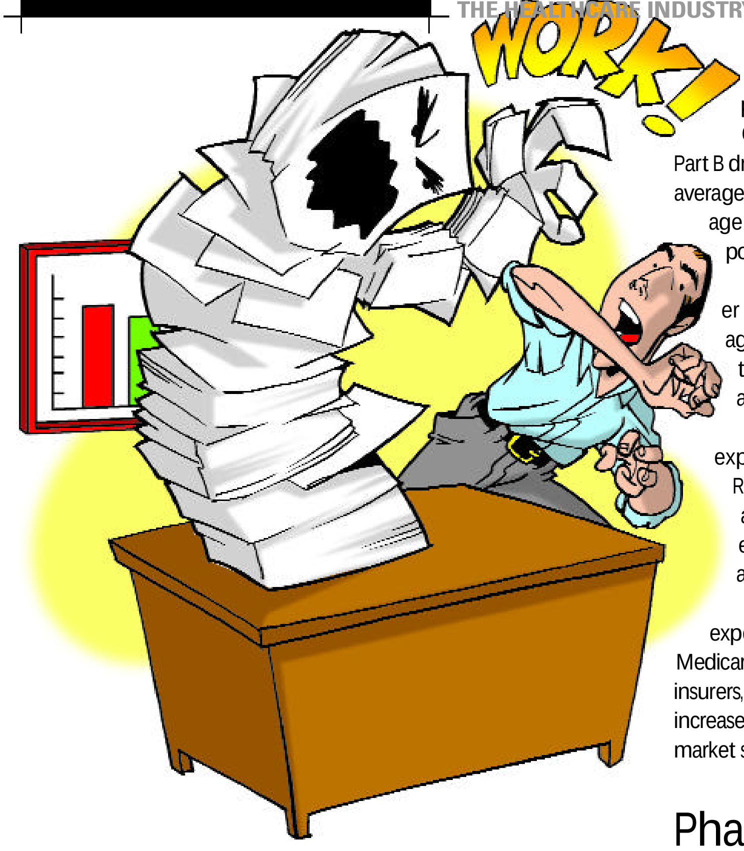

Medicare Reform to **RESULT IN MORE USE OF DRUGS**

As early as 2006, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA) is expected to provide $10 billion to $15 billion in new drug spending to the U.S. pharmaceutical industry. This is the finding of a recent study by Navigant Consulting Inc. This is expected to be through modified prescription drug coverage, changes in pricing and reimbursement policies for therapeutics, and the redefined role of, and relationship between, healthcare providers and Medicare.

The MMA will likely lead to lower drug prices, but it will also drive increased utilization, says Ken Smith, Principal of Navigant Consulting.

In January 2006, the Act will add a new prescription drug benefit for Medicare beneficiaries through Medicare Part D and will make significant changes to Medicare Parts B and C to offer more comprehensive healthcare benefits for seniors.

The Act also will enact new pricing mechanisms, administrative requirements, and strict price reporting processes and penalties to pharmaceutical companies. Competitive bidding mechanisms have the potential to reduce prescription drug prices by up to 20%, but the exact approaches for competitive bidding are still undefined.

Congress also has enacted price reform for Part B drugs. On Dec. 31, 2004, prices will be set at the average selling price (ASP), a change from the average wholesale price used currently. This has the potential to reduce prices 15% to 35%.

Pharma companies could experience higher administrative costs to negotiate and manage the complex bidding and rebate structures, as well as to report prices, discounts, and rebates.

These pressures on pricing, however, are expected to be offset by increased use. Researchers predict an increase of up to 20% as result of the creation of Part D, which extends outpatient prescription drug coverage to all beneficiaries.

Researchers say pharma companies are expected to be very active partners with key Medicare sponsors, including PBMs, HMOs, health insurers, and specialty pharmacies given their need to increase brand recognition, product margins, and market share.

Pharmaceutical Firms **RANK LOW IN ONLINE** Customer Treatment

More than one-third of pharma and healthcare companies share personal data with affiliates or business partners without permission and half don't respond to all inquiries. These are the findings of a recent survey by The Customer Respect Group. The report, the Summer 2004 Online Customer Respect Study, ranks 78 pharmaceutical and healthcare firms among the country's largest 1,000 companies.

