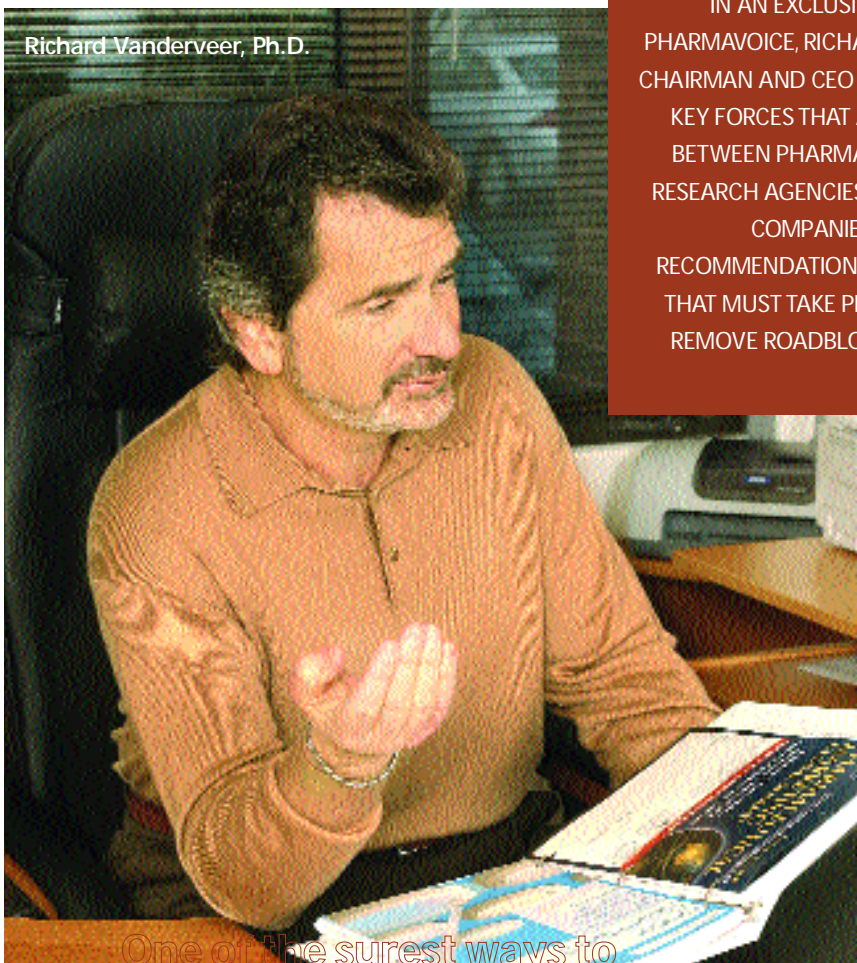


The shifting relationship between pharmaceutical company and supplier: **Are partnerships in peril?**

Fundamental aspects of the supplier/client relationship are changing. At the extreme these changes could threaten the very relationship; at the minimum these changes will require a modification in the way business is conducted.



Richard Vanderveer, Ph.D.

IN AN EXCLUSIVE INTERVIEW WITH PHARMAVOICE, RICHARD B. VANDERVEER, PH.D., CHAIRMAN AND CEO OF V2 INC., DISCUSSES THE KEY FORCES THAT AFFECT RELATIONSHIPS BETWEEN PHARMACEUTICAL MARKETING RESEARCH AGENCIES AND PHARMACEUTICAL COMPANIES. HE PROVIDES RECOMMENDATIONS FOR THE KEY CHANGES THAT MUST TAKE PLACE ON BOTH SIDES TO REMOVE ROADBLOCKS TO PARTNERSHIPS.

Two years into the new millennium, it is becoming increasingly clear that, while many pharmaceutical marketing research agencies bear the same name and offer largely the same product lines that they did years ago, some fundamental aspects of their relationships with pharmaceutical clients are changing. At the extreme, according to Dr. Vanderveer, these changes might threaten their very existence and at a minimum, they will at least require major modifications to the ways in which business is conducted.

Ever-SHRINKING NUMBER of Pharmaceutical Companies

According to Dr. Vanderveer, the fact that the number of major pharmaceutical companies has been reduced significantly through mergers and acquisitions is having significant effects, some obvious and some not so obvious, on the marketing research agencies that sell their services to these companies.

