

Commercial excellence in the pharmaceutical industry

Delivering superior value to your customers in challenging times

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Letter from the authors

For a while now, pharmaceutical companies have been faced with a multitude of difficult challenges. Financial pressures, regulatory changes and increasingly active stakeholders have put the industry's sales growth and profitability to an ongoing and demanding test.

In the past, many companies reacted to these obstacles by simply restructuring and downsizing their sales forces. Yet many onlookers now consider this approach to be outdated. If companies want to succeed – and generate results that will satisfy their shareholders – they must look further and focus on a whole new approach: **commercial excellence**.

This study paints a landscape of the key commercial trends across the industry and gives a detailed insight into commercial excellence. This report follows on from the publication which Roland Berger Strategy Consultants last year dedicated to sales force effectiveness and for which we received praise from throughout the industry. It is based on a survey conducted at the eyeforpharma Sales Force Effectiveness Europe 2007 conference. Additionally, we interviewed executives and managers from more than 40 pharmaceutical companies throughout Europe. Furthermore, we incorporated our own global experience into this study, gained through the wide range of marketing and sales projects that we have concluded for pharmaceutical companies.

We trust that this study will attract as much attention as its predecessor, and provide companies with a framework to develop their own strategy for the achievement of commercial excellence.

We would like to express our sincere gratitude to all our interview partners and respondents. Without their valuable knowledge and insights, this study would not have been possible.

Stephan Danner

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Patrick Biecheler

Executive summary

These are challenging times for the pharmaceutical industry. In their bid to ensure continuous sales growth and satisfy shareholders, companies must completely rethink their conventional approach to marketing and sales – and strive for a whole new level of **commercial excellence**.

Commercial excellence goes far beyond the activities of the sales force, embracing all commercial interactions with customers. Ultimately, it aims to optimize impact by maximizing profit contributions on all levels. Commercial excellence as we understand it comprises three dimensions: sales excellence, customer excellence and new business models.

Whereas sales excellence focuses on improving the performance of the traditional pharmaceutical sales model, customer excellence seeks to maximize the impact of interactions with an ever larger group of customers and stakeholders. New business models require more work than the other two dimensions, but also promise the greatest impact.

Our study reveals the major trends and obstacles in each of these three aspects. Although there have already been continual efforts to achieve **sales excellence** in the past, our interviewees believe that further improvements will remain beneficial. That explains why the majority of companies are still investing heavily in this field, focusing on targeting, call quality, performance and people. At a time when governments and other payors, health providers and patients are becoming increasingly dependent on each other, the participants of this study believe that only a holistic approach to **customer excellence** can succeed. The executives we interviewed identified three areas as having high priority: customer strategy/CRM, customer-centric organizations and optimization of the promotional mix. In this context, it is vital to note that the relative significance of stakeholders is changing. National authorities and specialists are becoming increasingly important, whereas our interviewees believe that general practitioners will lose some of their influence in the years to come. Consequently, companies are no longer organizing around their products, but around their customers – and shifting resources to match the changing relevance of their stakeholders. As they adopt this more "surround sound" approach to marketing, the promotional mix beyond the sales force is becoming more varied. Innovative channels are amplifying the traditional sales force, and the mix is increasingly being driven by individual preferences. As a result of the dramatic changes currently taking place in the healthcare environment, pharmaceutical companies are developing new business models in an

attempt to improve their customer focus and maximize profitability. A vast majority of industry executives expects those **new business models** to be rolled out over the next two years.

Roland Berger Strategy Consultants has developed a holistic consulting approach that helps pharmaceutical companies address the obstacles they are facing today. We help them develop and implement the right moves towards commercial excellence by diagnosing the need for change, formulating a strategy and helping them execute it in preparation for the future.

We have identified six key trends that are driving the emergence of new business models in the industry. These trends form the basis of the innovative **Roland Berger Business Model Mixer®**, a framework for commercial excellence. The framework enables a company to assess its individual strategy and competitive situation and defines the basic infrastructure of its new business model.

It goes without saying that adopting a new business model is a long-term strategy that requires careful evaluation of both the dimensions of and potential for change.

Yet the time has come to take action. And if companies want to safeguard their future, they must be aware that the time to define their individual commercial excellence footprint is now.

1. At a glance: Turbulent times, here to stay?

With a healthcare environment that is becoming more and more dynamic and demanding, the pharmaceutical industry is experiencing increasingly turbulent times.

Nowadays, many stock market operators consider the concept of a "fully integrated pharmaceutical company" to be outdated. They criticize that, over the course of the past three years, the value generated by US companies in this segment has trailed far behind the S&P 500 average. The considerable lag – around 30% – has already resulted in the exit of several high-profile CEOs.

Unfortunately, these challenges are arising at a time when the industry is already battling internal problems. Many companies have begun to restructure and downsize on a large scale, with some reducing their headcount by a staggering 30 to 40%. Commercial operations are often their major focus of attention.

To sustain sales growth and satisfy shareholders, however, pharmaceutical companies must start to look beyond fine-tuning their conventional approach to sales and marketing. Instead, they must turn their attention to a whole new level of **commercial excellence**.

Commercial excellence goes far beyond sales force effectiveness. It includes the full marketing mix, and focuses on all commercial interactions, putting the customer at the center of every thought and action. Ultimately, commercial excellence aims to maximize the impact of all commercial investments.

To benefit from the full potential of commercial excellence, the decision makers at pharmaceutical companies need to be asking themselves two very fundamental questions: What do we offer? And how do we approach the market?

A closer look

To answer these questions, a more detailed analysis is called for. Generally speaking, current commercial models are struggling to find adequate responses to three obstacles:

- > Financial pressure
- > Regulatory changes
- > Complexity of healthcare decision-makers

These problems are not to be taken lightly. According to one industry executive, these pressure points alone pose a threat to at least 20% of total sales!

Financial pressure is increasing because payors and governments ascribe ever less value to incremental innovation while making greater use of key levers to influence the cost of drugs. They are basing their decision making on clinical outcomes as well as on cost/benefit analysis, hence forcing companies to demonstrate clear patient outcomes rather than new modes of action. For instance, payors are exerting more pressure on list prices. They are doing so by applying benchmark pricing or novel strategies, such as the "ex ante value-based pricing" model proposed in the UK in February 2007.

As a result of this new financial awareness, branded and patent-protected drugs are facing hefty competition. In European countries with high drug prices, such as the UK, payors are promoting the import of proprietary products from lower cost countries. In addition, the traditional pharmaceutical companies must compete with generic drugs. And as the example of Simvastatin showed, expiry of a single patent can affect a whole class of drugs. "Generics trigger a cascade of consequences, such as list price reductions and market share losses," explains one executive.

Yet the pharmaceutical industry also has to come to terms with **regulatory changes**. The latter could further restrict pharmaceutical companies' freedoms regarding the planned scope, type or expense of their promotional activities, or limit their access to physicians and/or relevant data, such as information on prescriptions or customer behavior.

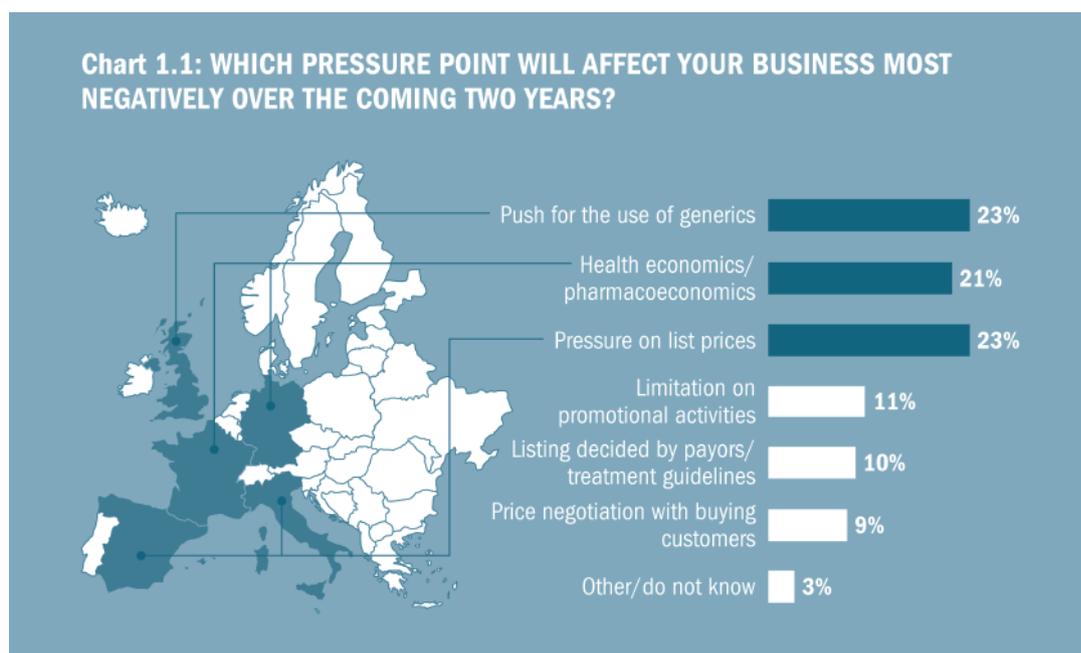
Another obstacle lies in the way that **healthcare decision makers are exerting mounting pressure**. As clinical outcomes evolve into the decisive factor for the introduction and uptake of a new product, the marketing and sales "muscle" is being challenged in its role as the key vehicle of sales success. Additionally, companies are now having to deal with a whole new set of active business partners. As UK breast cancer patients demonstrated in 2006, consumers have gained a significant amount of influence.

