



Consumer shifts **DEMAND CHANGES** in healthcare marketing

In its latest report on market insights, Cheskin, a strategic market research and consulting company,

defines three consumer trends that are driving the evolution of the healthcare and life-sciences industry: consumer enlightenment and empowerment, the blur between Western and alternative medicine, and greater life expectations. The direct implications that these trends have, and will continue to have, for pharmaceutical and biotech companies, and healthcare providers are outlined in the study. In addition the report touches on the issue of consumer trust in this industry, including the changing role of advertising and marketing.

The 12-page report, *Life Science Perspectives: The Emerging Healthcare Consumer*, defines primary qualitative research with healthcare consumers and medical experts, in addition to secondary research on the industry, and provides implications and direction for life-science companies.

"The healthcare industry is going through a tremendous upheaval, in part due to technology advancements and changes in marketing regulations," says Jennifer Mitchell, a partner at Cheskin. "More importantly however, it is the consumer who is causing this shift. The nature of the physician/patient relationship is changing, as are consumers' overall expectations and involvement with their own health and well-being."



Typically consumers become more demanding as they become more informed. They also can become more skeptical.

While direct-to-consumer advertising has enhanced prescription sales, it hasn't done much for pharmaceutical company awareness and building trust

with the consumer.

While awareness is key, Cheskin analysts believe trust will become the most crucial component in all relationships forged by the consumer with any healthcare constituency.

- Two-thirds of respondents said they trusted doctors, but less than 10% claimed to "completely trust" physicians. Hospitals were the next most trusted constituency, followed by support groups and organizations, which also fared well in trust.

Pharmaceutical companies and insurance companies fared the worst, with over half of respondents saying they don't trust pharmaceutical companies and two-thirds saying they don't trust insurance companies.

- Emerging consumers had a difficult time naming more than one pharmaceutical company. While aided awareness was better, only 4 of the top 10 largest pharmaceutical companies worldwide were recognized.

THREE CONSUMER TRENDS DRIVING THE HEALTHCARE EVOLUTION

- ▶ **Trend 1:**
Consumer Enlightenment and Empowerment
- ▶ **Trend 2:**
Western and alternative medicine
- ▶ **Trend 3:**
Greater life expectations

CHESKIN IDENTIFIES THREE EMERGING TRENDS

CONSUMER ENLIGHTENMENT AND EMPOWERMENT. Much of the change experienced by the emerging consumer is motivated by an unsatisfactory relationship with the physician and with Western medicine, by the influence of cultures other than our own, and by the plethora of information that is out there — from the Internet, to "Buzz," to direct-to-consumer advertising.

The most immediate impact of enlightened and empowered consumers is a change in the patient-physician relationship. There is a growing "fee-for-service" attitude among consumers towards their physicians, who are being regarded more as consultants and less as key family advisors — many would argue thanks to managed care. Two thirds of the emerging consumers Cheskin polled felt the way they relate to physicians had changed within the past 5 years. They report feeling more informed and being more proactive in discussions. Less than 10% strongly agree with the statement, "I always do exactly as my physician tells me."

The repercussions are substantial. Relationships will continue to mutate as this emerging consumer behavior spreads to the mainstream. Existing interactions between healthcare constituencies (labs, patients, physicians, pharmaceutical and biotechnology companies, payers, and patient rights organizations) will continue to evolve. New liaisons, which previously involved middlemen, will be made directly. Groups that didn't interact will forge new relationships.

WESTERN AND ALTERNATIVE MEDICINE. Emerging consumers are questioning some fundamentals of Western medicine. Practices such as treating only symptoms are becoming unacceptable. At the same time,

alternative practices, such as chiropractic, yoga, and acupuncture are gaining acceptance.

In 1998, 40% of people 18 or older had used some form of alternative medicine, an increase from 34% in 1991. Two out of three users of alternative medicine (or complementary medicine) have been following this practice for six years or more. Several had been using alternative medicine for more than 10 years.

GREATER LIFE EXPECTATIONS. Consumers are living longer and their expectations about their lifestyle in their retired years are greater. While Baby Boomers are leading this trend, the generation before them has similar expectations.