"Most obvious is the fact that with fewer pharmaceutical companies, the budget that each controls is typically substantially increased," Dr. Vanderveer says. "With fewer customers controlling larger budgets, it is increasingly essential for each marketing research agency to compete successfully for this business. While some results of this are beneficial, i.e., an increased emphasis within the agencies on customer satisfaction, others are far less positive."

From the perspective of the marketing researcher within a pharmaceutical company, for example, the intensity of the marketing research

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agency promotion that each now receives is so concentrated, that it becomes a major distraction as he or she tries to conduct day-to-day business. Merely picking up a phone can often yield an unsolicited sales presentation from an agency, he says.

“There is little wonder that many pharmaceutical companies’ marketing researchers’ phones are equipped with caller ID that allows them to screen out such calls, while their outgoing calls display caller unknown to the recipient thus avoiding the capture of their direct-dial phone number,” Dr. Vanderveer says.

Additionally, and even more troublesome, he believes, is that the over-promotion is causing many pharmaceutical company marketing researchers to stay away in droves from professional conferences that formerly were their purview. Weeks before such conferences, marketing researchers within pharmaceutical companies now are overwhelmed by phone calls from “suppliers” attempting to tie up their every moment at such conferences, including stealing time away from conference activities. The term suppliers, according to Dr. Vanderveer, signifies those who provide marketing research services for a fee.

After a few such experiences, many company researchers find that it is easier to announce that they are not going to such conferences, and they often recommend to their novice colleagues that they do the same. He says there is little wonder that at many conferences, the ratio of clients to suppliers continues to decrease, with clients now being outnumbered four (or more) to one.

“A little thought reveals, of course, that such odds only intensify the promotional onslaught faced by those clients with the temerity to actually attend the conferences,” Dr. Vanderveer continues. “Thus, what had once been an important venue for an open exchange of ideas and methodologies, the pharmaceutical marketing research conference has lost much of this function.”

The THREE-BID Process

As pharmaceutical company management attempts to demonstrate to shareholders the wisdom of a merger or acquisition, consultants often are brought in to establish standard processes for reducing costs of day-to-day operations. Dr. Vanderveer says many pharmaceutical companies now require their marketing researchers to obtain three or more bids for each potential project. While theoretically a sound business move, he believes this requirement leads to a number of unexpected and undesirable consequences.

“The words ‘bidding process’ suggest to me something that has particular specifications and on which price estimates should be received with the expectation that if somebody has sufficient quality the business is going to go to the lowest bidder,” Dr. Vanderveer says. “We need to get an understanding of what reasonably can be put out for bid, for example, providing 100 10-minute interviews or some concrete activity, and some-

thing that is not nearly as biddable, such as providing intellectual expertise, which ought to be handled outside of the bidding process.”

By definition, Dr. Vanderveer says each such transaction is initiated by a RFP, or request for proposal. Previously, he explains, projects used to begin with an open discussion of the research problem between company marketing researcher and supplier, with the resulting project design typically benefiting from this collaborative effort. Now, RFPs are written in isolation, often in haste and by relatively inexperienced company researchers.

Dr. Vanderveer cites a seminal article by Mick Kolossa, entitled “Garbage Out Garbage In,” in which the author bemoans the fact that the resulting efforts, not surprisingly, often provide suppliers attempting to respond with little guidance as to how to respond. A RFP requesting “six focus groups with GPs,” for example, leaves dangling issues such as how many groups the client would like conducted in a day, in what geographic areas, with how many clients behind the mirror consuming expensive dinners, and so forth. Thus, suppliers attempting to respond within the few days typically allowed to do so are left to call the client individually. Dr. Vanderveer has found that this call sets in motion a series of multiple conversations that are time-consuming to the client and unfair to the supplier who happens to make the first such call, as it is this particular supplier’s questions and ideas that often are included — consciously or unconsciously — in the discussions with agencies that call the client later in the proposal writing process.

Even in a fairly conducted bidding process, Dr. Vanderveer says 66% or more of the bidders will have wasted the resources invested in the proposal writing process. This waste becomes part of every bidding organization’s overhead, with the result that everyone’s prices must go up if historical prof-

it margins are to be maintained.