In addition, economic analyses of the cost of medication, conducted by institutions such as the UK's National Institute of Clinical Excellence (NICE) and Germany's Institut für Qualität und Wirtschaftlichkeit im Gesundheitswesen (IQWiG), can have significant effects on drug reimbursement. Precedents were first set when NICE rejected two new bowel cancer drugs and IQWiG made a decision on short-acting insulin analogs. Several other points too need to be considered. The ongoing

consolidation of healthcare providers is making price negotiations with key customers, such as hospital chains, more difficult. Furthermore, since decision-making power within the healthcare systems is increasingly being regionalized, a more decentralized approach to marketing and sales is required.

Different countries, different worries

According to our survey, the negative impact of these issues varies from country to country (see chart 1.1).



As can be seen in the chart, pressure on list prices scored highest in Italy and Spain. This is hardly surprising. In **Italy**, three laws imposing discounts were passed in 2006. And in the same year, the average value of prescriptions decreased by 12.7%. In **Spain**, the new benchmark pricing ordinance took effect in March 2007 and is predicted to slash EUR 567 million off drug companies' annual sales – equivalent to a 6.3% decline in the market.

Health economics concerns were mentioned most often by French and German pharmaceutical executives. In **Germany**, the IQWiG was recently empowered to perform cost/benefit analyses. This reform is expected to have a similar impact on drug prices as can already be seen in **France**. In the **UK**, most respondents stated that the push for the use of generics will affect their business most negatively. This too is no surprise, since the UK government has introduced powerful incentives. Even for products that are still patent-protected, trainee doctors are taught to prescribe generic drugs; and special software (PRODIGY) presents generic alternatives.

The pressure within

In its attempt to get profits and share performance back on track, the industry is confronted by a variety of internal problems that amplify those in the commercial area:

- > Despite increasing investments, R&D output is still too low
- > After failed clinical trials in the past, safety concerns and compliance issues for new drugs are increasing, both before and after product launch
- > Product withdrawals can be costly
- > By 2010, the top five pharmaceutical companies will lose patent protection for drugs that accounted for more than USD 70 billion in sales in 2005
- > Instead of focusing on very large products and projects, companies will need to adapt to lower revenues per molecule

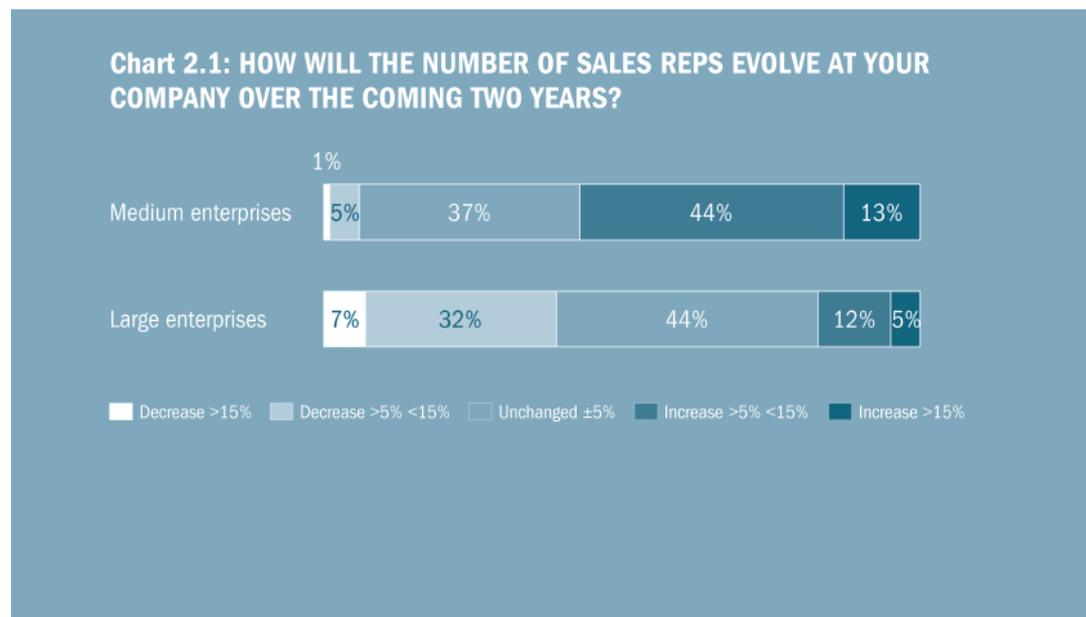
With marketing and sales accounting for a third of the average pharmaceutical company's cost structure, the pharmaceutical industry needs to look beyond sales force effectiveness. The industry must instead strive for commercial excellence.

2. Taking the first steps towards commercial excellence

In response to this immense pressure on their traditional commercial model, pharmaceutical companies have stepped up the pace of change.

During the course of 2006, drastic headcount reductions repeatedly made the headlines. Many of these affected the sales force, which typically represents 80% of the industry's marketing and sales spend. As one of the executives we interviewed for this study explained: **"We are trying to break down the protective walls around the sales force."** Several European companies have recently announced similar plans, with some of them aiming to cut up to 40% of their sales force over the coming two years.

Although the overall picture is clear, this study provides a more detailed, granular view. At **large pharmaceutical companies**, planned or realized sales force reductions have reached proportions greater than a third. When we asked managers in the industry about future developments, almost half said that, in the next two years, they expected a decrease in the range between 5% and as much as 40%. Only one in six planned increases of a comparable magnitude (see chart 2.1).



Yet interviewees from **medium-sized companies** had a completely different take on this issue. They are either stocking up their sales force or at least keeping it stable. For instance, 57% think that their sales force will rise by more than 5% over the next two years – due to impending product launches, a larger market presence across Europe, or simply because they have already cut back in the past.

Reducing sales force size is not the industry's only response to dynamic changes in the healthcare environment, however. For most companies, these reductions are merely one aspect of wider moves to realign their commercial operating model. They are putting the customer back in the center, or in the words of Roland Berger Strategy Consultants, striving for "commercial excellence".

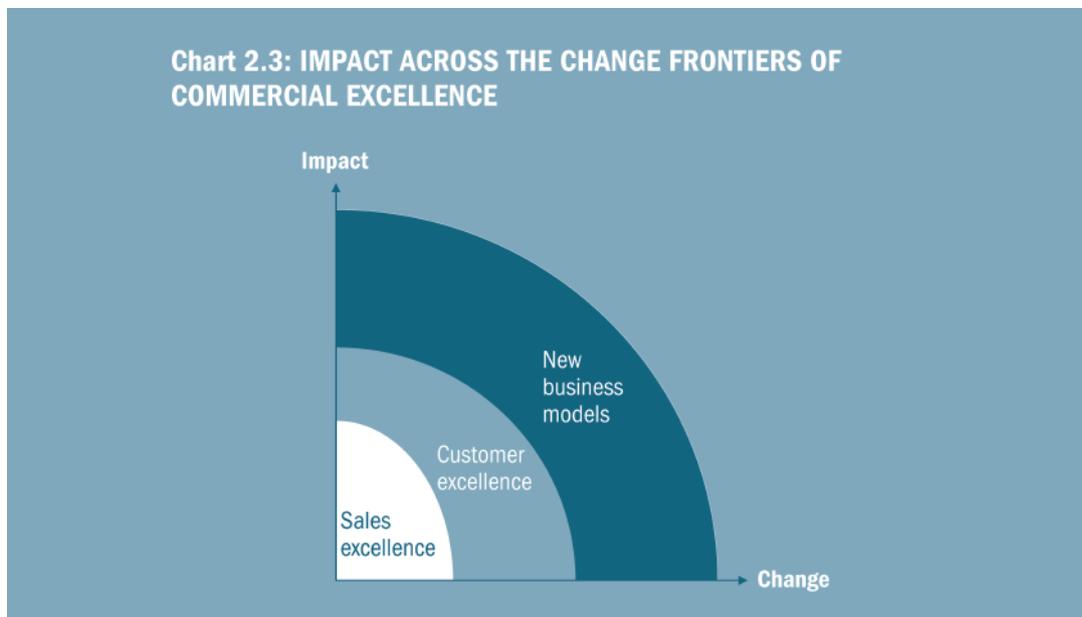
Roland Berger's Commercial Excellence Model

In order to apply this model successfully, it is essential for companies to understand that the customer is part of a large and complex network within which the increasing number of stakeholders needs to be actively managed. Roland Berger Strategy Consultants has identified three dimensions of commercial excellence: sales excellence, customer excellence and new business models (see chart 2.2).



Since commercial excellence goes far beyond the activities of the sales force, companies must review all commercial interactions with customers.

