BY DEBORAH RURIANI

MIDDLE MARKETS

With the primary goal of acquiring non-strategic products from big pharma, specialty pharmaceutical companies are growing these products through the use of concentrated promotion, advertising, and selling activities.

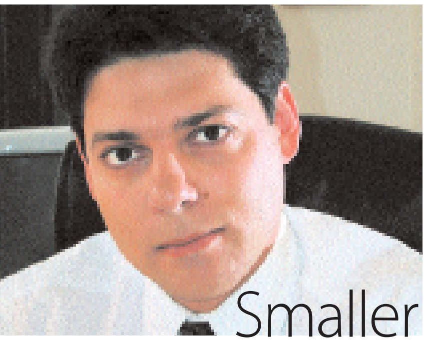
Blockbuster drugs are sexy, exciting, and they generate widespread attention.

They monopolize the advertising budgets of their marketers and developers, who work to ensure that their attributes are seen by millions of consumers via television and in magazines. As a result of the Herculean promotional efforts of marketing powerhouses such as Pfizer, Merck & Co., AstraZeneca, and GlaxoSmithKline, there is a new yardstick by which blockbusters are measured — those that generate sales between $700 million and $4 billion. About 100 brands fall into this category.

Consequently, brands that generate sales of $200 million to $500 million are generally put on the backburner by marketers. In some cases, these brands are outlicensed or sold to up-and-coming specialty companies that can nurture and devote the necessary resources to maintaining, sometimes growing, market share for these cast-off products.

Big pharma's bread crumbs have become a feast for specialty pharmaceutical companies. High-margin drug product acquisitions have become a major growth driver for this group.

"Companies would all like to have a family of billion-dollar drugs under the Christmas tree, but if they don't they have to learn how to become excellent marketers with a portfolio of smaller brands," says Chris Bogan, president and CEO of Best Practices LLC. "Major pharmaceutical companies aspire to have high-potential drugs that could achieve billion-dollar plus sales, but the reality is developing these drugs and bringing them to market — especially in the U.S. — is difficult."



Smaller companies have leeway to **create a more franchised-driven approach to their growth.**

DAVID WINIGRAD, The Hal Lewis Group

Mr. Bogan maintains, however, that companies can not only survive without billion-dollar brands, but prosper, and he envisions two types of pharmaceutical models for the future. Those companies that continue to funnel resources into creating the big blockbusters, and enhancing the compounds they have; and those companies that have built themselves up without megabrands. The future looks bright for both strategies, providing companies are adept at marketing their products.

As one industry analyst says, specialty pharmaceutical companies are the anti-800 pound gorillas, they don't have $100 billion market capitalizations, they don't produce billion-dollar blockbuster drugs, and many don't even try to discover new therapies. Instead, they have $1 billion to $5 billion market caps. They focus on niches, such as neurology or cardiology, and they often license and market compounds that would be chump change to the drug giants.

David Winigrad, president of The Hal Lewis Group, says some of the big pharma companies are almost pressured into blockbuster mentality.

"The very large companies, to deliver the growth to Wall Street, are going to have to continue to look to that next blockbuster," Mr. Winigrad says. "Smaller companies have leeway to create a more franchised-driven approach to their growth that focuses on smaller or specialty markets. And a number of companies are delivering on these compounds and doing this well, particularly companies that are building strong franchises, which gives them a greater identity in the marketplace."

Smaller, niche-focused companies, such King Pharmaceuticals Inc., Allergan Inc., Reliant Pharmaceuticals LLC, and Bradley Pharmaceuticals Inc. are implementing an aggressive but disciplined strategy to grow through the acquisition of branded pharmaceutical products or developing niche products, and increasing the sales of those products through focused promotion, marketing, and life-cycle management.

"There are plenty of products in the $100 million to $300 million range that most companies would kill to have in their portfolio," says Rich Levy, president and chief operating officer of Adair-Greene Inc.

If a company has several of these types of products, there are clear advantages, Mr. Levy says. One is that the company doesn't have all of its eggs in one basket.

"There are plenty of opportunities for pharmaceutical companies to survive that have a pipeline of good strong new products in the several-hundred-million to half-a-billion-dollar range," he says.

For companies to flourish without the benefit of a billion-dollar drug, however, they need marketing savvy.

"In great marketing and sales excellence, there are critical factors that should be executed on small as well as large products," Mr. Bogan says. "The problem with the lesser-revenue producing drugs is that sometimes they get ignored especially by companies that are focusing on their megabrands."

According to analysts at Friedman, Billings, Ramsey & Co., the successful business model that has built most specialty pharmaceutical companies is a "triangle offense" with origins of drug delivery, generics, niche marketing, or often a bit of all three. On a macro level, analysts say there has been a migration toward the fully integrated pharmaceutical company model, which has provided a major source of earnings growth in the past few years and will likely become more prominent in the years ahead.

