

RESURRECTING OVERLOOKED COMMERCIAL CHANNELS



Matt Wallach

MATT WALLACH IS EXECUTIVE VP AND GENERAL MANAGER AT VERTICALS ONDEMAND INC., PLEASANTON, CALIF., WHICH OFFERS INDUSTRY-SPECIFIC SAAS CRM APPLICATIONS BUILT ON THE SALESFORCE PLATFORM. FOR MORE INFORMATION, VISIT VERTICALSONDEMAND.COM.

SaaS — software as a service — is the miracle drug to remedy the pharmaceutical world's ailing sales performance

and shrinking commercial budgets.

For decades, many pharmaceutical battlegrounds have been dominated by the drug companies with the largest army of sales reps. If sales started to dip, they simply hired more primary care sales reps, and presto, they were back on top, says Matt Wallach, executive VP and general manager at Verticals onDemand. Undoubtedly, an effective product was underpinning the sales effort. But there was very little pressure to develop truly innovative marketing strategies to improve sales or to tap into smaller, ancillary commercial sales channels to gain market share. It was all about critical mass.

"It's no wonder the pharmaceutical world is so shaken by the tremendous changes rippling through the industry right now," Mr. Wallach says. "We've all been big, fat, and happy for so long that we don't really know how to adapt, what strategies to try first, or what new technologies to implement. Some companies are trying new strategies such as investing in the development of specialty drugs — products that are difficult to replicate and more likely to sell at a premium. It's a strategy that is working so well, in fact, that major pharma compa-

nies are acquiring their own specialty businesses, such as AstraZeneca's acquisition of MedImmune."

Others are throwing lots of money into their existing information technology (IT) systems, hoping that in doing so, they will improve efficiency and thereby increase profitability. Unfortunately, Mr. Wallach says many are now throwing good money after bad, since it takes so much time and money to try to transform these IT dinosaurs into something that can keep up with today's changing business.

Still other pharmaceutical companies, Mr. Wallach notes, are making high-impact changes like refocusing on commercial sales channels, such as managed markets teams, to help stimulate revenue growth.

"Each of these commercial subgroups — defined as all of the channels that do not sell to primary care physicians, i.e., specialty sales, managed markets, and key opinion leader managers — have had increasingly larger roles in generating revenue as of late," he says. "Indeed, executives are starting to see the incredible potential that these previously overlooked commercial channels offer."

WHERE HAVE THEY BEEN?

Until recently, these subgroups have largely gone unnoticed and received relatively little in terms of technology support. This is especially true in the area of customer relationship management (CRM), according to a Gartner Group research report and many life-sciences industry analysts.

According to Accenture's Life Sciences Partner, Shawn Roman, even though there has been a significant rise in specialty care salesforces and other smaller sales teams outside of the primary care area over the last five years, technology hasn't caught up yet.

So while the primary care salesforce has received huge investment in CRM technology to help them efficiently target primary care

physicians, specialty care reps, for example, have been stuck using tools that are designed to support the one-to-one selling model of the primary care sales team.

"These client/server CRM systems do not offer the unique features and functionality required by, say, a managed market account executive or a KOL manager," Mr. Wallach says. "As an example, formulary position management is not a function available in most traditional CRM systems, but it's vital for managed market AEs who are on the front lines vying for a better formulary position. Specialty care reps need reimbursement information readily available but these data are not easily accessible through most existing CRM systems. KOL managers need to fully understand each physician's sphere of influence. Generalist CRM systems simply don't offer these types of unique features that empower smaller commercial teams to succeed. So, they're trapped — it's the classic 'square peg in a round hole' problem.

"And because the expensive client/server applications already installed are not useful to smaller commercial channels, they simply don't use them," Mr. Wallach continues. "Instead, teams waste time with grossly inefficient sales methods. For example, hospital reps may target physicians by walking around — literally. They walk to the operating room in a hospital and look at the names on the board. They walk to the emergency department and look at the names on the board. They walk up to the hospital pharmacist and ask who is ordering the most of Drug A or Drug B. They walk outside for a break, and so on."

To remedy the problem, some pharmaceutical IT departments have custom-developed expensive systems to accommodate these subgroups' unique needs, but home-grown systems have only solved some of the problems and are pricey to build and maintain. Still other companies expect their reps to work with spreadsheets, printed reports, and Filofaxes. Not only are these tools little more than data repositories, but they also do not allow for the best practice sharing that's so important in today's marketplace.

The reason so many commercial channel

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subgroups are denied proper technology comes down to money. Prevailing technology makes it extremely expensive to build an application that meets the highly specialized needs of such relatively small groups. Depending on the size of the company, a channel like managed markets could range in size anywhere from 10 to 200 employees, typically a very small percentage of the overall organization. Specialty care and KOL teams are equally minuscule by comparison. With such a low number of users, technology vendors have not been willing to make the necessary investment in research and development to design specialized applications. It simply has not been profitable.

Mr. Roman believes that it made financial sense to tackle the larger primary care market first, but a lot has changed — both in terms of the industry and in terms of the technology now available. It has always been too expensive to develop a specialized product for a small group of users.

"In addition to not being profitable for vendors to build, deploying specialty applications hasn't been cost-effective for the pharma-

ceutical companies themselves," Mr. Wallach says. "That's because the applications would have to be built using expensive client/server technology and round and round it goes. It's a vicious cycle — given the client/server technology, vendors are not going to build these specialized applications. Worse yet, if they built them, the pharmaceutical companies couldn't implement them cost-effectively anyway. It's a technology logjam."