But bidding processes often are not this fair, he says. “Sadly, it is far from unusual for an unsuccessful bidder’s thinking to be incorporated into the project conducted with another supplier,” Dr. Vanderveer continues. “At least as frustrating are cases in which pharmaceutical company marketing researchers, having predetermined the supplier with whom they are going to place the business, are compelled by this three-bid system to request proposals from suppliers who, from the outset, have no chance whatsoever to get the contract.”

Dr. Vanderveer also provides a classic example of the “please don’t waste my time” scenario that was encountered by a recent request his company received from a pharmaceutical company to participate in a process to be a “preferred vendor” for that company. After spending hundreds of hours completing the documentation — including the pricing of more than 30 hypothetical studies, down to the last honorarium dollar and paper clip — his company waited several months to learn its fate.

“Imagine our surprise to discover, via a form letter that came with our name misspelled, that while the evaluation team had been ‘most impressed’ with our efforts and thinking, they would not put us on the preferred vendor list since we had not yet done sufficient amounts of busi-

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ness with them to earn that distinction,” Dr. Vanderveer says. “There are two problems with this practice. First, it seems logical that they could have figured this out before asking us to do all of that work. Second, since the company — like most with preferred vendor lists — is purportedly committed to giving a majority of its work to ‘preferred vendors,’ it was unclear to us how the company would ever gain sufficient experience with us to allow us to clear this hurdle. It becomes a Catch 22!”

He also notes that while this was going on, his company was busy conducting a large, strategic study for the same company aimed at determining how it should best be spending more than \$200 million each year in supporting continuing medical education.

Finally, and perhaps most importantly, he adds, the three-bid system is inherently inefficient — the client has to teach the ropes to each new supplier working on a project in support of a product. This training includes the history of the product’s marketing, the competitive marketplace, the methodological likes and dislikes of the product team, and so forth.

“Frequently, my colleagues and I are called into a pharmaceutical company to conduct a meta-analysis of marketing research conducted in support of a product over the course of the last year,” Dr. Vanderveer says. “Amazingly, it is commonly the case that the box of final reports with which we are provided to conduct our analysis often contains no more than one study conducted by each of a relatively large number of suppliers. As I view such a collection, I cannot help but think of the hour after hour spent in bringing each new supplier up to speed. Nor, as I read the final reports of these sequential projects, can I fail to notice how many projects breathlessly report, as new information, findings previously demonstrated by several projects in the same sequence. Quite simply, it is difficult to advance a body of knowledge if the same lesson must be learned repeatedly.”

To solve the problems of the bidding system, Dr. Vanderveer suggests two steps. “Step number one is to break the system down into places where the bidding is appropriate and inappropriate and to eliminate the mandate of having to get three bids for everything,” he says. “Step two is to make sure that we are all honest with each other and we are not collecting proposals that won’t receive due consideration or any consideration in a purchasing decision.”

EXCLUSIVITY Issues

A pharmaceutical company is entitled to certain expectations concerning exclusivity. Dr. Vanderveer warns, however, that major problems can result if this issue is not handled carefully. He breaks down the exclusivity arrangement into three distinct areas of commitment.

At the highest level of commitment, he says, it is mutually understood that a pharmaceutical company has partnered with a marketing research supplier to provide support that is significant in terms of intellectual involvement, financial expenditure, and a defined time span for one of its products. Here, it has been his experience that once again, more spiritually than contractually, it is recognized by both sides that it would be wrong for that supplier to aid and abet this product’s competitor, much as an advertising agency of record cannot provide services



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to a competitor. And although no formal record applies here, he believes the same spirit prevails.

There is a second level of commitment, where the scope of work is still significant but more limited in terms of size and duration, he says. Dr. Vanderveer notes that increasingly pharmaceutical companies are requiring a contract specifying a time period of exclusivity, which typically includes both the span of the project and a few months thereafter, during which the professional team that serviced the project will not provide services to a competitor.

Finally, at the third and lowest level of commitment, or rather, involvement, is the conduct of an isolated project of modest size and time span. Dr. Vanderveer believes that it is incumbent upon the supplier to take whatever measures are necessary to ensure that it does not provide a competitor the opportunity to gain an advantage based on the work conducted for the original client.