Sales excellence seeks to improve the performance of the traditional sales model. It comprises the classic levers, such as targeting, call quality, organization and size. As can be seen in chart 2.3, sales excellence focuses on execution, and requires few – if any – radical changes. It is therefore a preferred way to create immediate impact in the commercial arena. In the past, large drug companies adopted this approach to the point where operational improvements were copied across the industry, leaving only excellence in execution to differentiate their positions. While sales excellence used to be sufficient to drive a company's success, a broader approach is now required.



The second dimension of commercial excellence is **customer excellence**. This aims to maximize the impact of interactions with an ever larger group of customers, including government and other payors, providers and patients. As these players become increasingly interdependent, a holistic approach is essential.

New business models are the third dimension of commercial excellence. Some of these models have proven to be very successful. They require more change than the other two dimensions, but also promise the greatest impact.

To sum up: Assuming the existence of an excellent sales force, pharmaceutical companies need to take the next steps towards commercial excellence by achieving customer excellence and adopting new business models.

3. Sales excellence: Still a worthwhile investment

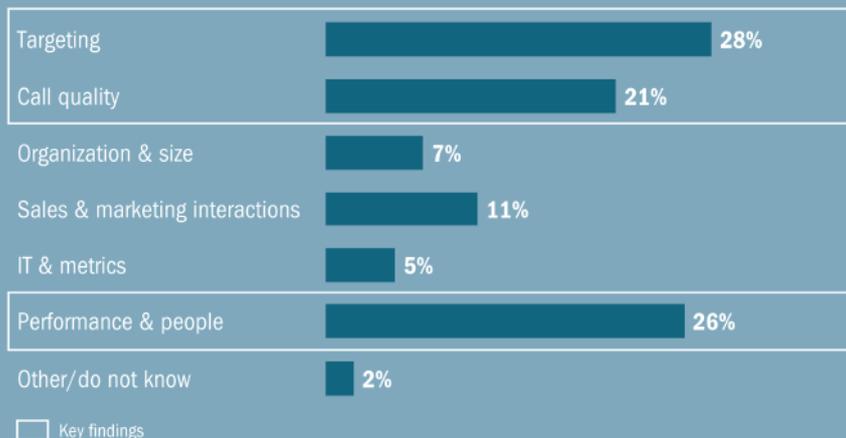
In last year's study, Roland Berger Strategy Consultants provided a detailed investigation into sales excellence. We identified three key messages for successful implementation:

- > **Be pragmatic and flexible!** In order to foster sales excellence across the organization, pharmaceutical companies should implement principles, tools and processes that are user-friendly.
- > **Get it done!** Companies must ignite change by means of a very carefully designed integrated transformation program. Additionally, they must invest in training key change agents across the organization.
- > **Explore and learn!** Once the basics are done and a change management program is initiated, pharmaceutical companies should actively explore and pilot innovative sales models.

Another finding of last year's study was that sales excellence is gradually developing into a pan-European initiative. Supported by appropriate funding, this fosters an exchange of best practices and learning between countries.

As a follow-up to the 2006 study, Roland Berger once again questioned industry experts on their focus in this area. We identified targeting, call quality, performance and people as the key levers of sales excellence, hence confirming last year's priorities (see chart 3.1).

Chart 3.1: ON WHICH AREA OF SALES EXCELLENCE WILL YOUR COMPANY FOCUS MOST OVER THE COMING TWO YEARS?

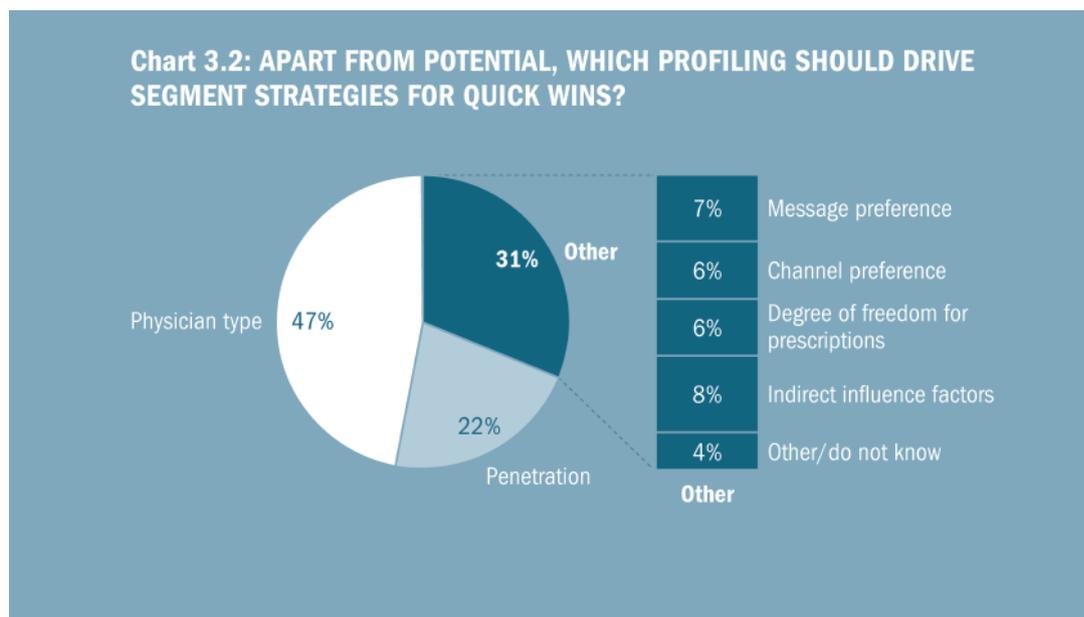


Executive interviews revealed that there is indeed a set of activities on which most companies focus. First, pharmaceutical companies have achieved excellent sales growth by **targeting** high potential/low penetration customers. Yet some of the larger firms believe that, in some countries, this approach has reached its limits. They therefore intend to focus more on the area of **people and performance**. As one executive put it, the future skill attributes for sales staff are about to change fundamentally: **"We want our people to become well-skilled networkers, accepted by all critical stakeholders in an increasingly complex healthcare environment."** Another hurdle companies expect to confront is the need to improve **call quality**. For many, it has proven futile to profile and segment physicians, since actions tailored to individual segments cannot be adapted.

Additionally, pharmaceutical companies have improved the level of selling skills across their sales forces by empowering first line managers (FLMs) who have assumed key roles in transferring and building competencies as sales rep coaches.

The art of targeting

Profiling physician types presents a major challenge to the industry. In addition to potential-based segmentation, companies are exploring other dimensions, such as penetration, message preference and type of physician. The latter, defined by prescription habits and attitudes, proves to be the most promising. Nearly every second executive stated that this criterion should drive segmentation strategies (see chart 3.2). Penetration – understood as the market share for a company's own products – ranked second.

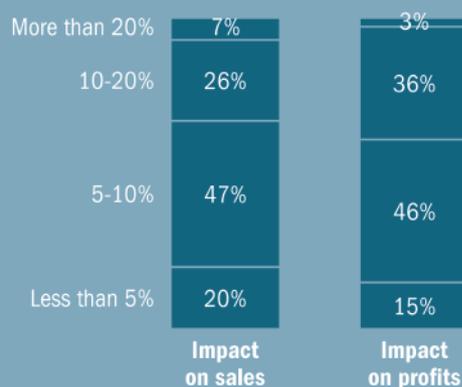


Another interesting aspect our survey brought to light was that there is no such thing as "common criteria" that could include such factors as type of physician or receptiveness to promotional mix. There also appears to be no such thing as a "common source" (e.g. a proprietary sales force or external data) for the profiling of physicians. These findings highlight the need for a structured approach that integrates the most important qualitative criteria. However, our industry experts also revealed that the key challenge is not the profiling or the segmentation, but the segment-specific execution of tailored strategies.

The future of sales excellence

With regard to the impact of further improvements in sales excellence, the general opinion of industry experts reflects the vast potential of an effective sales force. 80% of respondents believe that the impact on sales could exceed 5%, with one in every three executives even estimating the increase to be more than 10%. Regarding profits, 85% of respondents stated that the impact would exceed 5% (see chart 3.3).

Chart 3.3: HOW DO YOU RATE THE IMPACT OF FURTHER IMPROVEMENTS IN THE AREA OF SALES EXCELLENCE ON YOUR SALES/PROFITS?



The obvious conclusion is that – although there have been continual efforts in the area of sales force effectiveness – further improvements will still deliver further benefits. It is therefore hardly surprising to find that the vast majority of companies are still investing heavily, and that the focus of these investments has shifted to execution excellence.

Sales excellence is, in other words, a mandatory step on the journey to commercial excellence, with even minor changes releasing strong growth.

4. The nuts and bolts of customer excellence

Customer excellence aims to maximize the impact of interactions with a growing group of customers and stakeholders. Governments (or other payors), health providers and patients are becoming increasingly dependent on each other. Accordingly, only a holistic approach can be expected to succeed. To maximize the benefits, a carefully aligned organization is indispensable. Only then can companies respond swiftly and flexibly to new regulations in health policy or commercial codes of conduct. Customer excellence also facilitates stronger market development by reinforcing account management, involving opinion leaders at an early stage, and optimizing the promotional mix.