Life expectancy has increased significantly — by 1960, life expectancy had increased to 70 years, and in 1997, life expectancy at birth was 79 years for women and 74 years for men. The current older population is also living longer — people who survive to age 65 can expect to live an average of nearly 18 more years. Most importantly, the expectations and outlook on life and aging have changed dramatically, thanks in great part to the Baby Boomer generation.

Baby Boomers amount to more than 75 million consumers in the U.S. alone. Within the next 13 to 34 years, today's Baby Boomers will enter the 65-years-and-older age category. The U.S. will see an unparalleled increase in the absolute number of elderly persons, and services, products and messaging will have to be adjusted accordingly. While one in eight Americans was 65 or older in 1994, in a little more than 30 years, about one in five is expected to be in this age group.

When asked about their trust in those recognized pharmaceutical companies, consumers make little distinction between them. For the most part, respondents could not state which company they trusted the most, explaining that there is no difference between them. More than half of respondents said that they have a hard time trusting pharmaceutical companies in general.

Despite their (decreasing) dependence on physicians to recommend an effective, safe drug, consumers don't make decisions in a vacuum. There are numerous venues of information that can educate the consumer.

In addition, if pharmaceutical companies don't establish a presence in consumers' minds, instilling trust, they will have a difficult time selling their products, communicating their values, and positioning to consumers. The entity behind the drug or device will become increasingly important.

• The role of DTC. In 1997, when the FDA clarified rules pertaining to prescription drug advertising, the floodgates opened and consumers were bombarded by more and more ads every day. Prescription drugs that are supported by DTC advertising are now the largest and fastest-selling medicines. Physicians wrote 34% more prescriptions in 1999 than in 1998 for the 25 DTC-promoted drugs that contributed most to overall drug spending. They wrote only 5% more prescriptions for all other prescription medications.

Early focus on successes **DRIVES CUSTOMER-RELATIONSHIP** management process, study finds

Companies need to have clear goals when implementing customer-relationship management initiatives, according to a study released by Best Practices LLC. In its report, Best Practices found that companies that focus on small successes during the early stages of implementing the CRM process have seen marked results that drive the ultimate success of customer-focused programs.

The study, titled "Countdown to Customer Focus: A Step-By-Step Guide to CRM Implementation" reveals how leading CRM implementers create a systematic approach that uses performance metrics to propel the CRM process. The study analyzes the CRM performance drivers such as expectation management, performance measurement, continuous improvement, and knowledge management.

The report found that up to 70% of customer-relationship management initiatives fail to deliver expected results because of poor implementation.

The research reveals a step-by-step roadmap to CRM excellence, based on one-on-one interviews and exclusive surveys with CRM team leaders at 32 of the world's most profitable companies, including

BEST PRACTICES' GUIDE TO EXCELLENCE:

STRATEGIC PLANNING — Learn how companies establish a CRM implementation plan with actionable tasks and clear, quantifiable goals

PILOT PROGRAMS — Savvy CRM teams build pilot programs that are intended to win several small, high-impact successes in a short period of time

GLOBAL ROLL OUT — Develop a global roll-out program that is aligned with project goals and change management programs to deploy pilot program processes

CONTINUOUS IMPROVEMENT — Implement continuous improvement processes to engrain CRM as a critical business activity

executives at pharmaceutical, financial, transportation, and energy companies, as well as government agencies.

One example from the study is a benchmarked pharmaceutical company using employee empowerment as a leading indicator of CRM success. The company's internal assessment of customer-facing employees reveals improvement opportunities while creating buy-in for customer-focused initiatives.

In addition, the analysis offers best practices, analytical metrics, and executive insights on areas including leadership and structure, customer-centric culture, and performance measurement and process management.

"CRM implementations have to show clear returns for bottom-line results," says Adam Bianchi, project manager. "That means better targeted marketing, smarter sales, and more cost-effective service. Understanding that customer relationships are important is not enough. You have to know exactly what your economic goals are and whether your implementation is meeting those targets."

"Flash-in-the-pan technology is not going to realize the potential that lies in customers," Mr. Bianchi says. "Companies have to build a workforce that thinks in terms of customers and solutions rather than products and services. This can be done through various performance management tools, from hiring and training to incentives and leadership development. Those are the keys to a customer-focused culture."

