

The New Pharmaceutical **FRONTIER**

Rising R&D costs, shrinking market exclusivity, reduced new drug applications — compounded by waves of patent expirations and cost-containment measures from governments and managed-care organizations — all appear to be converging to challenge business growth and

CREATING THE PERFECT STORM FOR PHARMACEUTICAL MARKETING.



IN AN EXCLUSIVE TO PHARMAVOICE, ROB BENSON, EXECUTIVE VP, HEALTHWORLD GLOBAL BUSINESS GROUP, DISCUSSES WHY THE PHARMA INDUSTRY NEEDS TO ADOPT MORE RADICAL WAYS OF COMPETING, BETTER ADDRESS ISSUES RELATED TO INNOVATIVE TECHNOLOGY, AND WORK TO MEET EXPANDING CUSTOMER DEMANDS.

According to Rob Benson,

strategic changes are coming

at a critical time when many market forces already are changing the competitive landscape for pharma companies in North America, Europe, Asia, and elsewhere.

Henry McKinnell, Pfizer's CEO says the acquisition of Pharmacia means that the company is well-positioned to become a transforming force in global healthcare.

For Rob Benson, executive VP of Healthworld Global Business Group, this implies much more than the world's top company, in capitalized value, flexing its financial muscle.

The essence of this statement appears to focus on realizing structural as well as strategic changes in the way the pharmaceutical industry does business around the world.

"For an industry renowned for its traditional caution and conservatism this is significant, suggesting a new level of corporate intent as much as personal and commercial vision," Mr. Benson says.

Rising research and development costs, shrinking market exclusivity for new drugs, reduced new drug applications — compounded by waves of patent expiration and cost-containment measures from governments and managed-care organizations — all appear to be converging to challenge business growth ambitions.

"In effect, these forces are creating the oft-quoted perfect storm for pharmaceuticals," Mr. Benson says.

But to "change from a leader to a transforming force," as Mr. McKinnell says, means deciding what needs to change and changing it. As the world's No. 1 pharmaceutical player with more than a 10% share of world sales, Pfizer is currently favorably placed to adopt such a progressive stance, and the potential implications affect all interested parties.

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“This perspective of a new scale and business impetus also chimes with quietly growing appeals for the pharmaceutical industry to adopt a different way to compete,” Mr. Benson says. “Against this background, transformation can be viewed as the emerging business model for growth. Part of its appeal is in its ability to be deployed in two critical directions at the same time and aligned to initially different objectives, strategies, and outcomes that eventually meet to complement one another.”

According to Mr. Benson, one direction is linked to necessity, the other to opportunity. Transformation in terms of necessity is clearly associated with R&D and the arena of commercially meaningful, relevant, and innovative new product development, where immediate business-negative challenges already exist for virtually all pharmaceutical companies. Mr. Benson cites several challenges that are directly impacting the industry including: average new drug development costs of about \$650 million to \$800 million; 20% of sales now spent on R&D; \$25 billion in sales lost to patent expiration in 2002; and the 50% reduction in new drug applications to the FDA and EMEA compared with a decade ago.

An important corporate factor is that while a transformed supplyside is an unavoidable imperative, he says, this is aligned mainly toward the long term in payback terms, even allowing for significant shifts in in-house effectiveness such as smarter drug screening and external pipeline supplementation via third-party deal-making.

“Reality dictates that all of this must go on, but not to the disadvantage of balance of the other transformational axis that built on the opportunity of demand,” Mr. Benson says. “This is the truly market side of transformation that includes the belief that scale and potential business reach can deliver both immediate and long-term advantages and results.”

The Transformation of Marketing

Mr. Benson believes that the face of marketing as a central generator of sustained business growth needs to be embraced, rather than marketing as a peripheral contributor to the supply-side process. This shift in thinking has the potential to influence and change the pharmaceutical business end to end, from molecular discovery to enduring patient loyalty.

“To advance this thinking requires separate acknowledgement of marketing’s role, scale, and still-evolving best practices in a changing global healthcare marketplace with its growing end-user demands, from Californian baby boomers to the emerging middle classes of India, Latin America, and beyond,” Mr. Benson says. “This requires marketing to be viewed as a real business-transforming force on both a domestic and global scale.”

This, however, doesn’t happen without the right corporate leadership. As J.P. Garnier of GlaxoSmithKline recently stated, in today’s global pharmaceutical industry “timing is everything.” Pharma leaders have to accelerate uptake at launch and build profit layers from enhanced compliance, persistence, and customer loyalty through the life cycle, even recognizing the sales cliff-edge of patent expiration and generic competition.