The study assigns a Customer Respect Index (CRI) rating to each company on a scale of 0 to 10, with 10 being the highest achievable score. By interviewing a representative sample of the adult Internet population and by analyzing more than 1,000 Websites across a spectrum of industries in detail, The Customer Respect Group has determined the attributes that combine to create the entire online customer experience. These attributes have been grouped together and measured as indicators of simplicity (ease of navigation), responsiveness (quick and thorough responses to inquiries), privacy (respects customer privacy), attitude (customer focus of site), transparency (open and honest policies), and principles (values and respects customer data).

Pharmaceutical and healthcare companies obtained a poor average score of 3.5 in the responsiveness index. In fact, 19 companies — almost one-fourth — scored zero in this area. That figure is influenced, in part, by the fact that 49% of firms never responded to inquiries or did so only half of the time.

In the area of transparency, the average score was a 6.0, demonstrating the need for sector companies to better explain their privacy policies fully and clearly. And 65% did not provide clear information on their opt-in/opt-out policies. Users of these sites will feel that they will be unable to control the receipt of marketing information if the company uses their e-mail addresses for this purpose. There will almost certainly be customers who will not do business on these sites for this reason.

It is surprising that some companies in this industry, whose business it is to provide healthcare and related products and services, do not make it a priority to treat their customers in a respectful, ethical manner online, says Roger Fairchild, President of The Customer Respect Group.

Some 12% of these companies share customers' data with business partners without seeking permission and 24% of companies share data with affiliates. Moreover, no firm makes its site accessible for those with disabilities by using label tags.

"The Internet has become a primary tool for customer information and product research," says Roger Fairchild, president of The Customer Respect Group. "Those firms that don't take their Web presence seriously will find themselves losing out to others that do."

Customer Rating of Pharmaceutical and Healthcare Company Online Services

Pharmaceutical Company	CRI*
Johnson & Johnson	7.4
Forest Laboratories Inc.	7.4
Abbott Laboratories	7.0
Biogen	6.9
King Pharmaceuticals	6.9
Bristol-Myers Squibb	6.8
Allergan	6.5
Schering-Plough	6.4
Watson Pharmaceuticals	6.1
Amgen	5.6
Wyeth	5.6
Merck & Co.	5.4
Chiron	5.4
Genzyme	4.9
Ivax	4.8
Eli Lilly	4.3
Pfizer	3.6
Sector Average	5.9

Note: The study assigns a Customer Respect Index (CRI) rating to each company on a scale of 0 to 10, with 10 being the highest score, based on six attributes: simplicity, responsiveness, privacy, attitude, transparency, and principles.

Source: The Customer Respect Group, Bellevue, Wash. For more information, visit customerrespect.com.

Analytical CRM is Key to MAXIMIZING ROI

Pharmaceutical companies will continue to invest in analytical and operational CRM. But pharma managers have to address weaknesses in infrastructure and channels if returns are to be maximized over the longer term. A new report by Datamonitor, Analytical CRM: New Technologies for the Pharmaceutical Industry, finds that pharmaceutical companies planning to deploy analytical CRM technology should, before heavy investment, examine its use in vertical markets with similar characteristics.

While analytics have been used by pharmaceutical companies in the drug-development process and, to some extent, in the sales and marketing processes, to date, adoption of analytical CRM (ACRM) in the industry has been slow. But its success in other vertical industries has demonstrated that ACRM could improve marketing efforts and communications between marketing teams.

Datamonitor's primary research revealed a gap between existing CRM strategic needs and the areas in which pharmaceutical companies intended to invest in 2004. Pharmaceutical executives surveyed assessed the capabilities of their CRM systems as being strong in analytical and operational CRM, while most respondents were less positive about their existing channel and infrastructure development.

Analytical CRM remains the key application for exploiting a company's existing knowledge base and developing the value of the customer interface, says David Deon, Healthcare Strategy Analyst at Datamonitor.

Despite this, when questioned about future investment areas, the majority of interviewees predicted that analytical and operational CRM would remain the areas of highest investment, with channel and infrastructure development still being under-resourced.