INTERNET plays **KEY ROLE** in physician behavior

The Internet is having an increasing influence on the way physicians conduct their business, and that influence is likely to increase, according to a survey of 400 physicians across the U.S.

The findings are the focus of a report by the

Boston Consulting Group. The report, "Vital Signs Update: Doctors Say eHealth Delivers," is based on newly released data from a nationwide survey of practicing physicians which takes a closer look at how the Internet is influencing physicians' behavior.

The proprietary study by BCG, conducted by Harris Interactive, was based on interviews with U.S. physicians done via telephone in February and March of 2001. Of the 400 physicians surveyed, 356 responded that they use the Internet.

With e-health startups floundering, many healthcare players have been quick to discount the viability of e-health. This survey, however, indicates that e-health has quietly become a vibrant medium for reaching the medical community — and promises to gain even greater acceptance in the future.

INTERNET USE AMONG PHYSICIANS ON THE RISE

Physicians are using the Internet for gathering medical knowledge.

Physicians are beginning to embrace online tools that enhance patient care, such as electronic prescribing, online communication with patients, and electronic medical records.

Physicians are reporting that the information they find online is influencing — for some, in a major way — the types of diagnoses they make and the prescriptions they write. This has significant implications for pharmaceutical companies, managed-care organizations, and healthcare-delivery systems that seek to influence physician behaviors.

PATIENTS, DOCTORS can work together to improve outcomes

Patients should be given more control, and enjoy greater collaboration in their own care, according to a panel of health experts at a meeting of the Academic Medicine and Managed Care Forum, convened by Aetna Inc., a healthcare and related benefits organization. Giving patients more say in diagnosis and decision making can lead to significant improvements in healthcare outcomes and patient satisfaction, according to the panel.

"We need to give up the false notion that the doctor supplies all of the answers," says John H. Wasson, M.D., moderator of one of the forum's panel discussions. "The patient is the agent of change."

Dr. Wasson, who is the Herman O. West Professor of Geriatrics in Community and Family Medicine at Dartmouth Medical School, also is the co-director of a national project, the "Idealized Design of Clinical Practice," which is sponsored by the Institute for Healthcare Improvement.

At the forum, held in Arlington, Va., Dr. Wasson joined four other health professionals in a panel discussion entitled, Interaction is the Heart of Care, But Can it Work Here?

The other panelists were: Ehab Molokhia, M.D., and Tangela Atkinson M.D., both of whom are chief residents at the University of South Alabama; Cory B. Sevin, R.N., MSN, VP of La Clinica Campesina Family Health Services; and Col. Jill S. Phillips of the U.S. Army

Nurse Corps, who is director of outcomes management and an adult nurse practitioner at the Walter Reed Army Medical Center.

"Today's patients are much savvier about health issues," says Dr. William Popik, Aetna Chief Medical Officer, who opened the forum program. "They see the physician as simply one source, albeit an important one, of information about their health. But patients also get health information from the media, from friends, and from alternative care practitioners. And let's not forget the Internet, which has empowered a whole generation of consumers with detailed, but sometimes confusing and contradictory, information."

False images of what leads to good healthcare make the doctor-patient relationship less effective than it could be, the panel agreed. Among those misconceptions are the notions that healthcare is delivered primarily during office visits, that the demand for healthcare is patient-driven, and that the vast amount of healthcare information available via the Internet is "not right" for patients.

The group discussed ways that medical professionals can make their discussions with patients more productive.

"Physicians need to speak less during a patient's visit, and learn active listening techniques," Dr. Wasson says. "By putting more emphasis on asking open-ended questions, doctors can better obtain the information that both they and their patients need to bring about a positive outcome."



STRATEGIES TO ENHANCE PATIENT-DOCTOR INTERACTIONS

- ▶ Providing patient-owned medical records
- ▶ Establishing continuity of care with a clinician or team of clinicians
- ▶ Surveying patients' visit expectations
- ▶ Making doctor-initiated telephone calls to the patient's home as part of the effort to shift the doctor-patient relationship from an office-directed model to a collaborative one
- ▶ Using e-mail, audiotape, and videotape in furthering the doctor-patient relationship

Clinical trial **OUT-SOURCING** growing trend

With the number of clinical trials required for the discovery and development of new medications growing, pharmaceutical and biotechnology companies are increasingly turning to contract research organizations to pass their products through the testing and regulatory process in a rapid, cost-effective manner.

