Pharmaceutical Sales Rep Compensation

Time for an Overhaul

A look at the minimum and maximum potential for each sales territory can give companies better insight into what their sales reps are actually contributing. **THIS INFORMATION CAN PROVIDE A WAY TO DEVISE NEW AND FAIRER COMPENSATION PATTERNS THAT WILL GENERATE MORE MOTIVATION FOR SALES REPS AND, ULTIMATELY, MORE PROFITS FOR THEIR EMPLOYERS.**

S. KENT STEPHAN, CEO OF PRINCETON BRAND ECONOMETRICS (PBE), A MARKETING CONSULTANCY IN PRINCETON, N.J., DISCUSSES WHY CURRENT COMPENSATION PATTERNS FOR SALES REPRESENTATIVES DO NOT ADEQUATELY REWARD TOP PERFORMERS.

Given the complex science of drug development, it would be logical to assume that the industry applies the same level of sophistication to all phases of its work. The assumption may hold true in some areas, but the view is decidedly off the mark when it comes to compensating pharmaceutical company sales representatives, says S. Kent Stephan, CEO of Princeton Brand Econometrics (PBE).

Mr. Stephan faults current compensation patterns for not adequately rewarding top performers and for failing to provide effective motivation.

"The current methods punish people who perform at a consistently high level," he says. "Conversely, this model overly rewards people who don't do a good job or who perform inconsistently. A significant amount of growth is going to come from the top people, and companies want to make sure they have a fair carrot in front of these performers."

The main barrier to a solution, he says, is a true measurement of what the selling effort has really contributed so companies have a good handle on how to pay reps. Finding a good measurement is not as simple as it seems.

Pharmaceutical companies use different systems to compensate sales representatives, typically paying a base salary and some type of commission and/or bonus. But Mr. Stephan says there are problems with most of the current models. For example, bonuses at some companies are based on a territory's sales increases from year to year.

"The problem with this compensation structure is if last year was bad for a territory, this year's sales increase may be deceptive," he says. "Companies also assume that each territory can have 100% market share, and that is just not true. Companies need to look at how much of the true potential share sales reps are picking up, not how much of the 100% they're getting."

Mr. Stephan believes the industry needs to revamp existing compensation schemes and proposes they do so by starting with a new baseline that would define the number of prescriptions doctors would write for the brand if no sales calls were made on them at all. He believes pharmaceutical companies should, under most circumstances, place far less weight on what was sold in the territory the previous year and focus on the baseline figure.

A look at the minimum (baseline) and maximum potential for each territory can give companies better insights into what their sales reps are actually contributing. He says the figures provide a start for devising new and fairer compensation patterns that will generate more motivation for sales reps and, ultimately, more profits for their employers.

For established brands, he says companies should determine how many prescriptions a doctor would write if sales reps were able to achieve the highest possible number of calls within a year, which would represent the maximum potential. This would then be compared with the zero-detailing baseline.

MAXIMUM POTENTIAL

Mr. Stephan offers a hypothetical example in which the sales effort in one territory results in 20% of category prescriptions for a certain brand, with another territory achieving a 15% share for the same brand. Pharmaceutical companies often assume that each territory could potentially achieve a 100% share. Under the 100% assumption, the two territories appear to have about the same opportunities for growth, and a company might have nearly the same expectations for both when setting goals.

Companies assume that if they increase the number of sales calls to physicians by a given percentage, sales will increase at about the same rate for each doctor. This is simply not the case.

Mr. Stephan says if the true potential in each territory were only 30%, the tasks facing the two reps in their respective territories now look very different. Under the 100% assumption, the low-performing territory would have to grow only slightly more than the other to reach maximum potential. If the company accepted and set as a goal the true potential of 30%, the low performer would have to grow half again as fast to reach the maximum. Conversely, the high performer would have one-third less room for growth.

Mr. Stephan says companies need to look at these comparisons when structuring the incentive portion of reps' compensation.

"Companies need to quantify both potential and performance with greater precision so they can create more motivating compensation plans," he says.

Companies also should consider sales reps who are so good that their efforts maximize a territory's potential very quickly. Traditional compensation plans don't allow for much upside in these cases.

"Past good performance should not be penalized, just as past poor performance should not be rewarded," Mr. Stephan says. "The baseline and maximum potential figures can provide valuable insights on whether bonuses and commissions are providing enough incentive and produce the motivation that could have a significant effect on sales representatives' results and, in turn, on a pharmaceutical company's bottom line."

COMPENSATION PLUS

While improving incentive compensation will help, Mr. Stephan says a pharmaceutical company can do a much better job of formalizing a plan that categorizes and targets doctor sales calls more efficiently.

"All companies know who the top prescribers are; they assume that if the number of sales calls to them is increased by a given percentage, sales will increase at about the same rate for each doctor," he says. "This is simply not the case. The prescribing rate of individual doctors will always increase at different rates in response to the same amount of sales calls."

OTHER BENEFITS

Mr. Stephan says examining a territory's potential can also be used to direct sales representatives' interactions with physicians, leading to more productive sales calls.

The same models that show companies how to measure rep performance can be used to show reps who they should call on and what they should talk about.

"With shrinking pipelines, companies need to look for other avenues or other opportunities to increase sales," he says. "One area is to have the salesforce become more productive."

Mr. Stephan estimates that these strategies could potentially double the productivity of many salesforces in terms of incremental prescriptions generated.

"Right now, companies buy databases that show how many prescriptions doctors are writing for brands in certain categories," he says "The reps then get direction from marketing and sales management to call on the highest-decile prescribers."

He says there are two problems with this.

"First, everybody has the same data," Mr. Stephan says. "So companies all tend to do the same things. Second, companies are looking in the rearview mirror about how many prescriptions a doctor wrote. The real opportunity is how many prescriptions companies can expect from a certain amount of detailing in the future."

Computer models can show how many extra prescriptions a company is going to achieve from one, two, or three additional detail calls. When these data are combined with the sales reps' knowledge of their territory, a pharmaceutical company would know where the greatest opportunities are for incremental prescriptions, he says.

For more information about Princeton Brand Econometrics, visit pbeco.com. ✦

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