"Analytical CRM remains the key application for exploiting a company's existing knowledge base and developing the value of the customer interface," says David Deon, healthcare strategy analyst at Datamonitor. "Its usefulness is directly linked to entering actionable data into a CRM system in a robust and reliable manner, together with its ability to exploit marketing channels further. In turn, these two parameters are directly linked to CRM infrastructure. Pharmaceutical companies must identify the infrastructure upgrades that will generate greater value than investment in pure analytical CRM."

He says different vertical markets have different business issues and also different needs for ACRM.

"The ideal vertical for ACRM is one characterized by a large volume of regular customers, a large volume of customer data per customer, and a large volume of transactions," he says. "While the pharmaceutical industry does not fully conform to these ideals, the industry has many similarities to other verticals such as the technology and manufacturing industries."

In addition, the propensity to buy ACRM is also driven by past investments in data technologies, especially data warehousing, which can also be taken to be an indicator of the competitive advantage that can be leveraged from analytics within an industry. Many pharma companies have invested heavily in data marts and data warehouses.

THE FDA RATED HIGH for Ensuring Drug Safety

The Food and Drug Administration gets good marks for ensuring the safety and efficacy of new drugs, but not for getting drugs to the market quickly.

According to a Harris Interactive/Wall Street Journal Online survey of consumers, 56% of Americans say the FDA does an excellent or good job in ensuring the safety and efficacy of new prescription drugs; 37% of Americans say the agency does a fair or poor job.

The survey results found that 29% of Americans think the FDA does a positive job of making decisions about ensuring that truly innovative prescription drugs come to market more quickly compared with 62% who think the regulatory agency does a fair or poor job.

RATING THE FDA: WHICH FDA FUNCTION IS MOST IMPORTANT?

Which one of these do you think is the most important for the FDA to focus on?

FUNCTION	% OF RESPONDENTS
Ensuring the safety as well as the efficacy of new prescription drugs	54%
Ensuring that truly innovative prescription drugs come to market more quickly	23%
Making decisions about which drugs can be marketed over the counter without a prescription	9%
Making decisions about which brand name prescription drugs can be marketed as generics	7%
Not sure	7%

Source: Harris Interactive, Rochester, N.Y.
For more information, visit harrisinteractive.com

RATING THE FDA: HOW DO YOU EVALUATE THE AGENCY'S PERFORMANCE?

Based on what you know or have heard, how well does the FDA do on ...

	POSITIVE*	EXCELLENT	GOOD	NEGATIVE**	FAIR	POOR	NOT SURE
Ensuring the safety as well as the efficacy of new prescription drugs	56%	14%	43%	37%	27%	10%	7%
Ensuring that truly innovative prescription drugs come to market more quickly	29	4	25	62	34	28	9
Making decisions about which drugs can be marketed over the counter without a prescription	41	7	34	50	33	17	8
Making decisions about which brand name prescription drugs can be marketed as generics	38	5	31	51	30	21	11

Note: * = excellent or good; ** = fair or poor; survey results based on Interactive poll of 2,245 U.S. adults conducted online between May 10 and May 12, 2004.
Source: Harris Interactive, Rochester, N.Y. For more information, visit harrisinteractive.com.

These are the results of a new Harris Interactive poll of 2,245 U.S. adults conducted online between May 10 and May 12, 2004, for The Wall Street Journal Online's Health Industry Edition.

While 69% think it is more important to be able to afford prescription drugs even if they aren't the newest ones available, 21% want access to new and better drugs, no matter what they might cost. A slightly higher percentage, 71% of Americans 65 and older prefer affordable drugs even if they aren't the newest ones available and a slightly lower percentage, 18%, want newer and better ones.

"Most people believe the FDA's top priority should be ensuring the safety and efficacy of new drugs and a substantial, but not overwhelming, majority gives it good marks for doing this," says Humphrey Taylor, chairman of The Harris Poll at Harris Interactive. "This survey also finds evidence that for most people making drugs more affordable is more important than having access to new and better drugs."

Insomnia Market REMAINS UNTAPPED

Revenue in the insomnia market totaled $1.65 billion in 2003, and Frost & Sullivan analysts project this market will reach $3.36 billion by 2010. The concerted efforts of drug manufacturers to improve the knowledge of patients and physicians about the serious implications of insomnia have begun to pay off as more and more people seek medical help. But the vast potential of the market has not yet been fully tapped.