New analysis from Frost & Sullivan, World Con-

tract Research Organizations Markets, reveals that the contract research organization industry generated worldwide revenue of \$9.8 billion in 2001. Analysts predict that the CRO industry is projected to surge to \$16.3 billion by 2005.

"The long-term success of the pharmaceutical outsourcing industry is dependent on lasting relationships with sponsors and the need for trust at all levels of cooperation, including individual clinical research associates," says Rinat Ariely, a research analyst with Frost & Sullivan.

With technologies such as high-throughput screening and proteomics becoming an increasingly important part of the drug-development process, pharmaceutical companies are seeking outsourcing partners who will be able to provide superior technology and introduce a potential product to market faster.

This is indicative of a trend towards greater collaboration and operational integration between the outsourcing partner and the sponsor.

"A balance that includes ongoing communication, timely access to data by sponsors, and project updates must be maintained to achieve successful relationships," Ms. Ariely says. "This challenge is expected to have a long-term effect on the contract research organization market, as sponsors continue to demand more one-on-one attention and greater clinical data accessibility."

Learning to **GET THE MOST** from employees

Leading human resource managers integrate employee measurement and appraisal into HR systems to generate the most effective performance management and development processes. According to research from Best Practices LLC, companies that employ continuous learning successfully meet corporate goals.

Based on information gathered from 70 companies across more than 30 industries, the study, Best Practices in Employee Performance Management and Development, contains best practices, benchmarking metrics, case studies and lessons learned, and reports how actual training practices have been profitable.

"World-class companies realize that their people are their most valuable asset, and they are making tremendous improvements in all areas of human resources," says Chris Bogan, president and CEO, of Best Practices. "These companies are investing billions of dollars to develop systems that will increase employee retention and overall workforce morale."

The Best Practices report also contains recruiting and career planning strategies; training information and metrics; cost and time investment; content and delivery methods; as well as employee evaluation rating systems.



EMPLOYEE PERFORMANCE MANAGEMENT AND DEVELOPMENT TECHNIQUES

One benchmark partner developed an apprenticeship program to develop employee knowledge across skill competencies. The program enabled the company to achieve a 90% retention rate for employees who participated in the program.

Another manufacturer requires that 85% of its employees be in continuous training. The company's production rates are four times faster than that of its competitors. The company attributes this growth to continual employee training.

A third benchmark partner made the decision to put continuous training first among its priorities, and allowed its training budget to make up 3.3% of its annual payroll. This decision allowed the company to generate customer price reductions of up to 22% and rework production by 25%.

Kalorama identifies the **50 LEADING PLAYERS** in \$1.5 billion **PROTEOMICS INDUSTRY**

▶ **20 START-UP PROTEOMICS COMPANIES ATTRACTED MORE THAN \$530 MILLION IN VENTURE CAPITAL IN THE LAST 20 MONTHS**

The proteomics technologies market surged past the \$1.5 billion mark in 2001, and is expected to soar to \$6 billion within the next five years, according to Kalorama Information LLC. The growth will be propelled by scores of companies trying to position themselves in the as-yet unsettled industry.

The study, Kalorama's Proteomics 50: Competing Technologies and Alliances, identifies the 50 best-positioned companies to capitalize on the sector's potential.

Protein chips, protein to protein interaction maps, protein databases, and biological assays are the technologies most in demand, according to the study, and top competitors in each of these areas are identified. In the realm of alliance-making, the report identifies the important deals, revealing that companies such as Incyte Genomics Inc. and GPC Biotech are well-positioned with the agreements they have forged — forming almost 30 major deals with the pharmaceutical industry between them in recent years.

Funding is another important area identified by the study. Venture capital has been a major factor. 20 start-up proteomics companies attracted more than \$530 million in venture capital in the last 20 months.