The customer excellence model consists of six key areas:

- > Companies need to implement an integrated customer relationship management (CRM) strategy that takes into account processes, culture and systems
- > The organization's focus should be on the customer, not the product
- > To accelerate approval processes and to maximize revenues generated from innovations, sound market access functions are crucial
- > As accounts gradually gain more importance, the industry requires functions that allow for resultant price differentiation and negotiations
- > Based on the measurement of impact, pharmaceutical companies need to optimize their promotional mix
- > Pharmaceutical companies must be flexible enough to quickly respond to new regulations/guidelines

The majority of drug companies have already taken these aspects into account. However, the potential of customer excellence lies in an integrated approach in which all key areas are evaluated in order to identify the most promising ones. The sections that follow focus on three selected areas of customer excellence – areas that both our survey and our interviews with executives identified as being high-priority areas:

- > Customer strategy/CRM
- > Customer-centric organizations
- > Optimization of the promotional mix

a) The importance of customer relationship management (CRM)

According to the definition used by Roland Berger Strategy Consultants, a sound customer strategy is the core element of CRM. It includes the guidelines for identifying, segmenting and prioritizing future buyers. Furthermore, it both sets the frame for the preparation of offerings and defines the basic standards for interaction with different groups, including non-buying stakeholders.

Therefore, we believe that a holistic CRM approach – an approach that orchestrates both differentiated and validated customer strategies – is indispensable to customer excellence. This view is evidently shared by industry experts. When asked which area of customer excellence is – and will in future be – the major focus of their attention, CRM came out top of the list. An even bigger percentage, 60% of respondents, stated that CRM had the highest potential to increase profits (see chart 4.1).

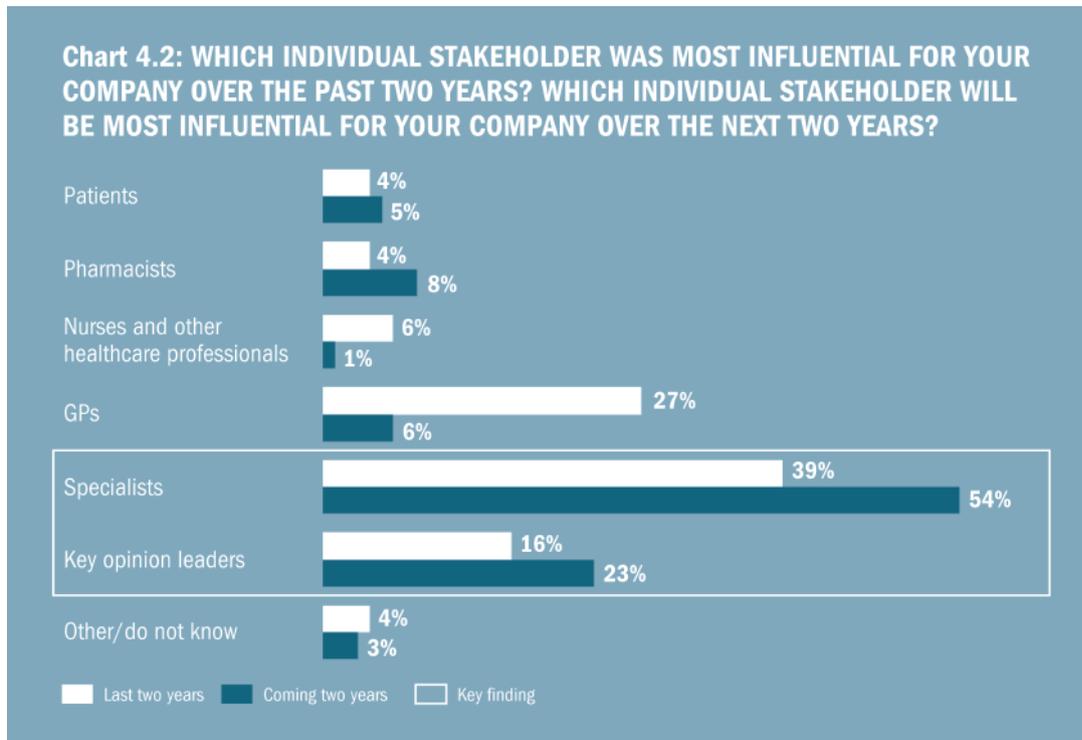


Since CRM is a key topic throughout the whole pharmaceutical industry, one question is of crucial interest: How can companies benefit most from CRM? In essence, this boils down to the most fundamental of questions: What do we bring to market? And how do we approach the market? Since the type of product and its stage in the lifecycle vary between divisions and business units, customer strategies too must be differentiated. It is essential that the CRM strategy be lived top-down throughout the whole organization, starting with senior management. A set of pragmatic CRM tools, such as processes and templates for key opinion leader management, and customer performance scorecards, can help to optimize the strategy. The CRM system must be positioned as the enabler, not as the driver. Equally, it must be determined by business needs – not the other way round. Furthermore, it is crucial to limit the amount of information within the CRM system. The work that goes into collecting data must be weighed carefully against the importance of customers and the ability to act on the collected data.

Preparing for new stakeholders

The need to review the CRM strategy is supported by the changing significance of stakeholders. In most cases, existing typologies no longer match the altered importance of customer groups. To make this crucial point more clearly, this study differentiates between individual and organizational stakeholders.

Regarding **individual stakeholders**, more than half of the industry experts stated that specialists, followed by key opinion leaders, will exercise the greatest influence on their company over the next two years. Only 6% of the respondents named general practitioners, although 27% acknowledged that they had been the most influential in the past (see chart 4.2).



It is therefore vital to successfully target the **specialists**. They are the ones who are aware of the scientific and technical attributes of individual drugs and can actually initiate treatment. Nevertheless, the role of GPs should not be underestimated, for two reasons. First, most patients see their specialists as rarely as every two years. Second, **GPs** usually handle the follow-up of any specialized treatment. It is thus important to make sure that their experience with the patient is trouble-free, obviating the need for practitioners to refer patients back to specialists to deal with any side effects.

While the growing importance of **key opinion leaders** (KOLs) was clearly visible in the interviews, the main strategies in gaining or retaining such contacts vary. Having said that, two definite trends stood out. One is that companies are focusing on a small group of KOLs. Another is that they are investing in long-term, individualized relationships. In many cases, this includes active involvement in product development efforts.

Additionally, our study asked participants to assess the changing importance of **organizational stakeholders**. As with individuals, the need to align customer strategies to the changing importance of certain groups became obvious in our interviews. With many healthcare systems concentrating on the cost-effectiveness of drug treatment, the general opinion was that the relative importance of national authorities such as NICE and IQWiG will grow (see chart 4.3).



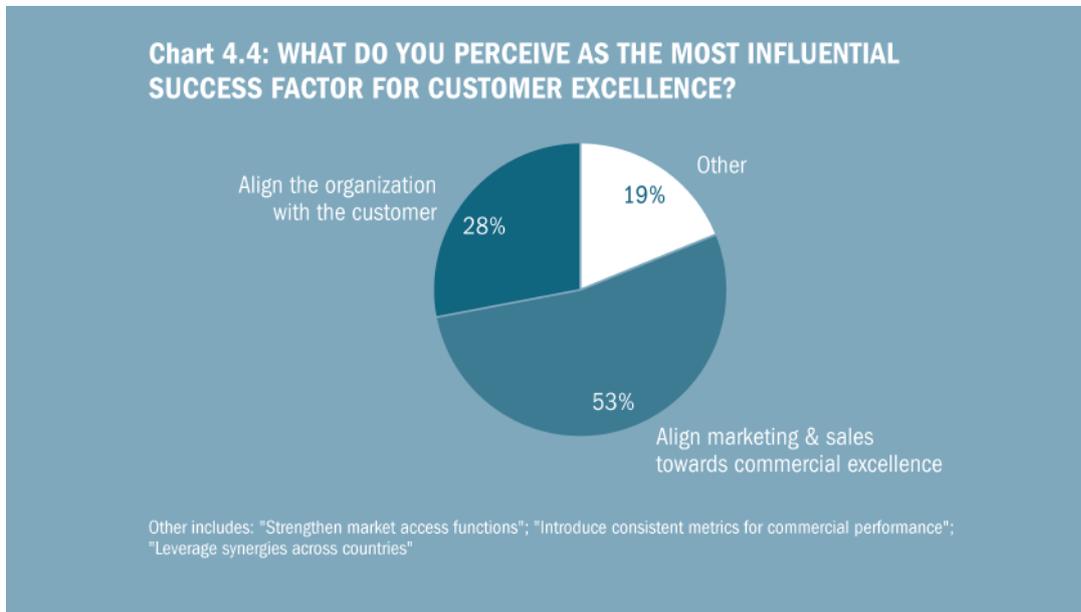
b) Towards a customer-centric organization

Our study revealed three trends on how to best organize for customer excellence:

- > Companies are increasingly organizing around customers, not products
- > Companies are shifting resources in line with the changing relevance of stakeholders
- > The pharmaceutical industry is targeting greater synergies through commercial excellence at a pan-European level

Focusing on the customer

In the course of the survey, executives were asked about key success factors for customer excellence. More than half named the alignment of marketing and sales towards commercial excellence. The key parameter that ranked second was the alignment of the organization with the customer (see chart 4.4). However, both of these response categories are actually heavily interlinked and demonstrate the shift from product to customer focus.