Specialty pharmaceutical companies have successfully built marketing organizations by targeting the highest prescribing physicians, most often in a particular therapeutic category. Despite the size of specialty pharmaceutical salesforces versus those of the larger drug companies, these underdogs can sometimes penetrate the top four levels of the physician prescriber base, which can account for up to 70% of all prescriptions written.

Mr. Winigrad says smaller pharmaceutical companies are looking to his agency for innovative ideas to reach the smaller, specialty markets through non-traditional means.

"Smaller specialty products drive innovation and allow our agency to present pilot ideas that are not typically a part of a blockbuster or sledgehammer approach to marketing," he says.

Mr. Levy says creating niche marketing solutions is a challenge for agencies. "We have done this kind of sophisticated and targeted marketing because we have had to," he says. "Smaller companies don't have the same kind of budgets that big companies have for megabrands, so we've had to become more creative in the strategic and tactical approach.

"We are definitely seeing a new business model for the market, such as King and Reliant," Mr. Levy says. "There are a lot of good products — a lot of products that are $50 million or $75 million brands that are being bought up by upstart pharmaceutical companies that are putting salesforces together. These are really good, established brands that companies are not promoting anymore and there is still a market for them."

Marketers of smaller brands need to understand thought-leader development, market issues, and target audiences — just as much as the big pharmaceutical companies that concentrate on their megabrands.

"There are great examples of small companies that have learned to do segmentation well because they have had to be savvy and agile to survive," Mr. Bogan says.

Companies have to learn how to **become excellent marketers with a portfolio of smaller brands.**

CHRIS BOGEN, Best Practices

A look at the players

King Pharmaceuticals began operations in January 1994 after the founders, the Gregory family, purchased a facility in Bristol, Tenn. and assumed contracts to manufacture pharmaceutical products for such companies as SmithKline Beecham, predecessor to GlaxoSmithKline, and Novartis.

With 90 employees, King opened its doors as a contract manufacturer of prescription medicines for other leading pharmaceutical companies. Soon after, the company adopted its present strategy of selectively acquiring branded prescription pharmaceutical products being divested by large global pharmaceutical companies. Having successfully acquired more than 40 branded prescription product lines and introduced several product-line extensions, King has become one of the most active and skillful acquirers of branded prescription products in the emerging pharmaceutical industry.

King's branded prescription products span a broad range of therapeutic categories, including cardiovascular, anti-infectives, endocrinology, women's health, and critical care.

As each new acquisition increased the size of the company, King expanded its national salesforce, raising the total number of dedicated marketing professionals from 24 to more than 500 sales representatives throughout the U.S. and Puerto Rico. The company plans to further expand its national salesforce to more than 750 by the end of 2001.

King markets well-recognized prescription pharmaceutical products such as Altace, Levoxyl, Thrombin-JMI, Lorabid, Cortisporin, Neosporin, Menest, Pitocin, and Anusol HC.

The company acquired the ace inhibitor Altace from Hoechst Marion Roussel in 1998 and developed new indications to grow the brand. Today, Altace is the only ace inhibitor indicated to reduce the risk of stroke, heart attack, and cardiovascular death in patients older than 55 who have a cardio-risk factor. At the time King purchased the brand, Altace was generating sales less than $100 million for Hoechst. Today, King estimates that the brand makes more than $273 million.

"We knew Altace had a patent life through 2008, while most of the other ace inhibitors would go off patent by 2001 to 2003," says James Green, senior director of public affairs for King Pharmaceuticals. "We saw a tremendous opportunity and then received the results of the 'Hope Trial,' which demonstrated that Altace reduced the risk for heart attack, stroke, and death in a specific patient population. That gave us the impetus to go after the new indication."

Altace competes head-to-head against AstraZeneca's billion-dollar product Zestril, in a crowded market of ace inhibitors. King, with a salesforce of 520, enlisted the services of American Home Products to gain 2,000 sales people to detail Altace's new indication.

It is unlikely that Altace will overtake Zestril, but as the big branded ace inhibitors go off patent, Mr. Green expects some companies to cease or limit promoting their products

High Hurdles Big Returns

As a result of industry consolidation, large pharmaceutical companies have high revenue and earnings hurdles that require focus on potential blockbuster products.

The incremental therapeutic value for new drugs however has fallen, according to analysts at Friedman, Billings, Ramsey & Co., an institutional brokerage, research, and banking company, creating a new era of marketing blockbusters. A record 61 million details were made in 2000 plus the drug industry supported the push with $2.5 billion in direct-to-consumer advertising. Analysts believe that this method of overselling pharmaceuticals will not last, and companies that continue to use research dollars for marketing purposes may win some battles, but ultimately will lose the war.