PHYSICIANS RATE DTC as beneficial to patients and their own practice

In a recent survey jointly conducted by Advanced Analytics Inc. and Guideline Consulting,

the majority of primary-care physicians surveyed indicated DTC advertising is beneficial. The national survey was conducted during the last two weeks of July 2001 among a telephone sample of 350 general/family practitioners and internists.

"Recent physician efforts to ban DTC advertising at the American Medical Association convention in Chicago in June of this year do not reflect the feelings of the majority of primary-care physicians," says Dr.

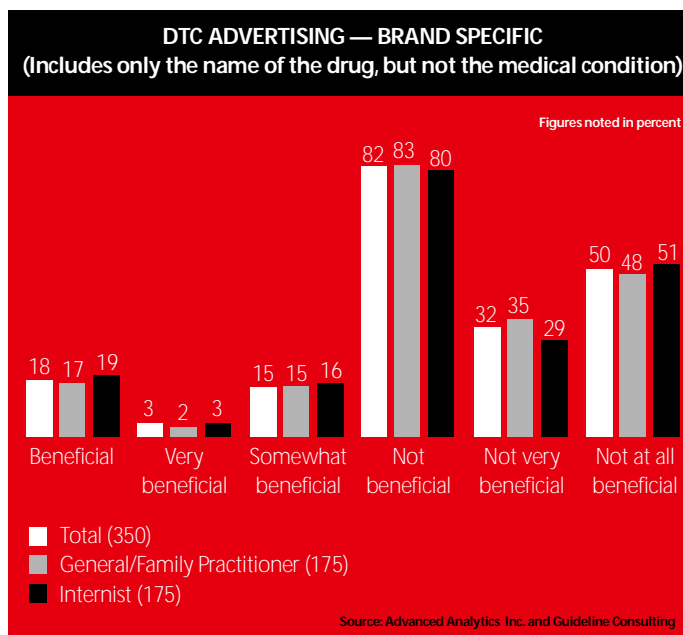
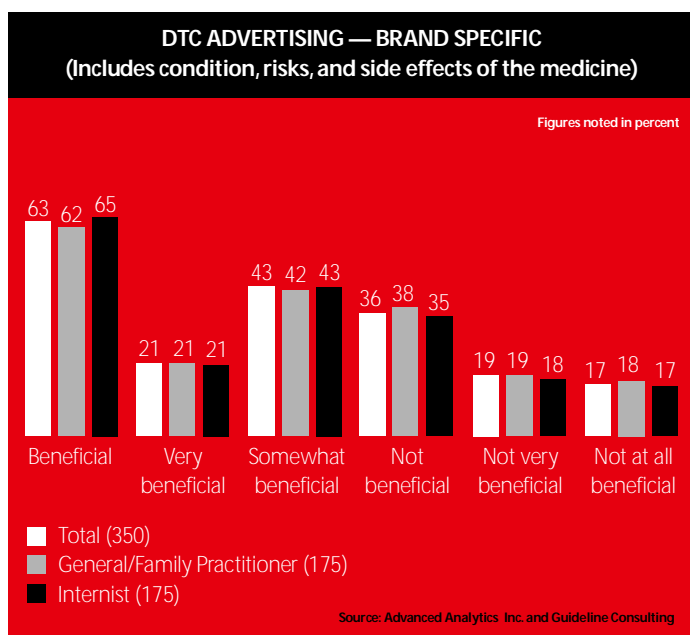
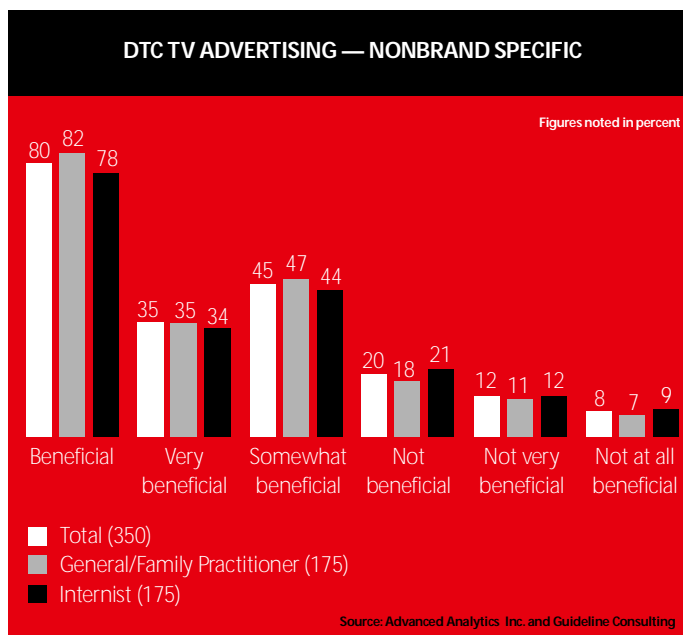
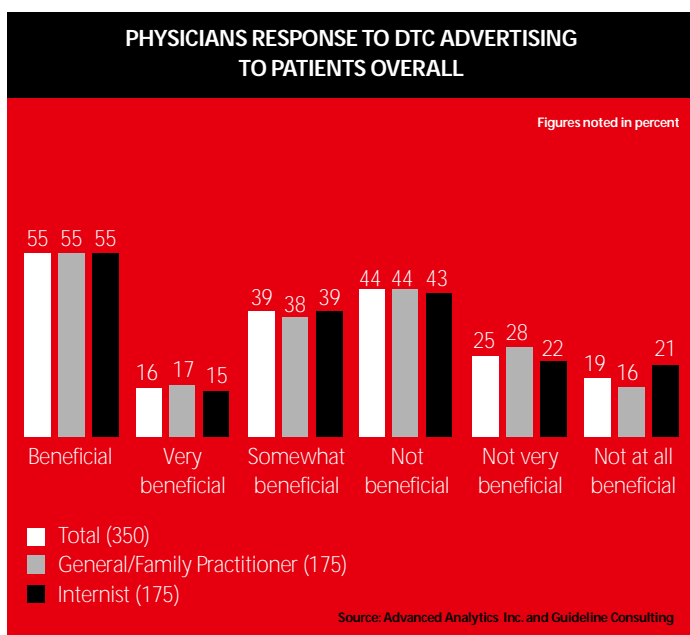
Morris S. Whitcup, president of Advanced Analytics. "Physicians feel that these ads are informative and make their patients more knowledgeable about diseases and conditions. These advertisements increase patient awareness and lead some patients who would not otherwise seek medical help to consult with a physician."