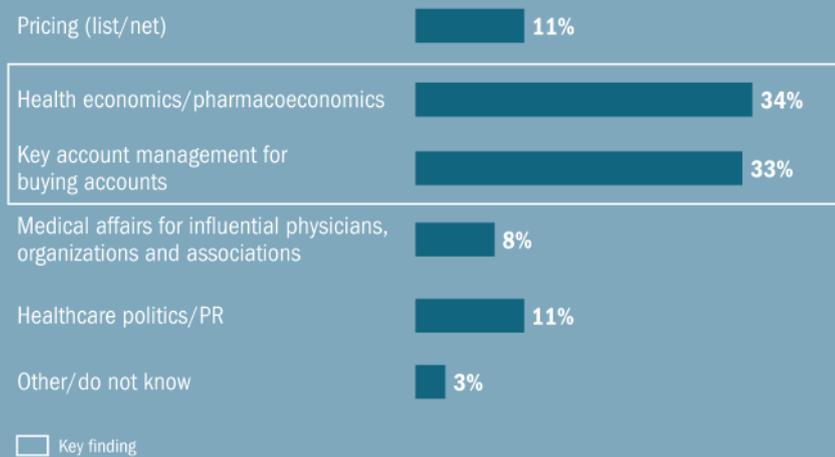


While many companies have already started to align their sales forces with key customer groups, marketing has so far lagged behind in this respect and continued instead to focus on products. Yet looking ahead, many companies are revisiting this issue and challenging the traditional perspective of brand marketing. Many respondents predicted a more operational role for marketing in this context, but expect a more strategic role at the pan-European level. Additionally, many companies have set up key opinion leadership management structures, and have created one central function with responsibility for this critical area across the organization. In clinical development, alignment starts even earlier to ensure optimal labeling and effective marketing claims

Shifting resources

Many pharmaceutical companies have established new functions in response to today's dynamically changing healthcare markets. These cross-functional market access departments monitor and influence emerging stakeholders and those processes that compromise drug revenues. As one executive explained: **"We have invested heavily in typical market access functions in the last few years, since these will reflect the most critical success factor in the future."** Our survey revealed that health economics and key account management are regarded as the most important market access functions, with both categories receiving one third of the votes (see chart 4.5).

Chart 4.5: WHAT WILL BE YOUR MOST IMPORTANT MARKET ACCESS FUNCTIONS DURING THE NEXT TWO YEARS?



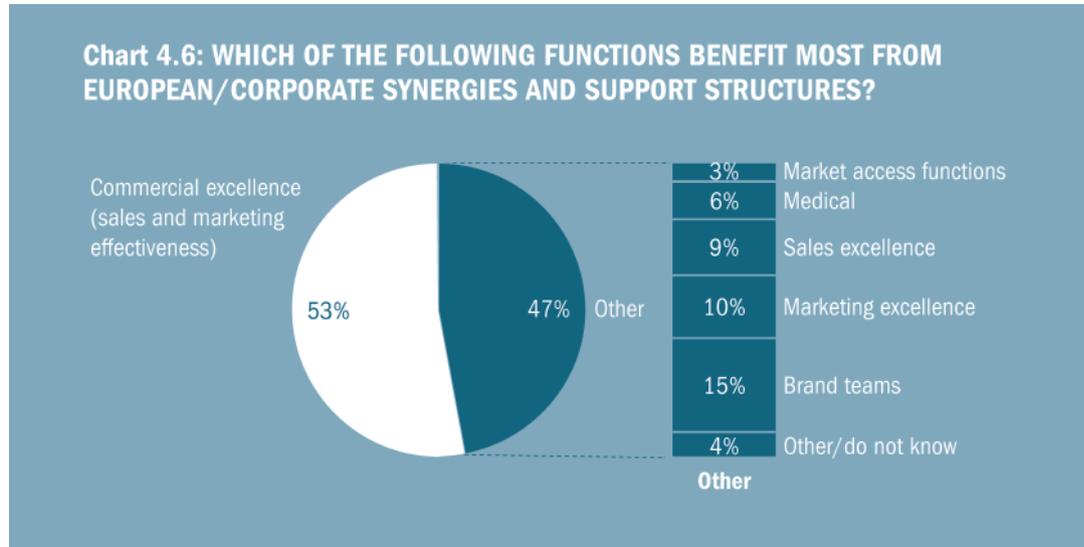
In the area of health economics/pharmacoeconomics, companies have created internal structures to address key stakeholders' growing demand for a cost/benefit perspective on products. Many respondents nevertheless perceive that companies are still struggling to find the right in-house skills, and have therefore not yet managed to turn this area into a true competitive advantage.

In the future, key account management will play a vital role when it comes to driving the competitiveness of pharmaceutical companies. For one thing, it does not only cover the traditional buying groups such as hospitals and hospital groups. Rather, payors and/or regions are also now being served by highly specialized sales forces. In this context, key account management comprises not only price negotiation, but also account segmentation – the basis for a consistent and mutually beneficial pricing strategy – on top of the development of tailored offerings and efforts to secure customer access. Since customized offerings that include value added services (such as CME) are crucial for successful key account management, managers require a detailed knowledge about the central procurement unit and its processes. They also need information about the stakeholders involved.

Key account managers organize selling lines to optimize customer access and apply a holistic strategy to each account. **"We have field-based key account managers working across all lines,"** as one executive explained. As they operate various functional processes, one obstacle is how to achieve the necessary cross-functionality without creating overlapping responsibilities.

Commercial excellence from a pan-European perspective

Banking on benefits such as European/corporate synergies and support structures, the industry is taking a more pan-European perspective on selected organizational functions of commercial excellence. Half of the executives we interviewed stated that sales and marketing effectiveness functions would benefit most from such synergies (see chart 4.6). Yet striking the right balance between the strategic elements, harmonizing functions across borders and still gaining local buy-in are perceived to be the key challenges in this context.

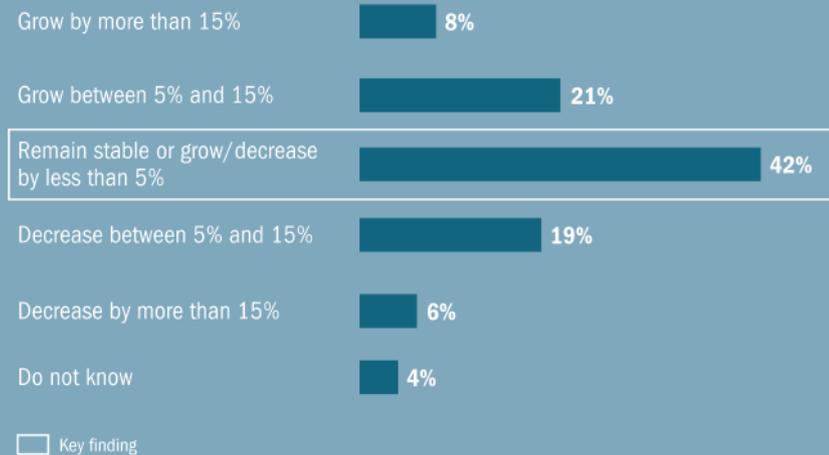


c) The promotional mix as a stepping-stone to customer excellence

The third element of customer excellence that is worth looking at in more detail is optimization of the promotional mix. Historically, the industry has rarely succeeded in managing its promotional mix in a truly holistic fashion while simultaneously tailoring it to the needs of the product's stage in the lifecycle.

Two trends necessitate a review of today's practice: the changing importance of stakeholders, and increasing budget pressure. Our survey showed that, over the next two years, the promotional budgets of most pharmaceutical companies (excluding the sales force) will remain static or increase/decrease only marginally (Chart 4.7). However, since cuts in the sales force will increase the importance of alternative channels, companies will need to make their promotional activities more effective.

Chart 4.7: HOW WILL YOUR PROMOTIONAL BUDGET (EXCLUDING THE SALES FORCE) CHANGE OVER THE NEXT TWO YEARS?