That pressure to produce blockbuster products has analysts predicting more mergers that mirror those of GlaxoWellcome and SmithKline Beecham, Pfizer and Warner-Lambert, and Pharmacia and Searle will take place.

IMS Global Services estimates that it costs companies $1.5 million in marketing for blockbuster drugs. That alone underscores the need for companies to pool strengths and resources.

Pfizer, Eli Lilly, Bristol-Myers Squibb, and AstraZeneca are hoping that their pipelines yield megabrands. According to FRB, the average cost to commercialize a single compound today is $600 million. As high as the development costs are so are the odds that the drug will make it to the market. Only one in 5,000 to 10,000 compounds screened can be expected to make it to market. Additionally, it takes about 12 to 15 years on average to advance a new chemical compound from discovery to market.

> It is difficult to build a blockbuster **on the U.S. market alone.**
>
> **LYNN O'CONNOR VOS, Grey Healthcare Group**

Chris Bogan, president and CEO of Best Practices LLC, says the industry is wrestling with an old wive's tale: companies first to market, prevail and succeed.

"We found that not to be the case," Mr. Brogan says. "Now, the real mantra is the first company to achieve market penetration is successful. And market penetration implies a whole new set of marketing factors that were not part of the success formula as it was written."

According to Mr. Bogan, marketing spending levels for blockbuster products exhibit a consistent pattern: Marketing executives generally allocate between $100 and $500 million to marketing activities to ensure the success of a new product; 20% is spent for prelaunch market research and thought-leader development; 80% is spent for launch and post-launch media advertising, scientific meetings, and promotional campaigns.

The global piece of the puzzle

Big pharmaceutical companies will need to penetrate the market at a global level to create blockbuster sales, according to analysts, and if the past is any indication, they will look to the big agencies to provide that global branding.

Lynn O'Connor Vos, CEO of Grey Healthcare Group, says Grey has had an opportunity to work on several blockbusters such as Advair, Nexium, Crestor, and now Celebrex.

"If a company wants to quickly get to a blockbuster level and build the brand up to generate billions, it has to have Europe and other parts of the world on board to generate that kind of money," Ms. O'Connor Vos says. "It is difficult to build a blockbuster on the U.S. market alone."

Just as Wall Street is demanding the megabrand, so is the pharmaceutical company demanding more from its communications partners to deliver on the brand's promise. "Demands have expanded tremendously over the last few years," Ms. O'Connor Vos says. "These companies are looking for global strength and the ability to do global branding in the major markets."

Global healthcare agencies, such as Grey are being tapped well before the launch of a potential blockbuster product. Ideally, Ms. O'Connor Vos, says agencies should be called in at the Phase II stage to help with thought-leader strategy, publication strategy, medical and scientific and clinical strategy, as well as branding.

"Early strategizing is crucial for marketing a blockbuster, because the industry understanding is that a product's six-month sales are highly predictable about the long term," Ms. O'Connor Vos says.

and anticipates that King will have a greater voice in the marketplace.

Today, King has its own research and development company and through a late-stage development acquisition could launch a new product in the field of estrogen replacement therapy this spring.

In January 2002, King will have a new management structure. Jefferson J. Gregory, president of King, also will become CEO. John M. Gregory, presently chairman and CEO, will continue in the position of chairman of King.

"King has experienced extraordinary growth by embracing principles of hard work, persistence, patience, integrity and faith, and by executing an aggressive but disciplined strategy to grow through the acquisition of branded pharmaceutical products and increasing the sales of those products through focused promotion, marketing, and life-cycle management," Mr. Gregory says.

Bradley Pharmaceuticals, which was founded in 1985, also has the primary goal of acquiring nonstrategic products from big pharma. By using its expertise in pharmaceutical promotion, advertising, and selling activities, the company has been able to grow these products and use them within its specific medical fields.

"This has proven to be an ideal strategy," says Daniel Glassman, chairman, CEO, and president of Bradley. "The large pharmaceutical companies have begun an evaluation of their product offerings and have determined that many products, as well as certain areas of their offerings, are ripe for divestiture. Over the years, in separate transactions, we have acquired many products that today are the primary backbone of the company. This strategy of 'Acquire, Enhance, Grow' has proven very, very positive for the company."

There are plenty of products in the $100 million to $300 million range that **most companies would kill to have in their portfolio.**

RICH LEVY, Adair-Greene Inc.

The Pfizer **Market Model**

If there is one company that seems to have a successful blueprint for developing and marketing megabrands, that company is Pfizer. With seven billion-dollar-plus drugs on the market and several potential blockbusters in the pipeline, the company is poised to create new blockbusters and drugs for unmet medical needs.