According to Nick Tortorello, president of Guideline Consulting, the survey was the first national

Physicians React to DTC ADVERTISING

- 55% of physicians surveyed rated DTC advertising as beneficial overall to patients
- Ads describing a condition, but no mention of a specific medication, were the most favorably received: 80% of primary-care physicians surveyed indicated these ads are beneficial to patients

- Ads citing both a condition and medication were also warmly received: 63% of surveyed physicians indicated that these ads were beneficial to patients
- Reminder ads, which only mention the name of the medication, were evaluated by 18% of surveyed physicians as beneficial to patients



study to ask not only about DTC advertising overall, but also about three specific types of DTC advertising: ads describing treatment for an ailment or condition, but no mention of a specific medication; ads citing both a specific medication and a condition; and "reminder ads" that only mention the name of a medication.

"Physicians are positive to DTC advertising overall and to two of the three specific types of DTC advertising," Mr. Tortorello says. Almost six in 10 physicians interviewed in the survey indicated that DTC advertising has had a positive impact on their own practice of medicine.

Individuals with chronic conditions **SPEND UP TO FIVE TIMES MORE**

According to a recent study released by Health Affairs, and sponsored by The Partnership for Solutions, led by Johns Hopkins University and the Robert Wood Johnson Foundation, individuals with chronic conditions spend up to five times more for healthcare than individuals without a chronic condition. The study, Out-of-Pocket Medical Spending for Care of Chronic Conditions, shows how nonexistent or inadequate health insurance coverage may leave individuals with chronic conditions at risk for large out-of-pocket expenditures for healthcare services.