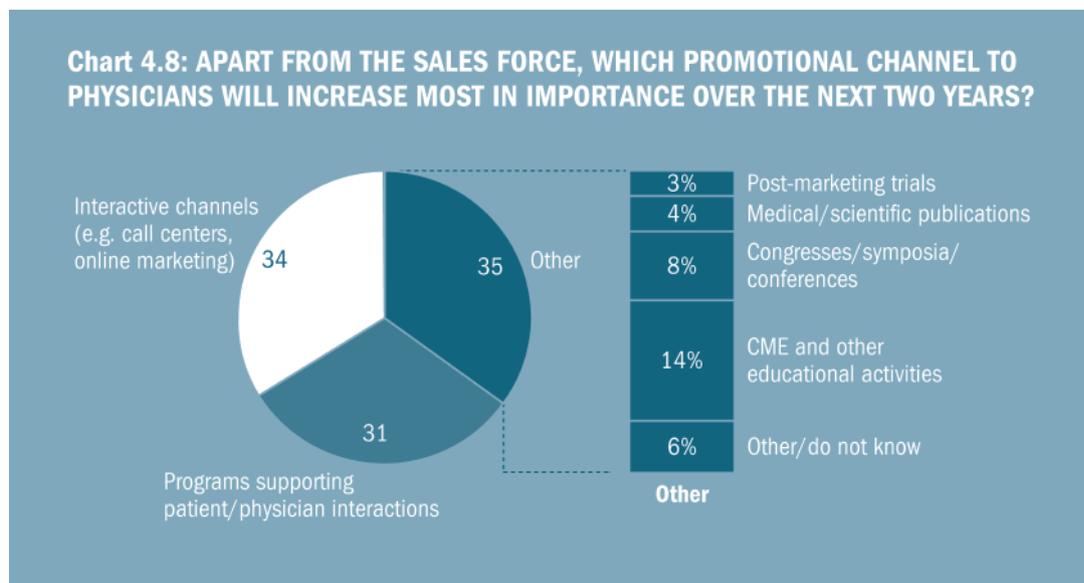


Then and now

The difficulty of maintaining sales force productivity has contributed to today's more "surround sound" approach to marketing. As a result, the promotional mix beyond the sales force is becoming more varied. However, a number of the ingredients are costly (such as conference invitations), or have either limited applicability (sampling restrictions) or limited repeat value (concurrent PMSs). Accordingly, the ingredient in question in each case, as well as the customized cocktail for individual prescribers, is scrutinized closely for impact. For instance, one executive told us: **"The traditional approaches, such as scientific publications, post-marketing trials and CME still work best."**

One of the challenges of making an impact with promotional mixes is that the content and distribution of the different offerings either varies little or is difficult to market to the right prescribers. The question of how the promotional mix will change confirmed the trend towards more customer focus and diversity. As one executive put it: **"We need to turn our promotional efforts from product programs to customer programs."** Another respondent saw the reason for the drive for diversity in the large product portfolio of large companies: **"Traditional promotional efforts focus on the top 10 products. With big pharmaceutical companies selling more than 300 products, how do you promote the rest?"**

Our survey revealed that innovative channels will increasingly complement the traditional sales force. Interviewees named interactive channels such as call centers and online marketing as those that will increase most in importance (see chart 4.8). This assertion is supported by a growing tendency to manage a company's mature product portfolio more effectively. Supporting patient/physician interactions came a close second.

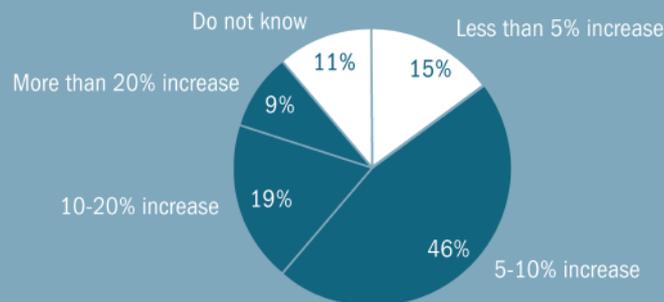


Furthermore, we found that the mix of product offerings is driven by individual preferences. As companies move towards differentiated treatment of customers, more advanced mix strategies are being employed. Achieving the right combination of offerings is a question of optimizing the mix with the help of key customer knowledge – which is often held by the individual rep. Because customer knowledge is so vital, the sales force needs a degree of freedom to select for itself how to tailor each offering to the individual. Pharmaceutical companies have to take into account that, in light of long-standing customer relationships, sales reps may on occasion act more in the interests of their clients than in those of the company. Companies must therefore ensure that these offerings correlate with the physicians' potential.

However, getting the promotional mix right is also a matter of closely coordinating the marketing, sales and medical divisions in a bid to leverage the different functions' expertise and present one face to the customer. Offerings have to be created across functions, with marketing providing the link to intelligence from the field. After years of increasing investment and (at times) extravagant spending, the industry has either regulated itself or had new regulations imposed on it. These constraints pose an added challenge to optimizing the promotional mix.

With such a variety of promotional aspects, fact-based selection and impact assessment become crucial success factors. Pressure to deliver outcomes linked to investment in marketing has elevated the importance of KPIs and metrics in assessing the mix. Though it is difficult to accurately assess the gains achieved through such investments, it can still be done using "placebo territories" and existing commercial solutions. Even so, the large potential of quantitative impact measurement is widely recognized within the industry. As one executive admitted: **"We throw at least 50% of the money out of the window without any return."** 74% of respondents expected an increase in sales of more than 5% as a result of effective impact measurement, while 9% were convinced that their sales would increase by more than 20% (see chart 4.9).

Chart 4.9: BY HOW MUCH WOULD YOU EXPECT TO INCREASE YOUR SALES IF YOU COULD MEASURE THE RETURN ON INVESTMENT FROM THE PROMOTIONAL MIX?



5. New business models: Making the necessary changes

Roland Berger Strategy Consultants has developed a framework for new commercial business models based on experience from other industries. The framework draws on the financial services industry and the commercial needs of the future biopharmaceutical product pipeline, for example. Existing pilot projects are being accelerated further to enable future business models to be assessed and usher in the first major changes in the marketplace.

Why now?

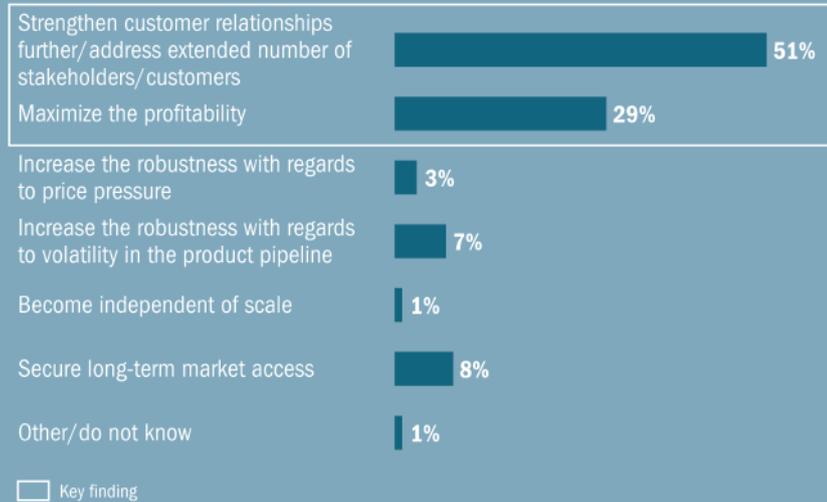
As the previous pages have shown, given the increasing internal and external challenges, it is often no longer enough to simply fine-tune the traditional commercial model. To achieve a true competitive advantage and maintain their market leadership, many companies have started to pose two fundamental questions: How do we approach the market? And what do we offer? In many cases, answering these questions necessitates a far-reaching reassessment of traditional operating models. Executives must ask themselves: **What are our core competencies in the commercial area and how can we develop them?**

Many pharmaceutical companies realize that in order to answer these questions, their new business models will need to meet the requirements of customer management as opposed to sales or product management. In many cases, this means that companies must develop competencies in understanding and managing stakeholder networks. Many executives nowadays perceive network marketing as the core competence that the pharmaceutical industry needs to develop most.

Some companies have already started to successfully implement new business models. They do not take such decisions lightly, however. As one executive explained: **"Our top management has accumulated its experience and sharpened its market intuition over 20 to 30 years. Still, the healthcare environment today is changing dramatically."**

Roland Berger Strategy Consultants questioned industry experts about their view of what is driving the development of new business models. The survey revealed that the pharmaceutical industry intends to become more customer-centric – with 51% of respondents naming this as their priority – while 29% of respondents aim to maximize profitability (see chart 5.1).

Chart 5.1: WHAT FACTORS ARE DRIVING YOUR COMPANY'S DEVELOPMENT OF NEW BUSINESS MODELS?



The RB Business Model Mixer©

Based on both the results of our recent survey and our wealth of industry experience, we have identified six key dimensions in ongoing business model development in the pharmaceutical industry. These dimensions lay the foundation for the RB Business Model Mixer (see chart 5.3):

- > From individual products to product bundles/portfolios
- > From product to healthcare service
- > From direct to indirect influence on prescribers
- > From physicians to accounts
- > From full in-house control to flexibility/outsourcing
- > From a focus on the sales channel to emphasis on other channels

The Business Model Mixer helps each entity (a business unit or therapeutic area, say) to identify the business model that best matches its individual strategy and competitive situation. For each of the six dimensions, the company (or entity) must first decide how it wants to position itself. This decision lays the bedrock for its new business model.

By favoring one dimension over another, the company defines the characteristic attributes of its new business model. For instance, the company can choose to focus either on accounts or on prescribers. Similarly, it can choose between the two extremes of individual product offerings or product bundles. Each choice has a formative influence on the company's sales approach and offerings, and thereby on the business model that is ultimately adopted.