"A large number of patients do not consider insomnia to be a condition that requires medical help," says Patrick Rajan, a research analyst at Frost & Sullivan. "Very often, patients either use over-the-counter (OTC) products containing antihistamines or seek treatment for another ailment that they think is the root cause."

Physicians also are inadequately informed and trained to deal with the situation. Most tend to suggest lifestyle alterations and nonpharmacological options as possible remedies. Though this works for patients suffering from intermittent insomnia, it is hardly a solution for chronic insomniacs.

One of the most common reasons cited for this hesitation in diagnosing and in seeking prescription treatment is the fear of side effects.

This is especially true in the case of drugs that bind to benzodiazepine receptors. If used longer than one month, patients could become susceptible to withdrawal symptoms, dependency, and drug abuse.

Benzodiazepines are also associated with altered sleep architecture, psychomotor and memory impairment, rebound insomnia, tolerance, and respiratory depression.

"From 2004 to 2010, the benzodiazepines market is likely to decline steadily due to safety concerns," Mr. Rajan says. "This, coupled with the influx of newer treatment options that are safer and equally effective, is likely to continue to limit uptake."

First-line therapies such as nonbenzodiazepines are currently much more acceptable because of their safety profile and high efficacy. To avoid being lumped together with benzodiazepines, companies entering the market are attempting to differentiate their products through labeling.

DEVELOPMENT COST is Tied to THERAPEUTIC CATEGORY

The cost and time required to develop a new drug and bring it to market is directly tied to the therapeutic category of that drug, according to a study recently completed by the Tufts Center for the Study of Drug Development.

Summary findings of the study show that analgesic/anesthetic drugs were the least costly to develop, requiring an average of $375 million for total out-of-pocket and time costs. This compares with an average of $466 million for all drugs, when phase attrition rates and clinical approval success rates are factored in.

The most expensive category of drugs to develop includes medicines that treat diseases of the central nervous system, which cost an average of $527 million. These figures exclude nonclinical research and development costs.

The Tufts CSDD study examined four categories of drugs: analgesic/anesthetic, anti-infective, cardiovascular, and CNS.

Total time required for clinical and approval phases for the four categories of drugs also varied widely by therapeutic class. Analgesic/anesthetic drugs required an average of 61.8 months, according to Tufts CSDD, while CNS drugs required an average of 114.6 months. The average clinical and approval phase time for all drugs was 90.3 months.

The analysis also found that average worldwide sales for new drugs showed considerable variability by therapeutic class, from 56% below the average for analgesic/anesthetic drugs to 72% above the average for CNS drugs.

"Given the dynamic nature of pharmaceutical markets and changes over time in research and development strategies, our findings are consistent with a model that suggests R&D efforts have generally shifted toward high-net return, and away from low-net return, therapeutic areas," says Tufts CSDD Director Kenneth I. Kaitin. "The challenge for drug developers is to reduce development times and terminate unpromising compounds earlier in development. Because these actions help improve success rates, they can have a substantial impact on R&D costs."

Follow up

THE CUSTOMER RESPECT GROUP, Bellevue, Wash., is an international research and consulting firm that uses its Customer Respect Index (CRI) methodology to help companies improve how they treat their customers online. For more information, visit customerrespect.com.

DATAMONITOR, New York, is an international strategic market analysis company, helping companies across the automotive, consumer, energy, financial-services, healthcare, and technology markets. For more information, visit datamonitor.com.

FROST & SULLIVAN, San Antonio, an international growth consultancy, has been supporting clients' expansion for more than four decades. For more information, visit frost.com.

HARRIS INTERACTIVE, Rochester, N.Y., is a worldwide market research and consulting firm, best known for The Harris Poll. For more information, visit harrisinteractive.com.

NAVIGANT CONSULTING INC., Chicago, is an independent consulting firm providing litigation, financial services, healthcare, energy and operational consulting services to government agencies, legal counsel, and large companies facing the challenges of uncertainty, risk, distress, and significant change. For more information, visit navigantconsulting.com.

THE TUFTS CENTER FOR THE STUDY OF DRUG DEVELOPMENT AT TUFTS UNIVERSITY, Boston, provides strategic information to help drug developers, regulators, and policy makers improve the quality and efficiency of pharmaceutical development, review, and usage. For more information, visit csdd.tufts.edu.

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