“It needs to be restated because, while such perspectives have been expressed in the past, it is now of critical importance because global scale is different,” Mr. Benson says. “This is a defining period for the world’s \$400 billion pharmaceutical industry, with fewer second chances for growth, something many of the world’s top 10 companies realize as they see their competitor’s fortunes rise and fall, sometimes within as little as 12 months. ‘Making the drug available’ is no longer a sufficient business model in a commercial world where pharmaceuticals still confront intensely high shareholder expectations.”

The way ahead lies within the spirit of a marketing-led transformation. It is an on going process and not an event or a set of finite actions.

Mr. Benson says to achieve a marketing transformation, the indus-



try will be required to think bigger while improving its ability to reach a higher level of effectiveness by wiring together supply and demand, discovery and consumption, health professionals and patients, and so forth.

“This concept is also evolutionary rather than revolutionary, bringing together already widely accepted and emerging business strategies,” he adds.

Approaches for Business Growth

Mr. Benson outlines three core business approaches that need to be integrated as a way to effect this marketing transformation and foster business growth: speed to reach the entire market, real brand creation, and market power.

Speed to reach the entire market. For more than five years, speed to market has occupied a central place within many pharmaceutical companies’ growth plans, as these companies recognize the allure of shortening the 12-years-or-so R&D timeline.

“This strategy remains valid today as long as it is proportional to the opportunity and also recognizes the marketing focused dimension of optimizing the eight years or longer of patient-protected in-market life of the brand,” he says. “Here, speed references the whole market presence of the brand, not only its steps toward active commercial availability. To fully realize its transformational potential, this strategy has to work in parallel with higher-level brand creation and brand development.”

Real brand creation. Consumer packaged goods continue to illustrate the transformational impact great brands can have on a business. The brand is the nucleus around which all activity occurs. It is both a philosophy and entity in its own right: “A brand is for life.”

“This is not a complex concept,” Mr. Benson says. “At its basic level, the brand is nothing more than the sum of all the memories and associations people have that surround the physical product. But brands define, brands differentiate, brands are incrementally valuable.”

For the pharmaceutical industry to transform itself and seek greater growth, according to Mr. Benson, it has to fully embrace a comprehensive belief in brands and their vital role in business throughout all decision-making processes. This recognizes the ever-present supply-side constraints, the diversity of audiences, the marketing, distribution, and pricing controls.

“These are all great reasons to think bigger and seek to create and build more real brands,” he says. “Creatively implementing this thinking, however, presents internal organizational and management challenges, which many leading pharmaceutical companies are now addressing, for example life-cycle management. This, however, is an often less-than-smooth task that’s compounded by the industry’s decentralized foundations where brands and branding are all too often confused as the same thing. Corporate leadership, realigned budgeting, and further integration of communication planning are all equally vital changes needed to elevate brands as true business assets. Brands are media-neutral but message-sensitive. Our industry now needs to focus more on putting the brand-centered message first.”

Market power. Strong brands developed and marketed at speed can



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pave the way toward achieving new growth from business transformation. These dual strategies combine to a third approach, that of market power.

“Put simply, market power is about building a sustainable and commanding company position within a defined therapeutic category, facilitated by closely integrated R&D and marketing planning and operational deployment,” he says. “This is aligned to the growth in life-cycle management now seen in many leading pharmaceutical companies. An important distinction though, is the scale, cyclical nature, and marketing-led culture behind the market-power strategy. A close analogy is category management as adopted by the consumer packaged-goods industry some years ago.”

According to Mr. Benson, this trend will increasingly involve a changing portfolio alignment of product brands positioned and marketed within a therapeutic area such that those brands can dominate regardless of prescribing patterns.

Such a situation can only realistically work over time with effective corporate marketing and marketing-led R&D innovation to provide the company with the right products, thus maintaining and protecting growth within an environment of planned new brand succession. “With industry consolidation continuing as a global new-business reality that’s yet to complete its course, scale and therapeutic franchise considerations will grow to overshadow much of the traditionally narrow R&D and tactical chatter at individual compound or local brand levels,” he says.

The goal of growth from business transformation, whether born out of necessity or opportunity, demands greater marketing scale and precision at the same time. In Mr. Benson’s opinion, this poses quite a challenge for corporations and their marketing partners.