The study reveals there are significant conse-

OUT-OF-POCKET SPENDING INCREASES WITH AGE AND VARIES BY INSURANCE COVERAGE

Mean expenditures on prescription drugs for individuals 65 years old and older with no chronic conditions: \$113 a year

Mean expenditures on prescription drugs for individuals 65 years old and older with one chronic condition: \$235 a year

Mean expenditures on prescription drugs for individuals 65 years old and older with three or more chronic conditions: \$667 a year

quences for the more than 41% of the population who have chronic conditions such as diabetes, heart disease, hypertension, and arthritis, and have to pay a considerable portion of their income on medical services. Of the 108 million individuals with chronic conditions, about 26 million had two chronic conditions and another 20 million had three or more. A chronic condition is defined as a condition that has lasted or is expected to last 12 months or more and results in functional limitations and/or the need for ongoing medical care. Individuals with one or more chronic conditions were responsible for more than 75% of healthcare spending.

Individuals in the oldest age category (greater than 80 years) spent more than five times more out-of-pocket than persons in the youngest age category (0 to 19 years) and more than twice as much as those in the middle age category (45 to 64 years).

Follow up

THE ACADEMIC MEDICINE AND MANAGED CARE FORUM, Blue Bell, Pa., is a partnership of medical institutions working with a variety of groups to address issues facing medicine. For more information, visit academicforum.org.

ADVANCED ANALYTICS INC. and **GUIDELINE CONSULTING**, part of Guideline Research Corp., are marketing research and consulting companies based in New York. For more information, visit guidelineresearch.com.

BEST PRACTICES LLC, Chapel Hill, N.C., conducts studies into the best business practices, operating tactics, and winning strategies of world-class organizations. For more information, visit best-in-class.com.

THE BOSTON CONSULTING GROUP, Boston, is a general management consulting firm. For more information, visit bcg.com.

CHESKIN, Redwood Shores, Calif., is a

strategic research and consulting company. For more information, visit cheskin.com.

FROST & SULLIVAN, San Antonio, Texas, is a global leader in strategic market consulting and training. For more information, visit frost.com.

HARRIS INTERACTIVE, Rochester, N.Y., is a worldwide market research and consulting firm. For more information, visit harrisinteractive.com.

KALORAMA INFORMATION LLC, a division of MarketResearch.com based in New York, supplies market research to the life-sciences industry. For more information, visit MarketResearch.com.

PARTNERSHIP FOR SOLUTIONS, led by Johns Hopkins University and the Robert Wood Johnson Foundation, is an initiative to improve the care and quality of life for the more than 125 million Americans with chronic health conditions.

INDUSTRY SNAPSHOT



Survey finds as copayments increase, noncompliance will probably get worse

The out-of-pocket cost of copayments required for the filling of prescriptions is a substantial barrier to compliance, and this problem is likely to get worse. A Harris Interactive telephone survey of a nationwide sample of 1,010 adults surveyed in June this year found that more than one-in-five of all adults (22%) had not filled at least one prescription in the last year because of the cost.

Furthermore, one in seven adults (14%) said that during the last year they had taken a prescription drug in smaller doses than prescribed because of the cost. And slightly more (16%) said they had taken a medication less frequently than prescribed to save money.

There is no way of determining the impact of this non-compliance on health outcomes, but it is widely believed that noncompliance toward drugs that treat chronic diseases such as diabetes, hypertension, or elevated cholesterol can often have serious health consequences. It is probable, therefore, that noncompliance, on this scale, is a serious health problem.

It is also a business issue for the pharmaceutical industry whose sales are surely reduced by billions of dollars by non-compliance.

This Harris Interactive survey shows that noncompliance to save money is much higher with people in low income groups.

The proportions of people in households with incomes below \$15,000 and those with incomes of \$15,000 to \$25,000, who did not fill a prescription (39% and 40%), took a drug in smaller doses than prescribed (31% and 24%) or took a medication less frequently than prescribed (21% and 30%) are about twice as high as they are among all adults.

Noncompliance for financial reasons is very common among people with disabilities, many of whom are quite heavy users of prescription drugs.

HARRIS INTERACTIVE reports employers to pass on costs to employees

Employers are expected to increase employee cost sharing during the next two years; in many cases this will mean more tiering of formularies and higher copayments.