OPINIONS

Your year in review

In the October issue of PharmaVOICE, we asked how the events of this year — from new regulations to the economy — have shaped the life-sciences industry. PharmaVOICE wanted to know what events or industry trends have had the greatest impact on your strategies, executive positions, and business.

The economy

In my opinion, the biggest impact on the industry has been the fallout from the economic downturn. A climate of near paralysis has seized much of the industry and I don't expect that climate to change much until well into 2003.

The uncertainty of the timing of the economic turnaround has resulted in companies retrenching and avoiding change — even if the prospects of change could be beneficial to their business. As a result, it has constrained opportunities for growth.

On the plus side, it has forced us to work harder and smarter for both our current clients and in winning new clients. We've been fortunate to have grown our business in this environment and I attribute that to our continued focus on aggressively servicing the needs of our clients (both current and prospective) rather than following the path of retrenchment.

Mark S. Perlotto
Executive VP, General Manager
Adair-Greene Healthcare Communications

M&A activity

The increased pressure on the pharmaceutical industry due to M&A activity, as well as political and social changes have had a huge impact on our business. We have seen a surge in business development (licensing) activity as well as outsourcing of R&D work.

Nailesh A. Bhatt
Managing Director
Proximare Inc.

Procurement policies

For the year in review, the most important fact in our practice as marketing/communications management consultants has been the alignment of a company's marketing team and purchasing team on how they handle the challenge of obtaining better marketing productivity and better value-for-money from their stable of advertising and other marketing services agencies. In past years, we did not see the collaboration of marketing and purchasing that we are now beginning to see on this important issue.

Arthur A. Ande
Managing Principal
Morgan Anderson Consulting

Marketing guidelines

The new PhRMA marketing guidelines are having a profound impact on our industry — and increasing the importance of the Internet as a marketing vehicle.

As the guidelines place renewed emphasis on medical education, quality CME programs will be at the top of marketers' agendas. At the same time, cost pressures will force them to seek cost-effective distribution channels for reaching target audiences. The Internet, which will continue to grow in importance as a marketing tool, answers both of these needs and more.

For one thing, the Internet has enormous ability to effect behavioral change on script writing while offering greater cost-effectiveness than any other messaging vehicle. That's why we are seeing greater than 100% annual growth in physician participation in online CME. More will emerge as marketers harness its proven power and efficiency. Webcasts and Webinars, of course, are now a regular part of many education programs precisely because they offer wide reach to a target audience effectively and cost efficiently with proven success.

On the DTC side, tighter marketing budgets will encourage pharmaceutical marketers to shift more marketing dollars from print and broadcast to highly targeted Websites and to use more innovative online tactics. Such efforts have been proven to increase the ROI of their overall marketing mix.

Ash Nashed, M.D.
President
Choice Media

The PhRMA code

The introduction last July of PhRMA's new voluntary Code on Interactions With Healthcare Professionals, coupled with recent increased scrutiny by the Office of the Inspector General on overall medical communications practices, will have a major impact on our industry in 2003 and beyond. Pharmaceutical firms will be taking a closer look at not only how they develop education programs but also which communications partners have the required experience and expertise to help them steer a safe course in the current regulatory climate. The focus will likely be less on the quantity of activities and more on the quality and compliance of educational programs they do develop.

Martin E. Cearnal
President and CEO
Thomson Physicians World

A tough year

2002 has been the toughest year since I joined this industry. While many events have played a role in the slowdown — chief among them a poor economic climate — the greatest impact, in my opinion, has come from the response to the new PhRMA guidelines on marketing.

Those guidelines, which mandate that medical marketing be restricted to efforts that inform and educate the physician, have generated some confusion among some manufacturers. Others, faced with a turn-about in tactics, have reduced their marketing budgets at a time when redirection should be the rule.

Yet, the guidelines themselves are not necessarily limiting. They dictate a change in strategy, but not in overall goals. The right kind of change can invigorate sales, even in the most sluggish economy.

But change, while healthy, is often threatening. It can be particularly difficult for those on the front lines – the sales representatives and product managers – who are being forced to adopt new approaches. It will take time for marketers to adjust, and to replace "extraneous" bonds, such as dinners and gifts, with professional ones, such as patient-care programs.

As an agency with a large healthcare division, we believe in professional advertising — advertising whose purpose is to "educate and inform" — and we support those publications that provide editorial content that lends credence to our mission. Despite cutbacks in spending that have reduced our margins, we are committed to keeping our senior staff so that we can continue to give our best to our clients.

While the outlook for 2003 looks equally gloomy, I am convinced that we will see a gradual turnaround. For those who can stay the course, it will be worth waiting.

Rich Levy
CEO
ADAIR-GREENE INC.

Five trends

In 2002, five trends dominated our industry and its publishing arm. Individually and collectively, all five — corporate mergers, fewer new product approvals, the new PhRMA guidelines, DTC marketing, and the economy — have wielded enormous impact on the pharmaceutical business and its allies.