"The irony is Pfizer didn't discover all those drugs," says Chris Bogan, president and CEO of Best Practices LLC. "Pfizer was ahead of the curve in understanding the potential of being a great marketing and sales organization and their drugs are the beneficiary of that knowledge."

"We have one of the highest rated salesforces in the industry," says Mariann Caprino, director of media relations at Pfizer. "And that is largely a result of the tremendous training that we provide to them."

She says the company does not outsource its sales function nor does it segregate brands in terms of size, but aligns its sales focus according to therapeutic areas, such as cardiovascular or central nervous system. With regard to the company's strategy toward building blockbuster drugs, she says Pfizer's strategy is research goal-oriented.

"Our product portfolio has 20 pharmaceutical products, and yes we are very, very successful in that area, but clearly our goal is to seek innovative medical solutions to unmet medical needs," Ms. Caprino says. "People can describe it any way they want, but our strategy is research. This is virtually the situation for all our medicines."

As Pfizer continues to produce its blockbusters, it also seems to provide a vision of what the megabrand builder will look like in the future. Those companies that gain financial strength from huge successes can funnel dollars into R&D and then into the marketing of drugs that provide innovative medical solutions in areas that are currently unmet, but do not have a billion-dollar potential.

Ms. Caprino says Pfizer does not neglect smaller revenue producing drugs, and in fact, looks at these compounds with the same amount of importance.

"We sell Aricept in the U.S., which generates $120 million in sales worldwide," she says. "Aricept is the only treatment currently indicated for treating Alzheimer's disease. Aricept is not a blockbuster, but there is a tremendous unmet medical need, and this is a product that we support and highly value."

Ms. Caprino says another example of an important smaller brand is Viracept, which the company gained through the acquisition of Agouron Pharmaceuticals. Viracept is one of the top-selling protease inhibitors for the treatment of HIV/AIDS, generating $436 million in U.S. sales last year.

"Viracept does not meet the $1 billion blockbuster definition; however, again, this is a critical area for medicine and medical treatment options and this is very, very important to us," Ms. Caprino says.

Even big pharmaceutical companies need to tap into niche markets as a way to extend the life of their blockbuster products. "Once brands realize their giant size, their marketers have to continue their growth one niche segment at a time," Ms. Caprino says. "Pharma must now become effective segment marketers to grow the brand."

Because specialty companies focus on niche markets, they may have only one or two competitors in each market for each product.

"Our direction is usually to target the smaller sales markets — the $150 million to $300 million markets — as opposed to going after the larger markets that are dominated by the larger companies," Mr. Glassman says. "This has proven to be very successful."

One of the biggest competitive advantages of a small company is the ability to move faster than a large one.

"We watch the moves of our competition, as well as those of the large pharma companies, and quickly take advantage of certain opportunities that present themselves," Mr. Glassman says. "For example, the Lotronex withdrawal by Glaxo and the curtailment of Sebizon by Schering-Plough removed competitive products from our sphere, and our salesforce and marketing efforts were able to react immediately. Roche's weight-reduction drugs necessitate vitamin supplementation, which is an opportunity to increase the sales of our nutritional brand. Furthermore, we train our sales people on a one-on-one basis, so that they are properly trained and very knowledgeable."

Reliant Pharmaceuticals, which was started two years ago, has a similar philosophy (see related story on page 56).

Reliant acquires, develops, and markets products that have been under promoted by their pharmaceutical originators, thus giving up market share to heavily promoted products.

"Reliant believes these products, based upon their safety and efficacy profiles, have the opportunity to grow with renewed promotion," says Joe Krivulka, president and co-founder of the company.

Allergan has grown to become a billion-dollar company promoting its drugs in niche markets. Allergan is a leader in the ophthalmic business, and distributes Botox, a neuromuscular drug.

"In all these instances, there is a playbook for success in the realm of niche marketing," Mr. Bogan says.

Because specialty pharmaceutical companies are adding value by developing, marketing, and distributing products that in most cases were invented by someone else, most companies in the sector can develop a product in less than half the time it takes for large pharmaceutical companies. According to Friedman, Billings, Ramsey, the success rate of line extensions for drugs developed by specialty pharmaceutical companies is relatively high, with up to 80% of the compounds that enter clinical testing reaching the market.

Development costs directly correlate with length of development, which means that these costs are lower for specialty pharmaceutical-produced drugs. The shorter development timeline also lowers the cost of capital for these development programs, with capital investments tied up for only seven to eight years compared with 12 to 15 years for big pharma or biotech companies.✦

PharmaVoice welcomes comments about this article. E-mail us at feedback@pharmalinx.com.

King has a disciplined strategy to grow through the acquisition of **branded pharmaceutical products.**

JOHN GREGORY, King Pharmaceuticals

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DANIEL GLASSMAN, Bradley Pharmaceuticals

Experts on this topic

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