From physicians to accounts

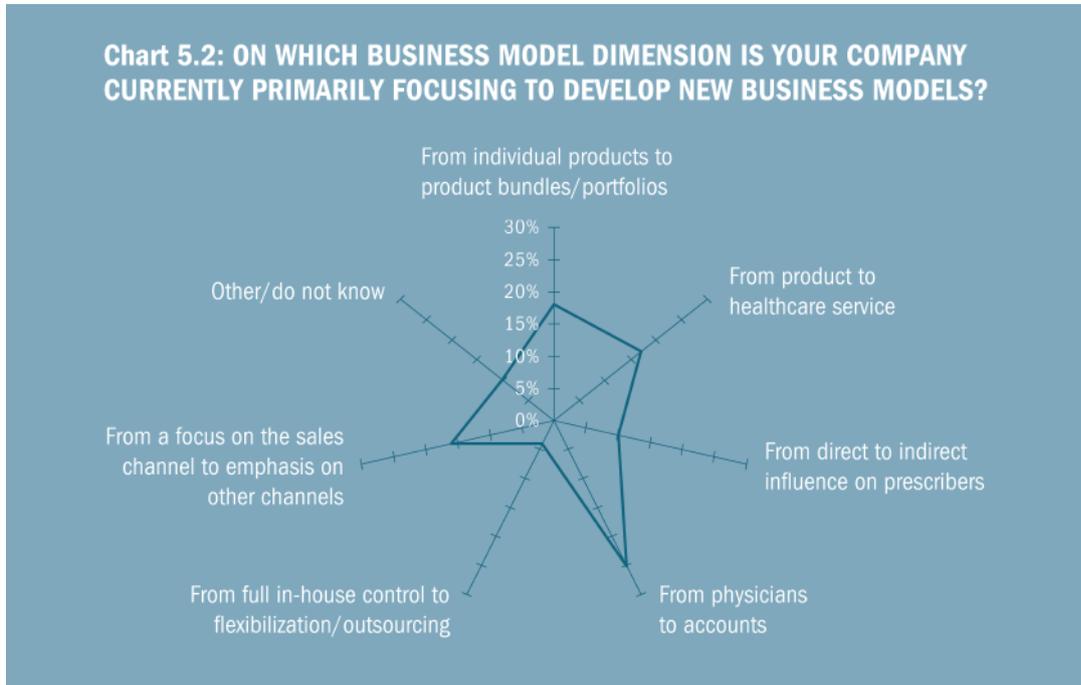
We used the Business Model Mixer as part of our study to understand the dimensions on which companies are currently focusing. When questioned on this issue, 25% of respondents stated that their company was attempting to shift from physicians to account management (see chart 5.2). This was not surprising, as our survey likewise highlighted the important role of key account management as a market access function.

Other key dimensions were forward integration into healthcare services (17%) and an evolution from opportunistic portfolios made up of individual products to bundled offerings (18%). One respondent explained:

"As in any other industry, pharmaceuticals, too, will in future need to differentiate itself through value-added services. We have put a cross-functional team together that is acting as a center of excellence and developing these services full-time on a continuous basis."

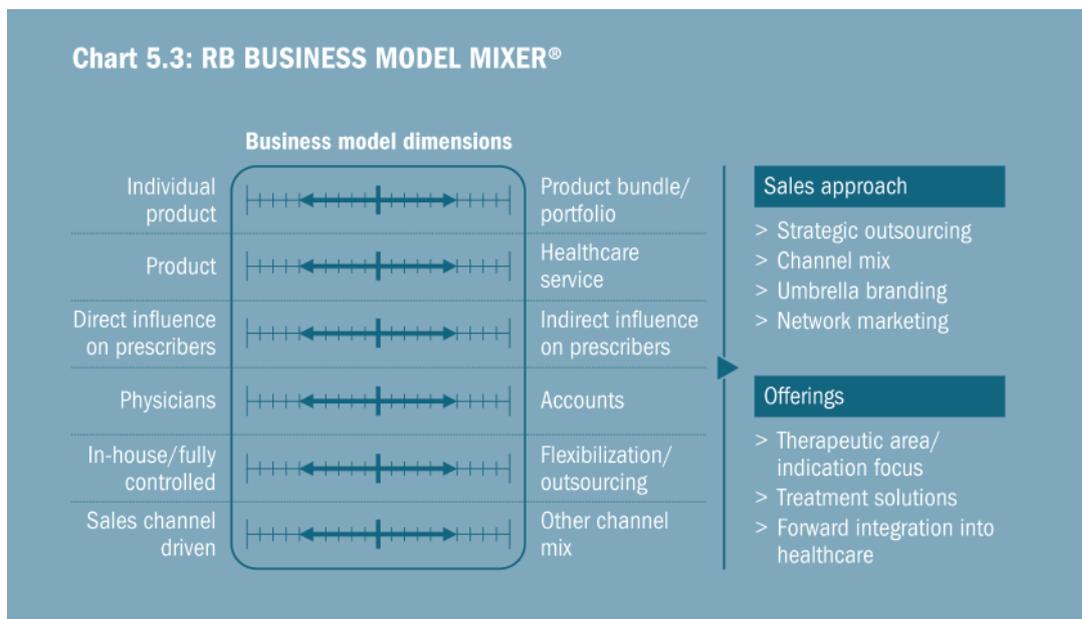
In this context, pharmaceutical companies are increasingly positioning themselves as service providers for hospitals, providing online order platforms and inventories, and optimizing patient admittance processes.

Chart 5.2: ON WHICH BUSINESS MODEL DIMENSION IS YOUR COMPANY CURRENTLY PRIMARILY FOCUSING TO DEVELOP NEW BUSINESS MODELS?



Just as patients with multiple ailments or aging patients with CNS disorders and inflammatory diseases require specific solutions, so it will become necessary to talk about "patient lifecycles" rather than "product lifecycles". This is one of the factors that is driving the increasing importance of healthcare services and the indirect influence on prescribers. However, as all but one of the six answer categories were selected by more than 10% of the respondents, it seems there is no silver bullet for selection of the most promising new business model. Far from it: **"New business models will be contingent on the situation, the product, the therapeutic area and the country."**

To formulate alternative business models, the Business Model Mixer's six dimensions can be divided into two categories: changing the sales approach and changing the offerings.



Sales approach

A pharmaceutical company has four main options to move away from the traditional in-house, fully controlled, sales-dominated sales approach:

- > Strategic outsourcing of the sales force
- > Channel mix variations
- > Umbrella branding
- > Network marketing

Strategic outsourcing enables pharmaceutical companies to share risks and rewards with external stakeholders, such as contract sales organizations (CSOs) and freelancers. By setting the right incentives, drug companies can reduce risks without losing customer focus.

Alternative channels can reduce costs compared to the traditional sales force and will therefore increase in importance in some areas. E-detailing has the potential to address customers in a more flexible, tailor-made way than traditional detailing, as it allows customers to access tailored information in their own time. **"The buzzword 'e-detailing' has reappeared,"** as one interviewee exclaimed. Indeed, a pilot project at one top pharmaceutical company showed this method to be more efficient than the use of a CSO.

Telemarketing enables inbound and outbound sales and marketing at low cost. It is useful in cases where iterations are necessary and where logistics and/or solutions are an important aspect of the selling process. Furthermore, telemarketing has proved its efficiency in product launch phases, since tailored messages can be delivered to a significant number of people in a very short time.

Umbrella branding can be used to promote product bundles through franchises. It is also applicable to mature and competitive general medical products, such as cardiovascular products. Furthermore, it is an important aspect in the handling of increasingly complex interactions with multiple stakeholders. In consequence, marketing will probably become more of a selling lever in future, just as call quality and other sales force effectiveness levers are today.

Network marketing means adopting an integrated, indirect influence strategy. Embarking on this approach requires several steps including:

- > Sound intelligence
- > Coordinated strategies and tactics across all customer-facing parts of the company
- > Carefully timed objectives to ensure that short-term and longer-term projects are aligned and in harmony

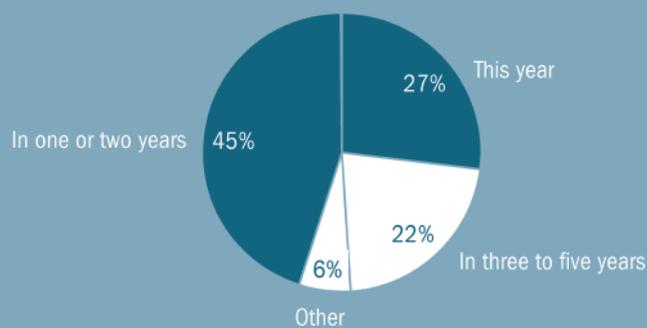
Offerings

The shift in the importance of stakeholders is also influencing the pharmaceutical industry's decisions about its product portfolios. Focusing on a specific therapeutic area or indication reduces the size of the physician group to be addressed and helps to build up core competence in one area. This approach is as relevant to commercialization as it is to research and development.

A treatment-based solution addresses the patient directly. This enables the industry to leverage patient demand in negotiations with payors. Forward integration can be a powerful tool to secure the best access to customers in the long term (e.g. in the context of dialysis chains). It can also serve to involve providers in an offer framework designed and "managed" by the company (e.g. implants and the provision of training).