Mergers, in particular, have limited the playing field. Despite its promise to generate product innovations, the trend toward corporate consolidation has so far produced few visible results. The number of new products in the pipeline has shrunk, while the total actually launched, as a result of receiving FDA approval, has dropped from 98 in 2000 to 56 in 2001.

For those of us in the publishing sector of the industry, DTC marketing also has left its mark, shifting advertising dollars away from the professional magazines and into the consumer arena. This has put increased pressure on all of us, forcing us to be creative and nimble, to be alert to market shifts, and to take advantage of them.

Journals, for example, which not so long ago generated about a third of their total ad revenue from new product launches, have seen that income dwindle to a shadow of its former self. As a result, magazines are now looking for new revenue streams — from custom publishing to medical education — to generate growth.

One consequence of this has been the development of cross-over publications, which combine a professional pedigree with consumer distribution. MultiMedia Healthcare/Freedom, for example, has just begun publishing *Family Health Matters*, a consumer publication distributed at CVS pharmacies and bearing the endorsement of Columbia University.

The new PhRMA guidelines on marketing to physicians also have re-focused the industry. Money previously spent on dinner meetings and vacations is now being spent to inform and educate the doctors. Many publishers are seeing a striking shift in the revenue balance, with medical education rising sharply as a percentage of total sales. At our company, much of our growth in the past year has come from Programs in Medicine, the division that produces conferences and seminars. However, the brand names of the magazines are highly influential as a means of attracting an audience.

In the year ahead, we see a continuation of all these trends. The playing field will grow smaller, however. Fewer companies and products will emerge from the fray. And only those that can adapt to changing market conditions — expanding their products and markets to meet changing needs — will succeed.

Bob Preston
CEO
MULTIMEDIA HEALTHCARE/FREEDOM

Medical education

The landscape of continuing medical education was substantially and permanently altered in 2002 by three powerful trends.

First in sequence, if not importance, was a surging resistance to travel on the part of physicians, leading to flat and even declining attendance at many national medical conferences. While September 11, 2001, was the catalyst for this development, it is sustained by the mounting time pressures of clinical practice and the increasing availability of top-tier medical education conferences in cities across the country.

At M/C Communications, we responded by rapidly expanding the availability and accessibility of Pri-Med conferences throughout the U.S.

In 2003, we will present more than 70 CME meetings in 36 cities throughout the U.S. Ready access to quality CME close to home is a condition we are leading physicians to take for granted. It's interesting that online CME has shown very modest potential to date to convert this trend to broadened participation. The proportion of CME credits earned by physicians via the Internet remains minuscule at less than 2%.

Second, the new PhRMA Code governing the interactions between pharmaceutical company representatives and physicians effectively narrows the channels of communication. In this new environment, CME conferences become increasingly important venues for clinician contact and education. The exhibition side of the medical conference provides a critical point of interaction, in a richer context and more positive environment. The new PhRMA Code will prove a productive force that enriches the relationships between pharmaceutical manufacturers and physicians – and reinforces the recognition that both play vital roles as healthcare providers.

Third, we are responding to the needs of pharmaceutical companies for detailed information that will enable them to better allocate educational grants and other CME costs. Sponsors and exhibitors want to know if they are reaching the right physician audiences — not just numbers of clinicians, but those active in treating the specific conditions and diseases where their research and products are focused. CME is becoming more practice-oriented and patient-care based; a path toward becoming increasingly meaningful for both physicians and pharmaceutical companies.

John Mooney
CEO
M/C COMMUNICATIONS LLC

A whole new ballgame

The birth of the PhRMA code ushered in a new set of communications needs for pharmaceutical firms.

In a sense, firms had to re-invent, or in some cases, re-invigorate their brands in the eyes of clinicians, partners, and consumers. It is a whole new ballgame, and we have yet to see which will emerge as leaders.

Mark Bouffard
CEO
MEDIA IMPRESSIONS

Security and Sept. 11

Concern about security and bioterrorism in the wake of September 11 fueled a new level of consumer interest in the Web as a source of immediate information and self-empowerment.

The seriousness of this response provided the backdrop in 2002 for pharma companies increased level of sophistication about the Web in reaching and engaging consumers. Pharma companies became less tentative about incorporating the Web channel into the brand marketing mix, while also developing a better sense of the limitations of mass DTC advertising — and the importance of message differentiation and analytics to drive revenue. A FDA study lent further credence to this approach, with a new report that revealed Americans' increased likelihood to go online following a DTC ad, as opposed to other media. The Web became a means to appeal to specific customer segments, as well as a way to get to know them even better. In this sense, we saw companies really begin to take advantage of the Internet's interactivity to keep users engaged. New Websites launched in 2002 focused less on pure brand promotion and more on relationship-building by offering a "one-stop shop" for personalized value-added services like risk calculators, side-effect management tools, and personal diaries.