Supplier-Side CONTRACTUAL AGREEMENTS

According to Dr. Vanderveer, one of the surest ways to interfere with the relationship between a pharmaceutical client and supplier is to outright forbid the relationship in the first place. He believes that suppliers do this all the time by imposing and enforcing no-compete agreements that their associates must sign to be employed.

As a result of these agreements, professionals from many supplier organizations are unable to solicit work from, or perform work for, any client for whom they had recently provided service if they leave their present place of employment. Such no-compete agreements, moreover, typically extend between one and two years. The net result of such agreements, according to Dr. Vanderveer, is to break down the relationship between one supplier professional and his or her client base. Since many pharmaceutical companies have spent much time and effort to bring the new marketing researcher up to speed in their treatment area, strategy, etc., the inability of that marketing research professional to make use of this information in service of that company while working for a new employer constitutes a genuine lose-lose situation.

"Amazingly, most pharmaceutical companies tolerate such a state of affairs, with only a few of which I am aware having called the former employer to voice a complaint," Dr. Vanderveer says. "The solution here is quite simply that pharmaceutical companies need not tolerate this break in service, since the power of spending is in their hands."

In SUMMARY

Dr. Vanderveer believes that a trusting, open, and long-term relationship between a pharmaceutical company and its marketing research supplier is pivotal to ensuring that the client's needs are met efficiently. He also believes that, increasingly, a number of significant forces are at work that individually, let alone collectively, already have had significant negative impact on these relationships. He additionally believes that in a kind of tightening death spiral, these forces will continue to make things worse, rather than self correct.

"Any apparent efficiencies, savings, or other benefits realized as the result of these practices are dwarfed by the inefficiencies and ill will that they cause," Dr. Vanderveer says. "For example, the total marketing research expenditures spent in support of the launch of a new product, let alone a 10% or 20% savings thereof, resulting from putting research out to bid, are dwarfed by comparison with the revenue that can be left on the table by a marketing program based on discount research."

Additionally, the dearth of significant new product introductions, he says, creates a need for companies to leverage more revenue from existing products and to invest more wisely in new ones.

"With this in mind, it is clear that one of the most important tasks for pharmaceutical marketing researchers on both sides of the client/supplier

table is to work toward more positive relationships," he says. "Make no mistake about it, in the face of some of the destructive trends outlined above, this will require work, with success more likely if this work is performed by a consortium of pharmaceutical companies and suppliers acting in concert, rather than by a few entities acting in isolation."

Dr. Vanderveer suggests that if the industry is going to effect any change on the problems associated with market-research partnerships, there needs to be a coalition of organizations on both sides of the table to make this type of change happen.

"There needs to be an unbiased group that examines these issues, addresses the ramifications on both sides of the table, and makes recommendations and provides us with guidelines to speak to these issues," he says.

Dr. Vanderveer concludes that the term "marketing research vendor" is a series of three words that should never be strung together. He notes

that the connotative imagery of the term is of some huckster going door-to-door selling products based on a desire to make a commission, rather than a desire to meet customer needs. It also very much carries with it the image of "research by the pound," with the supplier's desire to sell more and the purchaser's desire to buy at the lowest price being paramount.

He says if the market researchers' collective job is to be the eyes and ears of the pharmaceutical industry — an industry that is not only "big business" but a pivotal player in the healthcare arena — can this really be the nature of the relationship between the key players? Dr. Vanderveer doesn't believe so.

"For what I trust are obvious reasons, I find the term 'marketing research consultant' far preferable," he says. "To me, this terminology clearly describes a professional genuinely committed to the outcome of the client's venture, and one who is not just interested in selling a project. Fee structures obviously are pivotal here. Increasingly, I encourage clients to engage experienced marketing research consultants on a retainer or daily fee basis, so that

they can be appropriately compensated for their expertise, rather than having their important insights thrown in gratis — one good idea free with every pound of focus groups."

Dr. Vanderveer concludes that his favorite terminology is "marketing research partner." To him, this terminology means that the client can expect exclusive services, with efforts never working to its detriment; that as a partner, the market researcher will be granted entry into client operations without being tethered to an escort; and that although problems will no doubt bedevil the marketing research process along the way, everyone will work together through good, open communications to achieve their goals, and in the process establish a genuine and mutually gratifying win-win relationship between pharmaceutical company and research supplier. ♦

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