The increased investment in marketing is due in part to the increased cost and time of developing new products. Companies make rational economic choices. The question they ask is: "Will an additional sales rep selling an existing product give a better return than another scientist developing a new product?"

EDWARD ERICKSON
Immunicon Corp.

tical sales reps, as well as the amount of time they are willing to spend with each one. They are simply too busy, and there are just too many sales reps out there for them to see. It also is important to note that the total number of industry calls being made has remained relatively constant in recent years, but when one considers that the actual number of sales reps has increased significantly, it does make it much harder to get a physician's attention. The actual impact on return on investment can be somewhat difficult to quantify. For large companies with large salesforces, accountability becomes more complex and as such, more difficult. Pharma companies are therefore being challenged to improve their internal processes to ensure that the company continues to present itself as a single, unified entity to all its customer groups. Larger salesforces require increased infrastructure — operations, reporting, training, and so on — to ensure they can maintain, and wherever possible, enhance their level of efficiency and effectiveness. These investments are no doubt costly, but can be justified if, and when, the efforts of sales organizations lead to higher sales and enhanced profitability.

KARCZEWSKI. The continued increase in the number of sales reps has a negative impact on salesforce ROI. With companies hiring multiple layers of reps, there is a limit to the amount of face time physicians can give to these reps. As a result, sales people are becoming caterers, forced to provide breakfast, lunch, and dinner to the whole staff in physician offices to see their physician customers. Given this situation, I think that salesforce contraction is just around the corner. Regardless of when this contraction comes, we as marketers need to find more compelling ways to reach our target audience with meaningful communication programs. This is one of our most critical and challenging issues.

SHAREHOLDER VALUE

FREEDMAN. The ability to consistently deliver more novel new chemical entities and therapies is a huge challenge but it is the way to increase value for shareholders and patients. Innovative companies, the ones with superior ROIs, seem to be more receptive and willing to adopt the new ideas and methodologies to make R&D more efficient and productive. These are the companies that deliver solid value for their shareholders.

XANTHOPOULOS. I think one of the biggest challenges to maintaining value in both pharma and biotechnology companies is the ability to build a sustainable pipeline. As blockbuster drugs go off patent, there are increasing demands on both pharma and biotech companies to generate new clinical candidates. To sustain pipeline momentum, Anadys has developed a strategy that balances in-licensing of promising compounds and internal development of proprietary technologies using traditional medicinal chemistry coupled with a strong therapeutic platform and expertise in anti-infectives. We also out-license our drug-discovery capabilities to generate funding that drives our internal pipeline.

AHN. Ultimately, market returns will be driven by maximizing revenue by expanding new indications and maximizing value by creating high-quality product pipelines to fuel new growth. To meet the need for new products, the pharmaceutical industry needs to complement internal R&D efforts by increasing the number of alliances with emerging biopharmaceutical companies.

KRIEGSMAN. Long term, companies need to stop paying attention to investors' misdirected short-term financial gain concerns and concentrate on making the best drugs possible. Short term, companies need to be smart, creative, and focused.

BOILY. The biggest challenge to the industry is how to maintain double-digit growth in the face of escalating demands from insurance providers, consumers, and the government for lower drug prices. The present business practices are unsustainable in the face of these pressures and have significant implications for how the industry does business in the future, in particular, sales and marketing practices.

ROSENBERG. Managing shareholder expectations has always been a significant challenge. The key moving forward will be to create more transparent communications surrounding how revenue is recognized. Pharmaceutical companies will be scrutinized more on how they distribute their products in the various channels and how much inventory they maintain. How companies recognize actual revenue from distributed products will likely be one of the largest areas of focus for Wall Street analysts in 2005. Investors want to be sure that what a company discusses as "sales" is legitimate and accurate.

BONNEY. A biopharma company has to juggle several items of interest to Wall Street, such as generating growth, hitting milestones, building a pipeline, and exercising financial discipline. These are at times, in the short term, mutually exclusive. Investors have different expectations for a precommercial company compared with a company with products on the market. Also, the types of

What's Your Opinion?

2005 — A LOOK AHEAD

What are the most significant business challenges you believe the industry will face in 2005?

Hiring and retaining talent

In 2005, the most significant challenge facing the pharmaceutical industry is the hiring and retention of talent specific to the needs of the job. A company needs to know exactly what talent looks like in its organization and then to hire and promote according to that profile. Any business strategy absent of attention to the importance of hiring and promoting talent is destined to fall short of its objectives.