When will most of these changes happen? When will the industry see new business models on a larger scale? Our survey highlighted the fact that the development of new business models is imminent. Almost half of the executives surveyed stated that their companies plan to roll out new business models over the next two years, while a quarter of respondents foresaw this happening as early as this year (see chart 5.4).

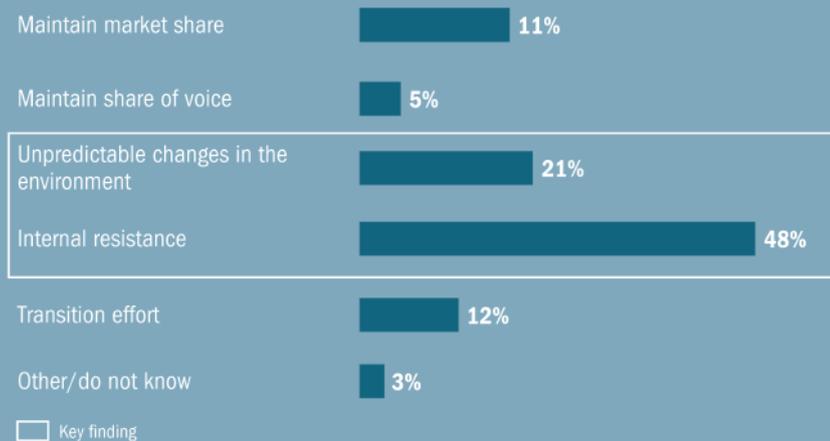
Chart 5.4: WHEN DO YOU SEE THE ROLL-OUT OF A NEW BUSINESS MODEL HAPPENING AT YOUR COMPANY ON A LARGE SCALE?



Adopting a new business model is, of course, a long-term strategy that requires careful evaluation of both the dimensions of and potential for change. However, recent examples have shown that the benefits of adopting new approaches far outweigh the risks. Indeed, those companies that venture out as first movers stand to reap very handsome rewards.

We also asked industry executives about perceived barriers to the introduction of new business models. Nearly half of them named internal resistance, while unpredictable changes in the industry environment ranked second (see chart 5.5). Pilot projects are seen as crucial: "The success of a new business model has to be demonstrated through a pilot if it is to be widely accepted." Nevertheless, uncertainty about the impact remains. As one executive states: "Only time will tell whether we will succeed. But one thing is sure: if we don't change we will fail in the mid-term."

Chart 5.5: WHAT DO YOU PERCEIVE AS THE GREATEST BARRIER TO THE INTRODUCTION OF NEW BUSINESS MODELS?



6. Mapping out the road to commercial excellence

Roland Berger Strategy Consultants can help pharmaceutical companies to diagnose the need for change, formulate a commercial excellence strategy and execute it in preparation for the future.

One goal, different timeframes

Our study showed that pharmaceutical companies are evolving towards commercial excellence at different speeds. Most pharmaceutical companies have started to shift their commercial operating model with a view to putting the customer back at the center. Addressing the fundamental questions of how to go to market and what to offer, the industry is once again striving for commercial excellence. Within this broader momentum for change, our study was able to differentiate three major areas: sales excellence, customer excellence and new business models.

A structured approach to **sales excellence** has become something of an industry standard, with continuous sales force effectiveness programs promising quick wins for many pharmaceutical companies. Sales excellence is all about execution. It is a moving target. Accordingly, pharmaceutical companies will need to continually invest in improving their sales force if they want to gain a lasting competitive advantage. A pragmatic approach is necessary to foster sales excellence across the organization. Lasting impact can only be achieved through carefully designed, integral transformation programs.

Pharmaceutical companies are adopting a variety of strategies in their quest for **customer excellence**. Many companies home in on CRM/customer strategy, a customer-focused organization and careful management of the promotional mix to ensure maximum returns as their top priorities. Companies need to take a broad perspective of their commercial operations (beyond the confines of sales alone) to ensure that they maximize the impact of interactions with a growing group of customers and stakeholders in an increasingly regionalized market. Guided by customer strategy and assuming a holistic perspective, companies must shift their focus from product to customer management and restructure accordingly (including new functions such as market access). Those companies that successfully align their promotional mix with changing customer groups while adopting an integrated approach (including sales force activities) and continuously assessing the impact will gain a clear competitive advantage.

Many companies consider adopting **new business models** that involve a more networked approach to marketing and sales. They do this in an attempt to deal with the increasing complexity of their customers, and to combat continuous pressure on margins. Most of these business models are being developed as part of regional pilots. Companies need to fundamentally rethink how to once again become customer-centric with the aid of their core competencies. Strengthening account structures, offering value-added services and bundling products to form integrated portfolios are perceived as key success factors in this context, as is networked marketing.

Companies must pilot new and innovative business models in a controlled environment at an early stage and measure the impact carefully. Only then can a first mover advantage be secured.

Roland Berger Strategy Consultants can help you stay on the leading edge of commercial excellence

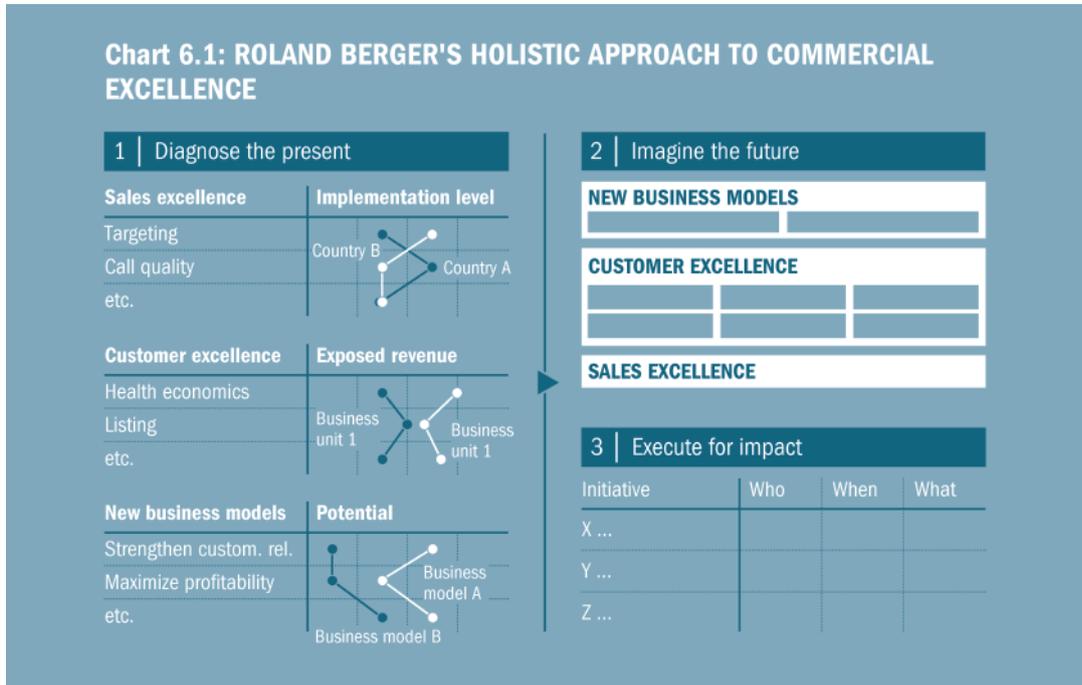
Roland Berger Strategy Consultants can help pharmaceutical companies develop and implement their commercial excellence strategy. We walk you through the realization of all three critical success factors:

- > Diagnosing the present
- > Imagining the future
- > Executing for impact

We diagnose the **present** by performing a tailor-made quantitative and qualitative analysis in each area of commercial excellence to determine a company's position relative to industry standards.

To help you imagine the **future**, we use our RB Business Model mixer to help customers focus their change effort. We identify which levers need to be strengthened and which standards need to be implemented to put your company right on the leading edge. Based on an in-depth understanding of the company-specific competencies required to become customer-centric, this step results in the formulation of a holistic commercial excellence strategy.

Next, we help you **execute** for impact, implement the commercial excellence strategy and drive change through the entire commercial organization. We partner with each client to manage large-scale change programs and deliver the intended outcomes – fast (see chart 6.1).



Based on Roland Berger's experience of pan-European projects, we can support pharmaceutical companies on every step of their way to commercial excellence. Roland Berger's holistic consulting approach puts commercial excellence into perspective, helping clients to identify those areas with the greatest impact on performance and, hence, on shareholder value. As well as offering a short-term strategy for immediate results, Roland Berger can help companies assess their long-term commercial position. Hence, the right time for change can be determined to safeguard the future value of pharmaceutical companies.

7. Sources

- > Roland Berger survey at the 2007 eyeforpharma conference
- > Desk research
- > In-depth interviews with executives and managers from 42 international pharmaceutical companies across Europe

Survey participants

Total participants	251	
Composition	61%	Large and midsized pharmaceutical companies
	39%	Others (e.g. industry experts, suppliers, etc.)

Global revenues	21%	Large companies: Revenues over USD 15 bn
	50%	Midsized companies: Revenues between USD 1 bn and USD 15 bn

Main geographic responsibility	54%	Country-specific
	24%	European
	17%	Global/corporate
	5%	Other

Who to contact at Roland Berger Strategy Consultants



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