Pharmaceutical companies have had few solid alternatives. Choice A is to keep their existing client/server technology and custom-build new functionality into the system to satisfy the needs of specialty sales groups. This requires a pricey, time-consuming upgrade to the entire system for some companies. For others, it would require a new release of the software that has to get distributed to all the remote users, which is also expensive. Either way, every time a change is

made for a smaller sales team, the same change must be made to the entire user network, costing the company thousands of dollars. Choice B is to provide the subgroups with an altogether different software application that's custom-designed just for their needs but that doesn't integrate with the rest of the enterprise, i.e., openQ for KOL management or Excel applications to manage formulary data. Clearly there are huge disadvantages to creating islands of information with little-to-no interaction with the rest of the organization.

"This is critical, especially today," Mr. Wallach says. "Because of the inflexibility of their current client/server systems, companies have been forced to test new sales and marketing strategies, such as video detailing, in a vacuum, casting doubt on their effectiveness and making it impossible to truly measure their impact. The industry simply cannot create the

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'rep of the future' while creating multiple information silos."

Mr. Wallach contends that there is a better choice — software as a service, or SaaS.

"This is the miracle drug to remedy the pharmaceutical world's ailing sales performance and shrinking commercial budgets," he says.

WHAT IS SAAS?

SaaS is a software application delivery model where the software vendor develops a Web-alternative software application, and hosts and operates — either independently or through a third party — the application for use by its customers over the Internet. Customers don't pay for owning the software itself but for using it — an important distinction. The term SaaS has become the industry preferred term, generally replacing the earlier terms Application Service Provider (ASP), utility computing, and on-demand computing.

"SaaS applications are generally priced on a per-user basis, sometimes with a relatively small minimum number of users, and often with additional fees for extra bandwidth and storage," Mr. Wallach says. "But not all SaaS is created equal. To realize the true benefits of SaaS, the software code must be written using multitenancy principles — enabling multiple users across multiple organizations to interact with a single system installation. In addition, to provide all of SaaS's potential for ease of customization and use, the code should be written to separate the underlying infrastructure from the metadata with which users tailor the system to their own needs. In this fashion, the system can support many different user types and system interfaces, and the underlying code can be updated or revised without affecting any one user."

Mr. Wallach warns, however, that the term SaaS is often abused by suppliers who frequently use it to refer to any application that can be accessed over an Internet connection and charged on a monthly basis.

"In actuality, this may be only a hosted client/server solution because it is not built according to multitenant principles," he says. "A Web-enabled, hosted client/server solution has no real benefits over any other client/server system installed on-premise due to its single-tenancy."

SaaS has a distinct meaning that's essential to understanding its role in an application portfolio. With SaaS, there's just one code base for the software, used by all customers, hence, a multitenant architecture.

"To illustrate the difference between SaaS's multitenant architecture and a client/server or hosted architecture, think of a neighborhood of individual houses versus an apartment complex," Mr. Wallach explains. "In the neighborhood, each homeowner has his own yard to mow, his own plumbing to maintain, his own electrical system to operate, and his own walkway to clear. This is analogous to a typical client/server infrastructure where each customer has its own dedicated server that runs the application.

"On the other hand, an apartment complex's lawn, plumbing, electrical system, and walkway are shared by all of the apartment's multiple tenants," he continues. "This demonstrates multitenancy, and is the reason that SaaS is so extremely cost-efficient to deploy and maintain. The customer has no hardware to purchase, install, or maintain, just like the complex's tenants never need to buy a rake, shovel, or lawnmower. SaaS applications are built on a shared infrastructure, where all servers, networks, and functionality are managed from a central location. The application is then accessible through any Web browser — think Google for business. The host handles all maintenance and upgrades to the system while SaaS applications are delivered to the customer as a reliable service over the Internet."

THE BUSINESS VALUE OF SAAS

According to Mr. Wallach, SaaS enables the development of CRM applications that can scale up or down depending on the number of users, and that are flexible enough to be customized for small groups of specialized salespeople such as specialty care reps, managed markets account executives, and KOL managers.

"Essentially, SaaS makes the development of highly specialized products affordable to the mass market — something never before possible," he says. "SaaS technology has fundamentally changed the economics of deploying a powerful yet tailored application to smaller groups. It allows companies to cut their budgets, streamline many sales management processes, and provide all users with flexible, customizable, usable software."

The SaaS combination of easy customization and extreme scalability also affords pharmaceu-

tical companies unique business flexibility, especially when experimenting with today's advanced sales and marketing initiatives such as video detailing, e-detailing, alternative sampling programs, closed-loop marketing, and whatever comes next. With SaaS, it is fast and easy to add new groups of users to the overall system so these experiments can be carried out in realistic settings. Plus, the deployment of an integrated new group does not affect all the users already on the SaaS CRM system.

"These capabilities are as liberating as they are strategically important to business operations," Mr. Wallach says. "With an SaaS CRM system, not only can primary care sales teams do their jobs better, but so can all of the other commercial teams. Plus, the IT team can resume its focus on adding value to the company rather than overseeing all of the system administration details required of a client/server system."

The net result of operating an SaaS-based CRM application over a traditional client/server CRM application comes down to vastly increased effectiveness of the salesforce as well as vastly decreased IT financial drain — both up front and over time. Based on ROI analyses from Gartner, Forrester, Yankee Group, and Verticals onDemand, a traditional client/server CRM application can cost a pharmaceutical company \$5.8 million in the first year versus about \$2.1 million for a SaaS application. Ongoing, the SaaS application will also be much less than the client/server application.

"It's time to bring in the 'special forces' if companies want to stay at the forefront of their markets," Mr. Wallach says. "Companies can increase their chances of victory by arming their salesforces with the right technology and supporting their efforts by replacing an aging client/server system with a stealth SaaS CRM application." ♦

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