This is especially true of the regional or district manager position. These are people who can ably lead a group of 10 to 12 sales reps and who have other skills that are uniquely matched to the demands of pharmaceutical sales in today's tough, competitive market.

These skills center on the ability to sell consultatively. Many reps, including the newcomers who have entered the field in droves in recent years, rely on transactional-selling techniques. Pharma customers (overworked physicians who must pay increasing attention to the business side of their practices) react best to sales professionals who demonstrate a clear understanding of the strategic issues and market conditions that influence their customers, using consultative rather than transactional selling.

There's a crucial difference between characteristics that can be developed through training (i.e., analytical questioning and investigative skills.) and those that can't (the "fire-in-the-belly" approach that distinguishes all top performers).

Nino Lamberti
Senior Partner
Corporate Insights

investors can change as a company moves through the commercialization zone and this can cause a transitional disconnect.

SZWAST. One prevalent challenge to shareholder value is redundant operations. With the pace of mergers and acquisitions in the pharmaceutical industry, it is not uncommon for corporations to maintain multiple and redundant "silo" operations, all doing the same thing functionally, all stealing productivity that a cohesively integrated solution could deliver. This is particularly true with redundant distribution and logistics operations.

SULKES. Since we are witnessing a clear reduction in the number of blockbusters coming to the market and the ability of the industry to maintain pricing power, there will be a very real challenge for companies to reduce costs of R&D, S/M, and G&A. Specifically, there will be a heightened standard around the return on investment in new pipeline candidates, salesforce size and structure (in house vs. outsourced), advertising dollars, and corporate overhead.

SAVELLO. Only 20 new drugs have been approved per year over the last three years, and that number is not likely to increase. The ability of the industry to maintain double-digit growth without significant new products and without raising prices will be difficult to achieve. To maintain or increase shareholder value, the industry will need to communicate the value of medicines in controlling healthcare costs and emphasize drug therapy as the most cost-effective treatment for the vast majority of diseases. But the long-term danger to flat or single-digit growth is cuts in R&D, which ultimately is the source of new products and innovation. Finally, the industry will have to find more opportunities to cut costs without affecting productivity and innovation.

PERLOTTO. No question in my mind that the No. 1 challenge in delivering shareholder value is creating value through the advancement of medicine and the development of new therapies. Everyone has spoken for years about blockbuster drugs coming off patent faster than they are being replaced with new blockbusters. That crisis is only accelerated by disasters such as the Merck/Vioxx product withdrawal. Without constant significant innovation, shareholder value will not be able to be maintained. The long-term wild card has always been biotechnology: small, innovative companies that are able to move faster and be more efficient than big pharma in discovering therapeutic innovations. History has shown us that these companies, with a few exceptions, are not able to take these innovations through the final steps of regulatory approval, commercialization, and realization of market potential. In many cases, big and medium-sized pharma companies, which are more skilled in these areas, are stepping in through partnerships to carry the baton for these final stages of the race. One of the evolving models for realization of shareholder value is exactly this type of hybrid sharing of expertise as a means of success.

STERN. All publicly traded companies are under pressure to deliver shareholder value, but it becomes increasingly difficult to do so by only launching new blockbuster products. Pharmaceutical companies will need to focus on keeping patients on drugs for the entire course of treatment. In a 2004 study, Forrester research showed that the statin market alone lost on average $3.9 billion dollars a year because of poor patient adherence to the full course of treatment. We focus too much, as an industry, on new patient starts, without focusing on keeping patients on drugs. Better patient adherence would help our brands have higher revenue and ease some of the pressures of Wall Street.

LOVE. Maximizing productivity is the key to improving shareholder value. Costs for identifying and developing new drug targets and lead compounds are rapidly increasing. Clinical trials are more complex, lengthy, and as a result, more costly. The companies that can quickly turn promising candidates into marketed products are the companies delivering real shareholder value.

