherever they are online. With this scenario, physicians are given the choice of whether they want to order drug samples, see an e-detail, do an archived peer presentation, or talk to a live representative. Using the proprietary technology, the doctors are able to speak with representatives one-to-one via telephone in real time, ask questions about therapies, and, most importantly, drive the interaction.

By adopting video detailing, Merck reduced the number of sales representatives promoting its primary care brand by up to 50 percent in 2005 and 2006. The representatives that were no longer needed in this capacity were redeployed to support the company’s new launches in 2006, thus keeping the total number of representatives constant. The approach is part of Merck’s new commercial model, which is expected to lower spending per primary care brand by 15 to 20 percent in the United States by 2010.

Strategic workforce planning

Talent can impact an organization's ability to meet current and future business objectives—and one of the inherent challenges for the Asian pharmaceutical industry remains workforce availability. Unprecedented growth in recent years has placed tremendous strain on the sources of local talent. While pharmaceutical companies have reduced their global workforce numbers strategically, the competition for talent in Asia is real. Leading pharmaceutical companies in Asia have been developing initiatives in strategic workforce planning to address this issue, looking at changes and innovation in the business environment to gauge required skills and capabilities. And with the current evolving sales force model, companies' positively engaging and preparing its sales force, now mostly from Generation Y, is more critical than ever.

To address current talent shortages, human resources functions need to employ strategic workforce planning to analyze and forecast the talent a company will need to achieve its business objectives.[11] This critical activity will help organizations identify, develop, and sustain the workforce skills necessary to execute their business strategies while satisfying the career and lifestyle goals of employees. It also focuses on matching strategic business requirements with long-term talent trends, external market influences, and proactive planning. Strategic workforce planning helps ensure a company has the right people with the right skills in the right places—at the right time and right price—to grow the business and achieve strategic goals.

Customer and market strategy

One of the major issues facing pharmaceutical companies today is the commoditizing of primary care products with easily available generics and original "me-too" products. Even the competitive space in oncology and niche therapeutic areas are getting crowded as several pharmaceutical companies focus research and development in these therapies. For example, Bayer's Nexavar for renal cell carcinoma was FDA-approved in December 2005, with Pfizer's similar Sutent following closely in January 2006. Clearly this demonstrates the need to focus on customer needs to differentiate oneself in the marketplace. This can be achieved by using appropriate segmentation techniques and then aligning sales and marketing resources per segment to focus on customer value and loyalty. More and more, payers and doctors recognize that therapy compliance is critical in achieving health outcomes. Thus, the needs of the patient have to be fulfilled by the pharma industry as partner with doctors and payers. This is changing the traditional focus of pharma from the brand decision at the point of prescription to the creation of value for payers, health outcomes for patients and support for doctors.

In the end, companies need to be able to match and measure cost against customer segments and address issues around customer profitability, lifetime value, and price sensitivity.

Conclusion

The pharmaceutical industry is still largely experimenting with various marketing and sales models and continues to learn and adapt as it implements. This is especially true in Asia, where companies focus primarily on sales and marketing. As such, industry changes and challenges that necessitate the evolution of the commercial model will be felt even more keenly in this region, as companies strive to redefine a new generation in marketing and sales.

Going forward, pharmaceutical companies will need to take a more comprehensive approach that looks at the totality of the customer and the market. Large pharma marketing can learn from the consumer business approach to customer segmentation, targeting, relationship management, and product promotion. Consumer business strategy also provides insight into highly effective promotional spending, the targeting of investment at customer segments, and the balancing of the product portfolio.[12] Sales forces can benefit from various new approaches, including outsourcing, relationship-building with various stakeholders, and a consultative technique. And a proactive stance on talent as well as customer and market strategy will help support new business models and objectives.

Ultimately, achieving and sustaining profitable customer relationships requires focus, alignment, measurement, and simplification across all customer-facing operations. By working to redefine the current marketing and sales models, pharmaceutical companies in Asia and around the world can position themselves to deliver the customer focus that is the future of their industry.

Notes

[1] "IMS health forecasts 4.5–5.5 percent growth for global pharmaceutical market in 2008, exceeding $820 billion," IMS, 29 October 2008.

[2] Pharma-ITech.com, 3 February 2009.

[3] Global Crisis News, 1 February 2009.

[4] "IMS health forecasts 4.5–5.5 percent growth for global pharmaceutical market in 2009, exceeding $820 billion," IMS, 29 October 2008.

[5] Deloitte Publication, Reinventing Innovation in Large Pharma

[6] Pharmaceutical Executive Analysis

[7] PharmExec Direct Marketing Edition, October 8, 2008.

[8] Data monitor's report on Pfizer, The Cost of Pushing Pills: A New Estimate of Promotion Expenditures in the United States.

[9] Fixing the sales model, Pharmaceutical Executive, June 2007.

[10] Deloitte Publication, Reinventing Innovation in Large Pharma.

[11] Deloitte Publication, The HR Opportunity.

[12] Deloitte Publication, Reinventing Innovation in Large Pharma.

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