We think 2003 will be the year pharma companies truly exploit the Web, by not only leveraging its potential in the marketing mix but throughout the organization. Companies will become more savvy by combining the Web's interactivity and analytical capability with all of the assets in the enterprise to benefit their overall approach to CRM as well as individual brand marketing effectiveness.

Karen Kuller
Director, Marketing
SoftWatch Inc.

Stretching dollars

The economic downturn and fall of the stock market has had widespread implications across many facets of Palio's business. Clients continue to try to stretch their marketing dollars, and at times are caught between what they know is needed financially to do the job right, and what they have available in terms of marketing funding. On a similar note, pharmaceutical firms also are pushing for unique, cost-effective strategies that differentiate their products from the competition while closely adhering to the self-imposed guidelines on gift-giving and physician entertainment. Medical education is definitely growing in importance, and we have expanded our medical strategies staff with Ph.D.s and M.D.s to align ourselves with this trend.

Despite the negative economy, we continue to experience greater than 30% growth in our business, we are seeing an influx of candidates interested in moving to Saratoga Springs to join our team. Overall, we remain very positive about the future of our business and the healthcare advertising sector in general. Firms that do great work and provide top-notch service will continue to prosper.

Ed Mitzen
President/Owner
Palio Communications

On the West coast

In the arena of the life sciences, at least on the West coast, the economy has set new directional trends for companies. Many genomic and drug-discovery companies have felt the economic impact, and have temporarily revisited their business models. For marketing communications agencies, the presentation of branding efforts are being reshaped. Instead of looking for full-service capabilities with a full branding strategy from the outset and expensive media spends that target a general population, life-sciences companies instead have budgets that must take it one day at a time, one brochure at a time.

Our change at Stratagem has been to ensure we meet these short-term objectives, yet continue to lay the foundation for a company's long-term vision. To many companies, branding is big and expensive, and some companies no longer believe they need an agency. This has given us an opportunity to reemphasize that a strong branding foundation should start before the business plan is written, and be implemented in every individual communication no matter how far apart in execution.

We, as agencies, must also focus even more on that one point of differentiation, and then use cutting-edge strategies to ensure strong communication in the most cost effective ways — piece by piece instead of campaign by campaign. And how we communicate must be more creative than ever.

Patricia Malone
Principal
Stratagem Healthcare
Communications LLC

On the biotech front

2002 presented many challenges for the biotech industry, particularly when it involved trying to raise money. Thus, we were forced to continually change the way we conducted business and shift our strategy to meet the needs of our investors and potential investors. For example, current venture capital firms are saving their money to finance their own struggling companies, and the public market is virtually closed to companies without a compound having a successful Phase III program in a blockbuster indication. The only good news for biotech financing in 2002 was that (on an historical basis), this wasn't the worst it's ever been!

Despite this downturn, we at Psychiatric Genomics were able to successfully raise $17 million, through a combination of old and new investors. We attribute this success to our approach. We spent a great deal of time helping our investors understand how a genomics approach is different and advantageous in the field of psychiatry. We also helped them understand the potential of our markets. The psychiatry space is very big, and successful compounds tend to be blockbusters. Our investors were convinced that developing compounds in this area could be very lucrative. We also had a current collaborator, the Stanley Medical Research Institute, become a new investor. They work closely with us, allowing us access to their extensive collection of tissue samples from patients, and the research collaboration gave them confidence to invest in us financially.

I came on board as a new CEO in August of 2001, certainly not an easy time in the industry. Our first order of business has been to raise money for the firm. My background in business development enabled me to quickly assess where we were and where we needed to be in order to succeed in both raising money and keeping our R&D programs moving full steam ahead. We certainly have the right components — we have developed lead compounds in bipolar disorder, and we also have been involved in talks with potential R&D partners.

Yes, 2002 has been a challenging year. But, Psychiatric Genomics will be a stronger company for it, and with our experienced management team and innovative approach to drug discovery, we are well-positioned to develop small-molecule compounds in large markets. We look forward to what promises to be a very exciting 2003.

Dr. Richard Chipkin
CEO
Psychiatric Genomics Inc.

Regulatory completion

During 2002 we've seen two fundamental drivers for the industry: The FDA's completion of the Process Analytical Technology (PAT) Subcommittee, which is working to allow earlier release of drugs if manufacturers can prove the products were produced within predetermined parameters, and the new FDA Quality Initiative — Good Manufacturing Processes (GMPs) for the 21st century, which will help the industry improve both regulatory compliance and overall output — an important balance to achieve.

These two regulatory efforts signify the verge of a sea change in pharmaceutical and biotechnology — one that places a new importance on manufacturing to impact the bottomline.

Research and development, and sales and marketing will continue to be critical areas for investment, however, we expect to see increased interest in the discovery and manufacturing environment in the coming year. Aegis can help companies capture and analyze data that will be critical for parametric release, and our software enables the desired balance between regulatory compliance and efficiency in manufacturing.

So, we're looking forward to working with our customers this year as they navigate the changes ahead.

John M. Darcy
CEO
Aegis Analytical Corp.