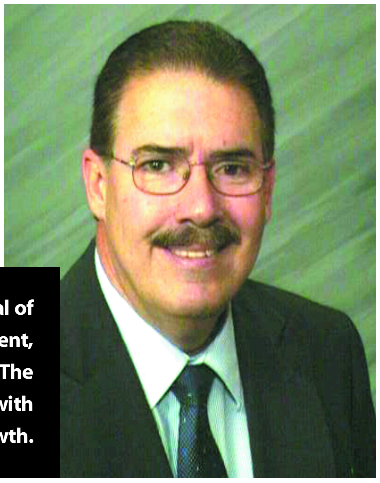
BIAGGI. The biggest challenge is to sustain market-share growth and maintain a healthy ROI while facing stiff competitive pressures and limited product differentiation. The playing field is leveling in terms of less-differentiated products within the same therapeutic class. Drug-delivery technologies are allowing generic companies to penetrate the branded field more quickly and aggressively at a lower cost of development. This is creating a squeeze on branded pharma, which is experiencing patent expirations for many of its blockbuster drugs with limited backup in its pipelines. The line between branded and generic pharma is quickly blurring.

KERMANI. The most identifiable way for a company to suggest future success to the investor community is through the output of innovative new drugs. Drugs of this nature have the potential to be blockbusters and investors will always look for companies that have the

The most identifiable way for a company to suggest future success to the investor community is through the output of innovative new drugs.

DR. FAIZ KERMANI
Chiltern International Ltd.

capability to do this. The problem is that the number of new drugs being produced by the industry has been dropping for a number of years now. Therefore, it is going to be difficult for companies to convince shareholders that they can expect double-digit growth in the future through new drug output alone. An additional problem to deal with is patent expiration for existing products. Again, new drugs would prove to the investor community that companies are not being complacent about their future. There are a number of companies with very interesting pipelines, but it is not easy to predict which ones will prove successful when their product is launched. Some companies have chosen the merger route as an option to satisfy Wall Street (and foreign stock markets). If we look at other industries they are often highly consolidated (i.e., the oil industry), with a few players taking most of the market share, and there is an expectation for the pharmaceutical sector to take this route. But whether this route actually improves the R&D process and enhances productivity is debatable. Although some companies have stated that they expect mergers to help them achieve success in these areas, there are other companies that have stated that they do not think that mergers are an option for them and that they are confident in hitting their growth targets through their present organizational structures. Achieving a short-lived market-share boost may be the best that some mergers can achieve.



ANGEL BIAGGI
STADA Pharmaceuticals Inc.

As a by-product of the Vioxx recall, the approval of new drugs is likely to grow increasingly stringent, further delaying the introduction of NCEs. The industry's biggest challenge will be how to cope with a drying well and still maintain double-digit growth.

CAUWENBERGH. Large companies are too layered in their management structure. They still dream of being R&D driven but they are really financially and Wall Street driven. Their performance will suffer in the next five years while the global market dynamics bring order in the polarized international pricing structure of the pharmaceutical industry. Small companies will continue to focus on near-term opportunities and will, in general, be risk averse when it comes to longer-term investments in drug-development projects. This could slow down the genesis of new therapeutic breakthroughs. Early-stage companies will scramble to find the funding for long-term projects. Development of a corporate strategy that addresses the above points in a balanced manner will be the best way to generate shareholder value.

CAMPBELL. Pharmaceutical companies need to concentrate on the fundamentals of communication when striving to maintain shareholder value. This can be accomplished by building more transparency into a company's corporate business plan and strategy for dealing with critical issues, such as clinical development, sales and marketing, manufacturing, and Medicare. Companies should be honest about their growth prospects and communicate key corporate events in an open and honest manner. By providing more detailed insight up front and along the way, executives can help their shareholders understand the long-term potential of their company and foster a greater understanding of the business of pharma overall.

SUPPLY CHAIN

SZWAST. Pharmaceutical manufacturers face the challenges of accelerating new product introductions, shifts in global sourcing and distribution, the intensifying need for companies to meet regulatory and customer compliance rules, and enhancing shareholder value. Product introductions are a challenge because new products are frequently a poor fit within a pharmaceutical company's traditional supply chain. They tend to require a more responsive scalable conduit to reach the market, and this can be problematic for a legacy supply chain that reflects a company's history rather than aligning to a new strategy. This also is true of more established products as they transition from prescription to over-the-counter. This change in channel distribution has logistics requirements similar to a new product launch. The ongoing globalization of the pharmaceutical industry also brings inherent challenges. Today, pharmaceuticals are produced in diverse locations that previously have not been thought of as manufacturing epicenters. A finished product can easily have different production phases that happen in different countries or in some cases continents. How companies effectively and efficiently source products from these disparate locations without loss, delay, or diver-