Common Trends

So what can be expected to characterize this industry-wide gravitation toward creating transformation or being forced to react to its growing

impact? According to Mr. Benson, there are several inter-related areas of the pharmaceutical market that will increasingly determine and characterize a business' ability to deliver sustained growth and commercial success over the next five to 10 years and beyond.

Building corporate and product brand connections. Industry consolidation and other factors, such as globalization and a tighter core therapeutic franchise focus, will require more companies to evaluate and decide on their desired corporate persona, underpinned by their primary product brands.

"Thereafter the company's role and deployment will require careful on going assessment," he says. "But regardless of its visibility, this process in part further elevates marketing and brands to a higher status within the overall business."

Gaining deeper consumer insight. With a growth in direct-to-consumer and direct-to-patient activity stretching (unbranded) beyond the United States to other key world markets in Europe and Asia, a new strategic global marketing front has opened up. The pharmaceutical industry has just started to explore and unlock its potential to drive growth from expanded diagnosis and treatment to enhanced compliance and loyalty.

"The full scope of such patient mobilization, integrated multichannel communications, the power of new data, and the segmentation sophistication offered by new Web applications, all open new platforms from which tomorrow's more sophisticated marketing can be leveraged to create higher standards of accountability and business return," he says.

Developing closer stakeholder contact and affinity. Marketing's increasing scale and intensity leads to information growth and, from this, the creation of new ways to stimulate higher-quality integration and dialogue between the diverse range of stakeholder groups and target audiences that make up the modern pharmaceutical market, especially as traditional salesforce-to-doctor contact continues its decline. According to Mr. Benson, this can be, if managed correctly, a win-win situation for brand owners.

Longer term strategic planning. The adoption of new strategic frameworks within which bigger brand marketing can be accommodated, organized, and operated will increasingly lead to more companies having to more closely align life-stage planning and life-cycle management, especially as therapeutic category development increases.

Mr. Benson believes that processes from environment conditioning to stakeholder contact and relationship management, strategic planning, whether at a category or individual product brand level, will require more cyclical systems as opposed to linear commercialization processes with a beginning, middle, and end.

Greater strategic and executional integration. With more variables increasingly in play, knowledge management has the critical role of connecting markets, customers, and brands. This process has a long way to go, but a clear implication is the need for greater integration between what should happen and what does happen.

"Far from being a perceived point of differentiation, integration, including that between global, regional, and local strategy and execution, will increasingly become the accepted best-practice business pattern,

facilitated by distinctive corporate leadership," he says. "Without it transformation goals will be undermined."

Continuous measurements and ROI. Bigger scale marketing, extended planning variables, and more consistently defined executional directives, for example from global brand positioning to local advertising execution, increasingly will demand higher accountability linked to both efficiency control and ROI performance. According to Mr. Benson, this growing requirement means including both quantified metrics and an array of intangibles as pharmaceutical companies and brands seek to deepen their understanding and increase their influence over awareness, attitudes, and behavior, as much as sales and market share both within and around the markets they compete in.

Lifetime customer value. As a greater focus on demand-led growth evolves within such areas as proactive category management and more assertive global marketing, parallel narrow-cast efforts need to be intensified at optimizing patient compliance and persistence leading to lifetime customer value, especially in the context of chronic conditions.

"This has an impact on the precision of marketing, fueling requirements for the industry to more fully embrace CRM and permission marketing, facilitated by Web-based solutions integrated to traditional communications," he says.

Increased transparency and corporate social responsibility. The higher the industry raises its game and corporate profile, the more it has to take new initiatives to anticipate and neutralize negative images as much as accentuate the values it seeks to project.

"Bigger marketing power has to translate as positive and responsible market power to all stakeholders," Mr. Benson says.

The Time for Change

The pharmaceutical industry is still in the early, slow stages of its marketing journey. This will accelerate and fundamentally change the industry and build the business prospects offered by market power.

"The rallying cry of transformation heralds a new chapter of marketing-led innovation backed by a new level of corporate purpose and leadership," Mr. Benson says. "One fundamental reason is that the pharmaceutical industry can no longer expect to achieve its growth ambitions by maintaining a disproportionate emphasis on its supply side, vital as that is."

He adds that while R&D must be transformed, the marketing-led demand side also must be expanded, not just because it can be transformed to deliver results within a shorter time frame and consistently over the long term. This ultimately can enhance R&D productivity and the creation of a more market-informed supply side that knows where it should be going and why.

"With globally effective competitive advantage and higher business growth still the center-stage industry goals, this year could be the beginning of the most interesting time for serious marketers to be in the pharmaceutical business." ♦

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